

State of New Mexico

City of Lovington

Financial Statements And Required
Supplementary Information
With accompanying Auditors Reports

Year Ended June 30, 2012



**STATE OF NEW MEXICO
CITY OF LOVINGTON**

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

YEAR ENDED JUNE 30, 2012

INTRODUCTORY SECTION

STATE OF NEW MEXICO

City of Lovington

Table of Contents

June 30, 2012

	<u>Exhibit / Statement / Schedule</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		4-5
Official Roster		6
FINANCIAL SECTION		
Independent Auditors' Report		9-10
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements		
Statement of Net Assets	A-1	12-13
Statement of Activities	A-2	14-15
Fund Financial Statements		
Balance Sheet - Governmental Funds	B-1	16
Reconciliation of the Balance Sheet to the Statement of Net Assets		17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	B-2	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities		19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual General Fund	C-1	20
Proprietary Funds		
Statement of Net Assets	D-1	22-23
Statement of Revenues, Expenses and Changes in Net Assets	D-2	24-25
Statement of Cash Flows	D-3	26-27
Agency Funds		
Statement of Fiduciary Assets and Liabilities	E-1	28
NOTES TO FINANCIAL STATEMENTS		
		29-46
SUPPLEMENTARY INFORMATION		
COMBINING FUND STATEMENTS		
Nonmajor Fund Descriptions		49-50
Combining Balance Sheet - Nonmajor Governmental Funds	A-1	52-53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	A-2	54-55
Proprietary Funds		
Combining Statement of Net Assets - Nonmajor Proprietary Funds	B-1	56
Combining Statement of Revenues, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds	B-2	57
Combining Statement of Cash Flows - Nonmajor Proprietary Funds	B-3	58
Internal Service Funds		
Combining Statement of Net Assets - Internal Service Funds	C-1	59
Combining Statement of Revenues, Expenses and Changes in Net Assets - Internal Service Funds	C-2	60
Combining Statement of Cash Flows - Internal Service Funds	C-3	61

STATE OF NEW MEXICO

City of Lovington

Table of Contents

June 30, 2012

	<u>Exhibit / Statement / Schedule</u>	<u>Page</u>
Statements of Revenue, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual		
Nonmajor Governmental Funds		
Corrections Special Revenue Fund	D-1	62
EMS Grant Special Revenue Fund	D-2	63
Fire Protection Special Revenue Fund	D-3	64
Law Enforcement Protection Special Revenue Fund	D-4	65
Lodger's Tax Special Revenue Fund	D-5	66
Gasoline Tax Special Revenue Fund	D-6	67
Recreation Special Revenue Fund	D-7	68
Senior Citizens Special Revenue Fund	D-8	69
Designated Franchise Special Revenue Fund	D-9	70
Statements of Revenue, Expenditures, and Changes in Net Assets - Budget (GAAP Basis) and Actual		
Proprietary Funds		
Solid Waste Proprietary Fund	E-1	71
Water & Wastewater Proprietary Fund	E-2	72
Ambulance Proprietary Fund	E-3	73
Capital Project Replace & Repair Water Lines Proprietary Fund	E-4	74
Internal Service Funds		
Unemployment Compensation Fund Internal Service Fund	F-1	75
Pension Internal Service Fund	F-2	76
SUPPORTING SCHEDULES		
Schedule of Collateral Pledged by Depository for Public Funds	I	78
Schedule of Deposit and Investment Accounts	II	80-81
Agency Funds - Schedule of Changes in Fiduciary Assets and Liabilities	III	82-83
COMPLIANCE SECTION		
Report on Internal Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		87-88
FEDERAL FINANCIAL ASSISTANCE		
Independent Auditors' 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		91-92
Schedule of Expenditures of Federal Awards	IV	94-95
Schedule of Findings and Questioned Costs	V	96-122
OTHER DISCLOSURES		123

STATE OF NEW MEXICO

City of Lovington

Official Roster

June 30, 2012

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

FINANCIAL SECTION

This page is intentionally left blank



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 (City) as of and for the year ended June 30, 2012, 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, proprietary funds, internal service funds, 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, 2012 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 also 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, 2012. 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 19, 2012 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.

Management has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The accompanying financial information listed as supporting Schedules I through III in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. 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
Roswell, New Mexico
November 19, 2012

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO

City of Lovington
Statement of Net Assets
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
Assets				
Current assets				
Cash and cash equivalents	\$ 3,487,144	3,817,760	\$ 7,304,904	\$ 25,536
Investments	398,027	129,654	527,681	36,347
Receivables:				
Taxes receivable	1,524,390	-	1,524,390	-
Other receivables	175,980	813,200	989,180	6,180
Prepays	-	-	-	1,486
Inventory	42,971	220,360	263,331	1,910
Internal balances	(265,053)	265,053	-	-
Total current assets	<u>5,363,459</u>	<u>5,246,027</u>	<u>10,609,486</u>	<u>71,459</u>
Noncurrent assets				
Restricted cash and cash equivalents	59,295	214,556	273,851	9,200
Capital assets	38,125,940	29,458,091	67,584,031	2,503,660
Less: accumulated depreciation	(15,948,455)	(12,537,238)	(28,485,693)	(1,491,660)
Total noncurrent assets	<u>22,236,780</u>	<u>17,135,409</u>	<u>39,372,189</u>	<u>1,021,200</u>
Total assets	<u>\$ 27,600,239</u>	<u>\$ 22,381,436</u>	<u>\$ 49,981,675</u>	<u>\$ 1,092,659</u>

The accompanying notes are an integral part of these financial statements

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
Liabilities				
Current liabilities				
Accounts payable	\$ 154,559	\$ 107,065	\$ 261,624	\$ 64,002
Accrued payroll expenses	176,671	20,889	197,560	3,075
Accrued interest	-	80,362	80,362	-
Accrued compensated absences	178,248	30,225	208,473	607
Current portion of bonds and notes payable	-	387,452	387,452	-
Total current liabilities	<u>509,478</u>	<u>625,993</u>	<u>1,135,471</u>	<u>67,684</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	9,200
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,200</u>
Noncurrent liabilities				
Accrued compensated absences	430,651	52,297	482,948	2,219
Customer deposits	-	214,556	214,556	-
Bonds and notes payable	-	8,207,909	8,207,909	-
Total noncurrent liabilities	<u>430,651</u>	<u>8,474,762</u>	<u>8,905,413</u>	<u>2,219</u>
Total liabilities	<u>940,129</u>	<u>9,100,755</u>	<u>10,040,884</u>	<u>79,103</u>
Net Assets				
Invested in capital assets, net of related debt	22,177,485	8,325,492	30,502,977	1,012,000
Restricted for:				
Special Revenue	527,469	-	527,469	-
Unrestricted	<u>3,955,156</u>	<u>4,955,189</u>	<u>8,910,345</u>	<u>1,556</u>
Total net assets	<u>26,660,110</u>	<u>13,280,681</u>	<u>39,940,791</u>	<u>1,013,556</u>
Total liabilities and net assets	<u>\$ 27,600,239</u>	<u>\$ 22,381,436</u>	<u>\$ 49,981,675</u>	<u>\$ 1,092,659</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 Ended June 30, 2012

<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>
Primary Government				
General government	\$ 2,901,332	\$ 328,112	\$ 868,336	\$ 127,483
Public safety	3,282,364	-	77,879	46,806
Public works	1,440,974	-	-	-
Health and welfare	259,697	-	-	-
Culture and recreation	1,226,118	3,839	119,013	44,341
Conservation and development	43,743	-	-	-
<i>Total governmental activities</i>	<u>9,154,228</u>	<u>331,951</u>	<u>1,065,228</u>	<u>218,630</u>
Business-type Activities				
Solid Waste	1,459,641	1,843,202	-	-
Water and Wastewater	2,669,526	3,096,090	-	388,018
Ambulance	472,908	415,911	-	-
<i>Total business type activities</i>	<u>4,602,075</u>	<u>5,355,203</u>	<u>-</u>	<u>388,018</u>
<i>Total primary government</i>	<u>\$ 13,756,303</u>	<u>\$ 5,687,154</u>	<u>\$ 1,065,228</u>	<u>\$ 606,648</u>
Component Unit				
Housing Authority	<u>\$ 371,021</u>	<u>\$ 107,728</u>	<u>\$ 96,585</u>	<u>\$ 82,385</u>
		General Revenues and Transfers		
		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 19)		
		Net assets, beginning as restated		
		Net assets, ending		

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Housing Authority
\$ (1,577,401)	\$ -	\$ (1,577,401)	\$ -
(3,157,679)	-	(3,157,679)	-
(1,440,974)	-	(1,440,974)	-
(259,697)	-	(259,697)	-
(1,058,925)	-	(1,058,925)	-
(43,743)	-	(43,743)	-
<u>(7,538,419)</u>	<u>-</u>	<u>(7,538,419)</u>	<u>-</u>
-	383,561	383,561	-
-	814,582	814,582	-
-	(56,997)	(56,997)	-
-	1,141,146	1,141,146	-
<u>(7,538,419)</u>	<u>1,141,146</u>	<u>(6,397,273)</u>	<u>-</u>
-	-	-	(84,323)
347,735	-	347,735	-
7,620,005	-	7,620,005	-
209,602	-	209,602	-
243,021	-	243,021	-
22	-	22	-
64,452	-	64,452	-
58,374	-	58,374	-
149,726	-	149,726	-
3,809	3,360	7,169	244
346,293	189,520	535,813	7,055
(11,913)	10,100	(1,813)	-
50,000	(50,000)	-	-
<u>9,081,126</u>	<u>152,980</u>	<u>9,234,106</u>	<u>7,299</u>
<u>1,542,707</u>	<u>1,294,126</u>	<u>2,836,833</u>	<u>(77,024)</u>
24,575,721	11,992,598	36,568,319	1,090,580
541,682	(6,043)	535,639	-
<u>25,117,403</u>	<u>11,986,555</u>	<u>37,103,958</u>	<u>1,090,580</u>
<u>\$ 26,660,110</u>	<u>\$ 13,280,681</u>	<u>\$ 39,940,791</u>	<u>\$ 1,013,556</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, 2012

Exhibit B-1
Page 1 of 2

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 3,458,943	\$ 48,607	\$ 3,507,550
Investments	367,636	30,391	398,027
Receivables			
Taxes	1,501,726	22,664	1,524,390
Other receivables	175,980	-	175,980
Inventory	42,971	-	42,971
Due from other funds	-	470,789	470,789
	<u>-</u>	<u>470,789</u>	<u>470,789</u>
<i>Total assets</i>	<u>\$ 5,547,256</u>	<u>\$ 572,451</u>	<u>\$ 6,119,707</u>
<i>Liabilities</i>			
Cash overdraft	\$ -	\$ 78	\$ 78
Accounts payable	148,801	5,758	154,559
Accrued payroll expenses	176,671	-	176,671
Deferred revenue	11,978	-	11,978
Due to other funds	696,696	39,146	735,842
	<u>696,696</u>	<u>39,146</u>	<u>735,842</u>
<i>Total liabilities</i>	<u>1,034,146</u>	<u>44,982</u>	<u>1,079,128</u>
<i>Fund balances</i>			
Nonspendable	42,971	-	42,971
Spendable			
Restricted	-	527,469	527,469
Unassigned	4,470,139	-	4,470,139
	<u>4,470,139</u>	<u>-</u>	<u>4,470,139</u>
<i>Total fund balances</i>	<u>4,513,110</u>	<u>527,469</u>	<u>5,040,579</u>
<i>Total liabilities and fund balances</i>	<u>\$ 5,547,256</u>	<u>\$ 572,451</u>	<u>\$ 6,119,707</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Lovington

