



**Accounting & Consulting Group, LLP**

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Certified Public Accountants

State of New Mexico

**City of Lovington**

Financial Statements and Required  
Supplementary Information  
With Accompanying Auditors' Reports

Year Ended June 30, 2013



**STATE OF NEW MEXICO  
CITY OF LOVINGTON**

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

**YEAR ENDED JUNE 30, 2013**



## **INTRODUCTORY SECTION**

STATE OF NEW MEXICO

City of Lovington

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STATE OF NEW MEXICO

City of Lovington

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**STATE OF NEW MEXICO**

City of Lovington

Official Roster

June 30, 2013

<u>Name</u>		<u>Title</u>
	<b><u>City Council Members</u></b>	
Dixie Drummond		Mayor
Scott Gandy		Mayor-Pro Tem
Neil Granath		Commissioner
David Trujillo		Commissioner
Ava Bengé		Commissioner
	<b><u>Administrative Officials</u></b>	
James Williams		City Manager
Mashell Stephens		Finance Director



**FINANCIAL SECTION**

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## 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

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City of Lovington, New Mexico (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental funds and the budgetary comparisons of the proprietary funds and the remaining nonmajor governmental funds presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013 as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Basis for Qualified Opinion

We were not able to verify balances due to inadequate accounting records relating to the City's capital assets, accumulated depreciation, depreciation expense accounts, compensated absences, and related payroll expense accounts as of and for the year ended June 30, 2013. Furthermore, evidence supporting historical cost of capital assets maintained by the City was not available. We were not able to verify either accumulated depreciation at July 1, 2012 or the depreciation expense for the fiscal year ended June 30, 2013. We were not able to verify compensated absence balances at June 30, 2013. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on capital assets and compensated absences as of June 30, 2013 and the depreciation accrual for the year then ended. The effect on assets, net position, and expenses of the governmental and business-type activities is not readily determinable.

We were also not able to verify balances due to inadequate control procedures and accounting records relating to the City's consumable inventory accounts as of and for the year ended June 30, 2013. Furthermore, evidence supporting historical cost of consumable inventory maintained by the City was not available. We were unable to determine inventory amounts through the use of alternative procedures and, as such, are unable to express an opinion on consumable inventory in the Water & Wastewater Fund, the Ambulance Fund, or the General Fund as of June 30, 2013. The effect on assets, net position, fund balance, and expenses of these funds is not readily determinable.

### Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the City as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the proprietary funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the general fund, and each of the City's nonmajor governmental funds for the year ended June 30, 2013 in conformity with the budgetary basis more fully described in Note 2, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Management has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the additional schedules listed as schedules I through III in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional schedules I through III are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the additional schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 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* in considering the City's internal control over financial reporting and compliance.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
November 25, 2013

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**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**

City of Lovington

Statement of Net Position

June 30, 2013

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Housing Authority
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 5,987,539	\$ 4,161,153	\$ 10,148,692	\$ 70,652
Investments	397,305	129,654	526,959	36,491
Receivables				
Taxes receivable	1,510,383	-	1,510,383	-
Other receivables	116,193	496,450	612,643	26,062
Prepays	-	-	-	1,582
Inventory	47,828	195,182	243,010	1,559
Internal balances	(423,569)	423,569	-	-
Total current assets	<u>7,635,679</u>	<u>5,406,008</u>	<u>13,041,687</u>	<u>136,346</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	405,600	405,600	10,575
Capital assets	38,582,792	29,458,091	68,040,883	2,534,465
Less: accumulated depreciation	<u>(17,476,512)</u>	<u>(13,554,772)</u>	<u>(31,031,284)</u>	<u>(1,593,699)</u>
Total noncurrent assets	<u>21,106,280</u>	<u>16,308,919</u>	<u>37,415,199</u>	<u>951,341</u>
Total assets	<u>\$ 28,741,959</u>	<u>\$ 21,714,927</u>	<u>\$ 50,456,886</u>	<u>\$ 1,087,687</u>

The accompanying notes are an integral part of these financial statements



	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
<b>Liabilities</b>				
Current liabilities				
Accounts payable	\$ 123,583	\$ 242,886	\$ 366,469	\$ 32,240
Accrued payroll expenses	240,262	19,197	259,459	3,372
Accrued interest	-	76,659	76,659	-
Accrued compensated absences	167,048	29,447	196,495	1,258
Current portion of notes and loans payable	-	394,739	394,739	-
Total current liabilities	530,893	762,928	1,293,821	36,870
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	10,575
<i>Total current liabilities (payable from restricted assets)</i>	-	-	-	10,575
Noncurrent liabilities				
Accrued compensated absences	393,069	65,340	458,409	-
Customer deposits	-	405,600	405,600	-
Notes and loans payable	-	7,813,170	7,813,170	-
Total noncurrent liabilities	393,069	8,284,110	8,677,179	-
Total liabilities	923,962	9,047,038	9,971,000	47,445
<b>Net Position</b>				
Net investment in capital assets	21,106,280	7,695,410	28,801,690	940,766
Restricted for				
Capital projects and improvements	-	-	-	24,320
Tenant deposits	-	-	-	10,575
Special revenue	777,320	-	777,320	-
Unrestricted	5,934,397	4,972,479	10,906,876	64,581
Total net position	27,817,997	12,667,889	40,485,886	1,040,242
Total liabilities and net position	\$ 28,741,959	\$ 21,714,927	\$ 50,456,886	\$ 1,087,687

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Activities  
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Program Revenues</u>			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government</b>				
General government	\$ 3,148,078	\$ 335,294	\$ 702,945	\$ -
Public safety	3,346,496	-	76,224	48,086
Public works	1,495,151	-	-	-
Health and welfare	260,374	-	-	-
Culture and recreation	1,545,655	3,498	157,756	40,731
Conservation and development	2,492	-	-	-
<i>Total governmental activities</i>	<u>9,798,246</u>	<u>338,792</u>	<u>936,925</u>	<u>88,817</u>
<b>Business-type Activities</b>				
Solid Waste	1,705,983	1,881,176	-	-
Water and Wastewater	3,013,539	2,269,581	-	-
Ambulance	506,506	576,288	-	-
<i>Total business type activities</i>	<u>5,226,028</u>	<u>4,727,045</u>	<u>-</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 15,024,274</u>	<u>\$ 5,065,837</u>	<u>\$ 936,925</u>	<u>\$ 88,817</u>
<b>Component Unit</b>				
Housing Authority	<u>\$ 294,203</u>	<u>\$ 131,544</u>	<u>\$ 88,385</u>	<u>\$ 99,378</u>
		<b>General Revenues and Transfers</b>		
		Taxes		
		Property taxes		
		Gross receipts taxes		
		Gasoline and motor vehicle taxes		
		Franchise taxes		
		Lodger's taxes		
		Other taxes		
		Fines, forfeitures, and penalties		
		Investment income		
		Miscellaneous income		
		Total general revenues and transfers		
		Change in net position		
		Net position, beginning		
		Restatement (Note 19)		
		Net position, beginning as restated		
		Net position, ending		

The accompanying notes are an integral part of these financial statements

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Housing Authority</b>
\$ (2,109,839)	\$ -	\$ (2,109,839)	\$ -
(3,222,186)	-	(3,222,186)	-
(1,495,151)	-	(1,495,151)	-
(260,374)	-	(260,374)	-
(1,343,670)	-	(1,343,670)	-
(2,492)	-	(2,492)	-
<u>(8,433,712)</u>	<u>-</u>	<u>(8,433,712)</u>	<u>-</u>
-	175,193	175,193	-
-	(743,958)	(743,958)	-
-	69,782	69,782	-
-	(498,983)	(498,983)	-
<u>(8,433,712)</u>	<u>(498,983)</u>	<u>(8,932,695)</u>	<u>-</u>
-	-	-	25,104
324,509	-	324,509	-
8,381,711	-	8,381,711	-
225,792	-	225,792	-
205,124	-	205,124	-
70,538	-	70,538	-
52,811	-	52,811	-
101,731	-	101,731	-
1,924	3,813	5,737	197
227,459	180,406	407,865	1,385
<u>9,591,599</u>	<u>184,219</u>	<u>9,775,818</u>	<u>1,582</u>
<u>1,157,887</u>	<u>(314,764)</u>	<u>843,123</u>	<u>26,686</u>
26,660,110	13,280,681	39,940,791	1,013,556
-	(298,028)	(298,028)	-
<u>26,660,110</u>	<u>12,982,653</u>	<u>39,642,763</u>	<u>1,013,556</u>
<u>\$ 27,817,997</u>	<u>\$ 12,667,889</u>	<u>\$ 40,485,886</u>	<u>\$ 1,040,242</u>

STATE OF NEW MEXICO

City of Lovington  
Balance Sheet  
Governmental Funds  
June 30, 2013

Exhibit B-1  
Page 1 of 2

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>Assets</i>			
Cash and cash equivalents	\$ 5,891,022	\$ 66,270	\$ 5,957,292
Investments	366,914	30,391	397,305
Receivables			
Taxes	1,470,204	40,179	1,510,383
Other receivables	106,488	9,705	116,193
Inventory	47,828	-	47,828
Due from other funds	11,829	636,072	647,901
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>Total assets</i>	<u>\$ 7,894,285</u>	<u>\$ 782,617</u>	<u>\$ 8,676,902</u>
<i>Liabilities</i>			
Cash overdraft	\$ -	\$ 78	\$ 78
Accounts payable	120,382	3,201	123,583
Accrued payroll expenses	234,838	-	234,838
Deferred revenue	4,411	-	4,411
Due to other funds	1,069,452	2,018	1,071,470
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>Total liabilities</i>	<u>1,429,083</u>	<u>5,297</u>	<u>1,434,380</u>
<i>Fund balances</i>			
Nonspendable	47,828	-	47,828
Spendable			
Restricted	-	777,320	777,320
Unassigned	6,417,374	-	6,417,374
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>Total fund balances</i>	<u>6,465,202</u>	<u>777,320</u>	<u>7,242,522</u>
<i>Total liabilities and fund balances</i>	<u>\$ 7,894,285</u>	<u>\$ 782,617</u>	<u>\$ 8,676,902</u>

STATE OF NEW MEXICO

City of Lovington

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position  
June 30, 2013

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	7,242,522
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 position. The net effect of this consolidation is to increase (decrease) net position.		24,901
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		21,106,280
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds Deferred property taxes		4,411
Some liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds Accrued compensated absences		<u>(560,117)</u>
Total net position	\$	<u>27,817,997</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, 2013

