

State of New Mexico  
**City of Lovington**

Financial Statements and Required  
Supplementary Information  
With Accompanying Auditors' Reports

Year Ended June 30, 2011





**STATE OF NEW MEXICO  
CITY OF LOVINGTON**

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

**YEAR ENDED JUNE 30, 2011**



## **INTRODUCTORY SECTION**

STATE OF NEW MEXICO

City of Lovington

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**STATE OF NEW MEXICO**

City of Lovington

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**STATE OF NEW MEXICO**

City of Lovington

Official Roster

June 30, 2011

<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**

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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, 2011, 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, 2011 as listed in the table of contents. These financial statements are the responsibility of City of Lovington's management. Our responsibility is to express opinions on the financial statements based on our audit.

Except as discussed in the following paragraph, 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2011. 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. The City is deficient in internal control design, operation, and oversight, where there are insufficient internal controls over disbursements, credit cards, and manual journal entries. Also, 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 City'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 November 28, 2011 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 Village has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

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 Schedule of Federal Awards (Schedule IV) is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-1333, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The accompanying financial information listed as supporting Schedules I through III in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. 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 or the Schedule of Federal Awards (Schedule IV) 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  
November 28, 2011

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**

City of Lovington  
Statement of Net Assets  
June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,582,943	3,182,282	\$ 4,765,225	\$ 92,283
Investments	398,082	129,654	527,736	36,147
Receivables:				
Taxes receivable	1,232,820	-	1,232,820	-
Intergovernmental	136,344	-	136,344	-
Other receivables	15,983	416,607	432,590	8
Prepays	-	-	-	1,406
Inventory	273,822	211,351	485,173	792
Internal balances	(239,751)	239,751	-	-
Total current assets	<u>3,400,243</u>	<u>4,179,645</u>	<u>7,579,888</u>	<u>130,636</u>
Noncurrent assets				
Restricted cash and cash equivalents	59,295	353,948	413,243	7,550
Capital assets	36,853,886	28,677,428	65,531,314	2,375,756
Less: accumulated depreciation	<u>(14,934,047)</u>	<u>(11,565,061)</u>	<u>(26,499,108)</u>	<u>(1,384,838)</u>
Total noncurrent assets	<u>21,979,134</u>	<u>17,466,315</u>	<u>39,445,449</u>	<u>998,468</u>
Total assets	<u>\$ 25,379,377</u>	<u>\$ 21,645,960</u>	<u>\$ 47,025,337</u>	<u>\$ 1,129,104</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	\$ 148,399	\$ 181,568	\$ 329,967	\$ 23,344
Accrued payroll expenses	140,705	15,776	156,481	3,724
Accrued interest	-	83,947	83,947	-
Accrued compensated absences	273,328	27,366	300,694	1,905
Due to fiduciary funds	-	-	-	-
Prepaid rent	-	-	-	934
Current portion of bonds and notes payable	-	396,589	396,589	-
Total current liabilities	<u>562,432</u>	<u>705,246</u>	<u>1,267,678</u>	<u>29,907</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	7,550
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,550</u>
Noncurrent liabilities				
Accrued compensated absences	241,224	31,102	272,326	1,067
Customer deposits	-	353,948	353,948	-
Bonds and notes payable	-	8,563,066	8,563,066	-
Total noncurrent liabilities	<u>241,224</u>	<u>8,948,116</u>	<u>9,189,340</u>	<u>1,067</u>
Total liabilities	<u>803,656</u>	<u>9,653,362</u>	<u>10,457,018</u>	<u>38,524</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	21,979,134	8,152,712	30,131,846	990,918
Restricted for:				
Special Revenue	355,071	-	355,071	-
Unrestricted	<u>2,241,516</u>	<u>3,839,886</u>	<u>6,081,402</u>	<u>99,662</u>
Total net assets	<u>24,575,721</u>	<u>11,992,598</u>	<u>36,568,319</u>	<u>1,090,580</u>
Total liabilities and net assets	<u>\$ 25,379,377</u>	<u>\$ 21,645,960</u>	<u>\$ 47,025,337</u>	<u>\$ 1,129,104</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Activities  
For the Year Ending June 30, 2011

<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	\$ 2,395,241	\$ 312,879	\$ 750,530	\$ 2,040
Public safety	2,971,120	-	79,652	85,947
Public works	1,360,521	-	-	-
Health and welfare	250,226	-	-	-
Culture and recreation	1,274,928	1,656	146,682	87,690
Conservation and development	55,772	-	-	-
<i>Total governmental activities</i>	<u>8,307,808</u>	<u>314,535</u>	<u>976,864</u>	<u>175,677</u>
<b>Business-type Activities:</b>				
Solid Waste	1,342,437	1,727,292	-	-
Water & Wastewater	4,845,934	2,143,023	-	2,395,735
Ambulance	346,114	412,149	-	(29)
<i>Total business type activities</i>	<u>6,534,485</u>	<u>4,282,464</u>	<u>-</u>	<u>2,395,706</u>
<i>Total primary government</i>	<u>\$ 14,842,293</u>	<u>\$ 4,596,999</u>	<u>\$ 976,864</u>	<u>\$ 2,571,383</u>
<b>Component Unit:</b>				
Housing Authority	<u>\$ 473,898</u>	<u>\$ 90,645</u>	<u>\$ 89,594</u>	<u>\$ 82,480</u>
		<b>General Revenues:</b>		
		Taxes		
		Property taxes		
		Gross receipts taxes		
		Gasoline and motor vehicle taxes		
		Franchise taxes		
		Cigarette taxes		
		Lodger's taxes		
		Other taxes		
		Fines, forfeitures, and penalties		
		Investment income		
		Miscellaneous income		
		Gain/(loss) on disposal of capital assets		
		Transfers		
		Total general revenues and transfers		
		Change in net assets		
		Net assets, beginning		
		Restatement (Note 20)		
		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>
\$ (1,329,792)	\$ -	\$ (1,329,792)	\$ -
(2,805,521)	-	(2,805,521)	-
(1,360,521)	-	(1,360,521)	-
(250,226)	-	(250,226)	-
(1,038,900)	-	(1,038,900)	-
(55,772)	-	(55,772)	-
<u>(6,840,732)</u>	<u>-</u>	<u>(6,840,732)</u>	<u>-</u>
-	384,855	384,855	-
-	(307,176)	(307,176)	-
-	66,006	66,006	-
-	143,685	143,685	-
<u>(6,840,732)</u>	<u>143,685</u>	<u>(6,697,047)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (211,179)</u>
301,232	-	301,232	-
5,860,270	-	5,860,270	-
147,339	-	147,339	-
206,096	-	206,096	-
3,906	-	3,906	-
60,034	-	60,034	-
44,545	-	44,545	-
189,175	-	189,175	-
3,591	4,731	8,322	457
151,078	408,057	559,135	18,197
-	(27,401)	(27,401)	(1,257)
300,000	(300,000)	-	-
<u>7,267,266</u>	<u>85,387</u>	<u>7,352,653</u>	<u>17,397</u>
426,534	229,072	655,606	(193,782)
24,042,985	12,063,643	36,106,628	1,284,362
106,202	(300,117)	(193,915)	-
<u>24,149,187</u>	<u>11,763,526</u>	<u>35,912,713</u>	<u>1,284,362</u>
<u>\$ 24,575,721</u>	<u>\$ 11,992,598</u>	<u>\$ 36,568,319</u>	<u>\$ 1,090,580</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

City of Lovington  
Balance Sheet  
Governmental Funds  
June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 1,587,445	\$ 54,487	\$ 1,641,932
Investments	367,691	30,391	398,082
Receivables:			
Taxes	1,227,048	5,772	1,232,820
Intergovernmental	125,121	11,223	136,344
Other receivables	15,983	-	15,983
Inventory	273,822	-	273,822
Due from other funds	<u>29,666</u>	<u>302,012</u>	<u>331,678</u>
<i>Total assets</i>	<u><u>3,626,776</u></u>	<u><u>403,885</u></u>	<u><u>4,030,661</u></u>
<i>Liabilities</i>			
Cash overdraft	-	78	78
Accounts payable	119,834	9,912	129,746
Accrued payroll expenses	140,687	-	140,687
Deferred revenue	11,985	-	11,985
Due to other funds	<u>532,605</u>	<u>38,824</u>	<u>571,429</u>
<i>Total liabilities</i>	<u>805,111</u>	<u>48,814</u>	<u>853,925</u>
<i>Fund balances</i>			
Nonspendable	273,822	-	273,822
Spendable			
Restricted	-	355,071	355,071
Unassigned	<u>2,547,843</u>	<u>-</u>	<u>2,547,843</u>
<i>Total fund balances</i>	<u>2,821,665</u>	<u>355,071</u>	<u>3,176,736</u>
<i>Total liabilities and fund balances</i>	<u><u>\$ 3,626,776</u></u>	<u><u>\$ 403,885</u></u>	<u><u>\$ 4,030,661</u></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, 2011

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

Fund balances - total governmental funds	\$	3,176,736
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.		(18,287)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		21,919,839
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds: Deferred property taxes		11,985
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>(514,552)</u>
Total net assets	\$	<u><u>24,575,721</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, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes:			
Property	\$ 303,095	\$ -	\$ 303,095
Gross receipts	5,860,270	-	5,860,270
Gasoline and motor vehicle	16,039	131,300	147,339
Other	208,697	105,884	314,581
Intergovernmental:			
Federal operating grants	20,230	7,935	28,165
Federal capital grants	-	18,983	18,983
State operating grants	763,324	252,015	1,015,339
State capital grants	20,424	69,870	90,294
Charges for services	75,711	1,656	77,367
Licenses and fees	193,822	43,346	237,168
Fines, forfeitures, and penalties	189,175	-	189,175
Investment income	3,552	39	3,591
Miscellaneous	141,964	8,665	150,629
<i>Total revenues</i>	<u>7,796,303</u>	<u>639,693</u>	<u>8,435,996</u>
<i>Expenditures</i>			
Current:			
General government	2,156,453	31,835	2,188,288
Public safety	2,868,613	135,119	3,003,732
Public works	358,886	-	358,886
Health and welfare	-	-	-
Culture and recreation	1,097,501	94,730	1,192,231
Conservation and development	55,772	-	55,772
Capital outlay	321,853	69,775	391,628
<i>Total expenditures</i>	<u>6,859,078</u>	<u>331,459</u>	<u>7,190,537</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>937,225</u>	<u>308,234</u>	<u>1,245,459</u>
<i>Other financing sources (uses)</i>			
Transfers in	494,002	35,000	529,002
Transfers (out)	(60,000)	(194,002)	(254,002)
<i>Total other financing sources (uses)</i>	<u>434,002</u>	<u>(159,002)</u>	<u>275,000</u>
<i>Net change in fund balances</i>	1,371,227	149,232	1,520,459
<i>Fund balances - beginning of year</i>	1,344,236	205,839	1,550,075
<i>Restatement (Note 20)</i>	106,202	-	-
<i>Fund balances, beginning as restated</i>	<u>1,450,438</u>	<u>205,839</u>	<u>1,656,277</u>
<i>Fund balances - end of year</i>	<u>\$ 2,821,665</u>	<u>\$ 355,071</u>	<u>\$ 3,176,736</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 to the Statement of Activities

June 30, 2011

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

Net change in fund balances - total governmental funds	\$ 1,520,459
<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>	
	(43,111)
<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	391,628
Depreciation expense	(1,539,340)
<p>In the statement of activities, only the loss on the disposition of fixed assets is reported, whereas in the governmental funds, the proceeds from the disposition increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the fixed assets disposed.</p>	
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>	
Decrease in deferred revenue related to property taxes receivable	(1,863)
<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	98,761
Change in net assets of governmental activities	\$ 426,534

## 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, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
Taxes:				
Property	\$ 297,256	\$ 297,256	\$ 300,753	\$ 3,497
Gross receipts	4,771,600	4,771,600	5,530,372	758,772
Gasoline and motor vehicle	16,997	16,997	16,039	(958)
Other	205,795	205,795	213,179	7,384
Intergovernmental:				
Federal operating grants	-	-	20,230	20,230
Federal capital grants	-	-	-	-
State operating grants	1,160,000	1,160,000	689,139	(470,861)
State capital grants	6,330	6,330	25,365	19,035
Charges for services	254,209	254,209	75,427	(178,782)
Licenses and fees	273,010	273,010	200,788	(72,222)
Fines, forfeitures, and penalties	211,817	211,817	177,077	(34,740)
Investment income	2,500	2,500	2,324	(176)
Miscellaneous	124,478	124,478	148,026	23,548
<i>Total revenues</i>	<u>7,323,992</u>	<u>7,323,992</u>	<u>7,398,719</u>	<u>74,727</u>
<i>Expenditures</i>				
Current:				
General government	2,596,857	2,636,228	2,325,050	311,178
Public safety	2,825,306	2,892,219	2,758,450	133,769
Public works	452,409	582,612	496,117	86,495
Health and welfare	-	-	-	-
Culture and recreation	1,033,114	1,079,949	1,064,071	15,878
Conservation and development	45,600	50,821	50,772	49
Capital outlay	550,250	261,707	180,573	81,134
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,503,536</u>	<u>7,503,536</u>	<u>6,875,033</u>	<u>628,503</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(179,544)</u>	<u>(179,544)</u>	<u>523,686</u>	<u>703,230</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(270,456)	(270,456)	-	(270,456)
Transfers in	510,000	510,000	494,002	1,004,002
Transfers out	(60,000)	(60,000)	(60,000)	-
<i>Total other financing sources (uses)</i>	<u>179,544</u>	<u>179,544</u>	<u>434,002</u>	<u>733,546</u>
<i>Net change in fund balances</i>	-	-	957,688	1,436,776
<i>Fund balances - beginning of year</i>	-	-	628,789	628,789
<i>Fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,586,477</u>	<u>\$ 2,065,565</u>
Net change in fund balance (Non-GAAP)				\$ 957,688
Adjustments to revenue for property taxes, gross receipt taxes, state grants, and other revenues				397,584
Adjustments to expenditures for general government, public safety, public works, and culture and rec.				15,955
Net change in fund balance (GAAP budgetary basis)				<u>\$ 1,371,227</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**