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2012

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	5,040,579
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.		38,967
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		22,177,485
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds: Deferred property taxes		11,978
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>(608,899)</u>
Total net assets	\$	<u><u>26,660,110</u></u>

STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes			
Property	\$ 347,742	\$ -	\$ 347,742
Gross receipts	7,620,005	-	7,620,005
Gasoline and motor vehicle	20,300	189,302	209,602
Other	243,036	122,833	365,869
Intergovernmental			
Federal operating grants	8,503	5,402	13,905
Federal capital grants	-	22,030	22,030
State operating grants	859,833	224,090	1,083,923
State capital grants	142,273	21,727	164,000
Charges for services	78,329	3,839	82,168
Licenses and fees	217,338	36,620	253,958
Fines, forfeitures, and penalties	149,726	-	149,726
Investment income	3,768	41	3,809
Miscellaneous	313,689	11,720	325,409
<i>Total revenues</i>	10,004,542	637,604	10,642,146
<i>Expenditures</i>			
Current			
General government	2,664,232	32,474	2,696,706
Public safety	2,920,066	110,337	3,030,403
Public works	482,407	-	482,407
Health and welfare	-	14,209	14,209
Culture and recreation	1,135,180	115,546	1,250,726
Conservation and development	43,743	-	43,743
Capital outlay	1,212,546	47,563	1,260,109
<i>Total expenditures</i>	8,458,174	320,129	8,778,303
<i>Excess (deficiency) of revenues over expenditures</i>	1,546,368	317,475	1,863,843
<i>Other financing sources (uses)</i>			
Transfers in	180,077	35,000	215,077
Transfers (out)	(35,000)	(180,077)	(215,077)
<i>Total other financing sources (uses)</i>	145,077	(145,077)	-
<i>Net change in fund balances</i>	1,691,445	172,398	1,863,843
<i>Fund balances - beginning of year</i>	2,821,665	355,071	3,176,736
<i>Fund balances - end of year</i>	\$ 4,513,110	\$ 527,469	\$ 5,040,579

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Lovington

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2012

Exhibit B-2

Page 2 of 2

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

Net change in fund balances - total governmental funds	\$	1,863,843
<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>		
		57,254
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital assets reported as capital outlay expenditures		1,260,109
Depreciation expense		(1,528,057)
(Gain) loss on sale		(11,913)
<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>		
Proceeds from the sale of capital assets		(4,175)
<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		(7)
<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		<u>(94,347)</u>
Change in net assets of governmental activities	\$	<u><u>1,542,707</u></u>

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, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
<i>Taxes</i>				
Property	\$ 314,449	\$ 314,449	\$ 317,658	\$ 3,209
Gross receipts	5,265,000	5,265,000	7,421,808	2,156,808
Gasoline and motor vehicle	15,000	15,000	20,300	5,300
Other	210,500	210,500	212,241	1,741
<i>Intergovernmental</i>				
Federal operating grants	-	-	8,503	8,503
State operating grants	738,061	738,061	951,364	213,303
State capital grants	31,980	31,980	142,273	110,293
Charges for services	71,000	71,000	78,025	7,025
Licenses and fees	168,150	168,150	208,945	40,795
Fines, forfeitures, and penalties	173,600	173,600	140,457	(33,143)
Investment income	2,000	2,000	3,768	1,768
Miscellaneous	120,000	120,000	189,265	69,265
<i>Total revenues</i>	<u>7,109,740</u>	<u>7,109,740</u>	<u>9,694,607</u>	<u>2,584,867</u>
<i>Expenditures</i>				
<i>Current</i>				
General government	2,679,758	2,368,154	2,616,445	(248,291)
Public safety	2,826,633	2,956,101	2,924,728	31,373
Public works	457,849	465,789	496,691	(30,902)
Culture and recreation	1,089,631	1,177,179	1,177,136	43
Conservation and development	66,500	48,748	48,743	5
Capital outlay	232,310	1,107,147	1,107,141	6
<i>Total expenditures</i>	<u>7,352,681</u>	<u>8,123,118</u>	<u>8,370,884</u>	<u>(247,766)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(242,941)</u>	<u>(1,013,378)</u>	<u>1,323,723</u>	<u>2,337,101</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(242,059)	528,378	-	528,378
Transfers in	525,000	525,000	180,077	705,077
Transfers out	(40,000)	(40,000)	(35,000)	5,000
<i>Total other financing sources (uses)</i>	<u>242,941</u>	<u>1,013,378</u>	<u>145,077</u>	<u>1,238,455</u>
<i>Net change in fund balances</i>	<u>-</u>	<u>-</u>	<u>1,468,800</u>	<u>3,575,556</u>
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,586,477</u>	<u>1,586,477</u>
<i>Fund balances- restatement (Note 19)</i>	<u>-</u>	<u>-</u>	<u>117,577</u>	<u>117,577</u>
<i>Fund balance - beginning of year, as restated</i>	<u>-</u>	<u>-</u>	<u>1,704,054</u>	<u>1,704,054</u>
<i>Fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,172,854</u>	<u>\$ 3,172,854</u>
Net change in fund balance (Non-GAAP)				\$ 1,468,800
Adjustments to revenue for property taxes, gross receipt taxes, state grants, and other revenues				309,935
Adjustments to expenditures for general government, public safety, public works, and culture and rec.				(87,290)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 1,691,445</u>

The accompanying notes are an integral part of these financial statements

This page is intentionally left blank

STATE OF NEW MEXICO

City of Lovington
Statement of Net Assets
Proprietary Funds
June 30, 2012

	<u>Solid Waste</u>	<u>Water & Wastewater</u>
<i>Assets</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 50	3,817,710
Investments	59,698	69,956
Accounts receivable	-	801,628
Inventory	-	186,309
Due from other funds	912,419	-
<i>Total current assets</i>	<u>972,167</u>	<u>4,875,603</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	-	214,556
Capital assets	422,964	28,579,235
Accumulated depreciation	(134,278)	(12,151,825)
<i>Total noncurrent assets</i>	<u>288,686</u>	<u>16,641,966</u>
<i>Total Assets</i>	<u>\$ 1,260,853</u>	<u>\$ 21,517,569</u>
<i>Liabilities and Net Assets</i>		
<i>Liabilities</i>		
<i>Current liabilities</i>		
Accounts payable	\$ 18,008	\$ 85,982
Accrued expenses	-	20,889
Accrued interest	-	80,362
Accrued compensated absences	188	30,037
Due to other funds	-	924,824
Current portion of notes payable	-	387,452
<i>Total current liabilities</i>	<u>18,196</u>	<u>1,529,546</u>
<i>Noncurrent liabilities</i>		
Notes payable	-	8,207,909
Accrued compensated absences	3,041	49,256
Customer deposits	-	214,556
<i>Total noncurrent liabilities</i>	<u>3,041</u>	<u>8,471,721</u>
<i>Total liabilities</i>	<u>21,237</u>	<u>10,001,267</u>
<i>Net Assets</i>		
Invested in capital assets, net of related debt	288,686	7,832,049
Unrestricted net assets	950,930	3,684,253
<i>Total net assets</i>	<u>1,239,616</u>	<u>11,516,302</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 1,260,853</u>	<u>\$ 21,517,569</u>

The accompanying notes are an integral part of these financial statements

<u>Non-Major Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ -	\$ 3,817,760	\$ 38,967
-	129,654	-
11,572	813,200	-
34,051	220,360	-
277,458	1,189,877	-
<u>323,081</u>	<u>6,170,851</u>	<u>38,967</u>
-	214,556	-
455,892	29,458,091	-
(251,135)	(12,537,238)	-
<u>204,757</u>	<u>17,135,409</u>	<u>-</u>
<u>\$ 527,838</u>	<u>\$ 23,306,260</u>	<u>\$ 38,967</u>
\$ 3,075	\$ 107,065	\$ -
-	20,889	-
-	80,362	-
-	30,225	-
-	924,824	-
-	387,452	-
<u>3,075</u>	<u>1,550,817</u>	<u>-</u>
-	8,207,909	-
-	52,297	-
-	214,556	-
<u>-</u>	<u>8,474,762</u>	<u>-</u>
<u>3,075</u>	<u>10,025,579</u>	<u>-</u>
204,757	8,325,492	-
<u>320,006</u>	<u>4,955,189</u>	<u>38,967</u>
<u>524,763</u>	<u>13,280,681</u>	<u>38,967</u>
<u>\$ 527,838</u>	<u>\$ 23,306,260</u>	<u>\$ 38,967</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, 2012

	Solid Waste	Water & Wastewater
<i>Operating revenues</i>		
Charges for services	\$ 1,843,202	\$ 3,096,090
<i>Total operating revenues</i>	1,843,202	3,096,090
<i>Operating expenses</i>		
Personnel services	34,941	704,192
Contractual services	1,390,301	3,386
Supplies	20,937	375,524
Maintenance and materials	1,883	147,494
Utilities	1,038	205,613
Depreciation	9,771	951,264
Miscellaneous	770	116,231
<i>Total operating expenses</i>	1,459,641	2,503,704
<i>Operating income (loss)</i>	383,561	592,386
<i>Non-operating revenues (expenses)</i>		
Rent and royalties	-	142,372
Interest income	-	3,360
Interest expense	-	(165,822)
Miscellaneous	(1,146)	47,831
<i>Total non-operating revenues (expenses)</i>	(1,146)	27,741
<i>Capital grants and net transfers</i>		
Federal capital grants	-	388,481
Gain (loss) on sale of capital assets	8,000	2,100
Transfers in	-	-
Transfers out	(50,000)	-
<i>Capital grants and net transfers</i>	(42,000)	390,581
<i>Change in net assets</i>	340,415	1,010,708
<i>Net assets, beginning of year</i>	899,201	10,509,608
<i>Restatement (Note 19)</i>	-	(4,014)
<i>Net assets beginning as restated</i>	899,201	10,505,594
<i>Net assets, end of year</i>	\$ 1,239,616	\$ 11,516,302