Exhibit B-2  
Page 1 of 2

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes			
Property	\$ 332,076	\$ -	\$ 332,076
Gross receipts	8,381,711	-	8,381,711
Gasoline and motor vehicle	21,821	203,971	225,792
Other	205,124	123,349	328,473
Intergovernmental			
Federal operating grants	3,073	4,843	7,916
Federal capital grants	-	21,337	21,337
State operating grants	699,872	262,650	962,522
State capital grants	19,394	14,886	34,280
Charges for services	71,454	3,498	74,952
Licenses and fees	226,394	37,446	263,840
Fines, forfeitures, and penalties	101,731	-	101,731
Investment income	1,896	28	1,924
Miscellaneous	227,146	-	227,146
<i>Total revenues</i>	10,291,692	672,008	10,963,700
<i>Expenditures</i>			
Current			
General government	3,028,888	33,784	3,062,672
Public safety	3,149,573	75,129	3,224,702
Public works	544,153	-	544,153
Health and welfare	-	14,886	14,886
Culture and recreation	1,339,096	116,904	1,456,000
Conservation and development	2,492	-	2,492
Capital outlay	407,402	49,450	456,852
<i>Total expenditures</i>	8,471,604	290,153	8,761,757
<i>Excess (deficiency) of revenues over expenditures</i>	1,820,088	381,855	2,201,943
<i>Other financing sources (uses)</i>			
Transfers in	172,004	40,000	212,004
Transfers (out)	(40,000)	(172,004)	(212,004)
<i>Total other financing sources (uses)</i>	132,004	(132,004)	-
<i>Net change in fund balances</i>	1,952,092	249,851	2,201,943
<i>Fund balances - beginning of year</i>	4,513,110	527,469	5,040,579
<i>Fund balances - end of year</i>	\$ 6,465,202	\$ 777,320	\$ 7,242,522

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, 2013

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	\$ 2,201,943
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 position.	(14,066)
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:	
Capital assets reported as capital outlay expenditures	456,852
Depreciation expense	(1,528,057)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Decrease in deferred revenue related to property taxes receivable	(7,567)
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:	
Decrease in compensated absences	<u>48,782</u>
Change in net position of governmental activities	<u>\$ 1,157,887</u>

## STATE OF NEW MEXICO

Exhibit 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, 2013

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ 330,689	\$ 330,689	\$ 325,352	\$ (5,337)
Gross receipts	7,200,000	7,200,000	8,410,607	1,210,607
Gasoline and motor vehicle	16,000	16,000	20,156	4,156
Other	180,000	180,000	202,220	22,220
Intergovernmental				
Federal operating grants	-	-	3,073	3,073
State operating grants	340,000	340,000	660,212	320,212
State capital grants	6,000	6,000	19,394	13,394
Charges for services	75,500	75,500	71,338	(4,162)
Licenses and fees	164,475	164,475	211,484	47,009
Fines, forfeitures, and penalties	140,650	140,650	104,259	(36,391)
Investment income	2,000	2,000	1,896	(104)
Miscellaneous	116,000	116,000	349,458	233,458
<i>Total revenues</i>	<u>8,571,314</u>	<u>8,571,314</u>	<u>10,379,449</u>	<u>1,808,135</u>
<i>Expenditures</i>				
Current				
General government	2,942,444	3,164,858	3,132,974	31,884
Public safety	3,006,250	3,092,224	3,092,206	18
Public works	530,853	502,192	502,186	6
Culture and recreation	1,250,977	1,284,260	1,294,117	(9,857)
Conservation and development	8,500	2,492	2,492	-
Capital outlay	348,968	400,812	413,038	(12,226)
<i>Total expenditures</i>	<u>8,087,992</u>	<u>8,446,838</u>	<u>8,437,013</u>	<u>9,825</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>483,322</u>	<u>124,476</u>	<u>1,942,436</u>	<u>1,817,960</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(605,322)	(246,476)	-	(246,476)
Transfers in	162,000	162,000	172,004	334,004
Transfers out	(40,000)	(40,000)	(40,000)	-
<i>Total other financing sources (uses)</i>	<u>(483,322)</u>	<u>(124,476)</u>	<u>132,004</u>	<u>87,528</u>
<i>Net change in fund balances</i>	-	-	2,074,440	1,905,488
<i>Fund balances - beginning of year</i>	-	-	3,172,854	3,172,854
<i>Fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,247,294</u>	<u>\$ 5,247,294</u>
Net change in fund balance (Non-GAAP)				\$ 2,074,440
Adjustments to revenue for property taxes receivables, other receivables, and deferred revenue				(87,757)
Adjustments to expenditures for accounts payable and accrued payroll				(34,591)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 1,952,092</u>

The accompanying notes are an integral part of these financial statements



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**STATE OF NEW MEXICO**

City of Lovington  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

	<u>Solid Waste</u>	<u>Water &amp; Wastewater</u>
<i>Assets</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 50	\$ 4,161,103
Investments	59,698	69,956
Accounts receivable	100,807	389,694
Inventory	-	168,800
Due from other funds	1,210,219	-
<i>Total current assets</i>	<u>1,370,774</u>	<u>4,789,553</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	-	405,600
Capital assets	422,964	28,579,235
Accumulated depreciation	(144,049)	(13,103,089)
<i>Total noncurrent assets</i>	<u>278,915</u>	<u>15,881,746</u>
<i>Total Assets</i>	<u>\$ 1,649,689</u>	<u>\$ 20,671,299</u>
<i>Liabilities and Net Position</i>		
<i>Liabilities</i>		
<i>Current liabilities</i>		
Accounts payable	\$ 130,700	\$ 104,176
Accrued expenses	-	19,197
Accrued interest	-	76,659
Accrued compensated absences	332	25,756
Due to other funds	-	1,220,031
Current portion of loans payable	-	394,739
<i>Total current liabilities</i>	<u>131,032</u>	<u>1,840,558</u>
<i>Total current liabilities</i>	<u>131,032</u>	<u>1,840,558</u>
<i>Noncurrent liabilities</i>		
Loans payable	-	7,813,170
Accrued compensated absences	705	56,579
Customer deposits	-	405,600
<i>Total noncurrent liabilities</i>	<u>705</u>	<u>8,275,349</u>
<i>Total liabilities</i>	<u>131,737</u>	<u>10,115,907</u>
<i>Net Position</i>		
Net investment in capital assets	278,915	7,268,237
Unrestricted net position	1,239,037	3,287,155
<i>Total net position</i>	<u>1,517,952</u>	<u>10,555,392</u>
<i>Total Liabilities and Net Position</i>	<u>\$ 1,649,689</u>	<u>\$ 20,671,299</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>
\$ -	\$ 4,161,153	\$ 30,325
-	129,654	-
5,949	496,450	-
26,382	195,182	-
433,381	1,643,600	-
<u>465,712</u>	<u>6,626,039</u>	<u>30,325</u>
-	405,600	-
455,892	29,458,091	-
(307,634)	(13,554,772)	-
<u>148,258</u>	<u>16,308,919</u>	<u>-</u>
<u>\$ 613,970</u>	<u>\$ 22,934,958</u>	<u>\$ 30,325</u>
\$ 8,010	\$ 242,886	\$ -
-	19,197	5,424
-	76,659	-
3,359	29,447	-
-	1,220,031	-
-	394,739	-
<u>11,369</u>	<u>1,982,959</u>	<u>5,424</u>
<u>11,369</u>	<u>1,982,959</u>	<u>5,424</u>
-	7,813,170	-
8,056	65,340	-
-	405,600	-
<u>8,056</u>	<u>8,284,110</u>	<u>-</u>
<u>19,425</u>	<u>10,267,069</u>	<u>5,424</u>
148,258	7,695,410	-
<u>446,287</u>	<u>4,972,479</u>	<u>24,901</u>
<u>594,545</u>	<u>12,667,889</u>	<u>24,901</u>
<u>\$ 613,970</u>	<u>\$ 22,934,958</u>	<u>\$ 30,325</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013

	Solid Waste	Water & Wastewater
<i>Operating revenues</i>		
Charges for services	\$ 1,881,176	\$ 2,269,581
<i>Total operating revenues</i>	1,881,176	2,269,581
<i>Operating expenses</i>		
Personnel services	72,246	859,043
Contractual services	1,617,504	64,717
Supplies	(16,158)	291,102
Maintenance and materials	377	357,201
Utilities	5,603	267,551
Depreciation	9,771	951,264
Miscellaneous	16,640	64,028
<i>Total operating expenses</i>	1,705,983	2,854,906
<i>Operating income (loss)</i>	175,193	(585,325)
<i>Non-operating revenues (expenses)</i>		
Rent and royalties	-	131,203
Interest income	-	3,813
Interest expense	-	(158,633)
Miscellaneous	2,336	46,867
<i>Total non-operating revenues (expenses)</i>	2,336	23,250
<i>Change in net position</i>	278,336	(662,882)
<i>Net position, beginning of year</i>	1,239,616	11,516,302
<i>Restatement (Note 19)</i>	-	(298,028)
<i>Net position, beginning of year, as restated</i>	1,239,616	11,218,274
<i>Net position, end of year</i>	\$ 1,517,952	\$ 10,555,392

The accompanying notes are an integral part of these financial statements

<u>Non-Major Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 576,209	\$ 4,726,966	\$ -
<u>576,209</u>	<u>4,726,966</u>	<u>-</u>
312,648	1,243,937	-
31,820	1,714,041	-
29,264	304,208	-
20,696	378,274	-
-	273,154	-
56,499	1,017,534	-
<u>55,579</u>	<u>136,247</u>	<u>14,066</u>
<u>506,506</u>	<u>5,067,395</u>	<u>14,066</u>
<u>69,703</u>	<u>(340,429)</u>	<u>(14,066)</u>
-	131,203	-
-	3,813	-
-	(158,633)	-
<u>79</u>	<u>49,282</u>	<u>-</u>
<u>79</u>	<u>25,665</u>	<u>-</u>
<u>69,782</u>	<u>(314,764)</u>	<u>(14,066)</u>
524,763	13,280,681	38,967
-	(298,028)	-
<u>524,763</u>	<u>12,982,653</u>	<u>38,967</u>
<u>\$ 594,545</u>	<u>\$ 12,667,889</u>	<u>\$ 24,901</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2013

	Solid Waste	Water & Wastewater
<i>Cash flows from operating activities</i>		
Cash received from user charges	\$ 1,780,369	\$ 2,574,531
Cash payments to employees for services	(74,438)	(861,396)
Cash payments to suppliers for goods and services	(1,511,274)	(1,008,896)
<i>Net cash provided (used) by operating activities</i>	194,657	704,239
 <i>Cash flows from noncapital financing activities</i>		
Miscellaneous income	2,336	178,070
Internal transfers and loans	(196,993)	194,400
<i>Net cash provided (used) by noncapital financing activities</i>	(194,657)	372,470
 <i>Cash flows from capital and related financing activities</i>		
Principal paid on capital debt	-	(387,452)
Interest paid on capital debt	-	(158,633)
<i>Net cash provided (used) by capital and related financing activities</i>	-	(546,085)
 <i>Cash flows from investing activities</i>		
Interest on investments	-	3,813
<i>Net cash provided (used) by investing activities</i>	-	3,813
 <i>Net increase (decrease) in cash and cash equivalents</i>	-	534,437
 <i>Cash and cash equivalents - beginning of year</i>	50	4,032,266
<i>Cash and cash equivalents - end of year</i>	\$ 50	\$ 4,566,703
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>		
Operating income (loss)	\$ 175,193	\$ (585,325)
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	(100,807)	113,906
Inventory	-	17,509
Accounts payable	112,692	18,194
Accrued payroll expenses	-	(5,395)
Customer deposits	-	191,044
<i>Net cash provided (used) by operating activities</i>	\$ 194,657	\$ 704,239

The accompanying notes are an integral part of these financial statements

Non-Major Funds	Total	Internal Service Funds
\$ 576,209	\$ 4,931,109	\$ -
(309,289)	(1,245,123)	5,424
(124,755)	(2,644,925)	(14,066)
<u>142,165</u>	<u>1,041,061</u>	<u>(8,642)</u>
5,702	186,108	-
(155,923)	(158,516)	-
<u>(142,165)</u>	<u>35,648</u>	<u>-</u>
-	(387,452)	-
-	(158,633)	-
-	(546,085)	-
-	3,813	-
-	3,813	-
-	534,437	(8,642)
-	4,032,316	38,967
<u>\$ -</u>	<u>\$ 4,566,753</u>	<u>\$ 30,325</u>
\$ 69,703	\$ (340,429)	\$ (14,066)
56,499	1,017,534	-
-	13,099	-
7,669	25,178	-
4,935	135,821	-
-	(5,395)	5,424
-	191,044	-
<u>\$ 142,165</u>	<u>\$ 1,041,061</u>	<u>\$ (8,642)</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2013

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	<u>\$ 37,530</u>
<i>Total assets</i>	<u><u>\$ 37,530</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 37,530</u>
<i>Total liabilities</i>	<u><u>\$ 37,530</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, 2013

**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.

During the year ended June 30, 2013, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 60 through 64. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses issues related to service concession arrangements. The City does not have any Service Concession Arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions- an Amendment of GASB Statement No. 53*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The City does not utilize hedge accounting.