City of Lovington  
Statement of Net Assets  
Proprietary Funds  
June 30, 2011

	<u>Solid Waste</u>	<u>Water &amp; Wastewater</u>	<u>Non-Major Funds</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 50	3,182,232	\$ -
Investments	59,698	69,956	-
Accounts receivable	-	396,829	19,778
Inventory	-	159,954	51,397
Due from other funds	165,297	-	253,667
<i>Total current assets</i>	<u>225,045</u>	<u>3,808,971</u>	<u>324,842</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	353,948	-
Capital assets	168,305	28,053,231	455,892
Accumulated depreciation	<u>(145,709)</u>	<u>(11,226,745)</u>	<u>(192,607)</u>
<i>Total noncurrent assets</i>	<u>22,596</u>	<u>17,180,434</u>	<u>263,285</u>
<i>Total Assets</i>	<u>\$ 247,641</u>	<u>\$ 20,989,405</u>	<u>\$ 588,127</u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 122,324	54,906	\$ 4,338
Accrued expenses	-	15,776	-
Accrued interest	-	83,947	-
Accrued compensated absences	-	27,366	-
Due to other funds	(773,884)	953,097	-
Current portion of notes payable	<u>-</u>	<u>396,589</u>	<u>-</u>
<i>Total current liabilities:</i>	<u>(651,560)</u>	<u>1,531,681</u>	<u>4,338</u>
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total current liabilities</i>	<u>(651,560)</u>	<u>1,531,681</u>	<u>4,338</u>
<i>Noncurrent liabilities</i>			
Notes payable	-	8,563,066	-
Accrued compensated absences	-	31,102	-
Customer deposits	<u>-</u>	<u>353,948</u>	<u>-</u>
<i>Total noncurrent liabilities</i>	<u>-</u>	<u>8,948,116</u>	<u>-</u>
<i>Total liabilities</i>	<u>(651,560)</u>	<u>10,479,797</u>	<u>4,338</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	22,596	7,866,831	263,285
Unrestricted net assets	<u>876,605</u>	<u>2,642,777</u>	<u>320,504</u>
<i>Total net assets</i>	<u>899,201</u>	<u>10,509,608</u>	<u>583,789</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 247,641</u>	<u>\$ 20,989,405</u>	<u>\$ 588,127</u>

The accompanying notes are an integral part of these financial statements



Total	Internal Service funds
\$ 3,182,282	\$ 384
129,654	-
416,607	-
211,351	-
418,964	-
<u>4,358,858</u>	<u>384</u>
353,948	-
28,677,428	-
(11,565,061)	-
<u>17,466,315</u>	<u>-</u>
<u>\$ 21,825,173</u>	<u>\$ 384</u>
\$ 181,568	\$ 18,653
15,776	18
83,947	-
27,366	-
179,213	-
396,589	-
<u>884,459</u>	<u>18,671</u>
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
<u>884,459</u>	<u>18,671</u>
8,563,066	-
31,102	-
353,948	-
<u>8,948,116</u>	<u>-</u>
<u>9,832,575</u>	<u>18,671</u>
8,152,712	-
3,839,886	(18,287)
<u>11,992,598</u>	<u>(18,287)</u>
<u>\$ 21,825,173</u>	<u>\$ 384</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2011

	Solid Waste	Water & Wastewater	Non-Major Funds
<i>Operating revenues:</i>			
Charges for services	\$ 1,727,292	\$ 2,143,023	\$ 412,138
<i>Total operating revenues</i>	<u>1,727,292</u>	<u>2,143,023</u>	<u>412,138</u>
<i>Operating expenses:</i>			
Personnel services	22,647	752,875	144,911
Contractual services	1,306,678	2,318,059	25,220
Supplies	2,030	169,593	16,533
Maintenance and materials	2,003	216,323	62,462
Utilities	809	170,714	-
Depreciation	3,449	948,744	56,583
Miscellaneous	4,821	97,508	40,405
<i>Total operating expenses</i>	<u>1,342,437</u>	<u>4,673,816</u>	<u>346,114</u>
<i>Operating income (loss)</i>	<u>384,855</u>	<u>(2,530,793)</u>	<u>66,024</u>
<i>Non-operating revenues (expenses):</i>			
Rent and Royalties	-	357,140	-
Interest income	-	4,731	-
Interest expense	-	(172,118)	-
Miscellaneous	3,886	60,067	(18)
<i>Total non-operating revenues (expenses)</i>	<u>3,886</u>	<u>249,820</u>	<u>(18)</u>
Federal capital grants	-	2,382,699	-
Gain (loss) on sale of capital assets	-	-	(27,401)
Transfers in	-	-	-
Transfers out	(150,000)	(150,000)	-
<i>Capital grants and net transfers</i>	<u>(150,000)</u>	<u>2,232,699</u>	<u>(27,401)</u>
<i>Change in net assets</i>	<u>238,741</u>	<u>(48,274)</u>	<u>38,605</u>
<i>Net assets, beginning of year</i>	660,460	10,857,999	545,184
<i>Restatement (Note 20)</i>	-	(300,117)	-
<i>Net assets beginning as restated</i>	<u>660,460</u>	<u>10,557,882</u>	<u>545,184</u>
<i>Net assets, end of year</i>	<u>\$ 899,201</u>	<u>\$ 10,509,608</u>	<u>\$ 583,789</u>

The accompanying notes are an integral part of these financial statements

Total	Internal Service fund
\$ 4,282,453	\$ -
<u>4,282,453</u>	<u>-</u>
920,433	-
3,649,957	-
188,156	-
280,788	-
171,523	-
1,008,776	-
<u>142,734</u>	<u>68,320</u>
<u>6,362,367</u>	<u>68,320</u>
<u>(2,079,914)</u>	<u>(68,320)</u>
357,140	-
4,731	-
(172,118)	-
<u>63,935</u>	<u>209</u>
<u>253,688</u>	<u>209</u>
2,382,699	-
(27,401)	-
-	25,000
<u>(300,000)</u>	<u>-</u>
<u>2,055,298</u>	<u>25,000</u>
<u>229,072</u>	<u>(43,111)</u>
12,063,643	24,824
(300,117)	-
<u>11,763,526</u>	<u>24,824</u>
<u>\$ 11,992,598</u>	<u>\$ (18,287)</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2011

	Solid Waste	Water & Wastewater
<i>Cash flows from operating activities:</i>		
Cash received from user charges	\$ 1,733,292	\$ 2,409,421
Cash payments to employees for services	(22,647)	(776,413)
Cash payments to suppliers for goods and services	(1,326,138)	(3,020,982)
<i>Net cash provided (used) by operating activities</i>	384,507	(1,387,974)
 <i>Cash flows from noncapital financing activities:</i>		
Miscellaneous income	3,886	417,207
Change in noncurrent accrued compensated absences	-	-
Internal transfers and loans	(388,795)	94,906
<i>Net cash provided (used) by noncapital financing activities:</i>	(384,909)	512,113
 <i>Cash flows from capital and related financing activities:</i>		
Capital grants	-	2,382,699
Acquisition of capital assets	-	(56,889)
Principal paid on capital debt	-	(468,105)
Interest paid on capital debt	-	(172,118)
<i>Net cash provided (used) by capital and related financing activities:</i>	-	1,685,587
 <i>Cash flows from investing activities:</i>		
Interest on investments	-	4,731
<i>Net cash provided by (used) from investing activities</i>	-	4,731
 <i>Net increase in cash and cash equivalents</i>	(402)	814,457
 <i>Cash and cash equivalents - beginning of year</i>	60,150	3,091,840
<i>Reclassification of investments included in cash in prior year</i>	(59,698)	(70,000)
<i>Restatement (Note 20)</i>	-	(300,117)
<i>Cash and cash equivalents - beginning as restated</i>	452	2,721,723
<i>Cash and cash equivalents - end of year</i>	50	3,536,180
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>		
Operating income (loss)	384,855	(2,530,793)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation	3,449	948,744
Changes in assets and liabilities:		
Receivables	6,000	207,858
Inventory	-	(89,107)
Accounts payable	(9,797)	40,322
Accrued payroll expenses	-	(9,295)
Accrued compensated absences	-	(14,243)
Customer deposits	-	58,540
 <i>Net cash (used) by operating activities</i>	\$ 384,507	\$ (1,387,974)

The accompanying notes are an integral part of these financial statements

Non-Major Funds	Total	Internal Service funds
\$ 402,447	\$ 4,545,160	\$ -
(144,911)	(943,971)	18
(172,725)	(4,519,845)	(64,239)
<u>84,811</u>	<u>(918,656)</u>	<u>(64,221)</u>
-	421,093	209
-	-	-
<u>15,644</u>	<u>(278,245)</u>	<u>25,000</u>
<u>15,644</u>	<u>142,848</u>	<u>25,209</u>
-	2,382,699	-
(100,455)	(157,344)	-
-	(468,105)	-
-	(172,118)	-
<u>(100,455)</u>	<u>1,585,132</u>	<u>-</u>
-	4,731	-
-	4,731	-
-	814,055	(39,012)
-	3,151,990	39,396
-	(129,698)	-
-	(300,117)	-
-	<u>2,722,175</u>	<u>-</u>
-	<u>3,536,230</u>	<u>384</u>
66,024	(2,079,914)	(68,320)
56,583	1,008,776	-
(9,691)	204,167	-
(29,061)	(118,168)	-
956	31,481	4,081
-	(9,295)	18
-	(14,243)	-
-	58,540	-
<u>\$ 84,811</u>	<u>\$ (918,656)</u>	<u>\$ (64,221)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2011

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	<u>\$ 30,133</u>
<i>Total assets</i>	<u><u>\$ 30,133</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 30,133</u>
<i>Total liabilities</i>	<u><u>\$ 30,133</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, 2011

**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, 2011

**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, 2011

**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, 2011

**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, 2011

**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  
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**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  
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**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: Fund Balance Classification Policies and Procedures:** For restricted fund balances, the City includes amounts that can be spent only for the specific purposes stipulated by Statute, Ordinance, Resolutions or enabling Legislation. Fund balances in this category represent the remaining amount that is restricted for future use in the specific fund.

For committed fund balances, the City includes amounts for specific purposes by formal action of the Governing Body of the City of Lovington.

For assigned fund balances, the City includes amounts that are intended to be spent for specific purposes, but are not restricted or committed.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

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

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

Regarding the City's spending policies, in all cases, restricted, then committed, and then assigned fund balances are to be expended in that order, prior to infusion and expenditures of any general (unassigned) funds designated for supplementing any given department. In this manner, only after restricted, committed, or assigned funds are expended will the Governing Body permit general unassigned funds be spent to meet a specific fund's objectives.

*Restricted Fund Balance:* At June 30, 2011, the restricted fund balance on the governmental funds balance sheet is made up of \$355,071 for the restricted purposes as defined by each fund.

**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."

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**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.

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

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

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ (179,544)	\$ (179,544)
Nonmajor Governmental Funds	261,297	196,548
	Change in Net Assets	
	Original Budget	Final Budget
Water & Wastewater Fund	\$ 1,042,949	\$ 440,491
Ambulance Fund	(79,578)	(35,980)
Solid Waste Fund	(176,224)	(118,166)
Internal Service Funds	24,480	(1,844)

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, 2011 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.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**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, 2011.

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.

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, public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state were insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts.

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

***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, 2011, \$4,470,528 of the City's bank balances of \$5,643,701 was exposed to custodial credit risk. \$4,019,036 was uninsured and collateralized by securities held by the pledging institution's trust department or agent, in other than the City's name and \$451,492 was uninsured and uncollateralized. See Schedule II on pages 84-85.