The accompanying notes are an integral part of these financial statements

Non-Major Funds	Total	Internal Service Funds
\$ 415,842	\$ 5,355,134	\$ -
<u>415,842</u>	<u>5,355,134</u>	<u>-</u>
261,083	1,000,216	-
17,922	1,411,609	-
69,287	465,748	-
19,912	169,289	-
-	206,651	-
56,499	1,017,534	-
<u>48,205</u>	<u>165,206</u>	<u>13,630</u>
<u>472,908</u>	<u>4,436,253</u>	<u>13,630</u>
<u>(57,066)</u>	<u>918,881</u>	<u>(13,630)</u>
-	142,372	-
-	3,360	-
-	(165,822)	-
<u>69</u>	<u>46,754</u>	<u>20,884</u>
<u>69</u>	<u>26,664</u>	<u>20,884</u>
-	388,481	-
-	10,100	-
-	-	50,000
<u>-</u>	<u>(50,000)</u>	<u>-</u>
<u>-</u>	<u>348,581</u>	<u>50,000</u>
<u>(56,997)</u>	<u>1,294,126</u>	<u>57,254</u>
583,789	11,992,598	(18,287)
<u>(2,029)</u>	<u>(6,043)</u>	<u>-</u>
<u>581,760</u>	<u>11,986,555</u>	<u>(18,287)</u>
<u>\$ 524,763</u>	<u>\$ 13,280,681</u>	<u>\$ 38,967</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2012

	Solid Waste	Water & Wastewater
<i>Cash flows from operating activities</i>		
Cash received from user charges	\$ 1,843,202	\$ 2,551,899
Cash payments to employees for services	(31,712)	(681,839)
Cash payments to suppliers for goods and services	(1,519,245)	(843,527)
<i>Net cash provided (used) by operating activities</i>	292,245	1,026,533
<i>Cash flows from noncapital financing activities</i>		
Miscellaneous income	(1,146)	190,203
Internal transfers and loans	(23,238)	(28,273)
<i>Net cash provided (used) by noncapital financing activities</i>	(24,384)	161,930
<i>Cash flows from capital and related financing activities</i>		
Capital grants	-	388,481
Acquisition of capital assets	(275,861)	(540,190)
Proceeds from sale of capital assets	8,000	2,100
Principal paid on capital debt	-	(380,306)
Interest paid on capital debt	-	(165,822)
<i>Net cash provided (used) by capital and related financing activities</i>	(267,861)	(695,737)
<i>Cash flows from investing activities</i>		
Interest on investments	-	3,360
<i>Net cash provided (used) by investing activities</i>	-	3,360
<i>Net increase in cash and cash equivalents</i>	-	496,086
<i>Cash and cash equivalents - beginning of year</i>	50	3,536,180
<i>Cash and cash equivalents - end of year</i>	\$ 50	\$ 4,032,266
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>		
Operating income (loss)	383,561	592,386
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	9,771	951,264
Changes in assets and liabilities		
Receivables	-	(404,799)
Inventory	-	(26,355)
Accounts payable	(104,316)	31,076
Accrued payroll expenses	-	1,528
Accrued compensated absences	3,229	20,825
Customer deposits	-	(139,392)
<i>Net cash provided (used) by operating activities</i>	\$ 292,245	\$ 1,026,533

The accompanying notes are an integral part of these financial statements

Non-Major Funds	Total	Internal Service Funds
\$ 415,842	\$ 4,810,943	\$ -
(261,083)	(974,634)	(18)
(139,243)	(2,502,015)	(32,283)
<u>15,516</u>	<u>1,334,294</u>	<u>(32,301)</u>
8,275	197,332	20,884
<u>(23,791)</u>	<u>(75,302)</u>	<u>50,000</u>
<u>(15,516)</u>	<u>122,030</u>	<u>70,884</u>
-	388,481	-
-	(816,051)	-
-	10,100	-
-	(380,306)	-
-	<u>(165,822)</u>	-
-	(963,598)	-
-	3,360	-
-	<u>3,360</u>	-
-	496,086	38,583
-	<u>3,536,230</u>	<u>384</u>
<u>\$ -</u>	<u>\$ 4,032,316</u>	<u>\$ 38,967</u>
(57,066)	918,881	(13,630)
56,499	1,017,534	-
-	(404,799)	-
17,346	(9,009)	-
(1,263)	(74,503)	(18,653)
-	1,528	(18)
-	24,054	-
-	<u>(139,392)</u>	-
<u>\$ 15,516</u>	<u>\$ 1,334,294</u>	<u>\$ (32,301)</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
June 30, 2012

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	<u>\$ 26,289</u>
<i>Total assets</i>	<u><u>\$ 26,289</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 26,289</u>
<i>Total liabilities</i>	<u><u>\$ 26,289</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, 2012

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.

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

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 (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 Housing Authority 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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*.

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

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The City reports the following major governmental fund:

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 internal service funds as major:

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.

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, 2012

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.

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 10th are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property as of January 1st.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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
Buildings 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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 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.

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, 2012, the restricted fund balance on the governmental funds balance sheet is made up of \$527,545 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.

Net Assets: 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

b. Restricted net assets:

Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets:

All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City Charter establishes the City’s fiscal year as the twelve-month period beginning July 1 and ending June 30. Prior to June 30 the City submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund, Special Revenue Funds, 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 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, 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	\$ (242,941)	\$ (1,013,378)
Nonmajor Governmental Funds	263,741	196,548
	Change in Net Assets	
	Original Budget	Final Budget
Solid Waste Proprietary Fund	\$ 1,242,675	\$ 1,255,860
Water & Wastewater Proprietary Fund	301,449	(147,189)
Ambulance Proprietary Fund	(370)	(8,195)
Internal Service Funds	32,480	50,162

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual and Statements of Revenues, Expenses, and Changes in Net Assets (GAAP Basis) presents comparison 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, 2012 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund type can be found in each individual budgetary statement.

NOTE 3. DEPOSITS AND INVESTMENTS

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The City is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2012.

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.

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 July 21, 2011 to December 31, 2012 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 December 31, 2012, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

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, 2012, \$6,220,106 of the City’s bank balances of \$7,995,154 was exposed to custodial credit risk. \$3,104,308 was uninsured and collateralized by securities held by the pledging institution’s trust department or agent, in other than the City’s name and \$2,824,426 was uninsured and uncollateralized. See Schedule II on pages 80-81.

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, political subdivision of the State of New Mexico

Primary Government Investments

The City invests excess cash in the *New MexiGROW* Local Government Investment Pool (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 investments at June 30, 2012 consists of the following:

Investments	Weighted Average Maturity	Fair Value	Rating
<i>New MexiGROW</i> LGIP	36 Days	\$ 342,710	AAAm
Reserve Contingency Fund	Does not earn interest	225	Unrated
		\$ 342,935	

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 purchases 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
Notes to Financial Statements
June 30, 2012

NOTE 4. RECEIVABLES

The City's receivables as of June 30, 2012, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Governmental Activities				
Taxes				
Property taxes	\$ 30,077	\$ -	\$ -	\$ 30,077
Gross receipts taxes	1,425,245	-	-	1,425,245
Franchise taxes	46,404	4,010	-	50,414
Gasoline and oil taxes	-	14,421	-	14,421
Lodger's taxes	-	4,233	-	4,233
Total Taxes	<u>1,501,726</u>	<u>22,664</u>	<u>-</u>	<u>1,524,390</u>
Other Receivables	<u>175,980</u>	<u>-</u>	<u>-</u>	<u>175,980</u>
Total Governmental Activities	<u>1,677,706</u>	<u>22,664</u>	<u>-</u>	<u>1,700,370</u>
Business-Type Activities				
Receivables from customers				
Water and Waste Water	-	-	886,008	886,008
Allowance for uncollectable amounts	<u>-</u>	<u>-</u>	<u>(72,808)</u>	<u>(72,808)</u>
Total Business Type Activities	<u>-</u>	<u>-</u>	<u>813,200</u>	<u>813,200</u>
Total Accounts Receivable	<u>\$ 1,677,706</u>	<u>\$ 22,664</u>	<u>\$ 813,200</u>	<u>\$2,513,570</u>

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	\$ 180,077
Unemployment Compensation	Solid Waste	50,000
Recreation	General Fund	<u>35,000</u>
		<u>\$ 265,077</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 5. INTERFUND RECEIVABLES AND TRANSFERS (continued)

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2012 is as follows:

Due From	Due To	Amount
Solid Waste	Water & Wastewater	\$ 912,419
Non Major Governmental Funds	General Fund	431,643
Ambulance	General Fund	265,053
Non Major Governmental Funds	Non Major Governmental Funds	39,146
Ambulance	Water & Wastewater	8,869
Capital Project Replace & Repair Water Lines	Water & Wastewater	3,536
		<u>\$ 1,660,666</u>

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

NOTE 6. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

Government Activities

	Balance June 30, 2011	Restatement	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 133,319	\$ -	\$ -	\$ -	\$ 133,319
Library Collection	-	1,630,836	-	-	1,630,836
Total capital assets not being depreciated	<u>133,319</u>	<u>1,630,836</u>	<u>-</u>	<u>-</u>	<u>1,764,155</u>
Capital assets being depreciated:					
Infrastructure	18,137,754	(439,738)	-	-	17,698,016
Buildings and improvements	11,895,906	683,415	1,088,933	-	13,668,254
Machinery and equipment	4,243,559	(1,632,761)	112,596	-	2,723,394
Vehicles	2,443,348	(167,466)	58,580	62,341	2,272,121
Total capital assets being depreciated	<u>36,720,567</u>	<u>(1,556,550)</u>	<u>1,260,109</u>	<u>62,341</u>	<u>36,361,785</u>
Less accumulated depreciation					
Infrastructure	6,768,724	-	280,202	-	7,048,926
Buildings and improvements	4,800,491	-	897,440	-	5,697,931
Machinery and equipment	2,115,349	(467,396)	168,085	-	1,816,038
Vehicles	1,249,483	-	182,330	46,253	1,385,560
Total accumulated depreciation	<u>14,934,047</u>	<u>(467,396)</u>	<u>1,528,057</u>	<u>46,253</u>	<u>15,948,455</u>
Total capital assets, net of depreciation	<u>\$ 21,919,839</u>	<u>\$ 541,682</u>	<u>\$ (267,948)</u>	<u>\$ 16,088</u>	<u>\$ 22,177,485</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 6. CAPITAL ASSETS (continued)

Business-type Activities

	Balance June 30, 2011	Restatement	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 750	\$ -	\$ -	\$ -	\$ 750
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>750</u>
Capital assets being depreciated:					
Buildings and improvements	23,937,939	(4,428,117)	283,449	-	19,793,271
Machinery and equipment	3,907,878	4,423,865	444,707	-	8,776,450
Vehicles	830,861	17,566	87,895	48,702	887,620
Total capital assets being depreciated	<u>28,676,678</u>	<u>13,314</u>	<u>816,051</u>	<u>48,702</u>	<u>29,457,341</u>
Less accumulated depreciation					
Buildings and improvements	6,029,710	1,316	538,219	-	6,569,245
Machinery and equipment	5,059,014	-	368,717	-	5,427,731
Vehicles	476,337	2,029	110,598	48,702	540,262
Total accumulated depreciation	<u>11,565,061</u>	<u>3,345</u>	<u>1,017,534</u>	<u>48,702</u>	<u>12,537,238</u>
Total capital assets, net of depreciation	<u>\$ 17,112,367</u>	<u>\$ 9,969</u>	<u>\$ (201,483)</u>	<u>\$ -</u>	<u>\$ 16,920,853</u>

Depreciation expense

Depreciation expense for the year ended June 30, 2012 was charged to the following functions:

Governmental activities

General government	\$ 96,310
Public safety	214,133
Public works	955,103
Culture and recreation	17,023
Health and welfare	<u>245,488</u>
Total governmental activities	<u>\$ 1,528,057</u>

Business type activities

Solid waste	\$ 9,771
Water and wastewater	951,264
Ambulance	<u>56,499</u>
Total business type activities	<u>\$ 1,017,534</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 7. LONG-TERM DEBT

Governmental Activities

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due within One Year
Compensated absences	\$ 514,552	\$ 417,584	\$ 323,237	\$ 608,899	\$ 178,248

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

Business-Type Activities

	Balance June 30, 2011	Restatement	Additions	Deletions	Balance June 30, 2012	Due within One Year
NMA Loan - Drinking Water State Revolving Loan	\$ 3,384,973	\$ 16,012	\$ -	\$ 136,237	\$ 3,264,748	\$ 138,501
NMED Loan - Clean Water State Revolving Loan	5,574,682	-	-	244,069	5,330,613	248,951
Compensated absences	58,468	-	58,159	34,105	82,522	30,225
	<u>\$ 9,018,123</u>	<u>\$ 16,012</u>	<u>\$ 58,159</u>	<u>\$ 414,411</u>	<u>\$ 8,677,883</u>	<u>\$ 417,677</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 \$5,813,966 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 \$355,563.

