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State of New Mexico
City of Lovington
Annual Financial Report
June 30, 2014

STATE OF NEW MEXICO
CITY OF LOVINGTON
ANNUAL FINANCIAL REPORT
JUNE 30, 2014

INTRODUCTORY SECTION

STATE OF NEW MEXICO

City of Lovington

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City of Lovington

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STATE OF NEW MEXICO

City of Lovington

Official Roster

June 30, 2014

Name

City Council Members

Title

Scott Gandy

Mayor

Ava Bengé

Mayor-Pro Tem

Bernard Butcher

Commissioner

David Trujillo

Commissioner

Paul Campos

Commissioner

Administrative Officials

James Williams

City Manager

Jared Cobb

Assistant City Manager

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
To the Honorable Mayor and City Commissioners
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, 2014, 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, nonmajor proprietary funds, internal service funds, fiduciary funds, and the budgetary comparisons of the major proprietary funds and all nonmajor 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, 2014 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 control procedures and accounting records relating to the City's consumable inventory accounts as of and for the year ended June 30, 2014. 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, 2014. 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" paragraph, 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, 2014, 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" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund, nonmajor proprietary fund, internal service funds, and fiduciary funds of the City as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the proprietary funds and all nonmajor governmental funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 13 through 19 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 required by 2.2.2 NMAC and are presented for purposes of additional analysis. They 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 21, 2014 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 21, 2014

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STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2014

As management of the City of Lovington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements of the City of Lovington and additional information provided.

Financial Highlights

- The assets of the City of Lovington exceeded its liabilities at the close of the most recent fiscal year by \$39,596,342 (*net position*). Of this amount, \$10,099,773 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$330,133. The decrease can be attributed to the elimination of prior year assets and the reduction of anticipated state funding.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,363,095, an increase of \$703,218 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,352,699 or 62.82% of total general fund expenditures.
- The City's total debt decreased by \$394,739 (4.81%) during the current fiscal year due to payments on the outstanding principal balance.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City can include general government, public safety, public works, health and welfare, and culture and recreation. The business-type activities of the City include solid waste, water & wastewater, ambulance, and capital project replace & repair water lines utility.

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

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

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

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

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

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

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

Proprietary Funds. The City of Lovington maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lovington uses enterprise funds to account for its solid waste, water & wastewater, ambulance, and capital project replace & repair water lines funds. *Internal service funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lovington uses internal service funds to account for unemployment compensation and pension funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste and water & wastewater utility, both of which are considered major funds of the City of Lovington.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-57 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 64-89 of this report.

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lovington, assets exceeded liabilities by \$39,596,342 at the close of the most recent fiscal year.

The largest portion of the City of Lovington's net position (\$27,495,181 or 69.44%) reflect its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, furniture, vehicles, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2014 and June 30, 2013.

CITY OF LOVINGTON'S NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current Assets	\$ 8,988	\$ 7,636	\$ 5,449	\$ 5,406	\$ 14,437	\$ 13,042
Noncurrent assets other than capital assets	-	-	449	406	449	406
Capital assets, net	19,752	21,106	15,557	15,903	35,309	37,009
Total assets	<u>28,740</u>	<u>28,742</u>	<u>21,455</u>	<u>21,715</u>	<u>50,195</u>	<u>50,457</u>
Current liabilities	876	531	1,456	763	2,332	1,294
Noncurrent liabilities	334	393	7,931	8,284	8,265	8,677
Total liabilities	<u>1,210</u>	<u>924</u>	<u>9,387</u>	<u>9,047</u>	<u>10,597</u>	<u>9,971</u>
Net investment in capital assets	19,752	21,106	7,744	7,695	27,496	28,801
Restricted	2,001	777	-	-	2,001	777
Unrestricted	5,776	5,935	4,323	4,973	10,099	10,908
Total net position	<u>\$ 27,529</u>	<u>\$ 27,818</u>	<u>\$ 12,067</u>	<u>\$ 12,668</u>	<u>\$ 39,596</u>	<u>\$ 40,486</u>

An additional portion of the City of Lovington's net position of \$2,001,388 (5.05%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$10,099,773 or 25.51%) may be used to meet the City's ongoing obligations to citizens and creditors.

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

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Governmental Activities. Governmental activities increased the City of Lovington's net position by \$75 (in thousands). Key elements of this increase are as follows:

- Revenues were up \$964 (in thousands), with \$549 (in thousands) of this increase due to increases in gross receipts taxes.
- Other revenues were up by \$614 (in thousands) of which \$581(in thousands) were received from insurance payment for hail damage.

Business-Type Activities. Business-type activities decreased the City's net position by \$1,076 (in thousands). Key elements of this decrease are as follows:

- Revenues decreased by \$89 (in thousands) while expenditures increased by \$945 (in thousands).

CHANGES IN CITY OF LOVINGTON'S NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Taxes	\$ 9,809	\$ 9,260	\$ -	\$ -	\$ 9,809	\$ 9,260
Intergovernmental	846	1,026	27	-	873	1,026
Charges for services	320	339	5,289	5,226	5,609	5,565
Other	945	331	5	184	950	515
Total revenues	11,920	10,956	5,321	5,410	17,241	16,366
Expenses						
General government	3,435	3,148	-	-	3,435	3,148
Public safety	3,930	3,346	-	-	3,930	3,346
Public works	1,560	1,495	-	-	1,560	1,495
Health and welfare	45	260	-	-	45	260
Culture and recreation	2,232	1,546	-	-	2,232	1,546
Conservation and development	197	2	-	-	197	2
Solid waste	-	-	1,817	1,706	1,817	1,706
Water & wastewater	-	-	3,928	3,014	3,928	3,014
Ambulance	-	-	427	507	427	507
Capital projects repaid & replace	-	-	-	-	-	-
Total expenses	11,399	9,797	6,172	5,227	17,571	15,024
Transfers	(446)	-	446	-	-	-
Changes in net position	\$ 75	\$ 1,159	\$ (405)	\$ 183	\$ (330)	\$ 1,342

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$8,363,095 an increase of \$703,218 in comparison with the prior year. Approximately 75.96% of this total amount, \$6,352,699, constitutes *unassigned fund balance*, which is available for spending at the City's discretion. Approximately 22.58% of the total amount, \$1,888,418 is *restricted for subsequent year's* expenditures, which have externally enforceable limitations imposed on the spendable fund balance. The remaining \$121,978 or approximately 1.46% is *nonspendable fund balance*.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance totaled \$6,474,677, of which \$6,352,699 was unassigned. This represents 62.82% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$2,075,801 during the current fiscal year.

Proprietary Funds. The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the four proprietary funds at the end of the year amounted to \$12,066,858 a decrease of \$404,911 from the prior fiscal year.

General Fund Budgetary Highlights

There were amendments to the City of Lovington's fiscal year 2014 operating and capital budget. A statement reporting the original and final budget amount compared to the City's actual financial activity for the general fund is provided in this report at Exhibit C-1.

There was an unfavorable variance of \$262,977 in the general fund revenues. This was primarily due to a favorable variance of \$12,500 in gross receipts tax, an unfavorable variance of \$272,848 in charges for services and \$3,073 in federal operating grants.

The net favorable variance of \$386,027 in general fund expenditures was primarily due to not expending all the funds budgeted. There was \$73,395 expended over the budget in the general government function, while \$15,332 was not expended in the public safety function, \$58,561 was not expended in the public works function, \$17,724 was not expended in the culture and recreation function, and \$367,805 was not expended in the capital outlay function.

STATE OF NEW MEXICO
City of Lovington
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For the Year Ended June 30, 2014

Capital Asset and Debt Administration

Capital Assets. The City of Lovington's investment in capital assets for its governmental and business type activities as of June 30, 2014 amounts to \$35,308 (in thousands, net of accumulated depreciation). This investment in capital assets includes land, land-right of ways, land improvements, library collection, historical treasures, buildings and improvements, computers, machinery and equipment, furniture and fixtures, vehicles, and infrastructure.

The significant additions to capital assets during the year were as follows:

- \$251,818 for purchase of Lea Theater
- \$106,455 for new parks Restrooms and Concession
- \$108,839 for purchase of 2015 International 7400 in parks division
- \$308,373 for purchase of Wash Truck

The significant deletions of capital assets during the year were as follows:

- \$100,455 Public Building
- \$199,800 Vacuum Truck
- \$ 98,008 2006 Ford E450 Ambulance

CITY OF LOVINGTON CAPITAL ASSETS
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 139	\$ 139	\$ -	\$ -	\$ 139	\$ 139
Construction in progress	310	-	-	-	310	-
Infrastructure	18,426	18,428	1,610	1,528	20,036	19,956
Buildings and improvements	13,454	13,314	23,925	23,928	37,379	37,242
Library collection	1,631	1,631	-	-	1,631	1,631
Machinery and equipment	2,456	2,749	3,172	3,113	5,628	5,862
Vehicles	2,616	2,483	936	915	3,552	3,398
Total capital assets	39,032	38,744	29,643	29,484	68,675	68,228
Less: accumulated depreciation	19,281	18,339	14,086	13,382	33,367	31,721
Capital assets, net	\$ 19,751	\$ 20,405	\$ 15,557	\$ 16,102	\$ 35,308	\$ 36,507

Additional information on the City of Lovington's capital assets can be found in Notes 1 and 6 on pages 43 and 49-51 of this report.

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Debt Administration. At the end of the current fiscal year, the City of Lovington had total debt from outstanding loans of \$7,813,170, which is secured by Water and Wastewater operating revenues.

CITY OF LOVINGTON LONG-TERM DEBT
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Loans	\$ -	\$ -	\$ 7,813	\$ 8,208	\$ 7,813	\$ 8,208
Total debt outstanding	\$ -	\$ -	\$ 7,813	\$ 8,208	\$ 7,813	\$ 8,208

State statutes currently limit the amount of general obligation debt the City may issue up to 4.00% of its total assessed valuation for general purposes. Additional information on the City of Lovington's debt can be found in Note 7 on pages 51-53 of this report.

Economic Factors and Next Year's Budget

The City of Lovington is located in Lea County, New Mexico. Our municipality, which serves as the County Seat is located in the southeastern corner of the State of New Mexico. With our economy based predominately upon the revenues generated by the petroleum industry, the entire area is on the forefront of production of energy from other natural resources (wind, nuclear, solar, and biological). Unemployment, when compared with State and National rates, is considerably lower (4%) which is actually considered to be full employment. The increase in petroleum exploration, production, and its associated services has been relatively stable the past several years and has contributed to consistent revenue growth.

City staff have been diligently working to resolve prior year(s) audit findings so that accurate reporting of the City's financial position can be a possible and in compliance with GAAP. Efforts to reach this goal have included implementation of policies, procedures, additional training of staff, use of technology, and the hiring of an experienced government finance officer. To preserve the City's financial resources, management has also made it a priority to ensure that an equipment replacement program is implemented so that higher quality and more efficient equipment is purchased to replace antiquated items.

Although our economy has remained stable and is giving the appearance of tremendous growth, management is taking the stance of conservative budgeting. In next year's budget, City efforts will be focused on infrastructure and capital improvement projects, realignment of staff for increased efficiency, new business recruitment through joint efforts with our economic development partners, and quality of life enhancements.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Lovington, 214 South Love Street, PO Box 1269 Lovington NM 88260.

Component Unit

Complete financial statements for the City of Lovington Housing Authority can be obtained from the Finance Director at the City of Lovington's office at the address above.