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



**STATE OF NEW MEXICO**  
City of Lovington  
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June 30, 2011

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

***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, 2011 consists of the following:

<u>Investments</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
<i>New MexiGROW</i> LGIP	36 Days	\$ 342,036	AAAm
Reserve Contingency Fund	Does not earn interest	1,120	Unrated
		<u>\$ 343,156</u>	

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

*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**  
City of Lovington  
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June 30, 2011

**NOTE 4. RECEIVABLES**

The City's receivables as of June 30, 2011, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Governmental Activities:				
Taxes				
Property taxes	\$ 24,898	\$ -	\$ -	\$ 24,898
Gross receipts taxes	1,149,832	-	-	1,149,832
Franchise taxes	52,318	-	-	52,318
Lodger's taxes	-	5,772	-	5,772
Total Taxes	<u>1,227,048</u>	<u>5,772</u>	<u>-</u>	<u>1,232,820</u>
Intergovernmental:				
State	125,121	11,223	-	136,344
Total intergovernmental-grants	<u>125,121</u>	<u>11,223</u>	<u>-</u>	<u>136,344</u>
Other Receivables	<u>15,983</u>	<u>-</u>	<u>19,778</u>	<u>35,761</u>
Total Governmental Activities	<u>1,368,152</u>	<u>16,995</u>	<u>19,778</u>	<u>1,404,925</u>
Business-Type Activities				
Receivables from customers				
Water and Waste Water	-	-	470,916	470,916
Allowance for uncollectable amounts	<u>-</u>	<u>-</u>	<u>(74,087)</u>	<u>(74,087)</u>
Total Business Type Activities	<u>-</u>	<u>-</u>	<u>396,829</u>	<u>396,829</u>
Total Accounts Receivable	<u>\$ 1,368,152</u>	<u>\$ 16,995</u>	<u>\$ 416,607</u>	<u>\$1,801,754</u>

**STATE OF NEW MEXICO**  
City of Lovington  
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June 30, 2011

**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	\$ 194,002
General Fund	Solid Waste	150,000
General Fund	Water & Wastewater	150,000
Recreation	General Fund	35,000
Unemployment Compensation	General Fund	25,000
		<u>\$ 554,002</u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2011 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Solid Waste	Water & Wastewater	\$ 939,181
General Fund	Water & Wastewater	13,916
General Fund	Non Major Funds	15,750
Non Major Proprietary Funds	General Fund	253,667
Non Major Funds	General Fund	278,938
Non Major Funds	Non Major Funds	23,074
		<u>\$ 1,524,526</u>

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

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**NOTE 6. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

*Government Activities*

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 133,319	\$ -	\$ -	\$ 133,319
Construction in progress	787,870	-	787,870	-
Total capital assets not being depreciated	<u>921,189</u>	<u>-</u>	<u>787,870</u>	<u>133,319</u>
Capital assets being depreciated:				
Infrastructure	17,562,134	575,620	-	18,137,754
Buildings and improvements	11,446,743	449,163	-	11,895,906
Machinery and equipment	4,135,094	111,064	2,599	4,243,559
Vehicles	2,466,454	43,651	66,757	2,443,348
Total capital assets being depreciated	<u>35,610,425</u>	<u>1,179,498</u>	<u>69,356</u>	<u>36,720,567</u>
Less accumulated depreciation				
Infrastructure	5,928,768	839,956	-	6,768,724
Buildings and improvements	4,468,191	332,300	-	4,800,491
Machinery and equipment	1,953,536	164,412	2,599	2,115,349
Vehicles	1,113,568	202,672	66,757	1,249,483
Total accumulated depreciation	<u>13,464,063</u>	<u>1,539,340</u>	<u>69,356</u>	<u>14,934,047</u>
Total capital assets, net of depreciation	<u>\$ 23,067,551</u>	<u>\$ (359,842)</u>	<u>\$ 787,870</u>	<u>\$ 21,919,839</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

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

*Business-type Activities*

	Balance <u>June 30, 2010</u>	Additions	Deletions	Balance <u>June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>
Capital assets being depreciated:				
Buildings and improvements	23,937,939	-	-	23,937,939
Machinery and equipment	3,865,361	42,517	-	3,907,878
Vehicles	<u>978,287</u>	<u>149,827</u>	<u>297,253</u>	<u>830,861</u>
Total capital assets being depreciated	<u>28,781,587</u>	<u>192,344</u>	<u>297,253</u>	<u>28,676,678</u>
Less accumulated depreciation				
Buildings and improvements	8,932,565	532,820	-	9,465,385
Machinery and equipment	1,314,208	372,356	-	1,686,564
Vehicles	<u>544,364</u>	<u>103,600</u>	<u>234,852</u>	<u>413,112</u>
Total accumulated depreciation	<u>10,791,137</u>	<u>1,008,776</u>	<u>234,852</u>	<u>11,565,061</u>
Total capital assets, net of depreciation	<u>\$ 17,991,200</u>	<u>\$ (816,432)</u>	<u>\$ 62,401</u>	<u>\$ 17,112,367</u>

*Depreciation expense*

Depreciation expense for the year ended June 30, 2011 was charged to the following functions:

Governmental activities

General government	\$ 87,994
Public safety	231,244
Public works	951,056
Culture and recreation	18,820
Health and welfare	<u>250,226</u>

Total governmental activities \$ 1,539,340

Business type activities

Solid waste	\$ 3,449
Water and wastewater	948,744
Ambulance	<u>56,583</u>

Total business type activities \$ 1,008,776

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**NOTE 7. LONG-TERM DEBT**

***Governmental Activities***

During the year ended June 30, 2011, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due within One Year
Compensated absences	\$ 613,313	\$ 174,567	\$ 273,328	\$ 514,552	\$ 273,328

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

***Business-Type Activities***

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due within One Year
NMA Loan - Drinking Water State Revolving Loan	3,535,000	-	150,027	3,384,973	152,520
NMED Loan - Clean Water State Revolving Loan	5,813,966	-	239,284	5,574,682	244,069
NM Water Trust Board	78,794	-	78,794	-	-
Compensated absences	72,711	13,123	27,366	58,468	27,366
	<u>\$ 9,500,471</u>	<u>\$ 13,123</u>	<u>\$ 495,471</u>	<u>\$ 9,018,123</u>	<u>\$ 423,955</u>

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, 2011, \$5,813,966 has been drawn on the loan and is shown as a liability of the Water & Wastewater Fund.

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

The annual requirements to amortize the loan outstanding as of June 30, 2011, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
2012	\$ 152,520	\$ 49,250	\$ 8,462	\$ 210,232
2013	155,064	47,094	8,081	210,239
2014	157,656	44,896	7,693	210,245
2015	160,300	42,654	7,299	210,253
2016	162,995	40,366	6,899	210,260
2017-2021	857,279	165,880	28,242	1,051,401
2022-2026	933,029	101,409	17,154	1,051,592
2027-2031	806,130	30,209	5,082	841,421
	<u>\$ 3,384,973</u>	<u>\$ 521,758</u>	<u>\$ 88,912</u>	<u>\$ 3,995,643</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, 2011 \$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, 2011, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Interest	Total Debt Service
2012	\$ 244,069	\$ 87,210	\$ 24,283	\$ 355,562
2013	248,951	83,392	23,220	355,563
2014	253,930	79,498	22,136	355,564
2015	259,008	75,525	21,030	355,563
2016	264,189	71,473	19,901	355,563
2017-2021	1,402,345	293,693	81,777	1,777,815
2022-2026	1,548,302	155,304	43,244	1,746,850
2027-2031	1,353,888	53,475	14,890	1,422,253
	<u>\$ 5,574,682</u>	<u>\$ 899,570</u>	<u>\$ 250,481</u>	<u>\$ 6,724,733</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**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.

**NOTE 9. 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, 2011, 2010, and 2009 were approximately \$203,471, \$226,354, and \$227,891, respectively, which equal the amount of the required contributions for all years.



**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**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% of 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, 2011 was \$102,044 and \$92,446 respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

**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, 2011, 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.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**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, 2011:

Fire Protection Special Revenue Fund	\$ <u>3,664</u>
	<u>\$ 3,664</u>

B. Excess of expenditures over budgeted amounts. The following funds exceeded approved budgetary authority for the year ended June 30, 2011:

Water and Wastewater Proprietary Fund	\$ 1,802,818
Unemployment Compensation Internal Service Fund	4,080
Pension Internal Service Fund	<u>234</u>
	<u>\$ 1,807,132</u>

C. There are Designated cash appropriations in excess of available balance

Recreation Special Revenue Fund	\$ <u>13,341</u>
Total Governmental Funds	<u>\$ 13,341</u>

**NOTE 16. NET ASSETS**

The government-wide statement of net assets reports \$355,071 of restricted net assets, all of which is restricted by enabling legislation. See the fund descriptions on pages 53 and 54 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 2010- 2011  
Fiscal agent – None  
Audit Responsibility- None

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**NOTE 18. SUBSEQUENT PRONOUNCEMENTS**

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*, effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The City is analyzing the effects that this pronouncement will have on their financial statements.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The City is analyzing the effects that this pronouncement will have on their financial statements.

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The City is analyzing the effects that this pronouncement will have on their financial statements.

In April 2011 the Financial Accounting Standards Board (FASB) issued FASB Codification Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*, effective for periods beginning on or after December 15, 2011. The main objective of this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The City is analyzing the effects that this pronouncement will have on their financial statements.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2011

**NOTE 19. CONCENTRATIONS**

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and federal and State appropriations.

**NOTE 20 RESTATEMENT**

The City has restated budgetary fund balances due to errors in the cash balances of the prior year financial statements. These restatements are as follows:

<u>Fund Name</u>	<u>Restatement</u>
General Fund	\$ 106,202
Water and Wastewater	(300,117)
	<u>\$ (469,659)</u>

The City has restated fund balances and net assets due to errors in the cash balances of the prior year financial statements. These restatements are as follows:

<u>Fund Name</u>	<u>Restatement</u>
Designated Franchise	\$ 17,940
Solid Waste	(10,817)
Water and Wastewater	13,014
Ambulance	177,441
	<u>\$ (577,214)</u>

**SUPPLEMENTARY INFORMATION**

**NONMAJOR GOVERNMENTAL FUNDS**

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Fund Descriptions  
June 30, 2011

**SPECIAL REVENUE FUNDS**

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

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

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

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

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

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

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

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

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

**PROPRIETARY FUNDS**

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

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

**INTERNAL SERVICE FUNDS**

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

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

**STATE OF NEW MEXICO**

City of Lovington

Nonmajor Fund Descriptions

June 30, 2011

**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.

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.



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**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Balance Sheet  
For the Year Ended June 30, 2011

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	<u>60,454</u>	<u>3</u>	<u>830</u>	<u>18,762</u>
<i>Total assets</i>	<u>\$ 60,454</u>	<u>\$ 3</u>	<u>\$ 830</u>	<u>\$ 18,762</u>
<i>Liabilities</i>				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	3,012	-	3,664	-
Accrued payroll expenses	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	830	18,755
<i>Total liabilities</i>	<u>3,012</u>	<u>-</u>	<u>4,494</u>	<u>18,755</u>
<i>Fund balances</i>				
Spendable				
Restricted	<u>57,442</u>	<u>3</u>	<u>(3,664)</u>	<u>7</u>
<i>Total fund balances</i>	<u>57,442</u>	<u>3</u>	<u>(3,664)</u>	<u>7</u>
<i>Total liabilities and fund balances</i>	<u>\$ 60,454</u>	<u>\$ 3</u>	<u>\$ 830</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>
\$ -	\$ -	\$ 195	\$ 27,836	\$ 26,456	\$ 54,487
-	-	12,444	-	17,947	30,391
5,772	-	-	-	-	5,772
-	-	-	11,223	-	11,223
-	-	-	-	-	-
-	-	-	-	-	-
<u>20,420</u>	<u>174,182</u>	<u>11,289</u>	<u>13,778</u>	<u>2,294</u>	<u>302,012</u>
<u>\$ 26,192</u>	<u>\$ 174,182</u>	<u>\$ 23,928</u>	<u>\$ 52,837</u>	<u>\$ 46,697</u>	<u>\$ 403,885</u>
\$ 78	\$ -	\$ -	\$ -	\$ -	\$ 78
-	-	3,236	-	-	9,912
-	-	-	-	-	-
-	-	-	-	-	-
<u>753</u>	<u>13,242</u>	<u>932</u>	<u>-</u>	<u>4,312</u>	<u>38,824</u>
<u>831</u>	<u>13,242</u>	<u>4,168</u>	<u>-</u>	<u>4,312</u>	<u>48,814</u>
<u>25,361</u>	<u>160,940</u>	<u>19,760</u>	<u>52,837</u>	<u>42,385</u>	<u>355,071</u>
<u>25,361</u>	<u>160,940</u>	<u>19,760</u>	<u>52,837</u>	<u>42,385</u>	<u>355,071</u>
<u>\$ 26,192</u>	<u>\$ 174,182</u>	<u>\$ 23,928</u>	<u>\$ 52,837</u>	<u>\$ 46,697</u>	<u>\$ 403,885</u>