**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 Statements No. 14 amended by GASB Statements No. 39 and No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion in 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.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2013

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

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

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

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

The government-wide financial statements (i.e., the statement of net position 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 Position 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 Position, 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 position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

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.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2013

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

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

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).

*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, 2013

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

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2013

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

***D. Assets, Liabilities and Net Position 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 Statement No. 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.

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

***D. Assets, Liabilities and Net Position 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 position. For bonds issued after the City implemented GASB Statement No. 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, 2013, the restricted fund balance on the governmental funds balance sheet is made up of \$777,320 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 Position:** Equity is classified as net position and displayed in three components:

*a. Net investment in capital assets:*

Net position invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*b. Restricted net position:*

Consists of net position 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 position:*

All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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**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	\$ 483,322	\$ 124,476
Nonmajor Governmental Funds	300,976	282,830
	Change in Net Position	
	Original Budget	Final Budget
	Solid Waste Proprietary Fund	\$ 39,343
Water & Wastewater Proprietary Fund	3,518,261	3,495,997
Ambulance Proprietary Fund	67,771	13,736
Capital Projects Replace & Repair		
Water Lines Proprietary Fund	-	-
Internal Service Funds	(28,200)	(28,200)

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 Position (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, 2013 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund type can be found in each individual budgetary statement.

**STATE OF NEW MEXICO**  
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**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, 2013.

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.

By operation of federal law, beginning January 1, 2013, fund invested in noninterest bearing accounts transaction accounts will no longer receive unlimited coverage under by the Federal Deposit Insurance Corporation. Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including non-interest bearing accounts are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

***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, 2013, \$9,946,896 of the City's bank balances of \$10,881,631 was exposed to custodial credit risk. \$954,478 was uninsured and collateralized by securities held by the pledging institution's trust department or agent, in other than the City's name and \$4,510,087 was uninsured and uncollateralized. See Schedule II on pages 82-83.

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, City, 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, 2013 consist of the following:

Investments	Weighted Average Maturity	Fair Value	Rating
<i>New MexiGROW</i> LGIP	59 day WAM(R); 90 day WAM(F)	\$ 342,036	AAAm
Reserve Contingency Fund	Does not earn interest	188	Unrated
		\$ 342,224	



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

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* consist of approximately 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).

**NOTE 4. RECEIVABLES**

The City's receivables as of June 30, 2013, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Governmental Activities				
Taxes				
Property taxes	\$ 22,882	\$ -	\$ -	\$ 22,882
Gross receipts taxes	1,398,014	-	-	1,398,014
Franchise taxes	49,308	5,402	-	54,710
Gasoline and oil taxes	-	28,927	-	28,927
Lodger's taxes	-	5,850	-	5,850
Total Taxes	<u>1,470,204</u>	<u>40,179</u>	<u>-</u>	<u>1,510,383</u>
Other Receivables	<u>106,488</u>	<u>9,705</u>	<u>50,214</u>	<u>166,407</u>
Total Governmental Activities	<u>1,576,692</u>	<u>49,884</u>	<u>50,214</u>	<u>1,676,790</u>
Business-Type Activities				
Receivables from customers				
Water and Waste Water	<u>-</u>	<u>-</u>	<u>446,236</u>	<u>446,236</u>
Total Business Type Activities	<u>-</u>	<u>-</u>	<u>446,236</u>	<u>446,236</u>
Total Accounts Receivable	<u>\$ 1,576,692</u>	<u>\$ 49,884</u>	<u>\$ 496,450</u>	<u>\$2,123,026</u>

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

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

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Senior Citizens	\$ 172,004
Recreation	General Fund	40,000
		<u>\$ 212,004</u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2013 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Corrections Fund	General Fund	\$ 77,152
Law Enforcement Protection Fund	General Fund	17
Lodger's Tax Fund	General Fund	11,393
Gasoline Tax Fund	General Fund	525,285
Recreation Fund	General Fund	22,224
Ambulance Fund	General Fund	429,845
Capital Project Repair & Replace Water Lines	General Fund	3,536
General Fund	Designated Franchise Fund	2,018
Solid Waste Fund	Water & Wastewater Fund	1,210,219
General Fund	Water & Wastewater Fund	9,812
		<u>\$ 2,291,501</u>

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

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**NOTE 6. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and library collection is not subject to depreciation.

***Government Activities***

	Balance <u>June 30, 2012</u>	Additions	Deletions	Balance <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 133,319	\$ -	\$ -	\$ 133,319
Library collection	<u>1,630,836</u>	<u>-</u>	<u>-</u>	<u>1,630,836</u>
Total capital assets not being depreciated	<u>1,764,155</u>	<u>-</u>	<u>-</u>	<u>1,764,155</u>
Capital assets being depreciated:				
Infrastructure	17,698,016	-	-	17,698,016
Buildings and improvements	13,668,254	62,466	-	13,730,720
Machinery and equipment	2,723,394	312,903	-	3,036,297
Vehicles	<u>2,272,121</u>	<u>81,483</u>	<u>-</u>	<u>2,353,604</u>
Total capital assets being depreciated	<u>36,361,785</u>	<u>456,852</u>	<u>-</u>	<u>36,818,637</u>
Less accumulated depreciation				
Infrastructure	7,048,926	280,202	-	7,329,128
Buildings and improvements	5,697,931	897,440	-	6,595,371
Machinery and equipment	1,816,038	168,085	-	1,984,123
Vehicles	<u>1,385,560</u>	<u>182,330</u>	<u>-</u>	<u>1,567,890</u>
Total accumulated depreciation	<u>15,948,455</u>	<u>1,528,057</u>	<u>-</u>	<u>17,476,512</u>
Total capital assets, net of depreciation	<u>\$ 22,177,485</u>	<u>\$ (1,071,205)</u>	<u>\$ -</u>	<u>\$ 21,106,280</u>

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

***Business-type Activities***

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Total capital assets not being depreciated	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>
Capital assets being depreciated:				
Buildings and improvements	19,793,272	-	-	19,793,272
Machinery and equipment	8,776,450	-	-	8,776,450
Vehicles	887,619	-	-	887,619
Total capital assets being depreciated	<u>29,457,341</u>	<u>-</u>	<u>-</u>	<u>29,457,341</u>
Less accumulated depreciation				
Buildings and improvements	6,569,245	538,219	-	7,107,464
Machinery and equipment	5,427,731	368,717	-	5,796,448
Vehicles	540,262	110,598	-	650,860
Total accumulated depreciation	<u>12,537,238</u>	<u>1,017,534</u>	<u>-</u>	<u>13,554,772</u>
Total capital assets, net of depreciation	<u>\$ 16,920,853</u>	<u>\$ (1,017,534)</u>	<u>\$ -</u>	<u>\$ 15,903,319</u>

***Depreciation expense***

Depreciation expense for the year ended June 30, 2013 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	245,488
Total governmental activities	<u>\$ 1,528,057</u>

Business type activities

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

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

***Governmental Activities***

During the year ended June 30, 2013, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due within One Year
Compensated absences	\$ 608,899	\$ 118,266	\$ 167,048	\$ 560,117	\$ 167,048

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

***Business-Type Activities***

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due within One Year
NMFA Loan - Drinking Water State Revolving Loan	\$ 3,264,748	\$ -	\$ 138,501	\$ 3,126,247	\$ 140,809
NMED Loan - Clean Water State Revolving Loan	5,330,613	-	248,951	5,081,662	253,930
Compensated absences	82,522	41,712	29,447	94,787	29,447
	<u>\$ 8,677,883</u>	<u>\$ 41,712</u>	<u>\$ 416,899</u>	<u>\$ 8,302,696</u>	<u>\$ 424,186</u>

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

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, 2013, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
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	150,504	37,381	6,372	194,257
2019-2023	791,682	153,613	26,086	971,381
2024-2028	861,802	93,909	15,845	971,556
2029-2033	744,715	39,055	4,695	788,465
	<u>\$ 3,126,247</u>	<u>\$ 494,252</u>	<u>\$ 82,126</u>	<u>\$ 3,702,625</u>

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

***Business-Type Activities***

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, 2013, including interest payments are as follows:

Ending June 30,	Principal	Interest	Admin Fee	Service
2014	\$ 253,930	\$ 79,498	\$ 22,136	\$ 355,564
2015	259,008	75,525	21,030	355,563
2016	264,189	71,473	19,901	355,563
2017	269,473	67,340	18,751	355,564
2018	274,862	63,125	17,577	355,564
2019-2023	1,458,999	249,378	69,438	1,777,815
2024-2028	1,610,854	130,597	36,364	1,777,815
2029-2033	690,347	16,253	4,525	711,125
	<u>\$ 5,081,662</u>	<u>\$ 753,189</u>	<u>\$ 209,722</u>	<u>\$ 6,044,573</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.

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**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. PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

*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 <http://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, 2013, 2012, and 2011 were approximately \$249,557, \$219,291, and \$203,471, 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, 2013, 2012, and 2011 was \$178,152, \$169,387, 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**  
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**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, 2013, 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 fund reflected a deficit fund balance as of June 30, 2013:

Fire Protection Special Revenue Fund	\$ 419
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- B. Excess of expenditures over budgeted amounts. The following fund exceeded approved budgetary authority for the year ended June 30, 2013:

Ambulance Fund	\$ 21,673
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- C. Designated cash appropriations exceeded prior year available balances. There were not any funds which had designated cash appropriations in excess of available balances for the year ended June 30, 2013.

**NOTE 16. NET POSITION**

The government-wide statement of net position reports \$777,320 of restricted net position, all of which is restricted by enabling legislation. See the fund description on pages 52-53 for the related enabling legislation.

**NOTE 17. SUBSEQUENT PRONOUNCEMENTS**

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 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.

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 *Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Report and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City is analyzing the effects that this pronouncement will have on their financial statements.