The annual requirements to amortize the loan outstanding as of June 30, 2012, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
2013	\$ 138,501	\$ 47,564	\$ 8,162	\$ 194,227
2014	140,809	45,607	7,816	194,232
2015	143,163	43,612	7,464	194,239
2016	145,562	41,576	7,106	194,244
2017	148,010	39,499	6,742	194,251
2018-2022	778,457	164,858	28,032	971,347
2023-2027	847,227	106,328	17,964	971,519
2028-2032	923,019	41,691	7,002	971,712
	<u>\$ 3,264,748</u>	<u>\$ 530,735</u>	<u>\$ 90,288</u>	<u>\$ 3,885,771</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 7. LONG-TERM DEBT (continued)

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 annual requirements to amortize the loan outstanding as of June 30, 2012, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
2013	\$ 248,951	\$ 83,392	\$ 23,220	\$ 355,563
2014	253,930	79,498	22,135	355,563
2015	259,008	75,525	21,030	355,563
2016	264,189	71,473	19,901	355,563
2017	269,472	67,340	18,751	355,563
2018-2022	1,430,392	271,755	75,669	1,777,816
2023-2027	1,579,268	155,304	43,244	1,777,816
2028-2030	1,025,403	32,295	8,992	1,066,690
	<u>\$ 5,330,613</u>	<u>\$ 836,582</u>	<u>\$ 232,942</u>	<u>\$ 6,400,137</u>

NOTE 8. RISK MANAGEMENT

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

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

The 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

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. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION 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 Employees 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.

Funding Policy. Plan members are required to contribute the following percentages of their gross salary: 7.00% for law enforcement and 8.00% for fire protection employees. The City was required to contribute the following percentages of the gross covered salary: 10.00% for law enforcement and 11.00% for fire protection 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 fiscal years ending June 30, 2012, 2011, and 2010 were approximately \$219,291, \$203,471, and \$226,354, respectively, which equal the amount of the required contributions for each fiscal year.

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 party 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 their yearly compensation, and the City will match up to 7%. The total amount of employee and employer contributions to the plan at June 30, 2012 and June 30, 2011 was \$89,266 and \$102,044 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

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, 2012, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City of Lovington.

NOTE 15. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

- A. Deficit fund balance of individual funds. The following funds reflected a deficit fund balance as of June 30, 2012:

Fire Protection Special Revenue Fund	\$ 5,692
--------------------------------------	----------

- B. Excess of expenditures over budgeted amounts. The following funds exceeded approved budgetary authority for the year ended June 30, 2012:

General Fund	\$ 247,766
EMS Grant Special Revenue Fund	49
Ambulance Fund	<u>16,075</u>
	<u>\$ 263,890</u>

NOTE 16. NET ASSETS

The government-wide statement of net assets reports \$527,469 of restricted net assets, all of which is restricted by enabling legislation. See the fund description on pages 49 and 50 for the related enabling legislation.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 17. SUBSEQUENT PRONOUNCEMENTS

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, 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 March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City is analyzing the effects that this pronouncement will have on their financial statements.

NOTE 18. 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2012

NOTE 19 RESTATEMENT

The City had restatements of net assets in the Water and Wastewater Fund, Ambulance Fund, and Business-Type Activities due to incorrect depreciation and principal/interest allocations in prior years. These restatements were as follows:

<u>Fund Name</u>	<u>Restatement</u>
Water and Wastewater	\$ (4,014)
Ambulance	(2,029)
	<u>\$ (6,043)</u>

The City also had a restatement to the net assets of the Governmental Activities of \$541,682 due to incorrect allocations of depreciation in prior years.

The City has restated budgetary fund balances due to errors in the cash balances of the prior year financial statements and adjustments to inventory that were not recorded on the cash basis in the prior year. These restatements are as follows:

<u>Fund Name</u>	<u>Restatement</u>
General Fund	<u>\$ 117,577</u>

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

STATE OF NEW MEXICO
City of Lovington
Nonmajor Fund Descriptions
June 30, 2012

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 the 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, 2012

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.

This page is intentionally left blank

STATE OF NEW MEXICO
City of Lovington
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

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	-	-	-	-
Due from other funds	62,437	-	830	19,094
<i>Total assets</i>	<u>\$ 62,437</u>	<u>\$ -</u>	<u>\$ 830</u>	<u>\$ 19,094</u>
<i>Liabilities</i>				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	5,692	-
Due to other funds	-	-	830	19,077
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>6,522</u>	<u>19,077</u>
<i>Fund balances</i>				
Spendable				
Restricted	62,437	-	(5,692)	17
<i>Total fund balances</i>	<u>62,437</u>	<u>-</u>	<u>(5,692)</u>	<u>17</u>
<i>Total liabilities and fund balances</i>	<u>\$ 62,437</u>	<u>\$ -</u>	<u>\$ 830</u>	<u>\$ 19,094</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	\$ 25	\$ 48,387	\$ 48,607
-	-	12,444	-	17,947	30,391
4,233	14,421	-	-	4,010	22,664
<u>21,931</u>	<u>349,063</u>	<u>15,140</u>	<u>-</u>	<u>2,294</u>	<u>470,789</u>
<u>\$ 26,164</u>	<u>\$ 363,484</u>	<u>\$ 27,779</u>	<u>\$ 25</u>	<u>\$ 72,638</u>	<u>\$ 572,451</u>
\$ 78	\$ -	\$ -	\$ -	\$ -	\$ 78
-	-	66	-	-	5,758
<u>753</u>	<u>13,242</u>	<u>932</u>	<u>-</u>	<u>4,312</u>	<u>39,146</u>
<u>831</u>	<u>13,242</u>	<u>998</u>	<u>-</u>	<u>4,312</u>	<u>44,982</u>
25,333	350,242	26,781	25	68,326	527,469
<u>25,333</u>	<u>350,242</u>	<u>26,781</u>	<u>25</u>	<u>68,326</u>	<u>527,469</u>
<u>\$ 26,164</u>	<u>\$ 363,484</u>	<u>\$ 27,779</u>	<u>\$ 25</u>	<u>\$ 72,638</u>	<u>\$ 572,451</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, 2012

Special Revenue

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforcement Protection</u>
<i>Revenues</i>				
Taxes				
Gasoline and motor vehicle	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	77,879	32,600
State capital grants	-	14,206	-	-
Charges for services	-	-	-	-
Licenses and fees	36,620	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>36,620</u>	<u>14,206</u>	<u>77,879</u>	<u>32,600</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	31,625	-	75,150	3,562
Health and welfare	-	14,209	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	4,757	29,028
<i>Total expenditures</i>	<u>31,625</u>	<u>14,209</u>	<u>79,907</u>	<u>32,590</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>4,995</u>	<u>(3)</u>	<u>(2,028)</u>	<u>10</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>	4,995	(3)	(2,028)	10
<i>Fund balances - beginning of year</i>	<u>57,442</u>	<u>3</u>	<u>(3,664)</u>	<u>7</u>
<i>Fund balances - end of year</i>	<u>\$ 62,437</u>	<u>\$ -</u>	<u>\$ (5,692)</u>	<u>\$ 17</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
\$ -	\$ 189,302	\$ -	\$ -	\$ -	\$ 189,302
64,452	-	7	-	58,374	122,833
-	-	-	5,402	-	5,402
-	-	-	22,030	-	22,030
-	-	-	113,611	-	224,090
-	-	7,521	-	-	21,727
-	-	3,839	-	-	3,839
-	-	-	-	-	36,620
-	-	-	-	41	41
-	-	11,720	-	-	11,720
<u>64,452</u>	<u>189,302</u>	<u>23,087</u>	<u>141,043</u>	<u>58,415</u>	<u>637,604</u>
-	-	-	-	32,474	32,474
-	-	-	-	-	110,337
-	-	-	-	-	14,209
64,480	-	51,066	-	-	115,546
-	-	-	13,778	-	47,563
<u>64,480</u>	<u>-</u>	<u>51,066</u>	<u>13,778</u>	<u>32,474</u>	<u>320,129</u>
<u>(28)</u>	<u>189,302</u>	<u>(27,979)</u>	<u>127,265</u>	<u>25,941</u>	<u>317,475</u>
-	-	35,000	-	-	35,000
-	-	-	(180,077)	-	(180,077)
-	-	35,000	(180,077)	-	(145,077)
(28)	189,302	7,021	(52,812)	25,941	172,398
<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>\$ 25,333</u>	<u>\$ 350,242</u>	<u>\$ 26,781</u>	<u>\$ 25</u>	<u>\$ 68,326</u>	<u>\$ 527,469</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, 2012

Statement B-1

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Assets</i>			
<i>Current assets</i>			
Accounts Receivable	\$ 11,572	\$ -	\$ 11,572
Inventory	34,051	-	34,051
Due from other funds	273,922	3,536	277,458
<i>Total current assets</i>	319,545	3,536	323,081
<i>Noncurrent assets</i>			
Capital assets	455,892	-	455,892
Accumulated depreciation	(251,135)	-	(251,135)
<i>Total noncurrent assets</i>	204,757	-	204,757
<i>Total Assets</i>	\$ 524,302	\$ 3,536	\$ 527,838
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 3,075	\$ -	\$ 3,075
<i>Total current liabilities</i>	3,075	-	3,075
<i>Total liabilities</i>	3,075	-	3,075
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	204,757	-	204,757
Unrestricted net assets	316,470	3,536	320,006
<i>Total net assets</i>	521,227	3,536	524,763
<i>Total Liabilities and Net Assets</i>	\$ 524,302	\$ 3,536	\$ 527,838