The accompanying notes are an integral part of these financial statements

**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, 2011

Special Revenue

	Corrections	EMS Grant	Fire Protection	Law Enforcement Protection
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	79,468	33,800
State capital grants	-	19,547	-	-
Charges for services	-	-	-	-
Licenses and fees	43,346	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>43,346</u>	<u>19,547</u>	<u>79,468</u>	<u>33,800</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	39,102	-	82,180	13,837
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	19,547	-	19,963
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>39,102</u>	<u>19,547</u>	<u>82,180</u>	<u>33,800</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>4,244</u>	<u>-</u>	<u>(2,712)</u>	<u>-</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>	4,244	-	(2,712)	-
<i>Fund balances - beginning of year</i>	<u>53,198</u>	<u>3</u>	<u>(952)</u>	<u>7</u>
<i>Fund balances - end of year</i>	<u>\$ 57,442</u>	<u>\$ 3</u>	<u>\$ (3,664)</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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	131,300	-	-	-	131,300
60,034	-	1,305	-	44,545	105,884
-	-	-	7,935	-	7,935
-	-	-	18,983	-	18,983
-	-	-	138,747	-	252,015
-	-	50,323	-	-	69,870
-	-	1,656	-	-	1,656
-	-	-	-	-	43,346
-	-	-	-	-	-
-	-	-	-	39	39
-	-	3,700	4,965	-	8,665
<u>60,034</u>	<u>131,300</u>	<u>56,984</u>	<u>170,630</u>	<u>44,584</u>	<u>639,693</u>
-	-	-	-	31,835	31,835
-	-	-	-	-	135,119
-	-	-	-	-	-
-	-	-	-	-	-
48,882	-	45,848	-	-	94,730
-	-	27,973	2,292	-	69,775
-	-	-	-	-	-
-	-	-	-	-	-
<u>48,882</u>	<u>-</u>	<u>73,821</u>	<u>2,292</u>	<u>31,835</u>	<u>331,459</u>
<u>11,152</u>	<u>131,300</u>	<u>(16,837)</u>	<u>168,338</u>	<u>12,749</u>	<u>308,234</u>
-	-	35,000	-	-	35,000
-	-	-	(194,002)	-	(194,002)
-	-	35,000	(194,002)	-	(159,002)
11,152	131,300	18,163	(25,664)	12,749	149,232
14,209	29,640	1,597	78,501	29,636	205,839
<u>\$ 25,361</u>	<u>\$ 160,940</u>	<u>\$ 19,760</u>	<u>\$ 52,837</u>	<u>\$ 42,385</u>	<u>\$ 355,071</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2011

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	19,778	-	19,778
Prepays	-	-	-
Inventory	51,397	-	51,397
Due from other funds	250,131	3,536	253,667
<i>Total current assets</i>	321,306	3,536	324,842
<i>Noncurrent assets</i>			
Capital assets	455,892	-	455,892
Accumulated depreciation	(192,607)	-	(192,607)
<i>Total noncurrent assets</i>	263,285	-	263,285
<i>Total Assets</i>	584,591	3,536	588,127
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	4,338	-	4,338
<i>Total current liabilities (payable from current assets):</i>	4,338	-	4,338
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	-	-	-
<i>Total current liabilities (payable from restricted assets)</i>	-	-	-
<i>Total current liabilities</i>	4,338	-	4,338
<i>Total liabilities</i>	4,338	-	4,338
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	263,285	-	263,285
Restricted net assets	-	-	-
Unrestricted net assets	316,968	3,536	320,504
<i>Total net assets</i>	580,253	3,536	583,789
<i>Total Liabilities and Net Assets</i>	\$ 584,591	\$ 3,536	\$ 588,127

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, 2011

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues:</i>			
Charges for services	\$ 412,138	\$ -	\$ 412,138
<i>Total operating revenues</i>	<u>412,138</u>	<u>-</u>	<u>412,138</u>
<i>Operating expenses:</i>			
Personnel services	144,911	-	144,911
Contractual services	25,220	-	25,220
Supplies	16,533	-	16,533
Maintenance and materials	62,462	-	62,462
Utilities	-	-	-
Depreciation	56,583	-	56,583
Miscellaneous	40,405	-	40,405
<i>Total operating expenses</i>	<u>346,114</u>	<u>-</u>	<u>346,114</u>
<i>Operating income (loss)</i>	<u>66,024</u>	<u>-</u>	<u>66,024</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	-	-	-
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	(18)	-	(18)
<i>Total non-operating revenues (expenses)</i>	<u>(18)</u>	<u>-</u>	<u>(18)</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Gain (loss) on sale of capital assets	(27,401)	-	(27,401)
Transfers in	-	-	-
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	<u>(27,401)</u>	<u>-</u>	<u>(27,401)</u>
<i>Change in net assets</i>	<u>38,605</u>	<u>-</u>	<u>38,605</u>
<i>Net assets, beginning of year</i>	<u>541,648</u>	<u>3,536</u>	<u>545,184</u>
<i>Net assets, end of year</i>	<u>\$ 580,253</u>	<u>\$ 3,536</u>	<u>\$ 583,789</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement B-3

City of Lovington

Combining Statement of Cash Flows - Nonmajor Proprietary Funds  
For the Year Ended June 30, 2011

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 402,447	\$ -	\$ 402,447
Cash payments to employees for services	(144,911)	-	(144,911)
Cash payments to suppliers for goods and services	(172,725)	-	(172,725)
<i>Net cash provided (used) by operating activities</i>	<u>84,811</u>	<u>-</u>	<u>84,811</u>
<i>Cash flows from noncapital financing activities:</i>			
Miscellaneous expense	-	-	-
Change in noncurrent accrued compensated absences	-	-	-
Internal transfers and loans	15,644	-	15,644
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>15,644</u>	<u>-</u>	<u>15,644</u>
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	(100,455)	-	(100,455)
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>(100,455)</u>	<u>-</u>	<u>(100,455)</u>
<i>Net increase in cash and cash equivalents</i>	-	-	-
<i>Cash and cash equivalents - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	66,024	-	66,024
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	56,583	-	56,583
Interest received in prior period not recorded	-	-	-
Changes in assets and liabilities			
Receivables	(9,691)	-	(9,691)
Inventory	(29,061)	-	(29,061)
Prepaid expenses	-	-	-
Accounts payable	956	-	956
<i>Net cash (used) by operating activities</i>	<u><u>\$ 84,811</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 84,811</u></u>

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, 2011

Statement C-1

	Unemployment Compensation	Pension	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 281	\$ 103	\$ 384
<i>Total current assets</i>	281	103	384
 <i>Total Assets</i>	 281	 103	 384
 <i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	18,653	-	18,653
Accrued payroll expenses	-	18	18
Accrued compensated absences current portion	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current portion of notes payable	-	-	-
<i>Total current liabilities</i>	18,653	18	18,671
 <i>Net Assets:</i>			
Invested in capital assets, net of related debt	-	-	-
Restricted net assets	-	-	-
Unrestricted net assets	(18,372)	85	(18,287)
<i>Total net assets</i>	(18,372)	85	(18,287)
 <i>Total Liabilities and Net Assets</i>	 \$ 281	 \$ 103	 \$ 384

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, 2011

	Unemployment Compensation	Pension	Total
<i>Operating revenues:</i>			
Charges for services	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	-	-	-
<i>Operating expenses:</i>			
Personnel services	-	-	-
Contractual services	-	-	-
Supplies	-	-	-
Maintenance and materials	-	-	-
Utilities	-	-	-
Housing assistance payments	-	-	-
Depreciation	-	-	-
Miscellaneous	68,086	234	68,320
<i>Total operating expenses</i>	68,086	234	68,320
<i>Operating income (loss)</i>	(68,086)	(234)	(68,320)
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	-	-	-
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	209	-	209
<i>Total non-operating revenues (expenses)</i>	209	-	209
Federal capital grants	-	-	-
State capital grants	-	-	-
Transfers in	25,000	-	25,000
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	25,000	-	25,000
<i>Change in net assets</i>	(42,877)	(234)	(43,111)
<i>Net assets, beginning of year</i>	24,505	319	24,824
<i>Net assets, end of year</i>	\$ (18,372)	\$ 85	\$ (18,287)

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement C-3

City of Lovington

Combining Statement of Cash Flows - Internal Service Funds- Proprietary Fund  
For the Year Ended June 30, 2011

	Unemployment Compensation	Pension	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ -	\$ -	\$ -
Cash payments to employees for services	-	18	18
Cash payments to suppliers for goods and services	(64,005)	(234)	(64,239)
<i>Net cash provided (used) by operating activities</i>	<u>(64,005)</u>	<u>(216)</u>	<u>(64,221)</u>
<i>Cash flows from noncapital financing activities:</i>			
Operating grants	-	-	-
Other taxes received	-	-	-
Miscellaneous income	209	-	209
Change in noncurrent accrued compensated absences	-	-	-
Internal transfers and loans	25,000	-	25,000
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>25,209</u>	<u>-</u>	<u>25,209</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	-	-
Acquisition of capital assets	-	-	-
Proceeds from sale of capital assets	-	-	-
Principal paid on capital debt	-	-	-
Proceeds from debt issuance	-	-	-
Interest paid on capital debt	-	-	-
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	-	-	-
<i>Net cash provided by (used) from investing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	(38,796)	(216)	(39,012)
<i>Cash and cash equivalents - beginning of year</i>	39,077	319	39,396
<i>Cash and cash equivalents - end of year</i>	<u>281</u>	<u>103</u>	<u>384</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	(68,086)	(234)	(68,320)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	-	-	-
Changes in assets and liabilities			
Accounts payable	4,081	-	4,081
<i>Net cash (used) by operating activities</i>	<u>\$ (64,005)</u>	<u>\$ (216)</u>	<u>\$ (64,221)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Corrections Special Revenue Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2011

Statement D-1

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	70,000	70,000	43,346	(26,654)
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	70,000	70,000	43,346	(26,654)
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	50,000	50,000	39,136	10,864
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	50,000	50,000	39,136	10,864
<i>Excess (deficiency) of revenues over expenditures</i>	20,000	20,000	4,210	(15,790)
<i>Other financing sources (uses)</i>				
Designated cash	(20,000)	(20,000)	-	20,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	(20,000)	(20,000)	-	20,000
<i>Net change in fund balance</i>	-	-	4,210	4,210
<i>Fund balance - beginning of year</i>	-	-	56,244	56,244
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 60,454	\$ 60,454
Net change in fund balance (Non-GAAP)				\$ 4,210
No adjustments				-
Adjustments to expenditures for public safety				34
Net change in fund balance (GAAP budgetary basis)				\$ 4,244

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, 2011

	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	25,000	25,000	19,547	(5,453)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>25,000</u>	<u>25,000</u>	<u>19,547</u>	<u>(5,453)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	25,000	25,000	19,547	5,453
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>25,000</u>	<u>25,000</u>	<u>19,547</u>	<u>5,453</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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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, 2011

	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	84,891	84,891	79,468	(5,423)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>84,891</b>	<b>84,891</b>	<b>79,468</b>	<b>(5,423)</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	84,891	84,891	79,550	5,341
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>84,891</b>	<b>84,891</b>	<b>79,550</b>	<b>5,341</b>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(82)	(82)
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Net change in fund balance</i>	-	-	(82)	(82)
<i>Fund balance - beginning of year</i>	-	-	82	82
<i>Fund balance - end of year</i>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Net change in fund balance (Non-GAAP)				\$ (82)
No adjustments				-
Adjustments to expenditures for public safety				(2,630)
Net change in fund balance (GAAP budgetary basis)				<b>\$ (2,712)</b>

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, 2011

	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	-	-	-	-
<b>Total revenues</b>	<b>33,800</b>	<b>33,800</b>	<b>33,800</b>	<b>-</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	13,837	13,837	13,837	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	19,963	19,963	19,963	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>33,800</b>	<b>33,800</b>	<b>33,800</b>	<b>-</b>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Net change in fund balance</i>	-	-	-	-
<i>Fund balance - beginning of year</i>	-	-	7	7
<b>Fund balance - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7</b>	<b>\$ 7</b>
Net change in fund balance (Non-GAAP)				\$ -
Adjustments to revenue for state grants				-
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<b>\$ -</b>

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, 2011

	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	40,000	40,000	57,257	17,257
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>40,000</u>	<u>40,000</u>	<u>57,257</u>	<u>17,257</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	35,000	49,407	49,406	1
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>35,000</u>	<u>49,407</u>	<u>49,406</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>5,000</u>	<u>(9,407)</u>	<u>7,851</u>	<u>17,258</u>
<i>Other financing sources (uses)</i>				
Designated cash	(5,000)	9,407	-	(9,407)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(5,000)</u>	<u>9,407</u>	<u>-</u>	<u>(9,407)</u>
<i>Net change in fund balance</i>	-	-	7,851	7,851
<i>Fund balance - beginning of year</i>	-	-	11,738	11,738
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,589</u>	<u>\$ 19,589</u>
Net change in fund balance (Non-GAAP)				\$ 7,851
Adjustments to revenue for other income				2,777
Adjustments to expenditures for Culture and recreation				524
Net change in fund balance (GAAP budgetary basis)				<u>\$ 11,152</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, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	125,000	125,000	160,160	35,160
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>125,000</b>	<b>125,000</b>	<b>160,160</b>	<b>35,160</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>125,000</b>	<b>125,000</b>	<b>160,160</b>	<b>35,160</b>
<i>Other financing sources (uses)</i>				
Designated cash	(125,000)	(125,000)	-	125,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>-</b>	<b>125,000</b>
<i>Net change in fund balance</i>	-	-	160,160	160,160
<i>Fund balance - beginning of year</i>	-	-	780	780
<i>Fund balance - end of year</i>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 160,940</b>	<b>\$ 160,940</b>
Net change in fund balance (Non-GAAP)				\$ 160,160
Adjustments to revenue for gasoline and motor vehicle taxes				(28,860)
Adjustments to expenditures for public works				-
Net change in fund balance (GAAP budgetary basis)				<b>\$ 131,300</b>