**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2013

**NOTE 17. SUBSEQUENT PRONOUNCEMENTS (continued)**

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local government pension plans. The City is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The City is analyzing the effects that this pronouncement will have on their financial statements.

In January 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. 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.

**NOTE 19. RESTATEMENT**

The City had a restatement of net position in the Water and Wastewater Fund and Business-Type Activities due to incorrect accounts receivable and allowance for doubtful accounts balances in prior years. The restatement was as follows:

<u>Fund Name</u>	<u>Restatement</u>
Water and Wastewater	\$ (298,028)

**NOTE 20. MEMORANDUMS OF UNDERSTANDING**

**Vikki Bell**

Participants	City of Lovington New Mexico Economic Development Department
Responsible party	City of Lovington
Description	To promote economic development within and outside the municipal city limits.
Term of agreement	Beginning      07/01/2012 Ending          06/30/2013
Amount of project	\$120,000
City contributions	\$10,800
Audit responsibility	New Mexico Economic Development Department

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**SUPPLEMENTARY INFORMATION**

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**NONMAJOR FUNDS**

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Fund Descriptions  
June 30, 2013

**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, 2013

**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.

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Balance Sheet  
June 30, 2013

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	-	-	-	-
Other receivables	2,616	-	-	-
Due from other funds	77,152	-	-	17
<i>Total assets</i>	<u>\$ 79,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17</u>
<i>Liabilities</i>				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	419	-
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>419</u>	<u>-</u>
<i>Fund balances</i>				
Spendable				
Restricted	79,768	-	(419)	17
<i>Total fund balances</i>	<u>79,768</u>	<u>-</u>	<u>(419)</u>	<u>17</u>
<i>Total liabilities and fund balances</i>	<u>\$ 79,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17</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	\$ 66,050	\$ 66,270
-	-	12,444	-	17,947	30,391
5,850	28,927	-	-	5,402	40,179
-	-	-	7,089	-	9,705
<u>11,393</u>	<u>525,286</u>	<u>22,224</u>	<u>-</u>	<u>-</u>	<u>636,072</u>
<u>\$ 17,243</u>	<u>\$ 554,213</u>	<u>\$ 34,863</u>	<u>\$ 7,114</u>	<u>\$ 89,399</u>	<u>\$ 782,617</u>
\$ 78	\$ -	\$ -	\$ -	\$ -	\$ 78
-	-	2,782	-	-	3,201
-	-	-	-	2,018	2,018
<u>78</u>	<u>-</u>	<u>2,782</u>	<u>-</u>	<u>2,018</u>	<u>5,297</u>
17,165	554,213	32,081	7,114	87,381	777,320
<u>17,165</u>	<u>554,213</u>	<u>32,081</u>	<u>7,114</u>	<u>87,381</u>	<u>777,320</u>
<u>\$ 17,243</u>	<u>\$ 554,213</u>	<u>\$ 34,863</u>	<u>\$ 7,114</u>	<u>\$ 89,399</u>	<u>\$ 782,617</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2013

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	-	-	76,537	33,200
State capital grants	-	14,886	-	-
Charges for services	-	-	-	-
Licenses and fees	37,446	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>37,446</u>	<u>14,886</u>	<u>76,537</u>	<u>33,200</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	20,115	-	55,014	-
Health and welfare	-	14,886	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	16,250	33,200
<i>Total expenditures</i>	<u>20,115</u>	<u>14,886</u>	<u>71,264</u>	<u>33,200</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>17,331</u>	<u>-</u>	<u>5,273</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	17,331	-	5,273	-
<i>Fund balances - beginning of year</i>	<u>62,437</u>	<u>-</u>	<u>(5,692)</u>	<u>17</u>
<i>Fund balances - end of year</i>	<u>\$ 79,768</u>	<u>\$ -</u>	<u>\$ (419)</u>	<u>\$ 17</u>

The accompanying notes are an integral part of these financial statements

## Special Revenue

<u>Lodger's Tax</u>	<u>Gasoline Tax</u>	<u>Recreation</u>	<u>Senior Citizens</u>	<u>Designated Franchise</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 203,971	\$ -	\$ -	\$ -	\$ 203,971
70,538	-	-	-	52,811	123,349
-	-	-	4,843	-	4,843
-	-	-	21,337	-	21,337
-	-	-	152,913	-	262,650
-	-	-	-	-	14,886
-	-	3,498	-	-	3,498
-	-	-	-	-	37,446
-	-	-	-	28	28
<u>70,538</u>	<u>203,971</u>	<u>3,498</u>	<u>179,093</u>	<u>52,839</u>	<u>672,008</u>
-	-	-	-	33,784	33,784
-	-	-	-	-	75,129
-	-	-	-	-	14,886
78,706	-	38,198	-	-	116,904
-	-	-	-	-	49,450
<u>78,706</u>	<u>-</u>	<u>38,198</u>	<u>-</u>	<u>33,784</u>	<u>290,153</u>
<u>(8,168)</u>	<u>203,971</u>	<u>(34,700)</u>	<u>179,093</u>	<u>19,055</u>	<u>381,855</u>
-	-	40,000	-	-	40,000
-	-	-	(172,004)	-	(172,004)
-	-	40,000	(172,004)	-	(132,004)
(8,168)	203,971	5,300	7,089	19,055	249,851
<u>25,333</u>	<u>350,242</u>	<u>26,781</u>	<u>25</u>	<u>68,326</u>	<u>527,469</u>
<u>\$ 17,165</u>	<u>\$ 554,213</u>	<u>\$ 32,081</u>	<u>\$ 7,114</u>	<u>\$ 87,381</u>	<u>\$ 777,320</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Position  
Nonmajor Proprietary Funds  
June 30, 2013

Statement B-1

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Assets</i>			
<i>Current assets</i>			
Accounts receivable	\$ 5,949	\$ -	\$ 5,949
Inventory	26,382	-	26,382
Due from other funds	429,845	3,536	433,381
<i>Total current assets</i>	<u>462,176</u>	<u>3,536</u>	<u>465,712</u>
<i>Noncurrent assets</i>			
Capital assets	455,892	-	455,892
Accumulated depreciation	(307,634)	-	(307,634)
<i>Total noncurrent assets</i>	<u>148,258</u>	<u>-</u>	<u>148,258</u>
<i>Total Assets</i>	<u>\$ 610,434</u>	<u>\$ 3,536</u>	<u>\$ 613,970</u>
<i>Liabilities and Net Position</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 8,010	\$ -	\$ 8,010
Accrued compensated absences current portion	3,359	-	3,359
<i>Total current liabilities</i>	<u>11,369</u>	<u>-</u>	<u>11,369</u>
<i>Noncurrent liabilities</i>			
Accrued compensated absences	8,056	-	8,056
<i>Total noncurrent liabilities</i>	<u>8,056</u>	<u>-</u>	<u>8,056</u>
<i>Total liabilities</i>	<u>19,425</u>	<u>-</u>	<u>19,425</u>
<i>Net position</i>			
Net investment in capital assets	148,258	-	148,258
Unrestricted net position	442,751	3,536	446,287
<i>Total net position</i>	<u>591,009</u>	<u>3,536</u>	<u>594,545</u>
<i>Total liabilities and net position</i>	<u>\$ 610,434</u>	<u>\$ 3,536</u>	<u>\$ 613,970</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement B-2

City of Lovington

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Proprietary Funds

For the Year Ended June 30, 2013

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues</i>			
Charges for services	\$ 576,209	\$ -	\$ 576,209
<i>Total operating revenues</i>	<u>576,209</u>	<u>-</u>	<u>576,209</u>
<i>Operating expenses</i>			
Personnel services	312,648	-	312,648
Contractual services	31,820	-	31,820
Supplies	29,264	-	29,264
Maintenance and materials	20,696	-	20,696
Depreciation	56,499	-	56,499
Miscellaneous	55,579	-	55,579
<i>Total operating expenses</i>	<u>506,506</u>	<u>-</u>	<u>506,506</u>
<i>Operating income (loss)</i>	<u>69,703</u>	<u>-</u>	<u>69,703</u>
<i>Non-operating revenues (expenses)</i>			
Miscellaneous	79	-	79
<i>Total non-operating revenues (expenses)</i>	<u>79</u>	<u>-</u>	<u>79</u>
<i>Change in net position</i>	<u>69,782</u>	<u>-</u>	<u>69,782</u>
<i>Net position, beginning of year</i>	<u>521,227</u>	<u>3,536</u>	<u>524,763</u>
<i>Net position, end of year</i>	<u>\$ 591,009</u>	<u>\$ 3,536</u>	<u>\$ 594,545</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, 2013

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities</i>			
Cash received from user charges	\$ 576,209	\$ -	\$ 576,209
Cash payments to employees for services	(309,289)	-	(309,289)
Cash payments to suppliers for goods and services	(124,755)	-	(124,755)
<i>Net cash provided (used) by operating activities</i>	<u>142,165</u>	<u>-</u>	<u>142,165</u>
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	5,702	-	5,702
Internal transfers and loans	(155,923)	-	(155,923)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>(142,165)</u>	<u>-</u>	<u>(142,165)</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)	\$ 69,703	\$ -	\$ 69,703
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	56,499	-	56,499
Changes in assets and liabilities			
Inventory	7,669	-	7,669
Accounts payable	4,935	-	4,935
<i>Net cash provided (used) by operating activities</i>	<u>\$ 142,165</u>	<u>\$ -</u>	<u>\$ 142,165</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Position  
Internal Service Funds- Proprietary Fund  
June 30, 2013

Statement C-1

	Unemployment Compensation	Pension	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 16,462	\$ 13,863	\$ 30,325
<i>Total current assets</i>	16,462	13,863	30,325
<i>Total Assets</i>	\$ 16,462	\$ 13,863	\$ 30,325
 <i>Liabilities and Net Position</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accrued payroll expenses	\$ -	\$ 5,424	\$ 5,424
<i>Total current liabilities</i>	-	5,424	5,424
<i>Total liabilities</i>	-	5,424	5,424
 <i>Net Position</i>			
Unrestricted net position	16,462	8,439	24,901
<i>Total net position</i>	16,462	8,439	24,901
<i>Total Liabilities and Net Position</i>	\$ 16,462	\$ 13,863	\$ 30,325

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 Position

Internal Service Funds- Proprietary Fund

For the Year Ended June 30, 2013

	Unemployment Compensation	Pension	Total
<i>Operating revenue</i>			
Charges for services	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	-	-	-
<i>Operating expense</i>			
Miscellaneous	14,066	-	14,066
<i>Total operating expenses</i>	14,066	-	14,066
<i>Operating income (loss)</i>	(14,066)	-	(14,066)
<i>Change in net position</i>	(14,066)	-	(14,066)
<i>Net position, beginning of year</i>	30,528	8,439	38,967
<i>Net position, end of year</i>	<u>\$ 16,462</u>	<u>\$ 8,439</u>	<u>\$ 24,901</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, 2013