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO

City of Lovington

Statement of Net Position

June 30, 2014

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Housing Authority
Assets				
Current assets				
Cash and cash equivalents	\$ 6,573,757	\$ 4,232,326	\$ 10,806,083	\$ 170,855
Investments	397,374	129,654	527,028	36,591
Receivables				
Taxes receivable	1,573,502	-	1,573,502	-
Other receivables	321,026	978,196	1,299,222	56,258
Prepays	-	-	-	1,610
Inventory	121,978	108,662	230,640	9,398
Total current assets	<u>8,987,637</u>	<u>5,448,838</u>	<u>14,436,475</u>	<u>274,712</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	448,864	448,864	10,775
Capital assets	39,032,843	29,642,455	68,675,298	2,629,644
Less: accumulated depreciation	<u>(19,281,198)</u>	<u>(14,085,749)</u>	<u>(33,366,947)</u>	<u>(1,692,290)</u>
Total noncurrent assets	<u>19,751,645</u>	<u>16,005,570</u>	<u>35,757,215</u>	<u>948,129</u>
Total assets	<u>\$ 28,739,282</u>	<u>\$ 21,454,408</u>	<u>\$ 50,193,690</u>	<u>\$ 1,222,841</u>

The accompanying notes are an integral part of these financial statements

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Housing Authority
Liabilities				
Current liabilities				
Accounts payable	\$ 316,084	\$ 899,038	\$ 1,215,122	\$ 43,077
Accrued payroll expenses	272,334	31,565	303,899	21,479
Accrued interest	-	72,883	72,883	-
Accrued compensated absences	287,777	50,481	338,258	1,830
Current portion of notes and loans payable	-	402,171	402,171	-
Total current liabilities	876,195	1,456,138	2,332,333	66,386
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	10,775
<i>Total current liabilities (payable from restricted assets)</i>	-	-	-	10,775
Noncurrent liabilities				
Accrued compensated absences	333,603	71,549	405,152	-
Customer deposits	-	448,864	448,864	-
Notes and loans payable	-	7,410,999	7,410,999	-
Total noncurrent liabilities	333,603	7,931,412	8,265,015	-
Total liabilities	1,209,798	9,387,550	10,597,348	77,161
Net Position				
Net investment in capital assets	19,751,645	7,743,536	27,495,181	937,354
Restricted for				
Tenant deposits	-	-	-	10,775
Special revenue	2,001,388	-	2,001,388	-
Unrestricted	5,776,451	4,323,322	10,099,773	197,551
Total net position	27,529,484	12,066,858	39,596,342	1,145,680
Total liabilities and net position	\$ 28,739,282	\$ 21,454,408	\$ 50,193,690	\$ 1,222,841

STATE OF NEW MEXICO
City of Lovington
Statement of Activities
For the Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
General government	\$ 3,434,899	\$ 315,942	\$ 502,215	\$ -
Public safety	3,929,850	-	74,686	88,800
Public works	1,560,260	-	-	-
Health and welfare	45,367	-	-	-
Culture and recreation	2,232,100	3,684	146,756	34,011
Conservation and development	196,656	-	-	-
<i>Total governmental activities</i>	<u>11,399,132</u>	<u>319,626</u>	<u>723,657</u>	<u>122,811</u>
Business-type Activities				
Solid Waste	1,816,772	2,140,231	-	-
Water and Wastewater	3,928,171	2,582,802	-	26,975
Ambulance	427,249	566,465	-	-
<i>Total business-type activities</i>	<u>6,172,192</u>	<u>5,289,498</u>	<u>-</u>	<u>26,975</u>
<i>Total primary government</i>	<u>\$ 17,571,324</u>	<u>\$ 5,609,124</u>	<u>\$ 723,657</u>	<u>\$ 149,786</u>
Component Unit				
Housing Authority	<u>\$ 380,974</u>	<u>\$ 131,057</u>	<u>\$ 173,109</u>	<u>\$ 57,992</u>

General Revenues and Transfers

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
Gain/(loss) on disposal of capital assets
Transfers
 Total general revenues and transfers
 Change in net position
 Net position - beginning of year
Restatement (Note 19)
Net position - beginning of year, restated
 Net position - end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Housing Authority
\$ (2,616,742)	\$ -	\$ (2,616,742)	\$ -
(3,766,364)	-	(3,766,364)	-
(1,560,260)	-	(1,560,260)	-
(45,367)	-	(45,367)	-
(2,047,649)	-	(2,047,649)	-
(196,656)	-	(196,656)	-
<u>(10,233,038)</u>	<u>-</u>	<u>(10,233,038)</u>	<u>-</u>
-	323,459	323,459	-
-	(1,318,394)	(1,318,394)	-
<u>-</u>	<u>139,216</u>	<u>139,216</u>	<u>-</u>
<u>-</u>	<u>(855,719)</u>	<u>(855,719)</u>	<u>-</u>
<u>(10,233,038)</u>	<u>(855,719)</u>	<u>(11,088,757)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,816)</u>
358,182	-	358,182	-
8,899,377	-	8,899,377	-
197,784	-	197,784	-
224,973	-	224,973	-
63,376	-	63,376	-
65,373	-	65,373	-
141,087	-	141,087	-
3,161	3,742	6,903	249
864,027	194,900	1,058,927	1,026
(63,116)	(194,242)	(257,358)	-
<u>(446,408)</u>	<u>446,408</u>	<u>-</u>	<u>-</u>
<u>10,307,816</u>	<u>450,808</u>	<u>10,758,624</u>	<u>1,275</u>
<u>74,778</u>	<u>(404,911)</u>	<u>(330,133)</u>	<u>(17,541)</u>
27,817,997	12,667,889	40,485,886	1,040,242
(363,291)	(196,120)	(559,411)	122,979
<u>27,454,706</u>	<u>12,471,769</u>	<u>39,926,475</u>	<u>1,163,221</u>
<u>\$ 27,529,484</u>	<u>\$ 12,066,858</u>	<u>\$ 39,596,342</u>	<u>\$ 1,145,680</u>

STATE OF NEW MEXICO

City of Lovington
Balance Sheet
Governmental Funds
June 30, 2014Exhibit B-1
Page 1 of 2

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 4,725,767	\$ 1,820,321	\$ 6,546,088
Investments	366,983	30,391	397,374
Receivables			
Taxes	1,545,766	27,736	1,573,502
Other receivables	284,824	36,202	321,026
Inventory	121,978	-	121,978
	<u>121,978</u>	<u>-</u>	<u>121,978</u>
<i>Total assets</i>	<u>\$ 7,045,318</u>	<u>\$ 1,914,650</u>	<u>\$ 8,959,968</u>
<i>Liabilities</i>			
Accounts payable	\$ 289,852	\$ 26,232	\$ 316,084
Accrued payroll expenses	266,910	-	266,910
	<u>266,910</u>	<u>-</u>	<u>266,910</u>
<i>Total liabilities</i>	<u>556,762</u>	<u>26,232</u>	<u>582,994</u>
<i>Deferred inflows of resources</i>			
Property tax revenue	13,879	-	13,879
	<u>13,879</u>	<u>-</u>	<u>13,879</u>
<i>Total deferred inflows of resources</i>	<u>13,879</u>	<u>-</u>	<u>13,879</u>
<i>Fund balances</i>			
Nonspendable	121,978	-	121,978
Spendable			
Restricted	-	1,888,418	1,888,418
Unassigned	6,352,699	-	6,352,699
	<u>6,352,699</u>	<u>-</u>	<u>6,352,699</u>
<i>Total fund balances</i>	<u>6,474,677</u>	<u>1,888,418</u>	<u>8,363,095</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 7,045,318</u>	<u>\$ 1,914,650</u>	<u>\$ 8,959,968</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Lovington

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2014

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	\$	8,363,095
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.		22,245
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		19,751,645
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds Deferred property taxes		13,879
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>(621,380)</u>
Total net position	\$	<u><u>27,529,484</u></u>

STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Exhibit B-2
Page 1 of 2

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes			
Property	\$ 348,714	\$ -	\$ 348,714
Gross receipts	8,609,063	290,314	8,899,377
Gasoline and motor vehicle	22,267	175,517	197,784
Other	224,973	128,749	353,722
Intergovernmental			
Federal operating grants	-	4,843	4,843
Federal capital grants	-	20,455	20,455
State operating grants	495,703	291,812	787,515
State capital grants	13,556	20,000	33,556
Charges for services	76,378	3,684	80,062
Licenses and fees	197,882	40,826	238,708
Fines, forfeitures, and penalties	141,087	-	141,087
Investment income	3,140	21	3,161
Miscellaneous	838,806	26,176	864,982
<i>Total revenues</i>	10,971,569	1,002,397	11,973,966
<i>Expenditures</i>			
Current			
General government	3,312,604	36,161	3,348,765
Public safety	3,605,953	110,083	3,716,036
Public works	596,106	-	596,106
Health and welfare	-	40,000	40,000
Culture and recreation	1,760,801	95,058	1,855,859
Conservation and development	51,156	145,500	196,656
Capital outlay	785,166	285,752	1,070,918
<i>Total expenditures</i>	10,111,786	712,554	10,824,340
<i>Excess (deficiency) of revenues over expenditures</i>	859,783	289,843	1,149,626
<i>Other financing sources (uses)</i>			
Transfers in	174,300	2,663,476	2,837,776
Transfers (out)	(3,109,884)	(174,300)	(3,284,184)
<i>Total other financing sources (uses)</i>	(2,935,584)	2,489,176	(446,408)
<i>Net change in fund balances</i>	(2,075,801)	2,779,019	703,218
<i>Fund balances - beginning of year</i>	6,465,202	777,320	7,242,522
<i>Restatement (Note 19)</i>	2,085,276	(1,667,921)	417,355
<i>Fund balances - beginning of year, restated</i>	8,550,478	(890,601)	7,659,877
<i>Fund balances - end of year</i>	\$ 6,474,677	\$ 1,888,418	\$ 8,363,095

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, 2014

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	\$	703,218
<p>The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.</p>		
		(2,656)
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital assets reported as capital outlay expenditures		1,070,918
Depreciation expense		(1,661,142)
Loss on disposal of capital assets		(63,116)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Increase in deferred inflows related to property taxes receivable		9,468
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>		
Increase in compensated absences		<u>18,088</u>
Change in net position of governmental activities	\$	<u><u>74,778</u></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, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ 322,000	\$ 347,903	\$ 347,903	\$ -
Gross receipts	8,506,100	8,528,174	8,540,674	12,500
Gasoline and motor vehicle	19,000	22,031	22,031	-
Other	217,000	228,315	228,315	-
Intergovernmental				
Federal operating grants	-	3,073	-	(3,073)
State operating grants	793,000	422,732	422,732	-
State capital grants	10,500	13,556	13,556	-
Charges for services	69,000	348,014	75,166	(272,848)
Licenses and fees	196,554	209,833	209,832	(1)
Fines, forfeitures, and penalties	103,720	124,956	124,956	-
Investment income	2,800	2,391	3,112	721
Miscellaneous	156,500	738,476	738,200	(276)
<i>Total revenues</i>	<u>10,396,174</u>	<u>10,989,454</u>	<u>10,726,477</u>	<u>(262,977)</u>
<i>Expenditures</i>				
Current				
General government	3,391,253	3,187,943	3,261,338	(73,395)
Public safety	3,483,687	3,715,401	3,700,069	15,332
Public works	949,102	709,971	651,410	58,561
Culture and recreation	1,380,657	1,519,967	1,502,243	17,724
Conservation and development	8,500	3,446	3,446	-
Capital outlay	621,762	1,158,034	790,229	367,805
<i>Total expenditures</i>	<u>9,834,961</u>	<u>10,294,762</u>	<u>9,908,735</u>	<u>386,027</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>561,213</u>	<u>694,692</u>	<u>817,742</u>	<u>123,050</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(672,213)	56,893	-	56,893
Transfers in	151,000	174,300	174,300	348,600
Transfers out	(40,000)	(925,885)	(3,109,884)	(2,183,999)
<i>Total other financing sources (uses)</i>	<u>(561,213)</u>	<u>(694,692)</u>	<u>(2,935,584)</u>	<u>(1,778,506)</u>
<i>Net change in fund balances</i>	-	-	(2,117,842)	(1,655,456)
<i>Fund balances - beginning of year</i>	-	-	5,247,294	5,247,294
<i>Fund balances- restatement (Note 19)</i>	-	-	2,085,276	2,085,276
<i>Fund balance - beginning of year, restated</i>	-	-	7,332,570	7,332,570
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,214,728</u>	<u>\$ 5,214,728</u>
Net change in fund balance (Non-GAAP)				\$ (2,117,842)
Adjustments to revenue for property taxes receivables, other receivables, and deferred revenue				245,092
Adjustments to expenditures for accounts payable and accrued payroll				(203,051)
Net change in fund balance (GAAP budgetary basis)				<u>\$ (2,075,801)</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, 2014