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, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	6,500	6,500	1,305	(5,195)
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	50,323	50,323
Charges for services	1,800	1,800	1,656	(144)
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	200	200	3,700	3,500
<b>Total revenues</b>	<b>8,500</b>	<b>8,500</b>	<b>56,984</b>	<b>48,484</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	34,214	57,132	44,583	12,549
Capital outlay	-	27,974	27,973	1
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>34,214</b>	<b>85,106</b>	<b>72,556</b>	<b>12,550</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>(25,714)</b>	<b>(76,606)</b>	<b>(15,572)</b>	<b>61,034</b>
<i>Other financing sources (uses)</i>				
Designated cash	25,714	76,606	-	(76,606)
Transfers in	-	-	35,000	35,000
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>25,714</b>	<b>76,606</b>	<b>35,000</b>	<b>(41,606)</b>
<i>Net change in fund balance</i>	-	-	19,428	19,428
<i>Fund balance - beginning of year</i>	-	-	3,568	3,568
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 22,996	\$ 22,996
Net change in fund balance (Non-GAAP)				\$ 19,428
No adjustments				-
Adjustments to expenditures for culture and recreation and capital outlay				(1,265)
Net change in fund balance (GAAP budgetary basis)				\$ 18,163

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, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	3,945	3,945	7,935	3,990
Federal capital grants	15,411	15,411	18,983	3,572
State operating grants	109,502	109,502	140,097	30,595
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	21,142	21,142	4,965	(16,177)
<b>Total revenues</b>	<b>150,000</b>	<b>150,000</b>	<b>171,980</b>	<b>21,980</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	16,070	16,070	2,292	13,778
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>16,070</b>	<b>16,070</b>	<b>2,292</b>	<b>13,778</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>133,930</b>	<b>133,930</b>	<b>169,688</b>	<b>35,758</b>
<i>Other financing sources (uses)</i>				
Designated cash	16,070	60,072	-	(60,072)
Transfers in	-	-	-	-
Transfers out	(150,000)	(194,002)	(194,002)	-
<b>Total other financing sources (uses)</b>	<b>(133,930)</b>	<b>(133,930)</b>	<b>(194,002)</b>	<b>(60,072)</b>
<i>Net change in fund balance</i>	-	-	(24,314)	(24,314)
<i>Fund balance - beginning of year</i>	-	-	65,928	65,928
<i>Fund balance - end of year</i>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 41,614</b>	<b>\$ 41,614</b>
Net change in fund balance (Non-GAAP)				\$ (24,314)
Adjustments to revenue for federal grants				(1,350)
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<b>\$ (25,664)</b>

The accompanying notes are an integral part of these financial statements

**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, 2011

	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	35,000	35,000	48,881	13,881
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	50	600	39	(561)
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>35,050</b>	<b>35,600</b>	<b>48,920</b>	<b>13,320</b>
<i>Expenditures:</i>				
Current:				
General government	31,969	31,969	31,828	141
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>31,969</b>	<b>31,969</b>	<b>31,828</b>	<b>141</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>3,081</b>	<b>3,631</b>	<b>17,092</b>	<b>13,461</b>
<i>Other financing sources (uses)</i>				
Designated cash	(3,081)	(3,631)	-	3,631
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(3,081)</b>	<b>(3,631)</b>	<b>-</b>	<b>3,631</b>
<i>Net change in fund balance</i>	-	-	17,092	17,092
<i>Fund balance - beginning of year</i>	-	-	7,353	7,353
<i>Restatement</i>	-	-	17,940	17,940
<i>Fund balance - beginning as restated</i>	-	-	25,293	25,293
<i>Fund balance - end of year</i>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,385</b>	<b>\$ 24,445</b>
Net change in fund balance (Non-GAAP)				\$ 17,092
Adjustments to revenue for other taxes				(4,336)
Adjustments to expenditures for general government				(7)
Net change in fund balance (GAAP budgetary basis)				<b>\$ 12,749</b>

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 (GAAP Budgetary Basis) and Actual

Solid Waste Proprietary Fund

For the Year Ended June 30, 2011

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 77,500	\$ 77,500	\$ 1,727,292	\$ 1,649,792
<i>Total operating revenues</i>	<u>77,500</u>	<u>77,500</u>	<u>1,727,292</u>	<u>1,649,792</u>
<i>Operating expenditures:</i>				
Personnel services	35,200	35,200	22,647	12,553
Contractual services	1,625,000	1,617,362	1,306,678	310,684
Supplies	2,000	3,563	2,030	1,533
Maintenance and materials	10,500	10,500	2,003	8,497
Utilities	850	925	809	116
Other operating expenditures	2,100	8,100	4,821	3,279
<i>Total operating expenditures</i>	<u>1,675,650</u>	<u>1,675,650</u>	<u>1,338,988</u>	<u>336,662</u>
<i>Operating income (loss)</i>	<u>(1,598,150)</u>	<u>(1,598,150)</u>	<u>388,304</u>	<u>1,986,454</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(53,874)	4,184	-	-
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	800	800	3,886	3,086
Interest expense	-	-	-	-
Transfers in	1,655,000	1,655,000	-	(1,655,000)
Transfers out	(180,000)	(180,000)	(150,000)	-
<i>Total other financing sources (uses)</i>	<u>1,421,926</u>	<u>1,479,984</u>	<u>(146,114)</u>	<u>(1,651,914)</u>
<i>Change in net assets</i>	<u>(176,224)</u>	<u>(118,166)</u>	<u>242,190</u>	<u>334,540</u>
<i>Total net assets, beginning of year</i>	-	-	760,536	760,536
<i>Restatement</i>	-	-	(10,817)	(10,817)
<i>Net assets, beginning as restated</i>	<u>-</u>	<u>-</u>	<u>749,719</u>	<u>749,719</u>
<i>Net assets- end of year</i>	<u>\$ (176,224)</u>	<u>\$ (118,166)</u>	<u>\$ 991,909</u>	<u>\$ 1,084,259</u>
Changes in net assets above			\$ 242,190	
Depreciation			(3,449)	
Change in net assets per Exhibit D-2			<u>\$ 238,741</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 (GAAP Budgetary Basis) and Actual

Water &amp; Wastewater Proprietary Fund

For the Year Ended June 30, 2011

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 3,826,184	\$ 3,826,184	\$ 2,143,023	\$ (1,683,161)
<i>Total operating revenues</i>	<u>3,826,184</u>	<u>3,826,184</u>	<u>2,143,023</u>	<u>(1,683,161)</u>
<i>Operating expenditures:</i>				
Personnel services	764,652	714,995	752,875	(37,880)
Contractual services	42,500	51,901	2,318,059	(2,266,158)
Supplies	175,000	262,457	169,593	92,864
Maintenance and materials	212,800	259,102	216,323	42,779
Utilities	132,800	146,338	170,714	(24,376)
Other operating expenditures	332,706	487,461	97,508	389,953
<i>Total operating expenditures</i>	<u>1,660,458</u>	<u>1,922,254</u>	<u>3,725,072</u>	<u>(1,802,818)</u>
<i>Operating income (loss)</i>	<u>2,165,726</u>	<u>1,903,930</u>	<u>(1,582,049)</u>	<u>(3,485,979)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	347,912	148,684	-	(148,684)
Interest income	4,500	4,500	4,731	231
Federal capital grants	-	-	2,382,699	2,382,699
Miscellaneous income	47,000	47,000	60,067	13,067
Interest expense	324,811	183,377	(172,118)	(355,495)
Rent and royalty income	-	-	357,140	357,140
Transfers out	(1,847,000)	(1,847,000)	(150,000)	1,697,000
<i>Total other financing sources (uses)</i>	<u>(1,122,777)</u>	<u>(1,463,439)</u>	<u>2,482,519</u>	<u>3,945,958</u>
<i>Change in net assets</i>	1,042,949	440,491	900,470	459,979
<i>Total net assets, beginning of year</i>	-	-	2,383,649	2,383,649
<i>Restatement</i>			13,014	13,014
<i>Net assets, beginning as restated</i>			<u>2,396,663</u>	<u>2,396,663</u>
<i>Net assets- end of year</i>	<u>\$ 1,042,949</u>	<u>\$ 440,491</u>	<u>\$ 4,780,312</u>	<u>\$ 4,780,312</u>
Changes in net assets above			\$ 900,470	
Depreciation			(948,744)	
Change in net assets per Exhibit D-2			<u>\$ (48,274)</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 (GAAP Budgetary Basis) and Actual

Ambulance Proprietary Fund

For the Year Ended June 30, 2011

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 420,000	\$ 420,000	\$ 412,138	\$ (7,862)
<i>Total operating revenues</i>	<u>420,000</u>	<u>420,000</u>	<u>412,138</u>	<u>(7,862)</u>
<i>Operating expenditures:</i>				
Personnel services	134,368	144,913	144,911	2
Contractual services	23,114	24,926	25,220	(294)
Supplies	40,000	48,958	16,533	32,425
Maintenance and materials	169,000	162,947	62,462	100,485
Utilities	-	-	-	-
Other operating expenditures	37,800	36,375	40,405	(4,030)
<i>Total operating expenditures</i>	<u>404,282</u>	<u>418,119</u>	<u>289,531</u>	<u>128,588</u>
<i>Operating income (loss)</i>	<u>15,718</u>	<u>1,881</u>	<u>122,607</u>	<u>120,726</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(95,296)	(37,861)	-	37,861
Interest income	-	-	-	-
Loss on disposal	-	-	(27,401)	(27,401)
Miscellaneous income	-	-	(18)	(18)
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(95,296)</u>	<u>(37,861)</u>	<u>(27,419)</u>	<u>10,442</u>
<i>Change in net assets</i>	<u>(79,578)</u>	<u>(35,980)</u>	<u>95,188</u>	<u>131,168</u>
<i>Total net assets, beginning of year</i>	-	-	265,775	265,775
<i>Restatement</i>			177,441	177,441
<i>Net assets, beginning as restated</i>			<u>443,216</u>	<u>443,216</u>
<i>Net assets- end of year</i>	<u>\$ (79,578)</u>	<u>\$ (35,980)</u>	<u>\$ 538,404</u>	<u>\$ 574,384</u>
Changes in net assets above			\$ 95,188	
Depreciation			(56,583)	
Change in net assets per Statement B-2			<u>\$ 38,605</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 (GAAP Budgetary Basis) and Actual  
 Capital Project Replace & Repair Water Lines Proprietary Fund  
 For the Year Ended June 30, 2011

	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 Statement 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 (GAAP Budgetary Basis) and Actual  
 Unemployment Compensation Fund Internal Service Fund  
 For the Year Ended June 30, 2011

	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	20,000	64,006	68,086	(4,080)
<i>Total operating expenditures</i>	20,000	64,006	68,086	(4,080)
<i>Operating income (loss)</i>	(20,000)	(64,006)	(68,086)	(4,080)
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	7,280	24,962	-	(24,962)
Interest income	-	-	-	-
Federal capital grants	200	200	209	9
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	37,000	37,000	25,000	(12,000)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	44,480	62,162	25,209	(36,953)
<i>Change in net assets</i>	24,480	(1,844)	(42,877)	(41,033)
<i>Total net assets, beginning of year</i>	-	-	39,077	39,077
<i>Restatement</i>			(14,572)	(14,572)
<i>Net assets, beginning as restated</i>			24,505	24,505
<i>Net assets- end of year</i>	\$ 24,480	\$ (1,844)	\$ (3,800)	\$ (1,956)
Changes in net assets above			\$ (42,877)	
Depreciation			-	
Change in net assets per Exhibit C-2			\$ (42,877)	

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 (GAAP Budgetary Basis) and Actual

Pension Internal Service Fund

For the Year Ended June 30, 2011

	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	-	-	234	(234)
<i>Total operating expenditures</i>	<u>-</u>	<u>-</u>	<u>234</u>	<u>(234)</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>(234)</u>	<u>(234)</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>	-	-	(234)	(234)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>319</u>	<u>319</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85</u>	<u>\$ 85</u>
Changes in net assets above			\$ (234)	
Depreciation			<u>-</u>	
Change in net assets per Exhibit C-2			<u>\$ (234)</u>	