	Unemployment Compensation	Pension	Total
<i>Cash flows from operating activities</i>			
Cash payments to employees for services	\$ -	\$ 5,424	\$ 5,424
Cash payments to suppliers for goods and services	(14,066)	-	(14,066)
<i>Net cash provided (used) by operating activities</i>	<u>(14,066)</u>	<u>5,424</u>	<u>(8,642)</u>
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	-	-	-
Internal transfers and loans	-	-	-
<i>Net cash provided (used) by noncapital financing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(14,066)	5,424	(8,642)
<i>Cash and cash equivalents - beginning of year</i>	<u>30,528</u>	<u>8,439</u>	<u>38,967</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 16,462</u>	<u>\$ 13,863</u>	<u>\$ 30,325</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>			
Operating income (loss)	\$ (14,066)	\$ -	\$ (14,066)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Changes in assets and liabilities			
Accrued payroll expenses	-	5,424	5,424
<i>Net cash provided (used) by operating activities</i>	<u>\$ (14,066)</u>	<u>\$ 5,424</u>	<u>\$ (8,642)</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, 2013

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	35,000	35,000	34,830	(170)
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>35,000</u>	<u>35,000</u>	<u>34,830</u>	<u>(170)</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	39,000	39,000	20,115	18,885
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>39,000</u>	<u>39,000</u>	<u>20,115</u>	<u>18,885</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(4,000)</u>	<u>(4,000)</u>	<u>14,715</u>	<u>18,715</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	4,000	4,000	-	(4,000)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>4,000</u>	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>
<i>Net change in fund balance</i>	-	-	14,715	14,715
<i>Fund balance - beginning of year</i>	-	-	62,437	62,437
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,152</u>	<u>\$ 77,152</u>
Net change in fund balance (Non-GAAP)				\$ 14,715
Adjustments to revenues for other receivables				2,616
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 17,331</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-2

City of Lovington

EMS Grant Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2013

	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	14,886	14,886	14,886	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>14,886</u>	<u>14,886</u>	<u>14,886</u>	<u>-</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	14,886	14,886	14,886	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>14,886</u>	<u>14,886</u>	<u>14,886</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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				-
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-3

City of Lovington

Fire Protection Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2013

	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	78,443	78,443	76,537	(1,906)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>78,443</u>	<u>78,443</u>	<u>76,537</u>	<u>(1,906)</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	62,443	62,193	60,287	1,906
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	16,000	16,250	16,250	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>78,443</u>	<u>78,443</u>	<u>76,537</u>	<u>1,906</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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 accounts payable				5,273
Net change in fund balance (GAAP basis)				<u>\$ 5,273</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, 2013

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	33,200	33,200	33,200	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>33,200</u>	<u>33,200</u>	<u>33,200</u>	<u>-</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	33,200	33,200	33,200	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,200</u>	<u>33,200</u>	<u>33,200</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<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>	-	-	17	17
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 17</u>
Net change in fund balance (Non-GAAP)				\$ -
No adjustments to revenues				-
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ -</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, 2013

	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	62,000	62,000	68,921	6,921
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>62,000</u>	<u>62,000</u>	<u>68,921</u>	<u>6,921</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	60,000	78,706	78,706	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>60,000</u>	<u>78,706</u>	<u>78,706</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>2,000</u>	<u>(16,706)</u>	<u>(9,785)</u>	<u>6,921</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(2,000)	16,706	-	(16,706)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(2,000)</u>	<u>16,706</u>	<u>-</u>	<u>(16,706)</u>
<i>Net change in fund balance</i>	-	-	(9,785)	(9,785)
<i>Fund balance - beginning of year</i>	-	-	21,100	21,100
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,315</u>	<u>\$ 11,315</u>
Net change in fund balance (Non-GAAP)				\$ (9,785)
Adjustments to revenue for taxes receivable				1,617
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ (8,168)</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, 2013

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	171,000	171,000	189,465	18,465
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>171,000</u>	<u>171,000</u>	<u>189,465</u>	<u>18,465</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>171,000</u>	<u>171,000</u>	<u>189,465</u>	<u>18,465</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(171,000)	(171,000)	-	171,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(171,000)</u>	<u>(171,000)</u>	<u>-</u>	<u>171,000</u>
<i>Net change in fund balance</i>	-	-	189,465	189,465
<i>Fund balance - beginning of year</i>	-	-	335,821	335,821
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 525,286</u>	<u>\$ 525,286</u>
Net change in fund balance (Non-GAAP)				\$ 189,465
Adjustments to revenues for taxes receivable				14,506
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 203,971</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-7

City of Lovington

Recreation Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2013

	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	2,500	2,500	3,569	1,069
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	2,000	2,000	-	(2,000)
<i>Total revenues</i>	<u>4,500</u>	<u>4,500</u>	<u>3,569</u>	<u>(931)</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	42,931	42,931	35,553	7,378
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>42,931</u>	<u>42,931</u>	<u>35,553</u>	<u>7,378</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(38,431)</u>	<u>(38,431)</u>	<u>(31,984)</u>	<u>6,447</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(1,569)	(1,569)	-	1,569
Transfers in	40,000	40,000	40,000	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>38,431</u>	<u>38,431</u>	<u>40,000</u>	<u>1,569</u>
<i>Net change in fund balance</i>	-	-	8,016	8,016
<i>Fund balance - beginning of year</i>	-	-	26,847	26,847
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,863</u>	<u>\$ 34,863</u>
Net change in fund balance (Non-GAAP)				\$ 8,016
Adjustments to revenues for accounts receivable				(71)
Adjustments to expenditures for accounts payable				(2,645)
Net change in fund balance (GAAP basis)				<u>\$ 5,300</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, 2013

	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	4,843	(3,157)
Federal capital grants	24,000	24,000	20,779	(3,221)
State operating grants	130,000	130,000	146,382	16,382
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>162,000</u>	<u>162,000</u>	<u>172,004</u>	<u>10,004</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	13,778	13,778	-	13,778
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>13,778</u>	<u>13,778</u>	<u>-</u>	<u>13,778</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>148,222</u>	<u>148,222</u>	<u>172,004</u>	<u>23,782</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(310,222)	(320,226)	-	320,226
Transfers in	-	-	-	-
Transfers out	162,000	172,004	(172,004)	(344,008)
<i>Total other financing sources (uses)</i>	<u>(148,222)</u>	<u>(148,222)</u>	<u>(172,004)</u>	<u>(23,782)</u>
<i>Net change in fund balance</i>	-	-	-	-
<i>Fund balance - beginning of year</i>	-	-	25	25
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 25</u>
Net change in fund balance (Non-GAAP)				\$ -
Adjustments to revenue for other receivables				7,089
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 7,089</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-9

City of Lovington

Designated Franchise Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2013

	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	56,000	56,000	51,419	(4,581)
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	40	600	28	(572)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>56,040</u>	<u>56,600</u>	<u>51,447</u>	<u>(5,153)</u>
<i>Expenditures</i>				
Current				
General government	33,855	33,855	33,784	71
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,855</u>	<u>33,855</u>	<u>33,784</u>	<u>71</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>22,185</u>	<u>22,745</u>	<u>17,663</u>	<u>(5,082)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(22,185)	(22,745)	-	22,745
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(22,185)</u>	<u>(22,745)</u>	<u>-</u>	<u>22,745</u>
<i>Net change in fund balance</i>	-	-	17,663	17,663
<i>Fund balance - beginning of year</i>	-	-	64,316	64,316
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,979</u>	<u>\$ 81,979</u>
Net change in fund balance (Non-GAAP)				\$ 17,663
Adjustments to revenues for taxes receivable				1,392
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 19,055</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement E-1

City of Lovington

Statement of Revenues, Expenses and Changes in Net Position

Budget (GAAP Basis) and Actual

Solid Waste Proprietary Fund

For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 93,000	\$ 93,000	\$ 1,881,176	\$ 1,788,176
<i>Total operating revenues</i>	<u>93,000</u>	<u>93,000</u>	<u>1,881,176</u>	<u>1,788,176</u>
<i>Operating expenses</i>				
Personnel services	55,808	74,438	72,246	2,192
Contractual services	1,714,749	1,695,859	1,617,504	78,355
Supplies	3,000	1,850	(16,158)	18,008
Maintenance and materials	18,000	378	377	1
Utilities	1,300	5,523	5,603	(80)
Other operating expenditures	1,800	16,609	16,640	(31)
<i>Total operating expenses</i>	<u>1,794,657</u>	<u>1,794,657</u>	<u>1,696,212</u>	<u>98,445</u>
<i>Operating income (loss)</i>	<u>(1,701,657)</u>	<u>(1,701,657)</u>	<u>184,964</u>	<u>1,886,621</u>
<i>Non-operating revenues (expenses)</i>				
Miscellaneous income	3,000	3,000	2,336	(664)
Transfers in	1,738,000	1,738,000	100,807	(1,637,193)
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>1,741,000</u>	<u>1,741,000</u>	<u>103,143</u>	<u>(1,637,857)</u>
<i>Change in net position</i>	<u>39,343</u>	<u>39,343</u>	<u>288,107</u>	<u>248,764</u>
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Net position, beginning of year</i>	-	-	1,342,095	1,342,095
<i>Net position, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,630,202</u>	<u>\$ 1,630,202</u>
Changes in net position above			\$ 288,107	
Depreciation			(9,771)	
Change in net position per Exhibit D-2			<u>\$ 278,336</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 Position

Budget (GAAP Basis) and Actual

Water &amp; Wastewater Proprietary Fund

For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variations Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 4,339,000	\$ 4,339,000	\$ 2,269,581	\$ (2,069,419)
<i>Total operating revenues</i>	<u>4,339,000</u>	<u>4,339,000</u>	<u>2,269,581</u>	<u>(2,069,419)</u>
<i>Operating expenses</i>				
Personnel services	844,165	850,322	859,043	(8,721)
Contractual services	36,000	49,899	64,717	(14,818)
Supplies	286,500	338,220	291,102	47,118
Maintenance and materials	370,267	344,630	357,201	(12,571)
Utilities	224,000	256,821	267,551	(10,730)
Other operating expenditures	1,011,995	944,167	64,028	880,139
<i>Total operating expenses</i>	<u>2,772,927</u>	<u>2,784,059</u>	<u>1,903,642</u>	<u>880,417</u>
<i>Operating income (loss)</i>	<u>1,566,073</u>	<u>1,554,941</u>	<u>365,939</u>	<u>(1,189,002)</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	3,400	3,400	3,813	413
Miscellaneous income	49,000	49,000	46,867	(2,133)
Interest expense	161,788	150,656	(158,633)	(309,289)
Rent and royalty income	-	-	131,203	131,203
Transfers out	1,738,000	1,738,000	(100,807)	(1,838,807)
<i>Total non-operating revenues (expenses)</i>	<u>1,952,188</u>	<u>1,941,056</u>	<u>(77,557)</u>	<u>(2,018,613)</u>
<i>Change in net position</i>	<u>3,518,261</u>	<u>3,495,997</u>	<u>288,382</u>	<u>(3,207,615)</u>
Designated cash (budgeted increase in cash)	<u>(3,518,261)</u>	<u>(3,495,997)</u>	<u>-</u>	<u>3,495,997</u>
<i>Net position, beginning of year</i>	<u>-</u>	<u>-</u>	<u>9,560,624</u>	<u>9,560,624</u>
<i>Net position, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,121,248</u>	<u>\$ 19,121,248</u>
Change in net position above			\$ 288,382	
Depreciation			<u>(951,264)</u>	
Change in net position per Exhibit D-2			<u>\$ (662,882)</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 Position