	<u>Solid Waste</u>	<u>Water & Wastewater</u>
<i>Assets</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 70,008	\$ 3,715,910
Investments	59,698	69,956
Accounts receivable	352,044	565,818
Inventory	<u>-</u>	<u>80,899</u>
<i>Total current assets</i>	<u>481,750</u>	<u>4,432,583</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	-	448,864
Capital assets	419,884	28,808,986
Accumulated depreciation	<u>(154,480)</u>	<u>(13,714,711)</u>
<i>Total noncurrent assets</i>	<u>265,404</u>	<u>15,543,139</u>
<i>Total Assets</i>	<u>\$ 747,154</u>	<u>\$ 19,975,722</u>
<i>Liabilities and Net Position</i>		
<i>Liabilities</i>		
<i>Current liabilities</i>		
Accounts payable	\$ 136,699	\$ 759,256
Accrued expenses	-	31,565
Accrued interest	-	72,883
Accrued compensated absences	-	40,573
Current portion of loans payable	<u>-</u>	<u>402,171</u>
<i>Total current liabilities</i>	<u>136,699</u>	<u>1,306,448</u>
<i>Total current liabilities</i>	<u>136,699</u>	<u>1,306,448</u>
<i>Noncurrent liabilities</i>		
Loans payable	-	7,410,999
Accrued compensated absences	90	64,145
Customer deposits	<u>-</u>	<u>448,864</u>
<i>Total noncurrent liabilities</i>	<u>90</u>	<u>7,924,008</u>
<i>Total liabilities</i>	<u>136,789</u>	<u>9,230,456</u>
<i>Net position</i>		
Net investment in capital assets	265,404	7,281,105
Unrestricted net position	<u>344,961</u>	<u>3,464,161</u>
<i>Total net position</i>	<u>610,365</u>	<u>10,745,266</u>
<i>Total Liabilities and Net Position</i>	<u>\$ 747,154</u>	<u>\$ 19,975,722</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>
\$ 446,408	\$ 4,232,326	\$ 27,669
-	129,654	-
60,334	978,196	-
27,763	108,662	-
<u>534,505</u>	<u>5,448,838</u>	<u>27,669</u>
-	448,864	-
413,585	29,642,455	-
(216,558)	(14,085,749)	-
<u>197,027</u>	<u>16,005,570</u>	<u>-</u>
<u>\$ 731,532</u>	<u>\$ 21,454,408</u>	<u>\$ 27,669</u>
\$ 3,083	\$ 899,038	\$ -
-	31,565	5,424
-	72,883	-
9,908	50,481	-
-	402,171	-
<u>12,991</u>	<u>1,456,138</u>	<u>5,424</u>
<u>12,991</u>	<u>1,456,138</u>	<u>5,424</u>
-	7,410,999	-
7,314	71,549	-
-	448,864	-
<u>7,314</u>	<u>7,931,412</u>	<u>-</u>
<u>20,305</u>	<u>9,387,550</u>	<u>5,424</u>
197,027	7,743,536	-
<u>514,200</u>	<u>4,323,322</u>	<u>22,245</u>
<u>711,227</u>	<u>12,066,858</u>	<u>22,245</u>
<u>\$ 731,532</u>	<u>\$ 21,454,408</u>	<u>\$ 27,669</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, 2014

	Solid Waste	Water & Wastewater
<i>Operating revenues</i>		
Charges for services	\$ 2,140,231	\$ 2,582,802
<i>Total operating revenues</i>	2,140,231	2,582,802
<i>Operating expenses</i>		
Personnel services	81,195	1,718,465
Contractual services	1,707,309	50,836
Supplies	2,907	409,611
Maintenance and materials	12,168	259,905
Utilities	1,173	316,177
Depreciation	10,287	962,728
Miscellaneous	1,733	59,168
<i>Total operating expenses</i>	1,816,772	3,776,890
<i>Operating income (loss)</i>	323,459	(1,194,088)
<i>Non-operating revenues (expenses)</i>		
Rent and royalties	-	143,217
Interest income	-	3,742
Interest expense	-	(151,281)
Miscellaneous	1,209	50,471
<i>Total non-operating revenues (expenses)</i>	1,209	46,149
<i>Capital grants and net transfers</i>		
Federal capital grants	-	26,975
Gain (loss) on disposal of capital assets	(2,614)	(191,628)
Transfers in	-	-
<i>Capital grants and net transfers</i>	(2,614)	(164,653)
<i>Change in net position</i>	322,054	(1,312,592)
<i>Net position - beginning of year</i>	1,517,952	10,555,392
<i>Restatement (Note 19)</i>	(1,229,641)	1,502,466
<i>Net position - beginning of year, restated</i>	288,311	12,057,858
<i>Net position - end of year</i>	\$ 610,365	\$ 10,745,266

The accompanying notes are an integral part of these financial statements

<u>Non-Major Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 566,465	\$ 5,289,498	\$ -
<u>566,465</u>	<u>5,289,498</u>	<u>-</u>
241,856	2,041,516	-
33,204	1,791,349	-
33,154	445,672	-
1,598	273,671	-
-	317,350	-
49,736	1,022,751	-
<u>67,701</u>	<u>128,602</u>	<u>2,656</u>
<u>427,249</u>	<u>6,020,911</u>	<u>2,656</u>
<u>139,216</u>	<u>(731,413)</u>	<u>(2,656)</u>
-	143,217	-
-	3,742	-
-	(151,281)	-
<u>3</u>	<u>51,683</u>	<u>-</u>
<u>3</u>	<u>47,361</u>	<u>-</u>
-	26,975	-
-	(194,242)	-
<u>446,408</u>	<u>446,408</u>	<u>-</u>
<u>446,408</u>	<u>279,141</u>	<u>-</u>
<u>585,627</u>	<u>(404,911)</u>	<u>(2,656)</u>
594,545	12,667,889	24,901
(468,945)	(196,120)	-
<u>125,600</u>	<u>12,471,769</u>	<u>24,901</u>
<u>\$ 711,227</u>	<u>\$ 12,066,858</u>	<u>\$ 22,245</u>

STATE OF NEW MEXICO
City of Lovington
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Solid Waste	Water & Wastewater
<i>Cash flows from operating activities</i>		
Cash received from user charges	\$ 1,888,994	\$ 2,449,942
Cash payments to employees for services	(81,527)	(1,695,056)
Cash payments to suppliers for goods and services	(1,719,291)	(352,716)
<i>Net cash provided (used) by operating activities</i>	88,176	402,170
<i>Cash flows from noncapital financing activities</i>		
Miscellaneous income	1,209	193,688
Change in noncurrent accrued compensated absences	422	(29,602)
Internal transfers and loans	(89,807)	115,761
<i>Net cash provided (used) by noncapital financing activities</i>	(88,176)	279,847
<i>Cash flows from capital and related financing activities</i>		
Capital grants	-	26,975
Acquisition of capital assets	-	(568,643)
Principal paid on capital debt	-	(394,739)
Interest paid on capital debt	-	(151,281)
<i>Net cash provided (used) by capital and related financing activities</i>	-	(1,087,688)
<i>Cash flows from investing activities</i>		
Interest on investments	-	3,742
<i>Net cash provided (used) by investing activities</i>	-	3,742
<i>Net increase (decrease) in cash and cash equivalents</i>	-	(401,929)
<i>Cash and cash equivalents - beginning of year</i>	50	4,566,703
<i>Restatement (Note 20)</i>	69,958	-
<i>Cash and cash equivalents - beginning of year, restated</i>	70,008	4,566,703
<i>Cash and cash equivalents - end of year</i>	\$ 70,008	\$ 4,164,774
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>		
Operating income (loss)	\$ 323,459	\$ (1,194,088)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	10,287	962,728
Changes in assets and liabilities		
Receivables	(251,237)	(176,124)
Inventory	-	87,901
Accounts payable	5,999	655,080
Accrued payroll expenses	-	8,592
Current accrued compensated absences	(332)	14,817
Customer deposits	-	43,264
<i>Net cash provided (used) by operating activities</i>	\$ 88,176	\$ 402,170

The accompanying notes are an integral part of these financial statements

Non-Major Funds	Total	Internal Service Funds
\$ 566,465	\$ 4,905,401	\$ -
(235,307)	(2,011,890)	-
(141,965)	(2,213,972)	(2,656)
<u>189,193</u>	<u>679,539</u>	<u>(2,656)</u>
(54,382)	140,515	-
(15,572)	(44,752)	-
<u>429,845</u>	<u>455,799</u>	<u>-</u>
<u>359,891</u>	<u>551,562</u>	<u>-</u>
-	26,975	-
(102,676)	(671,319)	-
-	(394,739)	-
<u>-</u>	<u>(151,281)</u>	<u>-</u>
<u>(102,676)</u>	<u>(1,190,364)</u>	<u>-</u>
-	3,742	-
<u>-</u>	<u>3,742</u>	<u>-</u>
446,408	44,479	(2,656)
-	4,566,753	30,325
-	69,958	-
<u>-</u>	<u>4,636,711</u>	<u>30,325</u>
<u>\$ 446,408</u>	<u>\$ 4,681,190</u>	<u>\$ 27,669</u>
\$ 139,216	\$ (731,413)	\$ (2,656)
49,736	1,022,751	-
-	(427,361)	-
(1,381)	86,520	-
(4,927)	656,152	-
-	8,592	-
6,549	21,034	-
<u>-</u>	<u>43,264</u>	<u>-</u>
<u>\$ 189,193</u>	<u>\$ 679,539</u>	<u>\$ (2,656)</u>

STATE OF NEW MEXICO
City of Lovington
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2014

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	<u>\$ 40,992</u>
<i>Total assets</i>	<u><u>\$ 40,992</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 40,992</u>
<i>Total liabilities</i>	<u><u>\$ 40,992</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, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lovington (the “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, 2014, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 65, 66 and 67. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. 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 recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB 65 is not expected to have a significant impact on the City’s financial statements. GASB Statement No. 66, Technical Corrections-2012-An Amendment of GASB Statements No. 10 and No. 62. This 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 and No. 62. The implementation of GASB 66 is not expected to have a significant impact on the City’s financial statements. GASB Statement No. 67, Financial Reporting for Pension Plans-An Amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The implementation of GASB 67 is not expected to have a significant impact on the City’s financial statements.