The accompanying notes are an integral part of these financial statements

**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Collateral Pledged By Depository  
For Public Funds  
June 30, 2011

Schedule I

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2010	Location of Safekeeper
<b>Western Commerce Bank</b>					
	FNMA #888129	2/1/2037	31410FVW2	\$ 378,099	Carlsbad New Mexico
	FNMA #738717	8/1/2033	31402UVJ8	307,529	Carlsbad New Mexico
	GNMA #004597	12/20/2039	36202FDA1	<u>954,936</u>	Carlsbad New Mexico
	Total Western Commerce Bank			<u>1,640,564</u>	
<b>Lea County State Bank</b>					
	Silver City NM 3.75%	8/1/2023	827513ET5	1,150,000	Hobbs New Mexico
	Bernalillo MSD MG9 3.5%	8/1/2015	085279MC9	400,000	Hobbs New Mexico
	Espanola NM PSD 3.85%	7/1/2016	296628BP4	575,000	Hobbs New Mexico
	Grants & Cibola 3.95%	10/1/2011	38824OCH4	<u>130,000</u>	Hobbs New Mexico
	Total Lea County State Bank			<u>2,255,000</u>	
	Total Pledged Collateral (Primary Government)			<u><u>\$ 3,895,564</u></u>	

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2011

Bank Account Type/Name	Lea County State Bank	Wells Fargo Bank	Western Commerce Bank
<b>Deposits</b>			
General Fund- Checking	\$ 1,700,461	\$ -	\$ -
Payroll- Checking	956	-	-
Lovington Economic Development Revolving Loan - Checking	7,883	-	-
Municipal Court - Checking	16,348	-	-
Municipal Court - Checking	4,604	-	-
Payroll- Checking	-	2,681	-
Senior Citizen's Supply Fund - Checking	-	15,795	-
Employee Pension - Checking	-	103	-
Motor Vehicle Department - Checking	-	1,335	-
Multipurpose Senior Center - Checking	-	27,836	-
Unemployment Compensation - Checking	-	1,921	-
Special Youth- Checking	-	26,273	-
Lovington Fire Department - Checking	-	7,433	-
Wastewater Treatment Plant - Checking	-	278,346	-
CDBG Housing Rehab Project - Checking	-	7	-
Water and Wastewater - Checking	-	-	3,262,184
Wastewater Treatment Plant - Checking	-	-	104,955
Certificate of Deposit	-	-	25,022
Certificate of Deposit	-	-	39,046
Certificate of Deposit	-	-	16,019
Certificate of Deposit	-	-	-
Certificate of Deposit	-	-	-
Total amount of deposits in bank	<u>1,730,252</u>	<u>361,730</u>	<u>3,447,226</u>
Less: FDIC coverage	271,908	361,730	435,042
Total uninsured public funds	<u>1,458,344</u>	<u>-</u>	<u>3,012,184</u>
50% collateral requirements	729,172	-	1,506,092
Pledged securities	2,255,000	-	1,640,564
Over/(under) collateralized	<u>1,525,828</u>	<u>-</u>	<u>134,472</u>
<b>Bank balance</b>	1,730,252	361,730	3,447,226
Outstanding items	(134,124)	(4,389)	(130,656)
Deposits in transit	1,881	-	15,634
Other adjustments	-	(1,641)	-
<b>Book balance</b>	<u>\$ 1,598,009</u>	<u>\$ 355,700</u>	<u>\$ 3,332,204</u>
<b>Investments</b>			
<i>New MexiGROW - LGIP</i>	-	-	-
<i>New MexiGROW - LGIP</i>	-	-	-
<i>New MexiGROW - LGIP</i>	-	-	-
<i>New MexiGROW - LGIP</i>	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 independent auditors' report

Estacado Credit Union	Lea Community Federal Credit Union	Local Government Investment Pool	Totals
\$ -	\$ -	\$ -	\$ 1,700,461
-	-	-	956
-	-	-	7,883
-	-	-	16,348
-	-	-	4,604
-	-	-	2,681
-	-	-	15,795
-	-	-	103
-	-	-	1,335
-	-	-	27,836
-	-	-	1,921
-	-	-	26,273
-	-	-	7,433
-	-	-	278,346
-	-	-	7
-	-	-	3,262,184
-	-	-	104,955
-	-	-	25,022
-	-	-	39,046
-	-	-	16,019
12,493	-	-	-
-	92,000	-	92,000
12,493	92,000	-	5,643,701
12,493	92,000	-	1,173,173
-	-	-	4,470,528
-	-	-	2,235,264
-	-	-	3,895,564
-	-	-	1,660,300
12,493	92,000	-	5,643,701
-	-	-	(269,169)
-	-	-	17,515
-	-	-	(1,641)
<u>\$ 12,493</u>	<u>\$ 92,000</u>	<u>\$ -</u>	<u>\$ 5,390,406</u>
-	-	310,000	310,000
-	-	18,000	18,000
-	-	15,000	15,000
-	-	156	156
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,156</u>	<u>\$ 343,156</u>
			2,775
			<u>\$ 5,736,337</u>
			1,642,238
			3,536,230
			398,082
			129,654
			30,133
			<u>\$ 5,736,337</u>

See independent auditors' report

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 14,784	\$ 1,012	\$ -	\$ 15,796
Due from other funds	10	-	10	-
<i>Total assets</i>	<u>14,794</u>	<u>1,012</u>	<u>10</u>	<u>15,796</u>
Liabilities				
Deposits held and due to others	14,794	1,012	-	15,796
<i>Total liabilities</i>	<u>\$ 14,794</u>	<u>\$ 1,012</u>	<u>\$ -</u>	<u>\$ 15,796</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,582	\$ 1,154	\$ 1,198	\$ 1,538
Due from other funds	391	-	391	-
<i>Total assets</i>	<u>1,973</u>	<u>1,154</u>	<u>1,589</u>	<u>1,538</u>
Liabilities				
Deposits held and due to others	1,973	1,154	1,198	1,538
<i>Total liabilities</i>	<u>\$ 1,973</u>	<u>\$ 1,154</u>	<u>\$ 1,198</u>	<u>\$ 1,538</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 7,876	\$ -	\$ 302	\$ 7,574
<i>Total assets</i>	<u>7,876</u>	<u>-</u>	<u>302</u>	<u>7,574</u>
Liabilities				
Deposits held and due to others	7,876	-	302	7,574
<i>Total liabilities</i>	<u>\$ 7,876</u>	<u>\$ -</u>	<u>\$ 302</u>	<u>\$ 7,574</u>



	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,332	\$ 3,893	\$ -	\$ 5,225
<i>Total assets</i>	<u>1,332</u>	<u>3,893</u>	<u>-</u>	<u>5,225</u>
Liabilities				
Deposits held and due to others	1,332	3,893	-	5,225
<i>Total liabilities</i>	<u>\$ 1,332</u>	<u>\$ 3,893</u>	<u>\$ -</u>	<u>\$ 5,225</u>
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<i>Teen Fund</i>				
Assets				
Investments	\$ 12,228	\$ -	\$ 12,228	\$ -
<i>Total assets</i>	<u>12,228</u>	<u>-</u>	<u>12,228</u>	<u>-</u>
Liabilities				
Deposits held and due to others	12,228	-	12,228	-
<i>Total liabilities</i>	<u>\$ 12,228</u>	<u>\$ -</u>	<u>\$ 12,228</u>	<u>\$ -</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 25,574	\$ 6,059	\$ 1,500	\$ 30,133
Investments	12,228	-	12,228	-
Due from other funds	401	-	401	-
<i>Total assets</i>	<u>38,203</u>	<u>6,059</u>	<u>14,129</u>	<u>30,133</u>
Liabilities				
Deposits held and due to others	38,203	6,059	13,728	30,133
<i>Total liabilities</i>	<u>\$ 38,203</u>	<u>\$ 6,059</u>	<u>\$ 13,728</u>	<u>\$ 30,133</u>

**COMPLIANCE SECTION**



**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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 28, 2011. 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, 2011 as listed in the table of contents. Except as noted below, 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. 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 2007-2, 2007-6, FS 08-01, FS 08-03, FS 08-05, FS 08-07, FS 08-09, FS 08-10, FS 09-02, FS 10-03, FS 11-01, FS 11-02, FS 11-03, FS 11-04, FS 11-05, FS 11-06, FS 11-07, FS 11-08, FS 11-09, FS 11-10, HA 2007-2 and HA FS 08-01, to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and, which are described in the accompanying schedule of findings and questioned costs as items HA FS 2011-01, HA FS 2011-02, HA 2011-03, and HA FS 2011-04.

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

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

*Accounting + Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
November 28, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We were engaged to audit the City of Lovington, New Mexico's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2011. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the amount of federal expenditures. We were also unable to obtain sufficient documentation supporting the compliance of the City with any potential major programs regarding compliance requirements, nor were we able to support the City's compliance through use of other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding City's compliance with the requirements of any potential major programs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the City complied with the requirements referred to above that are applicable to any major program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item FA 11-1 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the City, the audit committee, the State Auditor, the New Mexico State 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  
November 28, 2011

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011

Federal Grantor/Passthrough Grantor/Program Title	Grant Number	Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Transportation</b>			
Highway Improvement	ES21210	Undetermined	<u>Undetermined</u>
<b>Total U.S. Department of Transportation</b>			<u>Undetermined</u>
<b>Other Federal Agencies - Undetermined</b>			
Program Name - Undetermined		Undetermined	<u>Undetermined</u>
<b>Total Other Federal Agencies - Undetermined</b>			<u>Undetermined</u>
Total Federal Financial Assistance			<u><u>Undetermined</u></u>



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

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Lovington, New Mexico (Village) and is presented on the modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements

2 Subrecipients

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

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:**

Total federal awards expended per Schedule of Expenditures of Federal Awards	Undetermined
Total expenditures funded by other sources	<u>14,943,365</u>
Total expenditures	<u><u>\$ 14,943,365</u></u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Findings and Questioned Costs  
June 30, 2011

**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         |

*Federal Awards:*

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

<u>CFDA</u> <u>Number</u> Unknown		<u>Federal Program</u> Unknown
---	--	-----------------------------------

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

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

**2007-2 — Preparation of Financial Statements (Material Weakness)**

*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.

*View of Responsible Officials and Planned Corrective Actions:* The City will continue to have the audit firm prepare financial statements.

STATE OF NEW MEXICO  
City of Lovington  
Schedule of Findings and Questioned Costs  
June 30, 2011

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

**2007-6 — Expenditures in Excess of Budget (Material Weakness)**

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

Water & Wastewater Proprietary Fund	\$ 1,802,818
Unemployment Compensation Internal Service Fund	4,080
Pension Internal Service Fund	<u>234</u>
	<u>\$ 1,807,132</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.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with recommendation that established policies and procedures should be in place. This is looked at very closely at the end of every fiscal year.

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

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

*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.

- 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 \$1,595.52 revealed two purchases of \$587.68 that did not have sufficient documentation to support the purchase.
- There is lack of internal controls over federal awards. The client could not prepare an adequate Schedule of Federal Expenditures.
- Petty cash is not being reconciled each month nor are there good controls over petty cash to ensure that funds are safeguarded.
- Out of the 17 bank accounts that the City has in its possession, five of these for an amount totaling \$115,134 are not currently being used. No transactions have been posted to these accounts nor does the City expect to use these in the foreseeable future.
- The City was unable to provide the auditors with a voided check listing due to the fact that the City either deletes the entry that day or creates a journal entry if the voiding is done in a subsequent month.
- During the extended cash procedures testwork, 15 checks were noted to have different check numbers on the check register for the general fund than those that cleared the bank. In addition, during the Accounts Payable Subsequent Testwork, one check for the water and wastewater fund was noted to be different between the AP listing provided by the client and on the general ledger.
- The City maintains 16 manual check registers for the various funds. Six of these check registers are not being used. One of these registers is for an old check register for the Senior Citizen Supply Fund that has been kept but is no longer in use. The other five are for the bank accounts not currently in use.
- Bank statements are not reviewed prior to the bank reconciliations being performed.
- Tests performed on ten receipts totaling \$1,683.28 revealed that five of the receipts could not be traced to the deposit slip.
- Capital asset listings are not periodically routed to the appropriate managers to determine whether the assets still physically exist.
- Changes to the vendor master file are not periodically reviewed for reasonableness.
- Check preparers both sign and mail checks.
- The City maintains 16 manual check registers.
- During extended cash procedures testwork, it was noted that 4 checks out of 25 in the amount of \$4,263.82 did not have supported documentation included with the check. During the internal control disbursement testwork, it was noted that 4 out of 10 checks in the amount of \$4,344.37 were lacking supporting documentation.

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

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

- During the internal control disbursement testwork, it was noted that three checks in the general fund and one in the water and wastewater fund out of ten in the amount of \$731.00 have purchase orders dated after the invoice. Authorization is not usually done until after the purchase has already been made.
- The City is not reviewing the vendor list. Anyone in the office may go in and make edits to the vendor master file as deemed necessary. There are several duplicate entries.
- The vendor listing could not be tested. The City does not maintain separate vendor files.
- There is a lack of internal control over the payroll process. In one out of five payroll transactions tested the time sheet was not approved by the department head and the time sheet did not show the number of hours worked. In one out of five payroll transactions tested the time sheet was missing.
- Debt agreements are not reviewed for appropriate classification of outstanding debt.
- Debt compliance determinations are not prepared and reviewed.
- Leases are not reviewed for capitalization.