Budget (GAAP Basis) and Actual

Ambulance Proprietary Fund

For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 442,000	\$ 442,000	\$ 576,209	\$ 134,209
<i>Total operating revenues</i>	<u>442,000</u>	<u>442,000</u>	<u>576,209</u>	<u>134,209</u>
<i>Operating expenses</i>				
Personnel services	238,473	301,236	312,648	(11,412)
Contractual services	27,166	30,590	31,820	(1,230)
Supplies	44,800	24,215	29,264	(5,049)
Maintenance and materials	18,175	20,612	20,696	(84)
Utilities	-	-	-	-
Other operating expenditures	45,685	51,681	55,579	(3,898)
<i>Total operating expenses</i>	<u>374,299</u>	<u>428,334</u>	<u>450,007</u>	<u>(21,673)</u>
<i>Operating income (loss)</i>	<u>67,701</u>	<u>13,666</u>	<u>126,202</u>	<u>112,536</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	-	-	-	-
Miscellaneous income	70	70	79	9
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>70</u>	<u>70</u>	<u>79</u>	<u>9</u>
<i>Change in net position</i>	<u>67,771</u>	<u>13,736</u>	<u>126,281</u>	<u>112,545</u>
Designated cash (budgeted increase in cash)	<u>(67,771)</u>	<u>(13,736)</u>	<u>-</u>	<u>13,736</u>
<i>Net position, beginning of year</i>	<u>-</u>	<u>-</u>	<u>537,906</u>	<u>537,906</u>
<i>Net position, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 664,187</u>	<u>\$ 664,187</u>
Change in net position above			\$ 126,281	
Depreciation			<u>(56,499)</u>	
Change in net position per Statement B-2			<u>\$ 69,782</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 Position

Budget (GAAP Basis) and Actual

Capital Project Replace &amp; Repair Water Lines Proprietary Fund

For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variances
	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	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	-	-	-
<i>Change in net position</i>	-	-	-	-
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Net position, beginning of year</i>	-	-	3,536	3,536
<i>Net position, end of year</i>	\$ -	\$ -	\$ 3,536	\$ 3,536
Change in net position above			\$ -	
No depreciation			-	
Change in net position 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 Position  
 Budget (GAAP Basis) and Actual  
 Unemployment Compensation Fund Internal Service Fund  
 For the Year Ended June 30, 2013

	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	29,000	29,000	14,066	14,934
<i>Total operating expenses</i>	29,000	29,000	14,066	14,934
<i>Operating income (loss)</i>	(29,000)	(29,000)	(14,066)	14,934
<i>Non-operating revenues (expenses)</i>				
Interest income	-	-	-	-
Federal capital grants	800	800	-	(800)
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	800	800	-	(800)
<i>Change in net position</i>	(28,200)	(28,200)	(14,066)	14,134
Designated cash (budgeted increase in cash)	28,200	28,200	-	(28,200)
<i>Net position, beginning of year</i>	-	-	45,100	45,100
<i>Net position, end of year</i>	\$ (28,200)	\$ (28,200)	\$ 31,034	\$ 31,034
Change in net position above			\$ (14,066)	
No depreciation			-	
Change in net position per Statement C-2			\$ (14,066)	

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 Position  
 Budget (GAAP Basis) and Actual  
 Pension Internal Service Fund  
 For the Year Ended June 30, 2013

	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	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	-	-	-
<i>Change in net position</i>	-	-	-	-
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Net position, beginning of year</i>	-	-	8,457	8,457
<i>Net position, end of year</i>	\$ -	\$ -	\$ 8,457	\$ 8,457
Change in net position above			\$ -	
No depreciation			-	
Change in net position per Statement C-2			\$ -	

The accompanying notes are an integral part of these financial statements



## **SUPPORTING SCHEDULES**

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Collateral Pledged by Depository  
For Public Funds  
June 30, 2013

Schedule I

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market/Par Value at June 30, 2013	Location of Safekeeper
<b>Western Commerce Bank</b>					
	GNMA #004597	12/20/2039	36202FDA1	\$ 684,439	Federal Home Loan Bank, Dallas, TX
	FHLMC #G08473	1/1/2042	3128MJQ37	714,810	Federal Home Loan Bank, Dallas, TX
	FNMA #725946	11/1/2034	31402DP79	<u>469,823</u>	Federal Home Loan Bank, Dallas, TX
Total Western Commerce Bank				<u>1,869,072</u>	
<b>Lea County State Bank</b>					
	JEMEZ MTN NM PSD	11/1/2014	475865BC4	465,000	* Independent Bankers Bank, Dallas, TX
	ESPANOLA, NM PSD	7/1/2016	827513ET5	575,000	* Independent Bankers Bank, Dallas, TX
	ARTESIA WTR/SWR	6/1/2022	04310LAN0	695,000	* Independent Bankers Bank, Dallas, TX
	ALAMOGORDO JT/TWR	6/1/2023	011500GC3	200,000	* Independent Bankers Bank, Dallas, TX
	LOVING NM ISD	7/15/2020	547413CU6	500,000	* Independent Bankers Bank, Dallas, TX
	BERNALILLO NM MSD	8/1/2020	085279PY7	350,000	* Independent Bankers Bank, Dallas, TX
	RUIDOSO NM MSD	8/1/2021	781338HC5	<u>300,000</u>	* Independent Bankers Bank, Dallas, TX
Total Lea County State Bank				<u>3,085,000</u>	
<b>Wells Fargo Bank</b>					
	FNMA-PT	08/01/26	3138EGU69	103,947	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	05/01/43	3138WQA28	39,122	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	03/04/43	3138W7GG3	67,975	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	08/01/40	31418WPP9	4,402	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	01/01/43	3138NXEY9	57,761	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	02/01/43	3138WIJA6	24,136	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	02/01/43	31417FNF1	9,664	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	12/01/39	31419AGZ4	12,785	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	04/01/41	3138ABZW2	49,916	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	04/01/41	3138ADRV9	43,604	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	08/01/40	31418V4X7	16,613	Wells Fargo Bank, N.A., San Francisco, CA
	FNMA-PT	10/01/40	31368HNW9	<u>52,812</u>	Wells Fargo Bank, N.A., San Francisco, CA
Total Western Commerce Bank				<u>482,737</u>	
Total Pledged Collateral (Primary Government)				<u>\$ 5,436,809</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.

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2013

Bank Account Type/Name	Lea County State Bank	Wells Fargo Bank	Western Commerce Bank
<b>Deposits</b>			
General-Checking	\$ 5,979,099	\$ -	\$ -
Payroll-Checking	956	-	-
Lovington Economic Development Revolving Loan-Checking	7,891	-	-
Municipal Court-Checking	10,760	-	-
Municipal Court-Checking	3,597	-	-
Payroll-Checking	-	4,125	-
Senior Citizen's Supply Fund-Checking	-	15,887	-
Employee Pension-Checking	-	13,864	-
Motor Vehicle Department-Checking	-	1,335	-
Multipurpose Senior Center-Checking	-	25	-
Unemployment Compensation-Checking	-	16,462	-
Special Youth (Designated Franchise)-Checking	-	65,868	-
Lovington Fire Department-Checking	-	12,167	-
Wastewater Treatment Plant-Checking	-	538,772	-
CDBG Housing Rehab Project-Checking	-	5	-
Water and Wastewater-Checking	-	-	3,921,121
Wastewater Treatment Plant-Checking	-	-	104,962
Certificate of Deposit	-	-	25,012
Certificate of Deposit	-	-	39,041
Certificate of Deposit	-	-	16,017
Certificate of Deposit	-	-	-
Certificate of Deposit	-	-	-
Total amount of deposits in bank	<u>6,002,303</u>	<u>668,510</u>	<u>4,106,153</u>
Less: FDIC coverage	250,000	250,000	330,070
Total uninsured public funds	<u>5,752,303</u>	<u>418,510</u>	<u>3,776,083</u>
50% collateral requirements	2,876,152	209,255	1,888,042
Pledged securities	3,085,000	482,737	1,869,072
Over/(under) collateralized	<u>208,849</u>	<u>273,482</u>	<u>(18,970)</u>
<b>Bank balance</b>	6,002,303	668,510	4,106,153
Outstanding items	(105,748)	(3,625)	(6,973)
Deposits in transit	1,572	-	6,625
<b>Book balance</b>	<u>\$ 5,898,127</u>	<u>\$ 664,885</u>	<u>\$ 4,105,805</u>
<b>Investments</b>			
<i>New MexiGROW</i> - LGIP	\$ -	\$ -	\$ -
<i>New MexiGROW</i> - LGIP	-	-	-
<i>New MexiGROW</i> - LGIP	-	-	-
<i>New MexiGROW</i> - LGIP	-	-	-
	<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
\$ -	\$ -	\$ -	\$ 5,979,099
-	-	-	956
-	-	-	7,891
-	-	-	10,760
-	-	-	3,597
-	-	-	4,125
-	-	-	15,887
-	-	-	13,864
-	-	-	1,335
-	-	-	25
-	-	-	16,462
-	-	-	65,868
-	-	-	12,167
-	-	-	538,772
-	-	-	5
-	-	-	3,921,121
-	-	-	104,962
-	-	-	25,012
-	-	-	39,041
-	-	-	16,017
12,665	-	-	12,665
-	92,000	-	92,000
12,665	92,000	-	10,881,631
12,665	92,000	-	934,735
-	-	-	9,946,896
-	-	-	4,973,448
-	-	-	5,436,809
-	-	-	463,361
12,665	92,000	-	10,881,631
-	-	-	(116,346)
-	-	-	8,197
<u>\$ 12,665</u>	<u>\$ 92,000</u>	<u>\$ -</u>	<u>\$ 10,773,482</u>
\$ -	\$ -	\$ 309,247	\$ 309,247
-	-	17,956	17,956
-	-	14,963	14,963
-	-	58	58
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,224</u>	<u>342,224</u>
			3,075
			<u>\$ 11,118,781</u>
			\$ 5,987,539
			4,566,753
			397,305
			129,654
			37,530
			<u>\$ 11,118,781</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
For the Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 15,160	\$ 16,008	\$ 15,281	\$ 15,887
<i>Total assets</i>	<u>\$ 15,160</u>	<u>\$ 16,008</u>	<u>\$ 15,281</u>	<u>\$ 15,887</u>
Liabilities				
Deposits held and due to others	\$ 15,160	\$ 16,008	\$ 15,281	\$ 15,887
<i>Total liabilities</i>	<u>\$ 15,160</u>	<u>\$ 16,008</u>	<u>\$ 15,281</u>	<u>\$ 15,887</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,460	\$ 18,262	\$ 18,262	\$ 1,460
<i>Total assets</i>	<u>\$ 1,460</u>	<u>\$ 18,262</u>	<u>\$ 18,262</u>	<u>\$ 1,460</u>
Liabilities				
Deposits held and due to others	\$ 1,460	\$ 18,262	\$ 18,262	\$ 1,460
<i>Total liabilities</i>	<u>\$ 1,460</u>	<u>\$ 18,262</u>	<u>\$ 18,262</u>	<u>\$ 1,460</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 8,012	\$ 126	\$ 122	\$ 8,016
<i>Total assets</i>	<u>\$ 8,012</u>	<u>\$ 126</u>	<u>\$ 122</u>	<u>\$ 8,016</u>
Liabilities				
Deposits held and due to others	\$ 8,012	\$ 126	\$ 122	\$ 8,016
<i>Total liabilities</i>	<u>\$ 8,012</u>	<u>\$ 126</u>	<u>\$ 122</u>	<u>\$ 8,016</u>