A. Financial Reporting Entity

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

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 (the "Housing Authority"). This component unit has separate elected and/or appointed boards and provides services to residents, generally within the geographic boundaries of the government. The Housing Authority will be reported as a proprietary type discretely presented component unit.

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

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 proprietary 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Under the requirements of GASB 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 proprietary 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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 Inflows of Resources: Deferred inflows of resources is an acquisition of net position by the City that is applicable to a future reporting period. The only deferred inflows of resources applicable to the City on the modified accrual basis of accounting are property taxes received and receivable for the next fiscal year’s property tax levy.

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

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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 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 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, 2014, the restricted fund balance on the governmental funds balance sheet is made up of \$1,888,418 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."

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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 Proprietary 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 Commission for review and enactment of a resolution legally adopting the budget. Once approved, the City Commission 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 Commission 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	\$ 561,213	\$ 694,692
Nonmajor Governmental Funds	319,197	356,436
	Change in Net Position	
	Original Budget	Final Budget
Solid Waste Proprietary Fund	\$ 302,539	\$ 89,804
Water & Wastewater Proprietary Fund	(435,967)	(226,271)
Ambulance Proprietary Fund	62,514	31,890
Capital Projects Replace & Repair Water Lines Proprietary Fund	-	-
Internal Service Funds	(13,267)	(13,267)

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, 2014 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund type can be found in each individual budgetary statement.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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, 2014.

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

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

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits, and negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

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, 2014, \$11,548,722 of the City’s bank balances of \$12,483,526 was exposed to custodial credit risk. \$9,139,755 was uninsured and collateralized by securities held by the pledging institution’s trust department or agent, in other than the City’s name and \$2,408,967 was uninsured and uncollateralized. See Schedule II on pages 94-95.

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, 2014 consist of the following:

Investments	Weighted Average Maturity	Fair Value	Rating
<i>New MexiGROW</i> LGIP	48.6 day WAM(R); 116.2 day WAM(F)	\$ 342,036	AAAm
Reserve Contingency Fund	Does not earn interest	188	Unrated
		<u>\$ 342,224</u>	

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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 5.00% or more of the investment portfolio of the City. The investments in the *New MexiGROWLGIP* consist of approximately 66.00% 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, 2014, are as follows:

	General	Nonmajor Funds	Proprietary Funds	Total
Governmental Activities				
Taxes				
Property taxes	\$ 33,161	\$ -	\$ -	\$ 33,161
Gross receipts taxes	1,464,738	-	-	1,464,738
Franchise taxes	47,867	5,594	-	53,461
Gasoline and oil taxes	-	16,080	-	16,080
Lodger's taxes	-	6,062	-	6,062
Total Taxes	<u>1,545,766</u>	<u>27,736</u>	<u>-</u>	<u>1,573,502</u>
Other receivables	<u>284,824</u>	<u>36,202</u>	<u>-</u>	<u>321,026</u>
Total governmental activities	<u>1,830,590</u>	<u>63,938</u>	<u>-</u>	<u>1,894,528</u>
Business-Type Activities				
Receivables from customers				
Solid waste	-	-	345,733	345,733
Water & wastewater	<u>-</u>	<u>-</u>	<u>491,671</u>	<u>491,671</u>
Other receivables	<u>-</u>	<u>-</u>	<u>140,792</u>	<u>140,792</u>
Total business-type activities	<u>-</u>	<u>-</u>	<u>978,196</u>	<u>978,196</u>
Total accounts receivable	<u>\$ 1,830,590</u>	<u>\$ 63,938</u>	<u>\$ 978,196</u>	<u>\$2,872,724</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 5. 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>
Recreation Special Revenue Fund	General Fund	\$ 62,988
Economic Development Special Revenue Fund	General Fund	1,713,768
Corrections Special Revenue Fund	General Fund	95,147
Law Enforcement Protection Special Revenue Fund	General Fund	5,195
Lodger's Tax Special Revenue Fund	General Fund	20,754
Gasoline Tax Special Revenue Fund	General Fund	713,651
Ambulance Proprietary Fund	General Fund	446,408
Senior Citizens Special Revenue Fund	General Fund	51,973
General Fund	Senior Citizens Special Revenue Fund	<u>174,300</u>
		<u>\$ 3,284,184</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 6. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2014, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and library collection is not subject to depreciation.

Governmental Activities

	Balance June 30, 2013	Restatement	Restated Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated						
Land	\$ 133,319	\$ 5,400	\$ 138,719	\$ -	\$ -	\$ 138,719
Library collection	1,630,836	(1,630,836)	-	-	-	-
Construction in progress	-	-	-	310,458	-	310,458
Total capital assets not being depreciated	1,764,155	(1,625,436)	138,719	310,458	-	449,177
Capital assets being depreciated						
Infrastructure	17,698,016	730,737	18,428,753	-	2,471	18,426,282
Buildings and improvements	13,730,720	(416,865)	13,313,855	337,512	197,068	13,454,299
Library collection	-	1,630,836	1,630,836	-	-	1,630,836
Machinery and equipment	3,036,297	(287,351)	2,748,946	155,279	448,129	2,456,096
Vehicles	2,353,604	129,627	2,483,231	267,669	134,747	2,616,153
Total capital assets being depreciated	36,818,637	1,786,984	38,605,621	760,460	782,415	38,583,666
Less: accumulated depreciation						
Infrastructure	7,329,128	1,283,835	8,612,963	878,510	853	9,490,620
Buildings and improvements	6,595,371	(1,176,145)	5,419,226	370,415	163,659	5,625,982
Library collection	-	859,501	859,501	108,722	-	968,223
Machinery and equipment	1,984,123	(76,973)	1,907,150	142,491	429,170	1,620,471
Vehicles	1,567,890	(27,375)	1,540,515	161,004	125,617	1,575,902
Total accumulated depreciation	17,476,512	862,843	18,339,355	1,661,142	719,299	19,281,198
Total capital assets, net of depreciation	\$ 21,106,280	\$ (701,295)	\$ 20,404,985	\$ (590,224)	\$ 63,116	\$ 19,751,645

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 6. CAPITAL ASSETS (continued)

Business-type Activities

	Balance June 30, 2013	Restatement	Restated Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated						
Land	\$ 750	\$ (750)	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	750	(750)	-	-	-	-
Capital assets being depreciated						
Infrastructure	-	1,528,523	1,528,523	81,272	-	1,609,795
Buildings and improvements	19,793,272	4,135,125	23,928,397	-	3,650	23,924,747
Machinery and equipment	8,776,450	(5,663,932)	3,112,518	242,734	183,158	3,172,094
Vehicles	887,619	27,502	915,121	347,313	326,615	935,819
Total capital assets being depreciated	29,457,341	27,218	29,484,559	671,319	513,423	29,642,455
Less: accumulated depreciation						
Infrastructure	-	479,410	479,410	83,141	-	562,551
Buildings and improvements	7,107,464	3,913,151	11,020,615	648,772	1,036	11,668,351
Machinery and equipment	5,796,448	(4,409,293)	1,387,155	195,702	175,579	1,407,278
Vehicles	650,860	(155,861)	494,999	95,136	142,566	447,569
Total accumulated depreciation	13,554,772	(172,593)	13,382,179	1,022,751	319,181	14,085,749
Total capital assets, net of depreciation	<u>\$ 15,903,319</u>	<u>\$ 199,061</u>	<u>\$ 16,102,380</u>	<u>\$ (351,432)</u>	<u>\$ 194,242</u>	<u>\$ 15,556,706</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 6. CAPITAL ASSETS (continued)

Depreciation expense

Depreciation expense for the year ended June 30, 2014 was charged to the following functions:

Governmental activities

General government	\$ 106,191
Public safety	209,285
Public works	964,425
Culture and recreation	375,874
Health and welfare	<u>5,367</u>
Total governmental activities	<u>\$ 1,661,142</u>

Business-type activities

Solid waste	\$ 10,287
Water & wastewater	962,728
Ambulance	<u>49,736</u>
Total business type activities	<u>\$ 1,022,751</u>

NOTE 7. LONG-TERM DEBT

Governmental Activities

During the year ended June 30, 2014, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance		Restated			Balance	Due within
	June 30, 2013	Restatement	June 30, 2013	Additions	Deletions	June 30, 2014	One Year
Compensated absences	<u>\$ 560,117</u>	<u>\$ 89,209</u>	<u>\$ 649,326</u>	<u>\$263,863</u>	<u>\$ 291,809</u>	<u>\$ 621,380</u>	<u>\$ 287,777</u>

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

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 7. LONG-TERM DEBT (continued)

Business-Type Activities

	Balance		Restated			Balance		Due within One Year
	June 30, 2013	Restatement	June 30, 2013	Additions	Deletions	June 30, 2014		
NMFA Loan - Drinking Water								
State Revolving Loan	\$ 3,126,247	\$ -	\$ 3,126,247	\$ -	\$ 140,809	\$ 2,985,438	\$ 143,163	
NMED Loan - Clean Water								
State Revolving Loan	5,081,662	-	5,081,662	-	253,930	4,827,732	259,008	
Compensated absences	94,787	34,237	129,024	48,212	55,206	122,030	50,481	
	<u>\$ 8,302,696</u>	<u>\$ 34,237</u>	<u>\$ 8,336,933</u>	<u>\$ 48,212</u>	<u>\$ 449,945</u>	<u>\$ 7,935,200</u>	<u>\$ 452,652</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, 2014, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
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	153,047	35,220	5,995	194,262
2020-2024	805,167	142,142	24,107	971,416
2025-2029	876,662	92,320	13,691	982,673
2030-2034	563,323	16,895	2,833	583,051
	<u>\$ 2,985,438</u>	<u>\$ 448,645</u>	<u>\$ 74,310</u>	<u>\$ 3,508,393</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 7. LONG-TERM DEBT (continued)

Business-Type Activities (continued)

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, 2014, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
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	280,359	58,825	16,379	355,563
2020-2024	1,488,179	226,553	63,083	1,777,815
2025-2029	1,643,071	105,397	29,347	1,777,815
2030-2034	348,591	5,453	1,518	355,562
	<u>\$ 4,827,732</u>	<u>\$ 673,691</u>	<u>\$ 187,586</u>	<u>\$ 5,689,009</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 20.00% of the earned normal premium, which is based on a percentage of the City's current payroll. Additionally, the "premium" charge includes a factor for recent actual claims experience.

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

NOTE 9. DEFERRED COMPENSATION PLAN

The City offers its full-time employees a deferred compensation plan (the "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.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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: 8.50% for law enforcement and 9.50% 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, 2014, 2013, and 2012 were approximately \$335,684, \$249,557, and \$212,291, 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 3.00% to 6.00% of their yearly compensation, and the City will match up to 7.00%. The total amount of employee and employer contributions to the plan at June 30, 2014, 2013, and 2012 was \$236,911, \$178,152, and \$169,387, respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 12. POST-EMPLOYMENT BENEFITS

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

NOTE 13. CONTINGENT LIABILITIES

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

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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, 2014, 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, 2014:

EMS Grant Special Revenue Fund	\$ 20,000
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- B. Excess of expenditures over budgeted amounts. The following funds exceeded approved budgetary authority for the year ended June 30, 2014:

Law Enforcement Special Revenue Fund	\$ 617
Economic Development Special Revenue Fund	12,500
Solid Waste Proprietary Fund	646

- 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, 2014.