*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.

*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.

*Views of Responsible Officials and Planned Corrective Action:* The City will begin working on a restructure plan for internal control. The City will also begin to keep federal and state grants separate by setting up a different line item.

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

**FS 08-03 Computer Controls (Material Weakness)**

*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.

*Views of Responsible Officials and Planned Corrective Action:* At the beginning of fiscal year 10-11, the City Clerk restricted access to accounting modules that are not needed by the deputy clerk and account clerk to perform their jobs. The City Clerk does approve work being done by Lighthouse, before they begin. When work is completed, it is tested to make sure program is working correctly. City understands need for policies and procedures.

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

**FS 08-05 – Capital Assets (Material Weakness)**

*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, is not consistent in the selection of useful lives for similar assets, 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.

*Views of Responsible Officials and Planned Corrective Action:* The City will implement an annual inventory count. We will also work on the inventory listing.

**FS 08-07- Cash Appropriations in Excess of Available Cash Balances (Material Weakness)**

*Condition:* The City designated cash appropriations in excess of available balances in the following funds in fiscal year 2011:

Recreation Special Revenue Fund	\$ <u>13,341</u>
	\$ <u>13,341</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.

*Views of Responsible Officials and Planned Corrective Action:* The City budgeted a transfer to the Special Recreation Fund to offset expenditures.



**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 (Material Weakness)**

*Condition:* The City did not notify the Office of the State Auditor prior to the disposition of ambulances listed on the City’s capital asset listing.

*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.

*Views of Responsible Officials and Planned Corrective Actions:* These ambulances were not totally disposed of. The City purchased a new chassis for each and the ambulance box was re-installed on that. We did not realize this was disposing of property. We will notify the Office of the State Auditor prior to all disposals of capital assets in the future.

**FS 08-10—Travel and Per Diem Mileage Act (Material Weakness)**

*Condition:* The City does not have adequate internal controls over travel and per diem expenditures. The City did not have sufficient documentation for one out of five samples tested for a total of \$535.60.

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

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

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

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

*Views of Responsible Officials and Planned Corrective Actions:* The City is very careful on per diem rates paid and documentation on travel. The City understands the need for policies and procedures.

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

**FS 09-02- DFA Cash Report Does not Reconcile to the City’s Cash (Material Weakness)**

*Condition:* For the year ended June 30, 2011, the City did not separate out the accounts in the fund they applied to as reported in the bank accounts and on the books. In addition, two accounts with the Municipal Court in the amount of \$20,952 were not reported to the Department of Finance and Administration (DFA). The City book balances from the DFA report are off \$133,292.

*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.

*Views of Responsible Officials and Planned Corrective Actions:* The City is now reporting all cash balances to DFA, with the exception of Municipal Court. That account will be reported at end of next quarter on the report to DFA.

**FS 10-03—Cash Activity Not Recorded (Material Weakness)**

*Condition:* Cash per the general ledger did not tie to cash per the bank reconciliations at June 30, 2011 by \$20,952.

The City did not record all bank accounts in their general ledger system. The City had a total cash balance reported of \$5,187,649 on their books when it should have been reporting \$5,208,601. The City’s cash report submitted to the Department of Finance and Administration for the period ending June 30, 2011 did not tie to their reconciled cash balances by \$133,292.

*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.

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

**FS 10-03—Cash Activity Not Recorded (Material Weakness) (continued)**

*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.

*Views of Responsible Officials and Planned Corrective Actions:* All accounts, with the exception of the Municipal Court, are reported the City's general ledger. The court will be reported by end of quarter.

**FS 11-01—Improper Disposal of Capital Assets (Material Weakness)**

*Condition:* A City employee initiated and authorized a trade of a City vehicle for uniform shirts and caps. The vehicle was a 2002 Chevrolet Silverado with an original purchase price of \$18,761.

*Criteria:* Section 13-6-1 D, NMSA 1978 states that the governing authority shall dispose of tangible personal property by negotiated sale to any governmental unit of an Indian nation, tribe or pueblo in New Mexico or by negotiated sale or donation to other state agencies, local public bodies, school districts, state educational institutions or municipalities or through the central purchasing office of the governing authority by means of competitive sealed bid or public auction.

*Effect:* The City may not have received the proceeds that they had the potential to receive if the truck had been sold through public auction or competitive sealed bids.

*Cause:* The City employee circumvented the state procurement code by improperly disposing of a City vehicle.

*Auditors' Recommendation:* We recommend that the City implement procedures that do not allow assets to be improperly disposed of.

*Views of Responsible Officials and Planned Corrective Action:* The City will make sure all assets are disposed of properly.

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

**FS 11-02—Unlawful Employee Participation in Bid Process (Material Weakness)**

*Condition:* During review of bid files, we noted a contract with a City employee's spouse to perform grants/project coordination for the City. The City employee signed the recommendation to City Council to accept his spouse's bid.

*Criteria:* Section 13-1-190, NMSA 1978 states that it is unlawful for any state agency or local public body employee to participate directly or indirectly in a procurement when the employee knows that the employee or any member of the employee's immediate family has a financial interest in the business seeking or obtaining a contract.

*Effect:* The City's manager participation in the bid process resulted in an unlawful contracting process.

*Cause:* The City did not have the controls in place to ensure that City employees are not involved in the contracting of their immediate family.

*Auditors' Recommendation:* We recommend that the City implement procedures that do not allow employees to unlawfully participate in the bid selection process.

*Views of Responsible Officials and Planned Corrective Action:* The City understands the need for procedures. In the future, all bids will be processed properly.

**FS 11-03—Insufficient Documentation – Credit Card Expenses (Material Weakness)**

*Condition:* During extended testwork over credit card expenditures we noted the following for one employee's credit card:

- Five of nine credit card statements had receipts missing.
- Eight receipts for hotels were missing.
- Documentation regarding meal transactions where two meals were purchased did not entail who ate the meals. However, one of the meals included the name of the employee's wife, handwritten on the receipt, but there was no business purpose as to the reason for the meal.

*Criteria:* New Mexico Procurement Code 13-1-1 to 13-1-99, NMSA 1978, states that payments must be supported by valid receipts and that payments may only be made for valid charges.

*Effect:* The City may be paying for unallowable expenses. Inconsistent monitoring of compliance with requirements could result in abuse or fraud.

*Cause:* The City is paying credit card charges without obtaining the corresponding receipts for charges.

*Auditors' Recommendation:* We recommend that the City require credit card holders to turn in receipts as charges are incurred. In the case of an occasional lost receipt, have the credit card holder sign and date an explanation as to the amount of the charge as well as the purpose of the charge.

*Views of Responsible Officials and Planned Corrective Action:* The City has always required receipts to be turned in on credit card charges. In case of receipt being lost, we will begin requiring a written explanation of charge, signed by user.

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

**FS 11-04—Sales Tax Payments – Credit Card Expenses (Material Weakness)**

*Condition:* During our State Auditor Compliance testwork, we noted one credit card payment, in which the City paid a total of \$2.72 in sales tax on purchases.

*Criteria:* The City is tax exempt and should not be paying sales taxes on purchases of tangible personal property.

*Effect:* The City's expenses are increased by the amount of sales tax they are paying.

*Cause:* The vendor where the item had been purchased has had a difficult time making sure that the City has not paid sales tax due to their tax exempt status and the City missed this item in verifying that the City is not paying sales tax.

*Auditors' Recommendations:* The City should require the clerks collecting the purchase orders and sales receipts to check for sales tax paid and give the receipt back to the purchaser to take back to the store for credit. If the purchaser has dropped the purchase order in their mail box, they should call them for pick up so they can take it back to the store for a credit.

*Views of Responsible Officials and Planned Corrective Actions:* The City will be more aware of sales tax being paid on credit card purchases.

**FS 11-05—Public Money (Material Weakness)**

*Condition:* During our audit, we questioned the client regarding the NM State Statute pertaining to public money deposits on interest bearing accounts. The client informed us they are aware of the statute but are not taking any action to ensure it is being followed.

*Criteria:* Per Section 6-10-36, NMSA 1978, "Public money placed in interest-bearing deposits in banks and savings and loan associations shall be equitably distributed among all banks and savings and loan associations having their main or staffed branch offices within the geographical boundaries of the governmental unit that have qualified as public depositories by reason of insurance of the account by an agency of the United States or by depositing collateral security or by giving bond as provided by law and that desire a deposit of public money pursuant to this section. The deposits shall be in the proportion that each bank's or saving and loan association's deposits bears to the total deposits of all banks and savings and loan associations that have their main office or staffed branch within the geographical boundaries of the governmental unit and that desire a deposit of public money pursuant to this section. The deposits of the main office of a savings and loan association and its staffed branch offices within the geographical boundaries of a governmental unit is the total deposits of the association multiplied by the percentage that deposits of the main office and the staffed branch offices located within the geographical boundaries of the governmental unit are of the total deposits of the association, net of any public fund deposits...."

*Effect:* The banks the City uses to deposit funds are not receiving their proportion of deposit.

*Cause:* The City is not in compliance with the state rule because no calculation is being done to segregate the deposits between the banks the City is using with interest bearing deposits.

*Auditor's Recommendations:* We recommend the City form a documented process to ensure they follow the state statute.

*Views of Responsible Officials and Planned Corrective Actions:* The City will look into a way to follow this state statute.

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

**FS 11-06—Procurement Code – Bids (Material Weakness)**

*Condition:* During our procurement testwork, we noted the following items:

- Two (2 ) instances out of five (5) where the bids/proposals were not properly documented
- Five (5) instances out of five (5) where the bids/proposals were not properly accompanied by the Campaign Contribution Disclosure Form.
- Two (2) instances out of five (5) where the bids/proposals were not properly accompanied by the architect rate schedule.
- The City did not obtain bids for three capital asset purchases over \$25,000. These purchases totaled \$140,712.

*Criteria:* The New Mexico Procurement Code, Section 13-1-125, NMSA 1978, was amended effective July 1, 2005 to increase the maximum value of small purchases from \$10,000 to \$20,000 in Subsection A; increase the maximum value of professional services from \$20,000 to \$30,000 in Subsection B; and increase the maximum value of purchases at best obtainable prices from \$1,500 to \$5,000 in Subsection C. Therefore, purchases over \$1,500 up to \$5,000 should have three oral quotes documented, and purchases over \$5,000 and up to \$20,000 should have three written quotes documented. In addition, According to 2006 New Mexico Statutes Annotated section 13-1-191 effective May 17, 2006, Chapter 81, Laws of 2006 requires any prospective contractor seeking to enter into a contract with any state agency or local public body to file a “Campaign Contribution Disclosure Form” with that state agency or local public body. And finally, according to the 2006 New Mexico Statutes Annotated section 13-1-124 effective May 17, 2006, Chapter 81, Laws of 2006 requires the secretary to “adopt by regulation an architect rate schedule which shall set the highest permissible rates for each building-type group, which shall be defined in the regulations. The rate schedule shall be in effect upon the approval of the state board of finance and compliance with the State Rules Act [14-4-1 NMSA 1978] and shall apply to all contracts between a state agency and an architect which are executed after the effective date of the architect rate schedule.”

*Effect:* The City did not comply with the Procurement Code requirement to maintain adequate supporting documentation for purchases over \$5,000. The City may have paid more than necessary in order to obtain the goods and services that the City needed. Furthermore, it is not evident whether or not the bidding contractor contributed to a campaign for the City. In addition, since the City does not have a state approved architect rate schedule, the City cannot adequately select architects.

*Cause:* The City does not have the appropriate controls in place to verify that all necessary information for the bids is properly completed.

*Auditors’ Recommendation:* We recommend the City implement a system of internal controls in order to verify that bid files are complete and are properly awarded.

*Views of Responsible Officials and Planned Corrective Actions:* The City will begin implementing internal controls over bids awarded and ensuring that bids are obtained as required.