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, 2012

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues</i>			
Charges for services	\$ 415,842	\$ -	\$ 415,842
<i>Total operating revenues</i>	<u>415,842</u>	<u>-</u>	<u>415,842</u>
<i>Operating expenses</i>			
Personnel services	261,083	-	261,083
Contractual services	17,922	-	17,922
Supplies	69,287	-	69,287
Maintenance and materials	19,912	-	19,912
Depreciation	56,499	-	56,499
Miscellaneous	48,205	-	48,205
<i>Total operating expenses</i>	<u>472,908</u>	<u>-</u>	<u>472,908</u>
<i>Operating income (loss)</i>	<u>(57,066)</u>	<u>-</u>	<u>(57,066)</u>
<i>Non-operating revenues (expenses)</i>			
Miscellaneous	69	-	69
<i>Total non-operating revenues (expenses)</i>	<u>69</u>	<u>-</u>	<u>69</u>
<i>Change in net assets</i>	<u>(56,997)</u>	<u>-</u>	<u>(56,997)</u>
<i>Net assets, beginning of year</i>	580,253	3,536	583,789
<i>Restatement (Note 19)</i>	<u>(2,029)</u>	<u>-</u>	<u>(2,029)</u>
<i>Net assets beginning as restated</i>	<u>578,224</u>	<u>3,536</u>	<u>581,760</u>
<i>Net assets, end of year</i>	<u>\$ 521,227</u>	<u>\$ 3,536</u>	<u>\$ 524,763</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, 2012

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities</i>			
Cash received from user charges	\$ 415,842	\$ -	\$ 415,842
Cash payments to employees for services	(261,083)	-	(261,083)
Cash payments to suppliers for goods and services	(139,243)	-	(139,243)
<i>Net cash provided (used) by operating activities</i>	<u>15,516</u>	<u>-</u>	<u>15,516</u>
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	8,275	-	8,275
Internal transfers and loans	(23,791)	-	(23,791)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(15,516)</u>	<u>-</u>	<u>(15,516)</u>
<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>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ (57,066)	\$ -	\$ (57,066)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	56,499	-	56,499
Changes in assets and liabilities			
Inventory	17,346	-	17,346
Accounts payable	(1,263)	-	(1,263)
<i>Net cash provided (used) by operating activities</i>	<u>\$ 15,516</u>	<u>\$ -</u>	<u>\$ 15,516</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, 2012

Statement C-1

	<u>Unemployment Compensation</u>	<u>Pension</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 30,528	\$ 8,439	\$ 38,967
<i>Total current assets</i>	<u>30,528</u>	<u>8,439</u>	<u>38,967</u>
<i>Total Assets</i>	<u>\$ 30,528</u>	<u>\$ 8,439</u>	<u>\$ 38,967</u>
 <i>Liabilities and Net Assets</i>			
<i>Net Assets</i>			
Unrestricted net assets	\$ 30,528	\$ 8,439	\$ 38,967
<i>Total net assets</i>	<u>30,528</u>	<u>8,439</u>	<u>38,967</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 30,528</u>	<u>\$ 8,439</u>	<u>\$ 38,967</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-2

City of Lovington

Combining Statement of Revenues, Expenses and Changes in Net Assets

Internal Service Funds- Proprietary Fund

For the Year Ended June 30, 2012

	Unemployment Compensation	Pension	Total
<i>Operating revenue:</i>			
Charges for services	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expense:</i>			
Miscellaneous	13,630	-	13,630
<i>Total operating expenses</i>	<u>13,630</u>	<u>-</u>	<u>13,630</u>
<i>Operating income (loss)</i>	<u>(13,630)</u>	<u>-</u>	<u>(13,630)</u>
<i>Non-operating revenues (expenses)</i>			
Miscellaneous	12,530	8,354	20,884
<i>Total non-operating revenues (expenses)</i>	<u>12,530</u>	<u>8,354</u>	<u>20,884</u>
<i>Capital grants and net transfers</i>			
Transfers in	50,000	-	50,000
<i>Capital grants and net transfers</i>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
<i>Change in net assets</i>	<u>48,900</u>	<u>8,354</u>	<u>57,254</u>
<i>Net assets, beginning of year</i>	<u>(18,372)</u>	<u>85</u>	<u>(18,287)</u>
<i>Net assets, end of year</i>	<u>\$ 30,528</u>	<u>\$ 8,439</u>	<u>\$ 38,967</u>

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, 2012

	Unemployment Compensation	Pension	Total
<i>Cash flows from operating activities</i>			
Cash payments to employees for services	\$ -	\$ (18)	\$ (18)
Cash payments to suppliers for goods and services	(32,283)	-	(32,283)
<i>Net cash provided (used) by operating activities</i>	<u>(32,283)</u>	<u>(18)</u>	<u>(32,301)</u>
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	12,530	8,354	20,884
Internal transfers and loans	50,000	-	50,000
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>62,530</u>	<u>8,354</u>	<u>70,884</u>
<i>Net increase in cash and cash equivalents</i>	30,247	8,336	38,583
<i>Cash and cash equivalents - beginning of year</i>	<u>281</u>	<u>103</u>	<u>384</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 30,528</u>	<u>\$ 8,439</u>	<u>\$ 38,967</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>			
Operating income (loss)	\$ (13,630)	\$ -	\$ (13,630)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Changes in assets and liabilities			
Accounts payable	(18,653)	-	(18,653)
<i>Net cash (used) by operating activities</i>	<u>\$ (32,283)</u>	<u>\$ (18)</u>	<u>\$ (32,301)</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, 2012

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	40,000	40,000	36,620	(3,380)
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	40,000	40,000	36,620	(3,380)
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	41,000	41,000	34,637	6,363
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	41,000	41,000	34,637	6,363
<i>Excess (deficiency) of revenues over expenditures</i>	(1,000)	(1,000)	1,983	2,983
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	1,000	1,000	-	(1,000)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	1,000	1,000	-	(1,000)
<i>Net change in fund balance</i>	-	-	1,983	1,983
<i>Fund balance - beginning of year</i>	-	-	60,454	60,454
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 62,437	\$ 62,437
Net change in fund balance (Non-GAAP)				\$ 1,983
No adjustments to revenues				-
Adjustments to expenditures for public safety				3,012
Net change in fund balance (GAAP basis)				\$ 4,995

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
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, 2012

Statement D-2

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP	Favorable
			Budgetary Basis)	(Unfavorable)
				Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	14,160	14,160	14,206	46
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	14,160	14,160	14,206	46
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	14,160	14,160	14,209	(49)
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	14,160	14,160	14,209	(49)
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(3)	(3)
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balance</i>	-	-	(3)	(3)
<i>Fund balance - beginning of year</i>	-	-	3	3
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ -	\$ -
Net change in fund balance (Non-GAAP)				\$ (3)
No adjustments to revenues or expenditures				-
Net change in fund balance (GAAP basis)				\$ (3)

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, 2012

	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	79,468	79,468	77,879	(1,589)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>79,468</u>	<u>79,468</u>	<u>77,879</u>	<u>(1,589)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	74,468	74,468	73,122	1,346
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	5,000	5,000	4,757	243
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>79,468</u>	<u>79,468</u>	<u>77,879</u>	<u>1,589</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in 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>	-	-	-	-
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance (Non-GAAP)				\$ -
No adjustments to revenues				-
Adjustments to expenditures for public safety				(2,028)
Net change in fund balance (GAAP basis)				<u>\$ (2,028)</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-4

City of Lovington

Law Enforcement Protection Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP	Favorable
			Budgetary Basis)	(Unfavorable)
				Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	33,800	33,800	32,600	(1,200)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>33,800</u>	<u>33,800</u>	<u>32,600</u>	<u>(1,200)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	7,874	4,772	3,562	1,210
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	25,926	29,028	29,028	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,800</u>	<u>33,800</u>	<u>32,590</u>	<u>1,210</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	10	10
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in 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>	-	-	10	10
<i>Fund balance - beginning of year</i>	-	-	7	7
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 17</u>
Net change in fund balance (Non-GAAP)				\$ 10
No adjustments to revenues				-
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 10</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-5

City of Lovington

Lodger's Tax Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	50,000	50,000	65,991	15,991
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>50,000</u>	<u>50,000</u>	<u>65,991</u>	<u>15,991</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	47,000	64,480	64,480	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>47,000</u>	<u>64,480</u>	<u>64,480</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>3,000</u>	<u>(14,480)</u>	<u>1,511</u>	<u>15,991</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(3,000)	14,480	-	(14,480)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(3,000)</u>	<u>14,480</u>	<u>-</u>	<u>(14,480)</u>
<i>Net change in fund balance</i>	-	-	1,511	1,511
<i>Fund balance - beginning of year</i>	-	-	19,589	19,589
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,100</u>	<u>\$ 21,100</u>
Net change in fund balance (Non-GAAP)				\$ 1,511
Adjustments to revenue for other income				(1,539)
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ (28)</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, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP	Favorable
			Budgetary Basis)	(Unfavorable)
				Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	150,000	150,000	174,881	24,881
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>150,000</u>	<u>150,000</u>	<u>174,881</u>	<u>24,881</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>150,000</u>	<u>150,000</u>	<u>174,881</u>	<u>24,881</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(150,000)	(150,000)	-	150,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>150,000</u>
<i>Net change in fund balance</i>	-	-	174,881	174,881
<i>Fund balance - beginning of year</i>	-	-	160,940	160,940
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 335,821</u>	<u>\$ 335,821</u>
Net change in fund balance (Non-GAAP)				\$ 174,881
Adjustments to revenue for gasoline and motor vehicle taxes				14,421
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 189,302</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
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, 2012

Statement D-7

	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	-	-	7	7
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	2,907	2,907	7,521	4,614
Charges for services	1,000	1,000	3,839	2,839
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	1,700	1,700	11,720	10,020
<i>Total revenues</i>	<u>5,607</u>	<u>5,607</u>	<u>23,087</u>	<u>17,480</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	49,284	54,243	54,236	7
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>49,284</u>	<u>54,243</u>	<u>54,236</u>	<u>7</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(43,677)</u>	<u>(48,636)</u>	<u>(31,149)</u>	<u>17,487</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	3,677	8,636	-	(8,636)
Transfers in	40,000	40,000	35,000	(5,000)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>43,677</u>	<u>48,636</u>	<u>35,000</u>	<u>(13,636)</u>
<i>Net change in fund balance</i>	-	-	3,851	3,851
<i>Fund balance - beginning of year</i>	-	-	22,996	22,996
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,847</u>	<u>\$ 26,847</u>
Net change in fund balance (Non-GAAP)				\$ 3,851
No adjustments to revenues				-
Adjustments to expenditures for culture and recreation				3,170
Net change in fund balance (GAAP basis)				<u>\$ 7,021</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-8

City of Lovington
 Senior Citizens Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2012

	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	8,000	8,000	5,402	(2,598)
Federal capital grants	19,140	19,140	22,030	2,890
State operating grants	130,000	130,000	124,834	(5,166)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	8,000	8,000	-	(8,000)
<i>Total revenues</i>	<u>165,140</u>	<u>165,140</u>	<u>152,266</u>	<u>(12,874)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	16,070	16,070	13,778	2,292
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>16,070</u>	<u>16,070</u>	<u>13,778</u>	<u>2,292</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>149,070</u>	<u>149,070</u>	<u>138,488</u>	<u>(10,582)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	15,930	31,007	-	(31,007)
Transfers in	-	-	-	-
Transfers out	(165,000)	(180,077)	(180,077)	-
<i>Total other financing sources (uses)</i>	<u>(149,070)</u>	<u>(149,070)</u>	<u>(180,077)</u>	<u>(31,007)</u>
<i>Net change in fund balance</i>	-	-	(41,589)	(41,589)
<i>Fund balance - beginning of year</i>	-	-	41,614	41,614
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 25</u>
Net change in fund balance (Non-GAAP)				\$ (41,589)
Adjustments to revenue for federal grants				(11,223)
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ (52,812)</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
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, 2012