NOTE 16. NET POSITION

The government-wide statement of net position reports \$1,888,418 of restricted net position, all of which is restricted by enabling legislation. See the fund description on pages 62-63 for the related enabling legislation.

NOTE 17. SUBSEQUENT PRONOUNCEMENTS

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. Effective Date: The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. This statement will be implemented during the fiscal year ending June 30, 2015.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. Effective Date: The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged. The City is analyzing the effects that this statement will have on their financial statements.

In April 2013, GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Effective Date: The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The City is analyzing the effects that this statement will have on their financial statements.

In November 2013, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. Effective Date: The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. This statement will be implemented during the fiscal year ending June 30, 2015.

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

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 multiple restatements of budgetary basis fund balances, fund balance, and net position in the multiple funds due to incorrect due to/from, cash, capital assets, and compensated absences balances in prior years. The restatements are as follows:

Budgetary Basis

Fund Name	Fund Balance/Net Position Originally Reported 6/30/13	Restate Due To/Froms	Restate Cash	Fund Balance/Net Position Restated 6/30/13
General Fund	\$ 5,247,294	\$ 2,085,276	\$ -	\$ 7,332,570
Corrections Fund	77,152	(95,147)	-	(17,995)
Lodger's Tax Fund	11,315	(20,754)	-	(9,439)
Gasoline Tax Fund	525,286	(713,650)	-	(188,364)
Recreation Fund	34,863	(22,988)	-	11,875
Economic Development Fund	-	(815,382)	-	(815,382)
Solid Waste Fund	1,630,202	(1,300,026)	69,958	400,134
Water & Wastewater Fund	19,121,248	1,335,792	-	20,457,040
Ambulance Fund	664,187	(446,408)	-	217,779
Capital Project Replace & Repair Water Lines Fund	3,536	(3,536)	-	-
	<u>\$ 27,315,083</u>	<u>\$ 3,177</u>	<u>\$ 69,958</u>	<u>\$ 27,388,218</u>

Proprietary Fund Net Position

Fund Name	Fund Balance/Net Position Originally Reported 6/30/13	Budgetary Basis Restatement	Restate Capital Assets	Restate Accounts Payable	Restate Compensated Absences	Fund Balance/Net Position Restated 6/30/13
Solid Waste Fund	\$ 1,517,952	\$ (1,230,068)	\$ (610)	\$ -	\$ 1,037	\$ 288,311
Water & Wastewater Fund	10,555,392	1,335,792	203,842	(16,724)	(20,444)	12,057,858
Ambulance Fund	591,009	(446,408)	(4,171)	-	(14,830)	125,600
Capital Project Replace & Repair Water Lines Fund	3,536	(3,536)	-	-	-	-
	<u>\$ 12,667,889</u>	<u>\$ (344,220)</u>	<u>\$ 199,061</u>	<u>\$ (16,724)</u>	<u>\$ (34,237)</u>	<u>\$ 12,471,769</u>

STATE OF NEW MEXICO
City of Lovington
Notes to Financial Statements
June 30, 2014

NOTE 19. RESTATEMENT (continued)

Governmental Activities Net Position

Fund Name	Fund Balance/Net Position Originally Reported	Budgetary Basis Restatement	Restate Capital Assets	Restate Compensated Absences	Fund Balance/Net Position Restated
Governmental Activities	\$ 27,817,997	\$ 417,355	\$ (701,295)	\$ (79,351)	\$ 27,454,706
	<u>\$ 27,817,997</u>	<u>\$ 417,355</u>	<u>\$ (701,295)</u>	<u>\$ (79,351)</u>	<u>\$ 27,454,706</u>

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 07/01/2013 Ending 06/30/2014
Amount of project	\$120,000
City contributions	\$10,800
Audit responsibility	New Mexico Economic Development Department

NOTE 21. COMMITMENTS

The City had the following commitments at June 30, 2014:

- Surveillance video systems for Youth Center and Senior Center - \$13,083
- 9th Street construction - \$273,010
- Roof repair projects - \$271,613

These commitments total \$557,706.

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SUPPLEMENTARY INFORMATION

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COMBINING FUND STATEMENTS

STATE OF NEW MEXICO
City of Lovington
Nonmajor Fund Descriptions
June 30, 2014

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 2.00% 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.

Economic Development Special Revenue Fund– To account for the collections of gross receipts tax designated for economic development. The authority for the creation and maintenance is City Ordinance.

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 7.00% of the employee’s contributions.

STATE OF NEW MEXICO
City of Lovington
Nonmajor Fund Descriptions
June 30, 2014

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, 2014

	Special Revenue			
	Corrections	EMS Grant	Fire Protection	Law Enforcement Protection
<i>Assets</i>				
Cash and cash equivalents	\$ 95,147	\$ -	\$ -	\$ 5,195
Investments	-	-	-	-
Receivables				
Taxes	-	-	-	-
Other receivables	-	-	-	36,200
	-	-	-	36,200
<i>Total assets</i>	\$ 95,147	\$ -	\$ -	\$ 41,395
<i>Liabilities</i>				
Accounts payable	\$ 5,273	\$ 20,000	\$ -	\$ -
<i>Total liabilities</i>	5,273	20,000	-	-
<i>Fund balances</i>				
Spendable				
Restricted	89,874	(20,000)	-	41,395
<i>Total fund balances</i>	89,874	(20,000)	-	41,395
<i>Total liabilities and fund balances</i>	\$ 95,147	\$ -	\$ -	\$ 41,395

The accompanying notes are an integral part of these financial statements

Special Revenue						Total Nonmajor Governmental Funds
Lodgers' Tax	Gasoline Tax	Recreation	Senior Citizens	Designated Franchise	Economic Development	
\$ 20,676	\$ 713,651	\$ 23,183	\$ 51,998	\$ 95,089	\$ 815,382	\$ 1,820,321
-	-	12,444	-	17,947	-	30,391
6,062	16,080	-	-	5,594	-	27,736
-	-	2	-	-	-	36,202
<u>\$ 26,738</u>	<u>\$ 729,731</u>	<u>\$ 35,629</u>	<u>\$ 51,998</u>	<u>\$ 118,630</u>	<u>\$ 815,382</u>	<u>\$ 1,914,650</u>
\$ -	\$ -	\$ 959	\$ -	\$ -	\$ -	\$ 26,232
-	-	959	-	-	-	26,232
26,738	729,731	34,670	51,998	118,630	815,382	1,888,418
<u>26,738</u>	<u>729,731</u>	<u>34,670</u>	<u>51,998</u>	<u>118,630</u>	<u>815,382</u>	<u>1,888,418</u>
<u>\$ 26,738</u>	<u>\$ 729,731</u>	<u>\$ 35,629</u>	<u>\$ 51,998</u>	<u>\$ 118,630</u>	<u>\$ 815,382</u>	<u>\$ 1,914,650</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, 2014

	Special Revenue			
	Corrections	EMS Grant	Fire Protection	Law Enforcement Protection
<i>Revenues</i>				
Taxes				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	81,099	68,800
State capital grants	-	20,000	-	-
Charges for services	-	-	-	-
Licenses and fees	40,826	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>40,826</u>	<u>20,000</u>	<u>81,099</u>	<u>68,800</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	30,720	-	74,168	5,195
Health and welfare	-	40,000	-	-
Culture and recreation	-	-	-	-
Conservation and development	-	-	-	-
Capital outlay	-	-	6,512	27,422
<i>Total expenditures</i>	<u>30,720</u>	<u>40,000</u>	<u>80,680</u>	<u>32,617</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>10,106</u>	<u>(20,000)</u>	<u>419</u>	<u>36,183</u>
<i>Other financing sources (uses)</i>				
Transfers in	95,147	-	-	5,195
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>95,147</u>	<u>-</u>	<u>-</u>	<u>5,195</u>
<i>Net change in fund balances</i>	105,253	(20,000)	419	41,378
<i>Fund balances - beginning of year</i>	79,768	-	(419)	17
<i>Restatement (Note 19)</i>	(95,147)	-	-	-
<i>Fund balances - beginning of year, restated</i>	<u>(15,379)</u>	<u>-</u>	<u>(419)</u>	<u>17</u>
<i>Fund balances - end of year</i>	<u>\$ 89,874</u>	<u>\$ (20,000)</u>	<u>\$ -</u>	<u>\$ 41,395</u>

The accompanying notes are an integral part of these financial statements

Special Revenue						Total Nonmajor Governmental Funds
Lodger's Tax	Gasoline Tax	Recreation	Senior Citizens	Designated Franchise	Economic Development	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 290,314	\$ 290,314
-	175,517	-	-	-	-	175,517
63,376	-	-	-	65,373	-	128,749
-	-	-	4,843	-	-	4,843
-	-	-	20,455	-	-	20,455
-	-	-	141,913	-	-	291,812
-	-	-	-	-	-	20,000
-	-	3,684	-	-	-	3,684
-	-	-	-	-	-	40,826
-	-	2	-	19	-	21
-	-	158	-	2,018	24,000	26,176
<u>63,376</u>	<u>175,517</u>	<u>3,844</u>	<u>167,211</u>	<u>67,410</u>	<u>314,314</u>	<u>1,002,397</u>
-	-	-	-	36,161	-	36,161
-	-	-	-	-	-	110,083
-	-	-	-	-	-	40,000
53,803	-	41,255	-	-	-	95,058
-	-	-	-	-	145,500	145,500
-	-	-	-	-	251,818	285,752
<u>53,803</u>	<u>-</u>	<u>41,255</u>	<u>-</u>	<u>36,161</u>	<u>397,318</u>	<u>712,554</u>
<u>9,573</u>	<u>175,517</u>	<u>(37,411)</u>	<u>167,211</u>	<u>31,249</u>	<u>(83,004)</u>	<u>289,843</u>
20,754	713,651	62,988	51,973	-	1,713,768	2,663,476
-	-	-	(174,300)	-	-	(174,300)
<u>20,754</u>	<u>713,651</u>	<u>62,988</u>	<u>(122,327)</u>	<u>-</u>	<u>1,713,768</u>	<u>2,489,176</u>
30,327	889,168	25,577	44,884	31,249	1,630,764	2,779,019
17,165	554,213	32,081	7,114	87,381	-	777,320
(20,754)	(713,650)	(22,988)	-	-	(815,382)	(1,667,921)
<u>(3,589)</u>	<u>(159,437)</u>	<u>9,093</u>	<u>7,114</u>	<u>87,381</u>	<u>(815,382)</u>	<u>(890,601)</u>
<u>\$ 26,738</u>	<u>\$ 729,731</u>	<u>\$ 34,670</u>	<u>\$ 51,998</u>	<u>\$ 118,630</u>	<u>\$ 815,382</u>	<u>\$ 1,888,418</u>

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2014

Statement B-1

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 446,408	\$ -	\$ 446,408
Accounts receivable	60,334	-	60,334
Inventory	27,763	-	27,763
<i>Total current assets</i>	534,505	-	534,505
<i>Noncurrent assets</i>			
Capital assets	413,585	-	413,585
Accumulated depreciation	(216,558)	-	(216,558)
<i>Total noncurrent assets</i>	197,027	-	197,027
<i>Total Assets</i>	\$ 731,532	\$ -	\$ 731,532
<i>Liabilities and Net Position</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 3,083	\$ -	\$ 3,083
Accrued compensated absences current portion	9,908	-	9,908
<i>Total current liabilities (payable from current assets):</i>	12,991	-	12,991
<i>Noncurrent liabilities</i>			
Accrued compensated absences	7,314	-	7,314
<i>Total noncurrent liabilities</i>	7,314	-	7,314
<i>Total liabilities</i>	20,305	-	20,305
<i>Net position</i>			
Net investment in capital assets	197,027	-	197,027
Unrestricted net position	514,200	-	514,200
<i>Total net position</i>	711,227	-	711,227
<i>Total liabilities and net position</i>	\$ 731,532	\$ -	\$ 731,532