See independent auditors' report

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,657	\$ 12,167	\$ 1,657	\$ 12,167
<i>Total assets</i>	<u>\$ 1,657</u>	<u>\$ 12,167</u>	<u>\$ 1,657</u>	<u>\$ 12,167</u>
Liabilities				
Deposits held and due to others	\$ 1,657	\$ 12,167	\$ 1,657	\$ 12,167
<i>Total liabilities</i>	<u>\$ 1,657</u>	<u>\$ 12,167</u>	<u>\$ 1,657</u>	<u>\$ 12,167</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 26,289	\$ 46,563	\$ 35,322	\$ 37,530
<i>Total assets</i>	<u>\$ 26,289</u>	<u>\$ 46,563</u>	<u>\$ 35,322</u>	<u>\$ 37,530</u>
Liabilities				
Deposits held and due to others	\$ 26,289	\$ 46,563	\$ 35,322	\$ 37,530
<i>Total liabilities</i>	<u>\$ 26,289</u>	<u>\$ 46,563</u>	<u>\$ 35,322</u>	<u>\$ 37,530</u>

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**COMPLIANCE SECTION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the City of Lovington, New Mexico (the “City”), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and the combining and individual funds and related budgetary comparisons of the City, presented as supplementary information. We have also audited the financial statements of each of the City’s nonmajor governmental funds and the budgetary comparisons of the proprietary funds and the remaining nonmajor governmental funds presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2008-01, FS 2008-05, FS 2009-02, FS 2010-03, FS 2012-03, FS 2013-02, FS 2013-03, HAFS 2008-01, HAFS 2012-01, HAFS 2013-01, HAFS 2013-02, and HAFS 2013-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2007-06, FS 2012-02, and HAFS 2012-03 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 responses as items FS 2011-06, FS 2013-01, and HAFS 2013-03.

## The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
November 25, 2013

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Findings and Responses  
June 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |           |
|--|-----------|
| 1. Type of auditors' report issued   | Qualified |
| 2. Internal control over financial reporting:                                    |           |
| a. Material weaknesses identified?   | Yes       |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes       |
| c. Noncompliance material to the financial statements noted?                     | No        |

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

**FS 2007-06 — Expenditures in Excess of Budget (Significant Deficiency)**

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

Ambulance Fund	\$ 21,673
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*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 of controls in the purchasing process which leads to unauthorized purchases being made with City money.

*Cause:* The City over expended its budget in the above fund because of inadequate monitoring of the budget.

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

*Views of Responsible Officials and Planned Corrective Action:* City staff will contact DFA to ensure that budget adjustments are carried out and adopted per their rules and regulations. We will obtain their direction in writing. Policy and procedures will be reviewed, updated, and implemented to ensure that the budget is appropriately monitored so that adjustments to the budget can be properly prepared and executed. The policy regarding expenditures will also be reviewed and modified as necessary to ensure that all expenditures are properly authorized.

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

**FS 2008-01 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.

- Material journal entries were required for cash and accounts receivable.
- 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.
- Capital asset listings are not periodically routed to the appropriate managers to determine whether the assets still physically exist.
- 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 during testwork of subsequent receipts, that six out of thirty nine transactions were not classified correctly as accounts receivable. These transactions total \$87,277.71.
- It was noted in testing the reconciliation of the utility receivable to the general ledger that the detail out of Incode did not agree with the general ledger balance by \$370,453.
- It was noted in the testing of the reconciliation of the utility receivable to the summary by book, that a year end detail aging report was not available for Book 6, and that the system could not recreate the report after year end.
- Management did not correctly prepare a compensated absences listing. When transferring information printed from the payroll system to an Excel Spreadsheet, there was a difference noted in deletions and total leave balances between the two reports. Vacation paid had a difference \$35,656, sick leave paid had a difference of \$81,704, and the total liability leave balance had a difference of \$61,550.
- It was noted during testwork for sick leave accrual that six employees out of 144 accrued more than the allotted amount during the year according to the City's personnel policy.
- It was noted during testwork for vacation leave accrual that 49 employees out of 144 accrued more than the allotted amount during the year according to the City's personnel policy.
- It was also noted during testwork for vacation leave accrual that three employees had a negative ending balance as of the year end for a total amount of \$1,005.
- It was noted during PERA reconciliation testwork that the September 24, 2012 PERA payment documentation was missing from the City's files. The total amount of this report was \$9,573.

*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.

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

**FS 2008-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight (Material Weakness)**  
**(continued)**

*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 2013 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 will develop a comprehensive internal control structure, to include written policies and procedures. After the development of the written policies and procedures, which will be approved by City Commission, department heads and management will be provided training on how this system will work. Oversight of our internal controls and financial reporting will require additional input and review by the City Commission. Federal and state grant expenses will be segregated in accordance with the grant agreement in either a separate fund or account. A list of federal awards will be maintained throughout the year. In the event there are no federal awards, it will be documented as such. With the hiring of the Assistant City Manager, documentation regarding the issue of determining whether a grant is federal or State will be maintained by this employee.



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

**FS 2008-05 – 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 support for \$481,495 of supporting documentation supporting this addition, is not consistent in the selection of useful lives for similar assets, and has not preformed an annual inventory as required by NMAC and 12-6-10(A) NMSA 1978.

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

Section 12-6-10 NMSA 1978 requires that the agency's capital asset inventory list any item costing more than \$5,000, effective June 17, 2005. Per guidance from the State Auditor dated September 8, 2006, the older capital asset items that did not meet the new capitalization threshold were supposed to remain on the list until they are disposed of in accordance with applicable statutes.

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

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

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

*Views of Responsible Officials and Planned Corrective Action:* The City will develop a written policy, approved by Commission, which specifies how, when, and what will be inventoried. Once this policy is approved, it will be implemented and all department heads and appropriate staff will receive training in reference to this policy. A full inventory of our capital assets will be performed and compared to the existing inventory listing. Items not meeting the new capitalization threshold will be removed from the list and disposed of if necessary in accordance with applicable statutes. The policy will incorporate clear lines of responsibility and a process that will be followed in order to create strong internal controls for the management and monitoring of the City capital asset listing.

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

**FS 2009-02- DFA Cash Report Does not Reconcile to the City’s Cash (Material Weakness)**

*Condition:* For the year ended June 30, 2013, 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 \$3,541 were not reported to the Department of Finance and Administration (DFA). The City book balances from the DFA report are off by \$113,586.

*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 communicate with DFA and obtain written direction regarding the requirements for reporting cash balances.

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

**FS 2010-03—Cash Activity Not Recorded (Material Weakness)**

*Condition:* Cash per the general ledger did not tie to cash per the bank reconciliations at June 30, 2013 by \$1,391.

The City did not record all bank accounts in their general ledger system. The City had a total cash balance reported of \$10,951,822 on their books when it should have been reporting \$10,590,431. The City's cash report submitted to the Department of Finance and Administration for the period ending June 30, 2013 did not tie to their reconciled cash balances by \$113,586.

*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 misstated at June 30, 2013.

*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:* Internal controls will be strengthened through the review, modification, and creation of written policy and procedures regarding cash. All staff will be provided training regarding this issue and the City will ensure that they clearly understand the process.

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

**FS 2011-06—Procurement Code – Bids (Other)**

*Condition:* During our procurement and capital asset testwork we noted the following items:

- Two (2) instances out of three (3) where the bids/proposals were not properly accompanied by the Campaign Contribution Disclosure Form.
- One (1) bid where resident business certificates were present, the City did not calculate the preferred 5% in-state preference before awarding the bid.
- During review of the asset listings for additions, it was noted that there were assets added to the listing that were over the bid threshold that were not included in the bid listing.

*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 be creating a checklist to supplement our existing procurement policy that will ensure that all required information is included in the bid file. In addition, the checklist will clearly outline the procurement process and will require review and verification by management. The City procurement policy will be updated to reflect these changes, as well as State requirements. Once these changes have been made, review and approval will be provided by City Commission.

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

**FS 2012-02 Stale Dated Transactions Not Cancelled (Significant Deficiency)**

*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, 2013. 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 City will implement a policy that will outline procedures to review check listings of all accounts and track stale-dated checks. This policy will state that if the check listing(s) are greater than one year old, the check(s) will be voided. City staff will also report, as required, to the NM Taxation and Revenue Department – Property Division.

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

**FS 2012-03 Pledged Collateral (Material Weakness)**

*Condition:* Deposits at Western Commerce Bank were not collateralized in accordance with State of New Mexico Statutes. The required collateral was \$1,888,042. The collateral provided by the banks was \$1,869,072, resulting in a shortfall of \$18,970.

*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 develop and implement a policy which will assign the Finance Director the responsibility of reviewing monthly collateral reports and investigating any discrepancies. In the event a discrepancy is found, the Finance Director will contact the banking institution in writing to notify them that the issue must be corrected and to provide the City with documentation as to how the shortfall occurred.

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

**FS 2013-01 Capital Asset Certification (Other)**

*Condition:* It was noted in the testwork over capital assets that the client did not conduct an annual capital asset inventory that was recorded in a written report, certified as to correctness and signed by the City Council.

*Criteria:* The New Mexico Administrative Code (NMAC) 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”.

*Effect:* Because the City is not conducting a physical inventory annually the City may have assets they are unaware of or may have assets that have been lost or stolen that they did not know about.

*Cause:* The City did not perform an annual inventory count and have it certified by the council.

*Auditors’ Recommendation:* The City should ensure that they perform an annual physical inventory over capital assets and have the City Council certify the inventory as to correctness.

*Views of Responsible Officials and Planned Corrective Actions:* The City, as a result of the implementation of the inventory policy and procedures, will conduct at a minimum an annual physical inventory of capital assets and receive certification by the City Commission that the inventory is correct.

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

**FS 2013-02 Capital Assets Additions, Repairs, & Maintenance (Material Weakness)**

*Condition:* The City is not accurately maintaining their capital asset inventory. Through review of the repairs and maintenance expenditures, it was noted that the City had items over the \$5,000 threshold that were not included on the capital asset listings.

*Criteria:* Per section 2.20.1.10 of NMAC, capital assets acquired through purchase shall be recorded at cost. Capital assets include assets constructed by agency personnel. Per Section 2.20.1.14 of NMAC, repairs and maintenance on capital assets which are routine and necessary for continued, safe, and productive operation, should be charged to maintenance expense in the period in which they occur. GASB 34 paragraph 20 requires capital assets to be reported, net of accumulated depreciation, in the statement of net position. Section 12-6-10, NMSA 1978, requires all agencies to conduct a physical inventory of their capital assets inventory at the end of each fiscal year. Section 12-6-10, NMSA 1978 also changed the capitalization threshold to items that cost more than \$5,000, effective June 17, 2005.

*Effect:* The City could misstate the value of their capital assets which could materially misstate the financial statements. The City could also expense capital assets instead of account for the assets and track depreciation as required by GASB 34.