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

**FS 11-07 Deficiencies in Internal Control Structure Design, Operation and Oversight – Control Environment (Material Weakness)**

*Condition:* While analyzing the control environment at the City-wide level during the planning process of the audit we noted the following:

- Those charged with governance are not actively involved and do not have significant influence over the City's internal control environment and its financial reporting.
  - They do not oversee the internal control structure of the City.
  - They do not have the knowledge to provide input and oversight over the financial statements or the application of generally accepted accounting principles (GAAP).
- Management, does its attitudes and actions, does not demonstrate character, integrity, and ethical values. Sound integrity and ethical values are not developed and do not set a standard of conduct for the City and financial reporting.
  - Management has not acted to remove or reduce incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts by implementing a strong internal control structure.
  - Management does not have any policies in regard to following ethical guidelines in dealing with external audiences, including suppliers, citizens, creditors, insurers, etc.
- Management's philosophy and operating styles are not consistent with a sound control environment.
  - Management does not exemplify attitudes, actions and values to support an effective control environment.
  - Management does not give appropriate attention to internal controls and does not correct known weaknesses on a timely basis.
  - Management does not regard the accounting function as a means for monitoring and exercising control over the City's various activities.
  - Management does not set the tone that high-quality and transparent financial reporting is expected.
- The organizational structure of the City is not appropriately designed to promote a sound control environment.
  - Management does not periodically evaluate the City's organizational structure and make necessary changes based on changes in its activities.
  - There is not a structure for assigning ownership of data, including who is authorized to make and/or modify transactions.
- The City does not assign authority and responsibility to provide a basis for accountability and control.
  - Employees are not empowered to correct problems or implement improvements in their assigned.
- The City is not committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills.
  - Management does not demonstrate a commitment to provide sufficient accounting and financial personnel to keep pace with the growth and or complexity of the entity's activities.

*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 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 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

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

**FS 11-07 Deficiencies in Internal Control Structure Design, Operation and Oversight – Control Environment (Material Weakness) (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.

*Views of Responsible Officials and Planned Corrective Actions:* The City understands the need for internal control policies and will try to write and implement this policy.

**FS 11-08 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Assessment (Material Weakness)**

*Condition:* While analyzing the risk assessment process at the City-wide level during the planning process of the audit we noted the following:

- City and financial reporting objectives are not established, documented, and communicated.
  - City objectives are not established, communicated, and monitored. The key elements of the City's strategic plan are not communicated throughout the City.
- Management has not established practices for the identification of risks affecting the City.
- Management has not developed an appropriate fraud risk assessment and monitoring process.
- Management does not evaluate and mitigate risk appropriately.

*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 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 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

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

*Views of Responsible Officials and Planned Corrective Actions:* The City will try to put this policy in place.



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

**FS 11-09 Deficiencies in Internal Control Structure Design, Operation and Oversight – Information and Communication (Material Weakness)**

*Condition:* While analyzing the information and communication process at the City-wide level during the planning process of the audit we noted the following:

- Information is not identified, captured, used at all levels of the City, and distributed in a form and timeframe that supports the achievement of financial reporting objectives.
- Information needed to facilitate the function of internal controls is not identified, captured, used, and distributed in a form and timeframe that enables personnel to carry out their internal control responsibilities.
- Communication does not exist between management and those charged with governance so that both have relevant information to fulfill their roles with respect to governance and to financial reporting objectives.
- All personnel, particularly those in roles affecting financial reporting, do not receive a clear message from top management that both internal control over financial reporting and individual control responsibilities must be taken seriously.
- Personnel do not have an effective and safe method to communicate significant information upstream in the City.

*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 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 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

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

*Views of Responsible Officials and Planned Corrective Actions:* The City will try to put this policy in place.

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

**FS 11-10 Deficiencies in Internal Control Structure Design, Operation and Oversight – Monitoring (Material Weakness)**

*Condition:* While analyzing the monitoring process at the City-wide level during the planning process of the audit we noted the following:

- Management does not monitor controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.
  - Ongoing monitoring is not built into operations throughout the City and there is no explicit identification of what constitutes a deviation from expected controls.
  - Reports from external sources (i.e., external auditors) are not considered for their internal control implications, and timely corrective actions are not taken.

*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 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 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

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

*Views of Responsible Officials and Planned Corrective Actions:* The City understands the need for these policies and will try to put them in place.

**C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT**

**HA 2007-2 — Preparation of Financial Statements (Material Weakness)**

*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.

*Views of Responsible Officials and Planned Corrective Action:* Management agrees with this finding, neither administrative assistant have adequate training to fully understand the elements of external financial reporting, etc. Also, management agrees that we need more training in these areas, due to the fact that the new Executive Director has not received any training specific to this as of yet. The new Executive Director does look forward to receiving this type of training in the near future.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

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

*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
- 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.

*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

*Views of Responsible Officials and Planned Corrective Action:* Management understands what this finding is stating. And would like to receive more information regarding this issue, e.g. what a comprehensive internal control structure should consist of. Management will look for direction in this matter in the near future.

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

**FS 2011-01 Actual Expenditures Exceed Budgeted Expenditures (Other Matter)**

*Condition:* The Low Rent Public Housing Program Fund had expenditures that exceeded the respective budget as of June 30, 2011, over expended by \$55,029.

*Criteria:* Section 6-6-6 of the New Mexico state statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits any payments in excess of the approved budget. The Authority's officials and governing authorities have the obligation to follow applicable state statutes.

*Effect:* Noncompliance with New Mexico state statutes could subject officials and employees to penalties and fines required by state statutes.

*Cause:* Inadequate monitoring of budget to actual on a line item basis within funds.

*Auditors' Recommendation:* We recommend that the Authority increase monitoring of its budget to actual comparisons and use budget adjustments to avoid having expenditures exceed the budget.

*Views of Responsible Officials and Planned Corrective Action:* This finding was pointed out to the new Executive Director by the previous Executive Director here, at the City of Lovington Housing Authority. At that time, the previous Executive Director blamed the overspending on budget projections made the previous year and submitted to the current year's budget. This is a matter of concern for the new Executive Director and the new Executive Director intends to look at this matter fully, in order to understand what took place and to ensure that this does not happen anymore. As noted, the new Executive Director was not here during this specific fiscal year.

**FS 2011-02 Voided Checks (Other Matter)**

*Criteria:* When it is necessary to void a check, the check should be voided both physically and in the accounting system.

*Condition:* During testwork over voided checks, the auditor noted:

- In 3 of the 16 void checks tested, the Authority failed to completely deface the void checks which contained check signatures
- In 1 of the 16 void checks tested, the Authority was unable to locate the original check

*Effect:* When sufficient controls over the voiding checks are not designed, implemented and operating effectively, an entity's ability to prevent or detect fraud or mistakes is limited.

*Cause:* The checks were not defaced or maintained by the fee accountant or by management.

*Auditors' Recommendation:* We recommend that the Authority develop procedures for the physical destruction of voided checks.

*Views of Responsible Officials and Planned Corrective Action:* : Management was not aware that they were not defacing the voided checks completely and thought that writing "void" on the front face of those checks would suffice.

**FS 2011-03 Untimely Deposits (Other Matter)**

*Condition:* During our test work of receipts, it was noted that 1 out of 5 receipts were not deposited within 24 hours of receipt. The total amount of these untimely deposits was \$300.00.

*Criteria:* Good accounting practices require cash deposits to be made in a timely manner.

*Cause:* The Authority did not make these deposits within the 24 hour period.

*Effect:* The Authority is not maintaining adequate controls over cash and increases the risk of misappropriation of assets.

*Auditors' Recommendation:* We recommend that the Authority follow established policies and procedures for cash deposits.

*Views of Responsible Officials and Planned Corrective Action:* During the period in question, the one administrative staff had just come back from medical leave and was only working on a part-time basis and that the previous Executive Director had already left the City of Lovington Housing Authority and the new Executive Director had not been hired as of yet. This was apparently the cause for the untimely deposits during this time and this should be corrected at this time.

**FS 2011-04 – Travel and Per Diem (Other Matter)**

*Condition:* During testwork we noted the following condition:

- In 3 out of 5 transactions tested, employees were reimbursed \$35.00 per diem per day which is more than the allowable amount of \$30.00 per diem per day, resulting in an overpayment of \$55.00
- In 3 out of 5 transactions tested, employees were reimbursed \$0.55 per mile which is more than the allowable amount of \$0.51 per mile
- In 2 out of 5 transactions tested, employees were reimbursed for 100% of travel per diem and mileage before the trip took place which is more than the allowable amount of 80% reimbursement before the trip takes place

*Criteria:* Per the Authority's policy 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. In accordance with policy NMAC 2.42.2.11 states that the employees should be at the statutory rates unless such rates have been reduced by the governing body of the local public body.

*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. Also, the Authority has overpaid monies for reimbursements using public funds.

*Cause:* The Authority did not maintain policies and procedures to ensure that documentation is properly reviewed to ensure compliance with the Authority's policies which follow State Statutes.

*Auditors' Recommendations:* We recommend the Authority review State Statute NMAC 2.42.2 periodically to ensure compliance as well as use preformatted forms to ensure proper reimbursement rates.

*Views of Responsible Officials and Planned Corrective Action:* Management was unaware of the discrepancies between the City of Lovington Policies and Procedures (which are used as a guide for the Housing Authority) and the State Statute. Management will work to correct these differences.

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

**FA 11-01—Internal Control over Compliance with Federal Awards (Material Weakness and Material Noncompliance)**

*Condition:* The City does not have adequate controls in place to provide effective safeguarding, monitoring, or oversight over federal awards. The City does not have the ability to monitor the federal awards received or the appropriate usage of the federal awards. The City is not able to properly prepare a Schedule of Expenditures of Federal Awards showing federal awards and the related expenditures.

*Criteria:* Per OMB Circular A-133, the City has the following responsibilities as a recipient of federal awards:

- Identify, in its accounts, all Federal awards received and expended and the Federal Programs under which they were received. Federal Program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal Agency, and name of the pass-through entity.
- Maintain internal control over Federal Programs that provides reasonable assurance that the auditee is managing Federal awards and complies with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each of its Federal Programs.
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal Programs.
- Prepare appropriate financial statements, including the schedule of expenditures of federal awards.
- Ensure that the audits required by this part are properly performed and submitted when due.
- Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.

Per the Code of Federal Regulations Section 215.21, the Village has the following responsibilities as a recipient of federal awards:

- Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award.
- Account records including cost accounting reports that are supported by source documentation.

*Effect:* The City could be improperly spending federal awards and could have to repay federal awards.

*Questioned Costs:* Unknown because we could not determine the amount of federal expenditures.

*Cause:* The City is unaware of the requirements to properly monitor and spend federal awards for the designated purposes.

*Auditors' Recommendation:* The City should design and implement policies, procedures, and controls to ensure that federal award funds are properly spend and monitored for all compliance requirements of the federal programs.

*Views of Responsible Officials and Planned Corrective Actions:* Federal funds are always spent on federal projects and are reimbursable when spent and proper documentation is submitted. The City will set up additional account numbers to better track federal expenditures. We will also look in to setting up policies and procedures.

**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 – Revised and Repeated

FS 08-01 – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Revised and Repeated

FS 08-02 – Segregation of Duties – Resolved

FS 08-03 – Computer Controls – Revised and Repeated

FS 08-05 – Capital Assets – Revised and Repeated

FS 08-07 – Cash Appropriations in Excess of Available Cash Balances – Revised and Repeated

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

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

FS 09-02 – DFA Cash Report Does not Reconcile to the City’s Cash – Revised and Repeated

FS 10-01 – Internal Controls – Bank Reconciliations – Resolved

FS 10-02 – Accounts Receivable – Resolved

FS 10-03 – Cash Activity Not Recorded – Revised and Repeated

FS 10-04 – Pledged Collateral – Resolved

FS 10-05 – Late Audit Report – Resolved

**Component Unit:**

HA 2007-02 – Preparation of Financial Statements – Revised and Repeated

HA FS 08-01 – Deficiencies in Internal Control Structure Design, Operation, and Oversight- Revised and Repeated

HA FS 2009-03 – Internal Control Deviations- Disbursements - Resolved

HA FS 2010-01 – Budgets Over-Expended – Resolved



**STATE OF NEW MEXICO**

City of Lovington

Other Disclosures

June 30, 2011

**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 November 28, 2011. 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

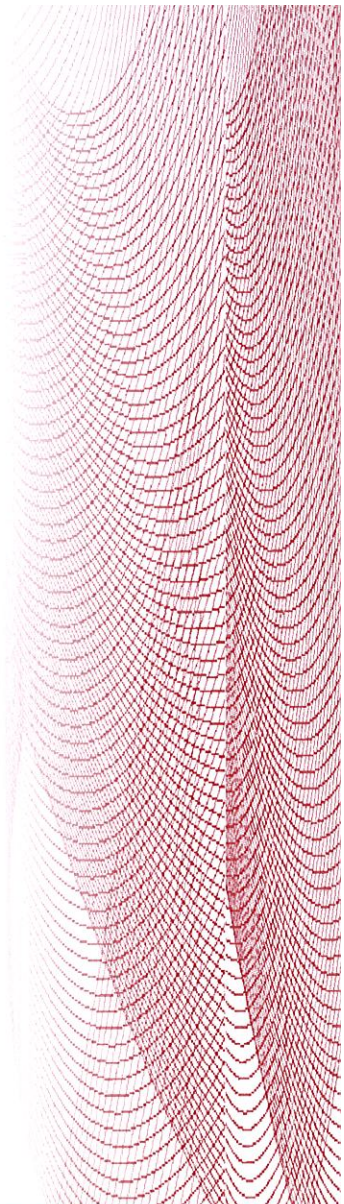
City of Lovington Housing Authority

Paul Campos, Executive Director

Maria Rios, Board Member

Accounting & Consulting Group, LLP

Jeff McWhorter, Partner



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