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, 2014

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues</i>			
Charges for services	\$ 566,465	\$ -	\$ 566,465
<i>Total operating revenues</i>	<u>566,465</u>	<u>-</u>	<u>566,465</u>
<i>Operating expenses</i>			
Personnel services	241,856	-	241,856
Contractual services	33,204	-	33,204
Supplies	33,154	-	33,154
Maintenance and materials	1,598	-	1,598
Depreciation	49,736	-	49,736
Miscellaneous	67,701	-	67,701
<i>Total operating expenses</i>	<u>427,249</u>	<u>-</u>	<u>427,249</u>
<i>Operating income (loss)</i>	<u>139,216</u>	<u>-</u>	<u>139,216</u>
<i>Non-operating revenues (expenses)</i>			
Miscellaneous	3	-	3
<i>Total non-operating revenues (expenses)</i>	<u>3</u>	<u>-</u>	<u>3</u>
<i>Capital grants and net transfers</i>			
Transfers in	446,408	-	446,408
<i>Capital grants and net transfers</i>	<u>446,408</u>	<u>-</u>	<u>446,408</u>
<i>Change in net position</i>	<u>585,627</u>	<u>-</u>	<u>585,627</u>
<i>Net position - beginning of year</i>	591,009	3,536	594,545
<i>Restatement (Note 19)</i>	(465,409)	(3,536)	(468,945)
<i>Net position - beginning of year, restated</i>	<u>125,600</u>	<u>-</u>	<u>125,600</u>
<i>Net position - end of year</i>	<u>\$ 711,227</u>	<u>\$ -</u>	<u>\$ 711,227</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2014

Statement B-3

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities</i>			
Cash received from user charges	\$ 566,465	\$ -	\$ 566,465
Cash payments to employees for services	(235,307)	-	(235,307)
Cash payments to suppliers for goods and services	(141,965)	-	(141,965)
<i>Net cash provided (used) by operating activities</i>	<u>189,193</u>	<u>-</u>	<u>189,193</u>
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	(54,382)	-	(54,382)
Change in noncurrent accrued compensated absences	(15,572)	-	(15,572)
Internal transfers and loans	429,845	-	429,845
<i>Net cash provided (used) by noncapital financing activities</i>	<u>359,891</u>	<u>-</u>	<u>359,891</u>
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	(102,676)	-	(102,676)
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>(102,676)</u>	<u>-</u>	<u>(102,676)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	-	-	-
<i>Net cash provided by (used) from investing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	446,408	-	446,408
<i>Cash and cash equivalents - beginning of year</i>	-	-	-
<i>Cash and cash equivalents - end of year</i>	<u>\$ 446,408</u>	<u>\$ -</u>	<u>\$ 446,408</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ 139,216	\$ -	\$ 139,216
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	49,736	-	49,736
Changes in assets and liabilities			
Inventory	(1,381)	-	(1,381)
Accounts payable	(4,927)	-	(4,927)
Current accrued compensated absences	6,549	-	6,549
<i>Net cash provided (used) by operating activities</i>	<u>\$ 189,193</u>	<u>\$ -</u>	<u>\$ 189,193</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
June 30, 2014

Statement C-1

	Unemployment Compensation	Pension	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 13,806	\$ 13,863	\$ 27,669
<i>Total current assets</i>	13,806	13,863	27,669
<i>Total Assets</i>	\$ 13,806	\$ 13,863	\$ 27,669
 <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	13,806	8,439	22,245
<i>Total net position</i>	13,806	8,439	22,245
<i>Total Liabilities and Net Position</i>	\$ 13,806	\$ 13,863	\$ 27,669

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

For the Year Ended June 30, 2014

	Unemployment Compensation	Pension	Total
<i>Operating revenue</i>			
Charges for services	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	-	-	-
<i>Operating expense</i>			
Miscellaneous	2,656	-	2,656
<i>Total operating expenses</i>	2,656	-	2,656
<i>Operating income (loss)</i>	(2,656)	-	(2,656)
<i>Change in net position</i>	(2,656)	-	(2,656)
<i>Net position - beginning of year</i>	16,462	8,439	24,901
<i>Net position - end of year</i>	<u>\$ 13,806</u>	<u>\$ 8,439</u>	<u>\$ 22,245</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

Statement C-3

	Unemployment Compensation	Pension	Total
<i>Cash flows from operating activities</i>			
Cash payments to employees for services	\$ -	\$ -	\$ -
Cash payments to suppliers for goods and services	(2,656)	-	(2,656)
<i>Net cash provided (used) by operating activities</i>	(2,656)	-	(2,656)
<i>Cash flows from noncapital financing activities</i>			
Miscellaneous income	-	-	-
Internal transfers and loans	-	-	-
<i>Net cash provided (used) by noncapital financing activities</i>	-	-	-
<i>Net increase (decrease) in cash and cash equivalents</i>	(2,656)	-	(2,656)
<i>Cash and cash equivalents - beginning of year</i>	16,462	13,863	30,325
<i>Cash and cash equivalents - end of year</i>	\$ 13,806	\$ 13,863	\$ 27,669
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>			
Operating income (loss)	\$ (2,656)	\$ -	\$ (2,656)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Changes in assets and liabilities			
Accrued payroll expenses	-	-	-
<i>Net cash provided (used) by operating activities</i>	\$ (2,656)	\$ -	\$ (2,656)

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-1

City of Lovington

Corrections Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2014

	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	36,000	43,442	43,442	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>36,000</u>	<u>43,442</u>	<u>43,442</u>	<u>-</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	20,000	25,447	25,447	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>20,000</u>	<u>25,447</u>	<u>25,447</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>16,000</u>	<u>17,995</u>	<u>17,995</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(16,000)	(17,995)	-	17,995
Transfers in	-	-	95,147	95,147
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(16,000)</u>	<u>(17,995)</u>	<u>95,147</u>	<u>113,142</u>
<i>Net change in fund balance</i>	-	-	113,142	113,142
<i>Fund balance - beginning of year</i>	-	-	77,152	77,152
<i>Restatement (Note 19)</i>	-	-	(95,147)	(95,147)
<i>Fund balance - beginning of year, restated</i>	<u>-</u>	<u>-</u>	<u>(17,995)</u>	<u>(17,995)</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,147</u>	<u>\$ 95,147</u>
Net change in fund balance (Non-GAAP)				\$ 113,142
Adjustments to revenues for other receivables				(2,616)
Adjustments to expenditures for accounts payable				(5,273)
Net change in fund balance (GAAP basis)				<u>\$ 105,253</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, 2014

	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	14,700	20,000	20,000	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>14,700</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	14,700	20,000	20,000	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>14,700</u>	<u>20,000</u>	<u>20,000</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>	-	-	-	-
<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				(20,000)
Net change in fund balance (GAAP basis)				<u>\$ (20,000)</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, 2014

	Budgeted Amounts		Actual	Variations
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	78,443	81,099	81,099	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>78,443</u>	<u>81,099</u>	<u>81,099</u>	<u>-</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	78,443	74,588	74,587	1
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	6,512	6,512	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>78,443</u>	<u>81,100</u>	<u>81,099</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>1</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	1	-	(1)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>1</u>	<u>-</u>	<u>(1)</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				-
Adjustments to expenditures for accounts payable				419
Net change in fund balance (GAAP basis)				<u>\$ 419</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, 2014

	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	32,000	32,000	32,600	600
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>32,000</u>	<u>32,000</u>	<u>32,600</u>	<u>600</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	5,195	(5,195)
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	32,000	32,000	27,422	4,578
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>32,000</u>	<u>32,000</u>	<u>32,617</u>	<u>(617)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(17)</u>	<u>(17)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Transfers in	-	-	5,195	5,195
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>5,195</u>	<u>5,195</u>
<i>Net change in fund balance</i>	-	-	5,178	5,178
<i>Fund balance - beginning of year</i>	-	-	17	17
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ 5,195</u>
Net change in fund balance (Non-GAAP)				\$ 5,178
Adjustments to revenues for other receivables				36,200
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 41,378</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, 2014

	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	71,000	71,000	63,164	(7,836)
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>71,000</u>	<u>71,000</u>	<u>63,164</u>	<u>(7,836)</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	68,000	68,000	53,803	14,197
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>68,000</u>	<u>68,000</u>	<u>53,803</u>	<u>14,197</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>3,000</u>	<u>3,000</u>	<u>9,361</u>	<u>6,361</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(3,000)	(3,000)	-	3,000
Transfers in	-	-	20,754	20,754
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(3,000)</u>	<u>(3,000)</u>	<u>20,754</u>	<u>23,754</u>
<i>Net change in fund balance</i>	-	-	30,115	30,115
<i>Fund balance - beginning of year</i>	-	-	11,315	11,315
<i>Restatement (Note 19)</i>	-	-	(20,754)	(20,754)
<i>Fund balance - beginning of year, restated</i>	-	-	(9,439)	(9,439)
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,676</u>	<u>\$ 20,676</u>
Net change in fund balance (Non-GAAP)				\$ 30,115
Adjustments to revenue for taxes receivable				212
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 30,327</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, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	191,000	191,000	188,364	(2,636)
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>191,000</u>	<u>191,000</u>	<u>188,364</u>	<u>(2,636)</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>191,000</u>	<u>191,000</u>	<u>188,364</u>	<u>(2,636)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(191,000)	(191,000)	-	191,000
Transfers in	-	-	713,651	713,651
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(191,000)</u>	<u>(191,000)</u>	<u>713,651</u>	<u>904,651</u>
<i>Net change in fund balance</i>	-	-	902,015	902,015
<i>Fund balance - beginning of year</i>	-	-	525,286	525,286
<i>Restatement (Note 19)</i>	-	-	(713,650)	(713,650)
<i>Fund balance - beginning of year, restated</i>	-	-	(188,364)	(188,364)
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 713,651</u>	<u>\$ 713,651</u>
Net change in fund balance (Non-GAAP)				\$ 902,015
Adjustments to revenues for taxes receivable				(12,847)
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 889,168</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, 2014

	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	2,000	2,000	3,613	1,613
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	2,050	2,050	158	(1,892)
<i>Total revenues</i>	<u>4,050</u>	<u>4,050</u>	<u>3,771</u>	<u>(279)</u>
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	43,023	43,023	42,569	454
Capital outlay	13,000	13,000	438	12,562
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>56,023</u>	<u>56,023</u>	<u>43,007</u>	<u>13,016</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(51,973)</u>	<u>(51,973)</u>	<u>(39,236)</u>	<u>12,737</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	11,973	11,973	-	(11,973)
Transfers in	40,000	40,000	62,988	22,988
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>51,973</u>	<u>51,973</u>	<u>62,988</u>	<u>11,015</u>
<i>Net change in fund balance</i>	-	-	23,752	23,752
<i>Fund balance - beginning of year</i>	-	-	34,863	34,863
<i>Restatement (Note 19)</i>	-	-	(22,988)	(22,988)
<i>Fund balance - beginning of year, restated</i>	-	-	11,875	11,875
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,627</u>	<u>\$ 35,627</u>
Net change in fund balance (Non-GAAP)				\$ 23,752
Adjustments to revenues for accounts receivable				73
Adjustments to expenditures for accounts payable				1,752
Net change in fund balance (GAAP basis)				<u>\$ 25,577</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, 2014