Statement D-9

	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	54,364	14,364
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	600	41	(559)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	40,000	40,600	54,405	13,805
<i>Expenditures:</i>				
Current:				
General government	33,652	33,652	32,474	1,178
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	33,652	33,652	32,474	1,178
<i>Excess (deficiency) of revenues over expenditures</i>	6,348	6,948	21,931	14,983
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(6,348)	(6,948)	-	6,948
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	(6,348)	(6,948)	-	6,948
<i>Net change in fund balance</i>	-	-	21,931	21,931
<i>Fund balance - beginning of year</i>	-	-	42,385	42,385
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 64,316	\$ 64,316
Net change in fund balance (Non-GAAP)				\$ 21,931
Adjustments to revenue for other taxes				4,010
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				\$ 25,941

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 Basis) and Actual

Solid Waste Proprietary Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 1,707,000	\$ 1,707,000	\$ 1,843,202	\$ 136,202
<i>Total operating revenues</i>	<u>1,707,000</u>	<u>1,707,000</u>	<u>1,843,202</u>	<u>136,202</u>
<i>Operating expenses:</i>				
Personnel services	36,201	31,586	34,941	(3,355)
Contractual services	1,656,300	1,512,469	1,390,301	122,168
Supplies	3,000	3,087	20,937	(17,850)
Maintenance and materials	5,500	277,745	1,883	275,862
Utilities	850	1,166	1,038	128
Other operating expenditures	80,100	771	770	1
<i>Total operating expenses</i>	<u>1,781,951</u>	<u>1,826,824</u>	<u>1,449,870</u>	<u>376,954</u>
<i>Operating income (loss)</i>	<u>(74,951)</u>	<u>(119,824)</u>	<u>393,332</u>	<u>513,156</u>
<i>Non-operating revenues (expenses)</i>				
Gain (loss) on sale of capital assets	-	-	8,000	8,000
Miscellaneous income	1,500	1,500	(1,146)	(2,646)
Transfers in	1,625,000	1,625,000	-	(1,625,000)
Transfers out	(255,000)	(255,000)	(50,000)	205,000
<i>Total non-operating revenues (expenses)</i>	<u>1,371,500</u>	<u>1,371,500</u>	<u>(43,146)</u>	<u>(1,414,646)</u>
<i>Change in net assets</i>	<u>1,296,549</u>	<u>1,251,676</u>	<u>350,186</u>	<u>(901,490)</u>
Designated cash (budgeted increase in cash)	<u>(1,371,500)</u>	<u>(1,371,500)</u>	<u>-</u>	<u>1,371,500</u>
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>991,909</u>	<u>991,909</u>
<i>Net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,342,095</u>	<u>\$ 1,342,095</u>
Changes in net assets above			\$ 350,186	
Depreciation			<u>(9,771)</u>	
Change in net assets per Exhibit D-2			<u>\$ 340,415</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 Basis) and Actual

Water & Wastewater Proprietary Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variations
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 3,480,412	\$ 3,480,412	\$ 3,096,090	\$ (384,322)
<i>Total operating revenues</i>	<u>3,480,412</u>	<u>3,480,412</u>	<u>3,096,090</u>	<u>(384,322)</u>
<i>Operating expenses:</i>				
Personnel services	743,347	782,453	704,192	78,261
Contractual services	47,500	3,386	3,386	-
Supplies	230,000	315,898	375,524	(59,626)
Maintenance and materials	295,800	742,594	147,494	595,100
Utilities	140,000	205,615	205,613	2
Other operating expenditures	873,475	513,231	116,231	397,000
<i>Total operating expenses</i>	<u>2,330,122</u>	<u>2,563,177</u>	<u>1,552,440</u>	<u>1,010,737</u>
<i>Operating income (loss)</i>	<u>1,150,290</u>	<u>917,235</u>	<u>1,543,650</u>	<u>626,415</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	3,000	3,000	3,360	360
Federal capital grants	388,768	388,768	388,481	(287)
Gain (loss) on sale of capital assets	-	-	2,100	2,100
Miscellaneous income	47,000	47,000	47,831	831
Interest expense	169,479	153,124	(165,822)	(318,946)
Rent and royalty income	-	-	142,372	142,372
Transfers out	(1,805,000)	(1,805,000)	-	1,805,000
<i>Total non-operating revenues (expenses)</i>	<u>(1,196,753)</u>	<u>(1,213,108)</u>	<u>418,322</u>	<u>1,631,430</u>
<i>Change in net assets</i>	<u>(46,463)</u>	<u>(295,873)</u>	<u>1,961,972</u>	<u>2,257,845</u>
Designated cash (budgeted increase in cash)	<u>46,463</u>	<u>295,873</u>	<u>-</u>	<u>(295,873)</u>
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>4,780,312</u>	<u>4,780,312</u>
<i>Net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,560,624</u>	<u>\$ 9,560,624</u>
Change in net assets above			\$ 1,961,972	
Depreciation			<u>(951,264)</u>	
Change in net assets per Exhibit D-2			<u>\$ 1,010,708</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 Basis) and Actual

Ambulance Proprietary Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variations Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 430,000	\$ 430,000	\$ 415,842	\$ (14,158)
<i>Total operating revenues</i>	<u>430,000</u>	<u>430,000</u>	<u>415,842</u>	<u>(14,158)</u>
<i>Operating expenses:</i>				
Personnel services	217,042	261,086	261,083	3
Contractual services	25,183	17,922	17,922	-
Supplies	48,400	53,204	69,287	(16,083)
Maintenance and materials	12,259	19,913	19,912	1
Utilities	-	-	-	-
Other operating expenditures	32,190	48,209	48,205	4
<i>Total operating expenses</i>	<u>335,074</u>	<u>400,334</u>	<u>416,409</u>	<u>(16,075)</u>
<i>Operating income (loss)</i>	<u>94,926</u>	<u>29,666</u>	<u>(567)</u>	<u>(30,233)</u>
<i>Non-operating revenues (expenses):</i>				
Interest income	-	-	-	-
Loss on disposal	-	-	-	-
Miscellaneous income	-	-	69	69
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>-</u>	<u>69</u>	<u>69</u>
<i>Change in net assets</i>	<u>94,926</u>	<u>29,666</u>	<u>(498)</u>	<u>(30,164)</u>
Designated cash (budgeted increase in cash)	<u>(94,926)</u>	<u>(29,666)</u>	<u>-</u>	<u>29,666</u>
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>538,404</u>	<u>538,404</u>
<i>Net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 537,906</u>	<u>\$ 537,906</u>
Change in net assets above			\$ (498)	
Depreciation			<u>(56,499)</u>	
Change in net assets per Statement B-2			<u>\$ (56,997)</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 Basis) and Actual
 Capital Project Replace & Repair Water Lines Proprietary Fund
 For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variations Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<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	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenses</i>	-	-	-	-
<i>Operating income (loss)</i>	-	-	-	-
<i>Non-operating revenues (expenses):</i>				
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	-	-	-
<i>Change in net assets</i>	-	-	-	-
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total net assets, beginning of year</i>	-	-	3,536	3,536
<i>Net assets- end of year</i>	\$ -	\$ -	\$ 3,536	\$ 3,536
Change in net assets above			\$ -	
No 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 Basis) and Actual

Unemployment Compensation Fund Internal Service Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variations Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<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	-	-	-	-
Other operating expenditures	50,000	50,000	13,630	36,370
<i>Total operating expenses</i>	50,000	50,000	13,630	36,370
<i>Operating income (loss)</i>	(50,000)	(50,000)	(13,630)	36,370
<i>Non-operating revenues (expenses):</i>				
Interest income	-	-	-	-
Federal capital grants	200	200	12,530	12,330
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	75,000	75,000	50,000	(25,000)
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	75,200	75,200	62,530	(12,670)
<i>Change in net assets</i>	25,200	25,200	48,900	23,700
Designated cash (budgeted increase in cash)	(25,200)	(25,200)	-	25,200
<i>Total net assets, beginning of year</i>	-	-	(3,800)	(3,800)
<i>Net assets- end of year</i>	\$ 25,200	\$ 25,200	\$ 45,100	\$ 45,100
Change in net assets above			\$ 48,900	
No depreciation			-	
Change in net assets per Exhibit C-2			\$ 48,900	

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 Basis) and Actual

Pension Internal Service Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variations
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<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	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenses</i>	-	-	-	-
<i>Operating income (loss)</i>	-	-	-	-
<i>Non-operating revenues (expenses):</i>				
Interest income	-	-	-	-
Federal capital grants	-	-	8,354	8,354
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	-	8,354	8,354
<i>Change in net assets</i>	-	-	8,354	8,354
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total net assets, beginning of year</i>	-	-	103	103
<i>Net assets- end of year</i>	\$ -	\$ -	\$ 8,457	\$ 8,457
Change in net assets above			\$ 8,354	
No depreciation			-	
Change in net assets per Exhibit C-2			\$ 8,354	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO

Schedule I

City of Lovington
 Schedule of Collateral Pledged By Depository
 For Public Funds
 June 30, 2012

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market/Par Value at June 30, 2012	Location of Safekeeper
Western Commerce Bank					
	FHLMC #G08473	1/1/2042	Unknown	\$ 1,033,899	Federal Home Loan Bank, Dallas, TX
	GNMA #004597	12/20/2039	36202FDA1	<u>891,781</u>	Federal Home Loan Bank, Dallas, TX
	Total Western Commerce Bank			<u>1,925,680</u>	
Lea County State Bank					
	Artesia Wtr/Swr	6/1/2022	Unknown	695,000	* Independent Bankers Bank, Dallas, TX
	Alamogordo Jt/Wtr	6/1/2023	Unknown	200,000	* Independent Bankers Bank, Dallas, TX
	Espanola NM PSD	7/1/2016	827513ET5	<u>575,000</u>	* Independent Bankers Bank, Dallas, TX
	Total Lea County State Bank			<u>1,470,000</u>	
	Total Pledged Collateral (Primary Government)			<u><u>\$ 3,395,680</u></u>	

* As per NMSA 2.2.2.10 9 (N) (4) the value of collateral consisting of obligations of the State of New Mexico, its agencies, institutions, counties, municipalities, or other subdivisions shall be par value.