*Cause:* The City does not have adequate internal controls to verify that capital assets are being accounted for and capitalized accurately.

*Auditors' Recommendations:* The City should conduct an annual physical inventory of its capital assets as required by statute. The County should implement internal controls to verify that all capital assets are added to the capital asset inventory correctly.

*Views of Responsible Officials and Planned Corrective Actions:* The implementation of the inventory policy and procedures will ensure that an annual physical inventory of capital assets is performed. A key piece of the policy and procedures will be a process that will ensure that assets are added to the capital asset inventory correctly.



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

**FS 2013-03 Internal Control over Consumable Inventory (Material Weakness)**

*Condition:* During our testwork of consumable inventory we noted that the City had a lack of control over the count procedures and valuation. There are no documented procedures for controlling, counting, or valuing inventory.

*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.

*Effect:* Inventory could be materially misstated in the City's individual funds. Inventory could be missing but still recorded on the City's records due to lack of proper monitoring of inventory. Inventory could be overstated if defective or obsolete items are not properly deleted from the list and disposed of.

*Cause:* The City does not have documented internal control procedures over inventory that are sufficient to accurately track, value and safeguard the inventory of the City.

*Auditors' Recommendation:* We recommend that the City document in their policy and procedures manual internal control procedures over consumable inventory. We recommend that the City perform an accurate inventory count at year end and update their prices on the count sheets. We also recommend that the City limit access to the inventory in order to safeguard it from loss.

*Views of Responsible Officials and Planned Corrective Actions:* The inventory policy and procedure will clearly identify the steps and requirements necessary to track consumable inventory as well as information required. Access to consumable inventory will be limited by each department head, who will create department specific policies and procedures.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

**HAFS 2008-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight (Material Weakness)**

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

- There is inadequate segregation of duties.
- The governing body does not have a financial expert on the Board to effectively oversee the financial reporting process
- The fee accountant used by the Authority did not create an accurate accounts receivable listing. One entry was needed to remove \$26,310 from the accruals in the Low Rent Public Housing Program, and additional accruals of \$24,320 were needed in the Public Housing Capital Fund Program to reasonably state the year end balance.

*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. Accounts receivable will be discussed with the fee accountant to get corrected.

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

**HAFS 2012-01 Deficiencies in Accounting for Capital Assets (Material Weakness)**

*Condition:* The fee accountant used by the Authority is not properly accounting for Authority capital assets. During the capital asset testwork, it was noted that asset additions of \$3,396 for assembly of equipment was not included in the capital asset subledger listing. Therefore, depreciation of \$226 was not calculated on the addition according to the estimated useful lives established by the Housing Authority.

*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:* Adequate records are not being kept to ensure that all information is complete and accurate at any given point in time.

*Auditors' Recommendations:* We recommend that the Authority ensure that all depreciation is being calculated on assets at the correct amount each year and that each asset is accounted for in the capital asset subledger listing.

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

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

**HAFS 2012-03 Information System Disaster Recovery Policy (Significant Deficiency)**

*Condition:* The Authority does not have an approved information system disaster recovery of technology plan should a disaster occur at the entity.

*Criteria:* Information system controls require that a comprehensive plan and procedures be documented in a place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help ensure the best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

*Effect:* System usage could be impaired or rendered useless for a significant period of time, which could severely impact the Authority's ability to conduct daily operations. Additionally, productivity and effectiveness may be increased with sound information system and technology planning.

*Cause:* The Authority had not approved and implemented a disaster recovery plan in the current year.

*Auditors' Recommendations:* The Authority should adopt a disaster recovery plan that would provide procedures and processes for appropriate computer locations. The plan should address items not limited to: system redundancy, data storage, system firewall monitoring, back-up systems, restoration, contact personnel, and vendors. The adopted plan should be tested and communicated to all necessary parties. Annually, the plan should be assessed by information system personnel for content and revised with approvals when appropriate or necessary.

*Views of Responsible Officials and Planned Corrective Actions:* The Executive Director has implemented a monthly procedure in which all QuickBooks, HUD FRS system, and Register information is downloaded onto a flash drive and taken from the Housing Authority office and placed into a secure enclosure at Western Commerce Bank in Lovington, New Mexico

The Authority has also communicated with City of Lovington personnel to have their IT personnel review the system's content and review the Authority's computer system to identify and correct any problem areas that should be addressed.

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

**HAFS 2013-01 Deficiencies in Internal Control Over Journal Entries (Material Weakness)**

*Condition:* The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- There is no review process for journal entries prepared by the fee accountant at the Housing Authority.
- Journal entry numbers in supporting documentation maintained by the fee accountant are not consistent in the general ledger.
- During the journal entry testwork, it was noted in seven out of 10 samples for an amount of \$85,653.68 that no supporting documentation maintained by the fee accountant was included to support the entry. In four of these samples for a total amount of \$24,720.32, a calculation was included, but there was no justification for the amounts.
- During the accounts receivable testwork, it was noted in five out of 20 journal entry samples tested that supporting documentation maintained by the fee accountant was not included to support the receipt amount. These samples relate to the tenant receivables of \$1,107 recorded in the trial balance. The transactions could not be confirmed whether or not they were included in the accounts receivable accrual due to the insufficient documentation.

*Criteria:* As required by NMSA 1978 Section 6-6-3, the Housing Authority should design and maintain an internal control structure that enables it to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Under SAS 112, the internal control and financial reporting process should have adequate oversight provided by the body charged with governance.

*Effect:* Because there is not an adequate internal control structure or oversight by the governing body, complete and accurate financial data cannot be verified, assets are not properly safeguarded, reconciliations are not performed, or at a minimum not performed on a timely basis, and adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

*Cause:* For the fiscal year 2013 management and the body charged with governance did not have expertise and/or training to implement an adequate internal control structure.

*Auditors' Recommendations:* The Housing 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. Additionally, the Housing Authority should review and approve all journal entries done by the fee accountant each month as well as include all supporting documentation for each receipt or expenditure.

*Views of Responsible Officials and Planned Corrective Actions:* The Executive Director will be in contact with their fee accountant in order to resolve the issues mentioned above. He plans on working closely with the fee accountant to ensure that all recommended procedures in regards to journal entry documentation and verification are followed. In addition, the Executive Director plans to implement a process where he will review all journal entries from the fee accountant.

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

**HAFS 2013-02 Voided and Stale Dated Checks (Material Weakness)**

*Condition:* The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- When it is necessary to void a check, the check should be voided both physically and in the accounting system. When attempting to perform testwork on voided checks, the auditors were unable to obtain a voided check listing from the accounting system that is maintained by the fee accountant. This would indicate that checks are not being properly voided in the system.
- During review of bank reconciliations prepared by the fee accountant, it was noted that two checks totaling \$32.74 were included on the reconciliation that were more than a year old.

*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 voiding the checks are not designed, implemented and operating effectively, an entity’s ability to prevent or detect fraud or mistakes is limited.

*Cause:* Checks are not being voided in the accounting system, and no policy is in place to void checks after a certain period of time has passed.

*Auditors’ Recommendations:* The Authority should ensure that when a check must be physically voided, it is also voided within the accounting system. This will ensure that a record is left of the check being voided and not appear that the check did not exist. The Authority should establish a policy to void checks after a certain period of time, not to exceed one year from the date the check was written.

*Views of Responsible officials and Planned Corrective Actions:* This finding will be resolved by ensuring that each voided check will also reflect as being voided in the accounting system. The Executive Director does not have any knowledge of the mentioned “stale” checks for \$32.74 but will ensure this will not occur again, and that it is properly documented and accounted for.

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

**HAFS 2013-03 Inconsistency in Allowance For Tenant Receivables (Other)**

*Condition:* During the current year in the accounts receivable testwork, it was noted that the estimation for the allowance of tenant receivables as recorded by the fee accountant has not been consistent from year to year. In 2011, the allowance was estimated as 100% uncollectable. In 2012, it was estimated to be 83%. Now, in 2013, it has been estimated to be 0%. Based on client documentation, the average of historical data over the last five years estimates a 3% allowance.

*Criteria:* Statement on Auditing Standards No. 57 documents that management is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. Estimates should be presented in conformity with applicable accounting standards and be consistent from year to year.

*Effect:* Because the allowance is not being calculated in a consistent manner, management is unsure how much of tenant receivables are expected to be reasonably collected from year to year.

*Cause:* For the current year, management did not estimate the allowance in a reasonable manner.

*Auditors' Recommendations:* The Authority should ensure that historical calculations are being maintained in order to better estimate the percentage that is expected to be uncollectible. This calculation should be used consistently from year to year until a determination is made to reevaluate.

*Views of Responsible Officials and Planned Corrective Actions:* This is another area which will be reviewed with the Authority's fee accountant in order to address and correct the problem.

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

**HAFS 2013-04 Capital Asset Certification (Material Weakness)**

*Condition:* It was noted in the testwork over capital assets that the client did not conduct an annual capital asset inventory that was recorded in a written report, certified as to correctness and signed by the Authority board.

*Criteria:* The New Mexico Administrative Code (NMAC) 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”.

*Effect:* Because the Authority is not conducting a physical inventory annually the Authority may have assets they are unaware of or may have assets that have been lost or stolen that they did not know about.

*Cause:* The Authority did not perform an annual inventory count and have it certified by the board.

*Auditors’ Recommendations:* The Authority should ensure that they perform an annual physical inventory over capital assets and have the Authority board certify the inventory as to correctness.

*Views of Responsible Officials and Planned Corrective Actions:* The Authority will correct this problem by conducting an annual inventory and having it certified by the board. This will be addressed with the Authority’s fee accountant as well.



D. **PRIOR YEAR AUDIT FINDINGS**

**Primary Government:**

2007-2 – Preparation of Financial Statements – Resolved

FS 07-06 – Expenditures in Excess of Budget – Revised and Repeated

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

FS 08-05 – Capital Assets – Revised and Repeated

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 11-05 – Public Money – Resolved

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

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

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

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

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

FS 12-01 – Budget Adjustment Requests – Resolved

FS 12-02 – Stale Dated Transactions Not Cancelled – Revised and Repeated

FS 12-03 – Pledged Collateral – Revised and Repeated

FS 12-04 – Late Audit Report - Resolved

FA 11-01 – Internal Control over Compliance with Federal Awards – Resolved

**Component Unit:**

HAFS 2007-02 Preparation of Financial Statements- Resolved

HAFS 2008-01 Deficiencies in Internal Control Structure, Design, Operation, and Oversight- Revised and Repeated

HAFS 2011-01 Actual Expenditures Exceed Budgeted Expenditures- Resolved

HAFS 2011-02 Voided Checks- Resolved

HAFS 2012-01 Deficiencies in Accounting for Capital Assets- Revised and Repeated

HAFS 2012-02 Computer Controls- Resolved

HAFS 2012-03 Information Security Disaster Recovery Policy- Revised and Repeated

**STATE OF NEW MEXICO**

City of Lovington

Other Disclosures

June 30, 2013

**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 25, 2013. The following individuals were in attendance.

City of Lovington

Dixie Drummond, Mayor

Mashell Stephens, Finance Director

James Williams, City Manager

Jared Cobb, Assistance City Manager

Accounting & Consulting Group, LLP

Cindy Bryan, *Partner*

Shelley Olson, *Supervisor*