	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	6,000	4,843	4,843	-
Federal capital grants	18,000	21,013	21,013	-
State operating grants	127,000	148,444	148,444	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>151,000</u>	<u>174,300</u>	<u>174,300</u>	<u>-</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>151,000</u>	<u>174,300</u>	<u>174,300</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Transfers in	-	-	51,973	51,973
Transfers out	(151,000)	(174,300)	(174,300)	-
<i>Total other financing sources (uses)</i>	<u>(151,000)</u>	<u>(174,300)</u>	<u>(122,327)</u>	<u>51,973</u>
<i>Net change in fund balance</i>	-	-	51,973	51,973
<i>Fund balance - beginning of year</i>	-	-	25	25
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,998</u>	<u>\$ 51,998</u>
Net change in fund balance (Non-GAAP)				\$ 51,973
Adjustments to revenue for other receivables				(7,089)
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 44,884</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, 2014

	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	45,000	65,181	65,181	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	40	600	19	(581)
Miscellaneous	-	-	2,018	2,018
<i>Total revenues</i>	<u>45,040</u>	<u>65,781</u>	<u>67,218</u>	<u>1,437</u>
<i>Expenditures</i>				
Current				
General government	34,870	36,162	36,161	1
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>34,870</u>	<u>36,162</u>	<u>36,161</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>10,170</u>	<u>29,619</u>	<u>31,057</u>	<u>1,438</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(10,170)	(29,619)	-	29,619
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(10,170)</u>	<u>(29,619)</u>	<u>-</u>	<u>29,619</u>
<i>Net change in fund balance</i>	-	-	31,057	31,057
<i>Fund balance - beginning of year</i>	-	-	81,979	81,979
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,036</u>	<u>\$ 113,036</u>
Net change in fund balance (Non-GAAP)				\$ 31,057
Adjustments to revenues for taxes receivable				192
No adjustments to expenditures				-
Net change in fund balance (GAAP basis)				<u>\$ 31,249</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-10

City of Lovington
 Economic Development 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, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	290,314	290,314	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	24,000	24,000	-
Total revenues	-	314,314	314,314	-
<i>Expenditures</i>				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Conservation and development	-	133,000	145,500	(12,500)
Capital outlay	-	251,818	251,818	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	384,818	397,318	(12,500)
<i>Excess (deficiency) of revenues over expenditures</i>	-	(70,504)	(83,004)	(12,500)
<i>Other financing sources (uses)</i>				
Designated cash	-	(815,382)	-	815,382
Transfers in	-	885,886	1,713,768	827,882
Transfers out	-	-	-	-
Total other financing sources (uses)	-	70,504	1,713,768	1,643,264
<i>Net change in fund balance</i>	-	-	1,630,764	1,630,764
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Restatement (Note 19)</i>	-	-	(815,382)	(815,382)
<i>Fund balance - beginning of year, restated</i>	-	-	(815,382)	(815,382)
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 815,382	\$ 815,382
Net change in fund balance (GAAP)				\$ 1,630,764
No adjustments to revenues				-
No adjustments to expenditures				-
Net change in fund balance (non-GAAP budgetary basis)				\$ 1,630,764

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, 2014

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 99,000	\$ 96,641	\$ 2,140,231	\$ 2,043,590
<i>Total operating revenues</i>	<u>99,000</u>	<u>96,641</u>	<u>2,140,231</u>	<u>2,043,590</u>
<i>Operating expenses</i>				
Personnel services	90,961	81,105	81,195	(90)
Contractual services	1,455,000	1,701,144	1,707,309	(6,165)
Supplies	3,000	2,908	2,907	1
Maintenance and materials	16,400	12,168	12,168	-
Utilities	1,300	1,173	1,173	-
Other operating expenditures	1,800	7,341	1,733	5,608
<i>Total operating expenses</i>	<u>1,568,461</u>	<u>1,805,839</u>	<u>1,806,485</u>	<u>(646)</u>
<i>Operating income (loss)</i>	<u>(1,469,461)</u>	<u>(1,709,198)</u>	<u>333,746</u>	<u>2,042,944</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Gain (loss) on disposal of capital assets	-	-	(2,614)	(2,614)
Miscellaneous income	2,000	6,845	1,209	(5,636)
Interest expense	-	-	-	-
Transfers in	1,770,000	1,792,157	-	(1,792,157)
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>1,772,000</u>	<u>1,799,002</u>	<u>(1,405)</u>	<u>(1,800,407)</u>
<i>Change in net position</i>	<u>302,539</u>	<u>89,804</u>	<u>332,341</u>	<u>242,537</u>
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Net position - beginning of year</i>	-	-	1,630,202	1,630,202
<i>Restatement</i>	-	-	(1,230,068)	(1,230,068)
<i>Net position - beginning of year, restated</i>	-	-	<u>400,134</u>	<u>400,134</u>
<i>Net position - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 732,475</u>	<u>\$ 732,475</u>
Changes in net position above			\$ 332,341	
Depreciation			<u>(10,287)</u>	
Change in net position per Exhibit D-2			<u>\$ 322,054</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 & Wastewater Proprietary Fund

For the Year Ended June 30, 2014

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 4,294,500	\$ 4,298,827	\$ 2,582,802	\$ (1,716,025)
<i>Total operating revenues</i>	<u>4,294,500</u>	<u>4,298,827</u>	<u>2,582,802</u>	<u>(1,716,025)</u>
<i>Operating expenses</i>				
Personnel services	974,844	980,725	1,718,465	(737,740)
Contractual services	53,500	65,655	50,836	14,819
Supplies	336,900	353,347	409,611	(56,264)
Maintenance and materials	1,017,500	1,543,756	259,905	1,283,851
Utilities	241,000	314,659	316,177	(1,518)
Other operating expenditures	858,644	446,542	59,168	387,374
<i>Total operating expenses</i>	<u>3,482,388</u>	<u>3,704,684</u>	<u>2,814,162</u>	<u>890,522</u>
<i>Operating income (loss)</i>	<u>812,112</u>	<u>594,143</u>	<u>(231,360)</u>	<u>(825,503)</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	3,500	3,500	3,742	242
Federal capital grants	350,000	26,975	26,975	-
Gain (loss) on disposal of capital assets	-	-	(191,628)	(191,628)
Miscellaneous income	48,000	776,364	50,471	(725,893)
Interest expense	120,421	164,904	(151,281)	(316,185)
Rent and royalty income	-	-	143,217	143,217
Transfers out	(1,770,000)	(1,792,157)	-	1,792,157
<i>Total non-operating revenues (expenses)</i>	<u>(1,248,079)</u>	<u>(820,414)</u>	<u>(118,504)</u>	<u>701,910</u>
<i>Change in net position</i>	<u>(435,967)</u>	<u>(226,271)</u>	<u>(349,864)</u>	<u>(123,593)</u>
Designated cash (budgeted increase in cash)	<u>435,967</u>	<u>226,271</u>	<u>-</u>	<u>(226,271)</u>
<i>Net position - beginning of year</i>	-	-	19,121,248	19,121,248
<i>Restatement</i>	-	-	1,335,792	1,335,792
<i>Net position - beginning of year, restated</i>	<u>-</u>	<u>-</u>	<u>20,457,040</u>	<u>20,457,040</u>
<i>Net position - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,107,176</u>	<u>\$ 20,107,176</u>
Change in net position above			\$ (349,864)	
Depreciation			<u>(962,728)</u>	
Change in net position per Exhibit D-2			<u>\$ (1,312,592)</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, 2014

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues</i>				
Charges for services	\$ 525,000	\$ 525,000	\$ 566,465	\$ 41,465
<i>Total operating revenues</i>	<u>525,000</u>	<u>525,000</u>	<u>566,465</u>	<u>41,465</u>
<i>Operating expenses</i>				
Personnel services	247,695	250,879	241,856	9,023
Contractual services	29,698	34,054	33,204	850
Supplies	50,000	34,990	33,154	1,836
Maintenance and materials	75,823	101,655	1,598	100,057
Utilities	-	-	-	-
Other operating expenditures	59,340	71,602	67,701	3,901
<i>Total operating expenses</i>	<u>462,556</u>	<u>493,180</u>	<u>377,513</u>	<u>115,667</u>
<i>Operating income (loss)</i>	<u>62,444</u>	<u>31,820</u>	<u>188,952</u>	<u>157,132</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	-	-	-	-
Loss on disposal	-	-	-	-
Miscellaneous income	70	70	3	(67)
Interest expense	-	-	-	-
Transfers in	-	-	446,408	446,408
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>70</u>	<u>70</u>	<u>446,411</u>	<u>446,341</u>
<i>Change in net position</i>	62,514	31,890	635,363	603,473
Designated cash (budgeted increase in cash)	<u>(62,514)</u>	<u>(31,890)</u>	<u>-</u>	<u>31,890</u>
<i>Net position - beginning of year</i>	-	-	664,187	664,187
<i>Restatement</i>	-	-	(446,408)	(446,408)
<i>Net position - beginning of year, restated</i>	<u>-</u>	<u>-</u>	<u>217,779</u>	<u>217,779</u>
<i>Net position - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,142</u>	<u>\$ 853,142</u>
Change in net position above			\$ 635,363	
Depreciation			<u>(49,736)</u>	
Change in net position per Statement B-2			<u>\$ 585,627</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
 Capital Project Replace & Repair Water Lines Proprietary Fund
 For the Year Ended June 30, 2014

	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>Restatement</i>	-	-	(3,536)	(3,536)
<i>Net position - beginning of year, restated</i>	-	-	-	-
<i>Net position - end of year</i>	\$ -	\$ -	\$ -	\$ -
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 Internal Service Fund

For the Year Ended June 30, 2014

	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	14,067	14,067	2,656	11,411
<i>Total operating expenses</i>	14,067	14,067	2,656	11,411
<i>Operating income (loss)</i>	(14,067)	(14,067)	(2,656)	11,411
<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>	(13,267)	(13,267)	(2,656)	10,611
Designated cash (budgeted increase in cash)	13,267	13,267	-	(13,267)
<i>Net position - beginning of year</i>	-	-	31,034	31,034
<i>Net position - end of year</i>	\$ (13,267)	\$ (13,267)	\$ 28,378	\$ 28,378
Change in net position above			\$ (2,656)	
No depreciation			-	
Change in net position per Statement C-2			\$ (2,656)	

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, 2014

	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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenses</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenses</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Non-operating revenues (expenses)</i>				
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net position</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Designated cash (budgeted increase in cash)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net position - beginning of year</i>	<u>-</u>	<u>-</u>	<u>8,457</u>	<u>8,457</u>
<i>Net position - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,457</u>	<u>\$ 8,457</u>
Change in net position above			\$ -	
No depreciation			<u>-</u>	
Change in net position per Statement C-2			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
City of Lovington
Schedule of Collateral Pledged by Depository
For Public Funds
June 30, 2014