This page is intentionally left blank

STATE OF NEW MEXICO
City of Lovington
Schedule of Deposit and Investment Accounts
For the Year Ended June 30, 2012

Bank Account Type/Name	Lea County State Bank	Wells Fargo Bank	Western Commerce Bank
Deposits			
General-Checking	\$ 3,193,604	\$ -	\$ -
Payroll-Checking	956	-	-
Lovington Economic Development Revolving Loan-Checking	7,887	-	-
Municipal Court-Checking	13,284	-	-
Municipal Court-Checking	2,938	-	-
Payroll-Checking	-	2,278	-
Senior Citizen's Supply Fund-Checking	-	15,270	-
Employee Pension-Checking	-	8,440	-
Motor Vehicle Department-Checking	-	1,335	-
Multipurpose Senior Center-Checking	-	71,154	-
Unemployment Compensation-Checking	-	30,529	-
Special Youth (Designated Franchise)-Checking	-	48,204	-
Lovington Fire Department-Checking	-	1,657	-
Wastewater Treatment Plant-Checking	-	420,718	-
CDBG Housing Rehab Project-Checking	-	328,584	-
Water and Wastewater-Checking	-	-	3,518,615
Wastewater Treatment Plant-Checking	-	-	104,955
Certificate of Deposit	-	-	25,066
Certificate of Deposit	-	-	39,071
Certificate of Deposit	-	-	16,019
Certificate of Deposit	-	-	-
Certificate of Deposit	-	-	-
Total amount of deposits in bank	<u>3,218,669</u>	<u>928,169</u>	<u>3,703,726</u>
Less: FDIC coverage	267,178	928,169	435,111
Total uninsured public funds	<u>2,951,491</u>	<u>-</u>	<u>3,268,615</u>
50% collateral requirements	1,475,746	-	1,634,308
Pledged securities	1,470,000	-	1,925,680
Over/(under) collateralized	<u>(5,746)</u>	<u>-</u>	<u>291,373</u>
Bank balance	3,218,669	928,169	3,703,726
Outstanding items	(160,984)	(401,540)	(22,360)
Deposits in transit	411,167	-	5,478
Book balance	<u>\$ 3,468,852</u>	<u>\$ 526,629</u>	<u>\$ 3,686,844</u>
Investments			
<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
\$ -	\$ -	\$ -	\$ 3,193,604
-	-	-	956
-	-	-	7,887
-	-	-	13,284
-	-	-	2,938
-	-	-	2,278
-	-	-	15,270
-	-	-	8,440
-	-	-	1,335
-	-	-	71,154
-	-	-	30,529
-	-	-	48,204
-	-	-	1,657
-	-	-	420,718
-	-	-	328,584
-	-	-	3,518,615
-	-	-	104,955
-	-	-	25,066
-	-	-	39,071
-	-	-	16,019
12,590	-	-	-
-	92,000	-	92,000
12,590	92,000	-	7,955,154
12,590	92,000	-	1,735,048
-	-	-	6,220,106
-	-	-	3,110,053
-	-	-	3,395,680
-	-	-	285,627
12,590	92,000	-	7,955,154
-	-	-	(584,884)
-	-	-	416,645
<u>\$ 12,590</u>	<u>\$ 92,000</u>	<u>\$ -</u>	<u>\$ 7,786,915</u>
\$ -	\$ -	\$ 309,958	\$ 309,958
-	-	17,956	17,956
-	-	14,963	14,963
-	-	58	58
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,935</u>	<u>\$ 342,935</u>
			2,875
			<u>\$ 8,132,725</u>
			3,546,439
			4,032,316
			398,027
			129,654
			26,289
			<u>\$ 8,132,725</u>

See independent auditors' report

STATE OF NEW MEXICO
City of Lovington
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 15,796	\$ 15,160	\$ 15,796	\$ 15,160
<i>Total assets</i>	<u>\$ 15,796</u>	<u>\$ 15,160</u>	<u>\$ 15,796</u>	<u>\$ 15,160</u>
Liabilities				
Deposits held and due to others	\$ 15,796	\$ 15,160	\$ 15,796	\$ 15,160
<i>Total liabilities</i>	<u>\$ 15,796</u>	<u>\$ 15,160</u>	<u>\$ 15,796</u>	<u>\$ 15,160</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,538	\$ 18,262	\$ 18,340	\$ 1,460
<i>Total assets</i>	<u>\$ 1,538</u>	<u>\$ 18,262</u>	<u>\$ 18,340</u>	<u>\$ 1,460</u>
Liabilities				
Deposits held and due to others	\$ 1,538	\$ 18,262	\$ 18,340	\$ 1,460
<i>Total liabilities</i>	<u>\$ 1,538</u>	<u>\$ 18,262</u>	<u>\$ 18,340</u>	<u>\$ 1,460</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 7,574	\$ 8,012	\$ 7,574	\$ 8,012
<i>Total assets</i>	<u>\$ 7,574</u>	<u>\$ 8,012</u>	<u>\$ 7,574</u>	<u>\$ 8,012</u>
Liabilities				
Deposits held and due to others	\$ 7,574	\$ 8,012	\$ 7,574	\$ 8,012
<i>Total liabilities</i>	<u>\$ 7,574</u>	<u>\$ 8,012</u>	<u>\$ 7,574</u>	<u>\$ 8,012</u>

See independent auditors' report

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ 5,225	\$ 1,657	\$ 5,225	\$ 1,657
<i>Total assets</i>	<u>\$ 5,225</u>	<u>\$ 1,657</u>	<u>\$ 5,225</u>	<u>\$ 1,657</u>
Liabilities				
Deposits held and due to others	\$ 5,225	\$ 1,657	\$ 5,225	\$ 1,657
<i>Total liabilities</i>	<u>\$ 5,225</u>	<u>\$ 1,657</u>	<u>\$ 5,225</u>	<u>\$ 1,657</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 30,133	\$ 43,091	\$ 46,935	\$ 26,289
<i>Total assets</i>	<u>\$ 30,133</u>	<u>\$ 43,091</u>	<u>\$ 46,935</u>	<u>\$ 26,289</u>
Liabilities				
Deposits held and due to others	\$ 30,133	\$ 43,091	\$ 46,935	\$ 26,289
<i>Total liabilities</i>	<u>\$ 30,133</u>	<u>\$ 43,091</u>	<u>\$ 46,935</u>	<u>\$ 26,289</u>

This page is intentionally left blank

COMPLIANCE SECTION

This page is intentionally left blank



**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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 19, 2012. We were also engaged to audit the financial statements of each of the City's nonmajor governmental funds, proprietary funds, the internal service funds, the discretely presented 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, 2012 as listed in the table of contents. 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. Except as discussed in the previous sentence, 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.

Internal Control Over Financial Reporting

Management of the City of Lovington is responsible for establishing and maintaining effective 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-2, 2007-6, FS 08-01, FS 08-05, FS 09-02, FS 10-03, FS 11-05, FS 11-06, FS 11-07, FS 11-08, FS 11-09, FS 11-10, FS 12-01, FS 12-02, FS 12-03, FS 12-04, FA 11-01, HA 2007-2, HA FS 08-01, and HA FS 2012-1 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 and HA FS 2011-02.

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

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
Roswell, New Mexico
November 19, 2012

FEDERAL FINANCIAL ASSISTANCE

This page is intentionally left blank



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2012. 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 program 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, 2012.

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 response to the finding identified in our audit is 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 it.

This report is intended solely for the information and use of management, others within the City, the audit committee, the State Auditor, the City Council, 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
Roswell, New Mexico
November 19, 2012

This page is intentionally left blank

STATE OF NEW MEXICO
City of Lovington
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Passthrough Grantor/Program Title	Grant Number	Federal CFDA Number	Federal Expenditures
Other Federal Agencies - Undetermined			
Program Name - Undetermined	Undetermined	Undetermined	<u>Undetermined</u>
Total Other Federal Agencies - Undetermined			<u>Undetermined</u>
Total Federal Financial Assistance			<u><u>Undetermined</u></u>

Notes to Schedule of Expenditures of Federal Awards1 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>Undetermined</u>
Total expenditures	<u><u>Undetermined</u></u>

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Questioned Costs
June 30, 2012

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Disclaimer |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses 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: | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 50%; border-bottom: 1px solid black;">CFDA
Number</td> <td style="text-align: center; width: 50%; border-bottom: 1px solid black;">Federal Program</td> </tr> <tr> <td style="text-align: center;">Unknown</td> <td style="text-align: center;">Unknown</td> </tr> </table> | CFDA
Number | Federal Program | Unknown | Unknown | |
| CFDA
Number | Federal Program | | | | |
| Unknown | 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 Auditing Standards Board's 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' Recommendations: 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: It is the Finance Director's understanding that the Financial Statements can be prepared by the Accounting Firm as long as there is qualified Finance Director/Officer on staff who approves the year-end adjusting entries and has an understanding of the financial statements.

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Questioned Costs
June 30, 2012

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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

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

General Fund	\$ 247,766
EMS Grant Special Revenue Fund	49
Ambulance Fund	<u>16,075</u>
	<u>\$ 263,890</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 funds 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: Department Heads are provided a budget to actual report monthly that shows their total budget and month to date expenses as well as the available budget monies left. Department Heads will monitor these budgets closely to ensure they stay within their budgets. Also, the Finance Director will monitor budgets monthly and make recommendations as needed regarding the need for budget adjustments.

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 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.
- The City maintains 15 manual check registers for the various funds. Five 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 four are for the bank accounts not currently in use.
- Bank statements are not reviewed prior to the bank reconciliations being performed.
- Capital asset listings are not periodically routed to the appropriate managers to determine whether the assets still physically exist.
- Check preparers both sign and mail checks.
- During the internal control payroll testwork, it was noted that there were no time sheets to review that were signed prior to paychecks being prepared and disbursed. In discussions with staff regarding the process of preparing payroll, inconsistencies were noted between staff and the memo on the flow of transactions prepared by the Finance Director. Per staff payroll is prepared directly from the computerized system according to the hours a person was hired at. The only time that time sheets are received and signed by a supervisor is when there is overtime, sick time or vacation time, or some other deviation from their regular scheduled hours, otherwise, per staff, time sheets are received at the end of the calendar year.
- 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.
- The City does not maintain an accurate accounts receivable listing. It was noted in accruing the balance provided by the client that six of the accruals in the amount of \$11,460 were actually received prior to year end.
- During the subsequent testwork for accounts receivable, it was noted that ten of the 70 receipts tested in the amount of \$73,644 did not have supporting documentation to review for accrual as of June 30, 2012.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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

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 2012 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' Recommendations: 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 has adopted a Purchasing Policy that requires that purchases over \$500.00 shall only be made if the expenditure is within budget and the expenditure is approved by the Finance Director. Also, purchases require that a Purchase Order be processed through the MIP Accounting System. The City Management will write a conflict of interest policy. Cash receipt procedures have been adopted so that there is adequate segregation of duties. Bank statements are being reviewed by the Finance Director prior to bank reconciliations being performed. The Finance Director is reviewing journal entries in order to monitor the journal entry process.

Timesheets are received and signed by supervisors noting regular time if that is all the employee worked and overtime, sick time or vacation if applicable.

A procedure will be implemented so that capital asset listings will be generated and routed to the appropriate department managers to determine whether the assets still physically exist.

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, recorded an addition of \$670,415 on their capital asset listing and only had supporting documentation for \$481,495 of this addition, is not consistent in the selection of useful lives for similar assets, and has not performed 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 City's capital asset listing.

Views of Responsible Officials and Planned Corrective Action: Each Department does keep an inventory list. The capital asset listing will be reviewed and appropriate corrections be made. The Finance Director will implement a policy to monitor the capital assets listing and work closely with appropriate finance staff to ensure that there is proper supporting documentation for capital assets.

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, 2012, 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 \$2,694 were not reported to the Department of Finance and Administration (DFA). The City book balances from the DFA report are off by \$115,668.

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: City management is not ensuring that cash balances by fund tie to the DFA report as well as there being a lack of internal controls in management ensuring that all cash is recorded on the general ledger.

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

Views of Responsible Officials and Planned Corrective Actions The City will analyze the book cash balances to verify what is not being reported to the DFA that is required and make an effort to correct this.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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, 2012 by \$2,694.

The City did not record all bank accounts in their general ledger system. The City had a total cash balance reported of \$7,602,476 on their books when it should have been reporting \$7,605,170. The City's cash report submitted to the Department of Finance and Administration for the period ending June 30, 2012 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.

Effect: The City's cash balances and resulting activity are at risk of being materially misstated at June 30, 2012. Because of this internal control deficiency, the auditors' were unable to provide an opinion on the reasonableness of cash balances at June 30, 2012. 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' Recommendations: 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: The City will make an effort to implement policies and procedures to ensure that internal controls over cash are adequately designed and effectively implemented.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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 in 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 Recommendation: 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 and capital asset testwork we noted the following items:

- The City did not obtain bids for seven capital asset purchases over \$25,000. These purchases totaled \$810,743.
- In three (3) instances out of five (5) where the bids/proposals were not properly documented, we were unable to determine if the lowest proposed bid was received
- In Four (4) instances out of five (5) the bids/proposals were not properly accompanied by the Campaign Contribution Disclosure Form.

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 ensure 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, in 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 duties.
- 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.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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

Cause: For the fiscal year 2012 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 internal control policies and will write and implement this policy.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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 2012 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’ Recommendations: 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 write and implement this policy.

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 2012 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' Recommendations: 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 write and implement this policy.

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 2012 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’ Recommendations: 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 write and implement this policy.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 12-01 Budget Adjustment Requests - (Material Weakness)

Condition: During our test work on the budget adjustment requests, we could not verify that the budget adjustment requests had been approved by Department of Finance and Administration (DFA).

Criteria: NMSA 1978, Section 6.6.2, requires that all budget adjustments requests be submitted to DFA for approval.

Effect: The City may not be in compliance with state statutes concerning budgetary requirements.

Cause: The City was unable to provide us with the proper documentation showing that the year end budget adjustment requests had been approved by DFA.

Auditors' Recommendations: We recommend that the City obtain approval from DFA for all budget adjustment requests and retain evidence of this approval.

Views of Responsible Officials and Planned Corrective Actions: Resolutions were written and approved by the City Commissioners for budget increases. The City will keep documentation showing that the resolutions were sent to the state and approval was obtained.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 12-02 Stale Dated Transactions Not Cancelled (Material Weakness)

Condition: The City is in violation of state statutes regarding stale-dated checks. The City maintained two checks in an unused payroll account that were dated over one year old at June 30, 2012. These checks totaled \$746.74.

Criteria: Chapter 7 Article 8A, NMSA 1978, and related regulations require that the City provide information about the payees and the related funds to Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Effect: Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds.

Cause: The City did not implement an internal control policy to account for stale dated outstanding checks and did not clear these checks on a timely basis.

Auditors' Recommendations: We recommend that the City implement a procedure to review the outstanding check listings for all bank accounts and track stale-dated checks. If checks on the outstanding check listings are greater than one year old we recommend these checks be voided. Also, we recommend that the City provide the information to the Property Division of the New Mexico Taxation and Revenue Department as required.

Views of Responsible Officials and Planned Corrective Actions: The Finance Director will make a recommendation that the outstanding check list be reviewed monthly for checks that are one year or older and that they be taken off the list and a month end adjusting entry be made debiting the appropriate cash account and crediting miscellaneous revenue.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 12-03 Pledged Collateral (Material Weakness)

Condition: Deposits at Lea County State Bank were not collateralized in accordance with State of New Mexico Statutes. The required collateral was \$1,475,746. The collateral provided by the banks was \$1,470,000, resulting in a shortfall of \$5,746.

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions: The City will appoint an individual to monitor compliance with pledged collateral requirements.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 12-04 Late Audit Report (Material Weakness)

Condition

The City's 2012 audit report was not submitted by the December 1, 2012 deadline.

Criteria

The City of Lovington is required to submit their audit report for the year ended June 30, 2012 on or before October 15, 2012 subsequent to the entity's fiscal year end in accordance with Subsection A of 2.2.2.9 of NMAC.

Effect

The City could be affected by a late submission by not catching problems in a timely fashion to correct findings. The financial statements are not available for use by the District in a timely fashion for making financial decisions.

Cause

The audit report contained errors which resulted in the report being rejected by the Office of the State Auditor.

Auditors' Recommendation

We recommend that management review the audit report before it is submitted so that any mistakes can be detected and corrected in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions

In the future, management will review the audit report so that any mistakes can be detected and corrected before submission.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

HA FS 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 Auditing Standards Board's 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' Recommendations: 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

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 Actions: This has been an ongoing finding due to the fact that the Executive Director of the Housing Authority does not have sufficient training and experience in this area. The Executive Director will check in the near future for any upcoming training in this area that would benefit him.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HA FS 2008-1 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 inadequate segregation of duties.
- The governing body does not have a financial expert on the Board 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. The fee accountant makes journal entries without having a review process done to ensure that journal entries are necessary and correct.
- There is no policy for use of the Home Depot credit cards.

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' Recommendations: 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 Actions: This is an ongoing finding due to the fact that the Executive Director is the only person available in the office to prepare and implement internal control. It is virtually impossible to segregate duties at this time. In addition, the Authority does not foresee having a financial expert on the board in the near future. A new policy regarding the use of the Western Commerce and Home Depot credit cards has now been implemented. This was done through a resolution presented and accepted at the November Board Meeting which took place on November 21, 2012.

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

HA FS 2011-1 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, 2012, by \$1,085.

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: There was an inadequate monitoring of budget to actual on a line item basis within funds. The Authority was unaware that this was occurring.

Auditors' Recommendations: 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 Actions: The Authority is working to ensure that this does not happen again. Last year's budget spending exceeded the budget by a much larger margin, and the Executive Director is there to ensure that the Authority remains under budget. The Authority is well on its way to meeting that goal.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HA FS 2011-2 Voided Checks (Other Matter)

Condition: When it is necessary to void a check, the check should be voided both physically and in the accounting system. It was noted during the voided check testwork that seven of the 12 checks tested totaling \$9,499.85 had void written across the check, but the signatures were still readable. In one instance, there was a check that was voided in the accounting system but cleared the bank for \$32,918.93.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for 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.

Good internal control policy dictates that the Authority shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

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: Responsible officials do not have the communication between departments that is necessary to ensure that checks are voided when they are supposed to be. In addition, responsible officials are not ensuring that an adequate amount of time is taken for checks to be properly voided in the accounting system.

Auditors' Recommendations: The Authority should review cash management procedures with the responsible individuals monthly to ensure that all areas of cash have sufficient internal controls, including accounting for all voided checks residing at the entity as well as a documented policy that states who is responsible for voided checks in the system.

Views of Responsible Officials and Planned Corrective Actions: The Authority has ensured that each voided check's signature is completed marked out. It has also ensured to write "VOID" across the front of these specific checks. The original checks are then sent to the Authority's fee accountant who in turn ships the documents to the auditor at the end of the year.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HA FS 2012-1 Deficiencies in Accounting for Capital Assets (Material Weakness)

Condition: The Authority is not properly accounting for its capital assets. During the capital asset testwork, it was noted that depreciation was not calculated on one of the capital asset additions, which totaled \$5,492 according to the estimated useful lives established by the Housing Authority. In addition, two capital asset disposals were noted during the year but were not taken off the capital asset listing.

Criteria: Section 2.20.1.15 of NMAC requires agencies to properly safeguard assets. All assets within an established materiality limit should be tagged with unique numbers and accounted for on the capital asset listing. Current year expenditures in capital projects accounts should be accounted for on the inventory listing. Assets that have been sold or are no longer serviceable should be deleted from inventory in accordance with Section 2.20.1.18 of NMAC.

Effect: The lack of an annual inventory of capital assets results in improper safeguarding of capital assets to prevent theft or other losses. Without proper accounting for additions and deletions, and an annual inventory of capital assets, the financial statements of the Authority may be misstated.

Cause: Due to the turnover in management, it has been difficult for the Authority to find certain records maintained by former management members. Adequate records are not being kept to ensure that all information is complete and accurate at any given point in time. The Authority is unable to separate out capital assets from the listing in the way they are recorded.

Auditors' Recommendations: We recommend that the Authority begin to better separate capital asset additions on the listing, so that when they are disposed of, it is easy to see which assets those are. In addition, we recommend that an annual inventory of capital assets is completed in order to know what is maintained in the Authority's possession. Thirdly, we recommend that the Authority ensure that all depreciation is being calculated on assets at the correct amount each year.

Views of Responsible Officials and Planned Corrective Actions: This is an area which will be discussed with the fee accountant to get corrected.

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 City 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' Recommendations: The City should design and implement policies, procedures, and controls to ensure that federal award funds are properly spent 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. 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 08-03 – Computer Controls – Resolved

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 – Resolved

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

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

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

FS 11-01 – Improper Disposal of Capital Assets – Resolved

FS 11-02 – Unlawful Employee Participation in Bid Process – Resolved

FS 11-03 – Insufficient Documentation – Credit Card Expenses – Resolved

FS 11-04 – Sales Tax Payments – Credit Card Expenses – Resolved

FS 11-05 – Public Money – Repeated

FS 11-06 – Procurement Code – Bids – Revised and Repeated

FS 11-07 – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Control Environment – Revised and Repeated

FS 11-08 – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Risk Assessment – Revised and Repeated

FS 11-09 – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Information and Communication – Revised and Repeated

FS 11-10 – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Monitoring – Revised and Repeated

FA 11-01 – Internal Control over Compliance with Federal Awards – Revised and Repeated

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Questioned Costs
June 30, 2012

Schedule V
Page 27 of 27

E. PRIOR YEAR AUDIT FINDINGS (CONTINUED)

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 2011-01 – Actual Expenditures Exceed Budgeted Expenditures – Revised and Repeated

HA FS 2011-02 – Voided Checks – Repeated

HA FS 2011-03 – Untimely Deposits – Resolved

HA FS 2011-04 – Travel and Per Diem - Resolved

STATE OF NEW MEXICO

City of Lovington

Other Disclosures

June 30, 2012

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 19, 2012. The following individuals were in attendance.

City of Lovington

Dixie Drummond, Mayor

Mashell Stephens, Finance Director

James Williams, City Manager

Carol Ann Hogue, City Clerk

City of Lovington Housing Authority

Paul Campos, Executive Director

Manuel Quiroz, Chairman

Accounting & Consulting Group, LLP

Jeff McWhorter, Partner