Schedule I

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market/Par Value at June 30, 2014	Location of Safekeeper
Western Commerce Bank					
	GNMA #004597	12/20/2039	36202FDA1	\$ 589,276	Federal Home Loan Bank, Dallas, TX
	FHLMC #G08473	1/1/2042	3128MJQ37	654,256	Federal Home Loan Bank, Dallas, TX
	FNMA #725946	11/1/2034	31402DP79	338,699	Federal Home Loan Bank, Dallas, TX
	SBAP SERIES 2009/20D CLASS	4/1/2029	83162CSL8	<u>642,211</u>	Federal Home Loan Bank, Dallas, TX
Total Western Commerce Bank				<u>2,224,442</u>	
Lea County State Bank					
	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	300,000	* Independent Bankers Bank, Dallas, TX
	ALBUQUERQUE NM	8/1/2018	013595LH4	1,615,000	* Independent Bankers Bank, Dallas, TX
	RIO RANCHO NM	6/1/2022	767169DL6	1,375,000	* Independent Bankers Bank, Dallas, TX
	BERNALILLO NM SD	8/1/2015	085279RF6	<u>500,000</u>	* Independent Bankers Bank, Dallas, TX
Total Lea County State Bank				<u>6,575,000</u>	
Wells Fargo Bank					
	FN AE 0981 3.500%	3/1/2041	31419BCT0	<u>340,313</u>	Bank of New York Mellon, New York, NY
Total Western Commerce Bank				<u>340,313</u>	
Total Pledged Collateral (Primary Government)				<u><u>\$ 9,139,755</u></u>	

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

STATE OF NEW MEXICO
City of Lovington
Schedule of Deposit and Investment Accounts
For the Year Ended June 30, 2014

Account Name	Account Type	Lea County State Bank	Wells Fargo Bank
Deposits			
General	Checking-interest bearing	\$ 7,343,034	\$ -
Payroll	Checking-non interest bearing	956	-
Lovington Economic Development Revolving Loan	Checking-interest bearing	7,894	-
Municipal Court	Checking-non interest bearing	22,848	-
Municipal Court	Checking-non interest bearing	5,027	-
Payroll	Checking-non interest bearing	-	152,823
Senior Citizen's Supply Fund	Checking-non interest bearing	-	18,860
Employee Pension	Checking-non interest bearing	-	13,864
Motor Vehicle Department	Checking-non interest bearing	-	1,335
Multipurpose Senior Center	Checking-non interest bearing	-	51,998
Unemployment Compensation	Checking-non interest bearing	-	13,805
Special Youth (Designated Franchise)	Checking-non interest bearing	-	98,753
Lovington Fire Department	Checking-non interest bearing	-	12,653
Wastewater Treatment Plant	Checking-non interest bearing	-	695,138
CDBG Housing Rehab Project	Checking-non interest bearing	-	5
Water and Wastewater	Checking-non interest bearing	-	-
Wastewater Treatment Plant	Checking-non interest bearing	-	-
Certificate of Deposit	Certificate of deposit	-	-
Certificate of Deposit	Certificate of deposit	-	-
Certificate of Deposit	Certificate of deposit	-	-
Certificate of Deposit	Certificate of deposit	-	-
Certificate of Deposit	Certificate of deposit	-	-
Total amount of deposits in bank		<u>7,379,759</u>	<u>1,059,234</u>
Less: FDIC coverage		250,000	250,000
Total uninsured public funds		<u>7,129,759</u>	<u>809,234</u>
50% collateral requirements		3,564,880	404,617
Pledged securities		6,575,000	340,313
Over/(under) collateralized		<u>3,010,121</u>	<u>(64,304)</u>
Bank balance		7,379,759	1,059,234
Outstanding items		(467,128)	(154,170)
Deposits in transit		4,654	-
Other adjustments		(51,686)	500
Book balance		<u>\$ 6,865,599</u>	<u>\$ 905,564</u>
Investments			
<i>New MexiGROW - LGIP</i>		\$ -	\$ -
<i>New MexiGROW - LGIP</i>		-	-
<i>New MexiGROW - LGIP</i>		-	-
<i>New MexiGROW - LGIP</i>		-	-
		<u>\$ -</u>	<u>\$ -</u>
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

Western Commerce Bank	Estacado Credit Union	Local Government Investment Pool	Totals
\$ -	\$ -	\$ -	\$ 7,343,034
-	-	-	956
-	-	-	7,894
-	-	-	22,848
-	-	-	5,027
-	-	-	152,823
-	-	-	18,860
-	-	-	13,864
-	-	-	1,335
-	-	-	51,998
-	-	-	13,805
-	-	-	98,753
-	-	-	12,653
-	-	-	695,138
-	-	-	5
3,754,762	-	-	3,754,762
104,967	-	-	104,967
25,010	-	-	25,010
39,041	-	-	39,041
16,017	-	-	16,017
-	12,736	-	12,736
-	92,000	-	92,000
<u>3,939,797</u>	<u>104,736</u>	-	<u>12,483,526</u>
<u>330,068</u>	<u>104,736</u>	-	<u>934,804</u>
<u>3,609,729</u>	-	-	<u>11,548,722</u>
<u>1,804,865</u>	-	-	<u>5,774,361</u>
<u>2,224,442</u>	-	-	<u>9,139,755</u>
<u>419,578</u>	-	-	<u>3,365,394</u>
<u>3,939,797</u>	<u>104,736</u>	-	<u>12,483,526</u>
(312,110)	-	-	(933,408)
12,124	-	-	16,778
(108,000)	-	-	(159,186)
<u>\$ 3,531,811</u>	<u>\$ 104,736</u>	<u>\$ -</u>	<u>\$ 11,407,710</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>
			73,033
			<u>\$ 11,822,967</u>
			\$ 6,573,757
			4,681,190
			397,374
			129,654
			40,992
			<u>\$ 11,822,967</u>

STATE OF NEW MEXICO
City of Lovington
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 15,887	\$ 19,227	\$ 16,254	\$ 18,860
<i>Total assets</i>	<u>\$ 15,887</u>	<u>\$ 19,227</u>	<u>\$ 16,254</u>	<u>\$ 18,860</u>
Liabilities				
Deposits held and due to others	\$ 15,887	\$ 19,227	\$ 16,254	\$ 18,860
<i>Total liabilities</i>	<u>\$ 15,887</u>	<u>\$ 19,227</u>	<u>\$ 16,254</u>	<u>\$ 18,860</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,460	\$ 17,392	\$ 17,392	\$ 1,460
<i>Total assets</i>	<u>\$ 1,460</u>	<u>\$ 17,392</u>	<u>\$ 17,392</u>	<u>\$ 1,460</u>
Liabilities				
Deposits held and due to others	\$ 1,460	\$ 17,392	\$ 17,392	\$ 1,460
<i>Total liabilities</i>	<u>\$ 1,460</u>	<u>\$ 17,392</u>	<u>\$ 17,392</u>	<u>\$ 1,460</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 8,016	\$ -	\$ (3)	\$ 8,019
<i>Total assets</i>	<u>\$ 8,016</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 8,019</u>
Liabilities				
Deposits held and due to others	\$ 8,016	\$ -	\$ (3)	\$ 8,019
<i>Total liabilities</i>	<u>\$ 8,016</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 8,019</u>

See independent auditors' report

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ 12,167	\$ -	\$ (486)	\$ 12,653
<i>Total assets</i>	<u>\$ 12,167</u>	<u>\$ -</u>	<u>\$ (486)</u>	<u>\$ 12,653</u>
Liabilities				
Deposits held and due to others	\$ 12,167	\$ -	\$ (486)	\$ 12,653
<i>Total liabilities</i>	<u>\$ 12,167</u>	<u>\$ -</u>	<u>\$ (486)</u>	<u>\$ 12,653</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 37,530	\$ 36,619	\$ 33,157	\$ 40,992
<i>Total assets</i>	<u>\$ 37,530</u>	<u>\$ 36,619</u>	<u>\$ 33,157</u>	<u>\$ 40,992</u>
Liabilities				
Deposits held and due to others	\$ 37,530	\$ 36,619	\$ 33,157	\$ 40,992
<i>Total liabilities</i>	<u>\$ 37,530</u>	<u>\$ 36,619</u>	<u>\$ 33,157</u>	<u>\$ 40,992</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 H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
To the Honorable Mayor and City Commissioners
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, 2014, 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, 2014, and have issued our report thereon dated November 21, 2014.

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 2008-001, FS 2009-002, FS 2010-003, FS 2012-003, FS 2013-003, FS 2014-001, FS 2014-006, HAFS 2008-001, HAFS 2012-001, HAFS 2013-001, HAFS 2013-004, and HAFS 2014-001 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 2007-006, FS 2012-002, HAFS 2013-002, and HAFS 2014-003 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 2011-006, FS 2014-002, FS 2014-003, FS 2014-004, FS 2014-005, HAFS 2013-003, and HAFS 2014-002.

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 21, 2014

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Responses
June 30, 2014

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 2007-006 — Expenditures in Excess of Budget (Significant Deficiency)

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

Law Enforcement Special Revenue Fund	\$	617
Economic Development Special Revenue Fund		12,500
Solid Waste Proprietary Fund		646

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: Policy and procedures will be created, to include budget adjustments to occur on a quarterly basis, and implemented to ensure that the budget is appropriately monitored. City staff will continue to remain in contact with DFA to ensure that budget adjustments are carried out and adopted per their rules and regulations.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2008-001 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, accounts payable, 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.
- It was noted during testwork over capital asset additions that two of 23 items selected for testwork did not have supporting documentation which tied to the amount on the capital asset listing.
- It was noted during testwork over capital asset additions that one of 23 items selected for testwork had no supporting documentation.
- During accounts payable testwork, it was noted that two of the sixty four transactions tested had a Purchase Authorization completed after the purchase was made.
- During accounts payable testwork, it was noted that two of the sixty four transactions tested did not have the City Manager's approval on the Purchase Authorization although the items were over \$10,000.
- During credit card testwork, it was noted that one of five transactions tested had a Purchase Authorization completed after the purchase was made.
- The City does not maintain an accurate accounts receivable listing. It was noted during testwork of subsequent receipts, that 16 out of 73 transactions were not classified correctly as accounts receivable. These transactions total \$302,977.89.
- During testwork for accrued compensatory time, it was noted in four samples out of 53 that employees took leave in excess of the number permitted by City policy. These employees took time over the amount allotted totaling 53 hours for an amount of \$1,124.
- During testwork for accrued vacation, it was noted in 26 samples out of 121 that employees accrued more leave during the year than permitted by City policy. Hours for these employees were over reported by 151 hours for an amount of \$435.
- During testwork for accrued sick leave, it was noted in 12 samples out of 116 that employees accrued less leave during the year than permitted by City policy. Hours for these employees were under reported by 152 hours for an amount of \$2,738.
- During testwork for accrued compensated absences, it was noted in five samples out of 15 samples that absentee reports were missing to tie the balances to the hours used per the report. The total of these differences would result in a \$640.48 more than the total amount prepared by the client.
- During testwork for accrued compensated absences, it was noted in two samples out of 15 that the hourly rate used to compute the accrual did not agree to the rate in the personnel file. The total of these differences would result in \$63.36 more than the total amount prepared by the client.
- During testwork for accrued compensated absences, it was noted in one sample out of 15 that the ending balance per the maintained leave records did not match the report as prepared by the client. The balance per the maintained leave records was 145.30 hours while the ending balance per the report was 122.50. Using each individual employee's pay rate, this would result in a difference of 22.8 hours, or \$419.52 more than the total prepared by the client.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2008-001 Deficiencies in Internal Control Structure Design, Operation, and Oversight (Material Weakness) (continued)

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

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 2014 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly.

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

Views of Responsible Officials and Planned Corrective Action: Policies and procedures will be developed for journal entries. Enhanced policies and procedures will be incorporated to ensure that reconciliation of petty cash throughout the City is performed on a monthly basis. Components of this policy will include random internal audits performed by the Finance Department, assignment of individual cash drawers, and increased physical security of petty cash. The Finance Director will also begin the process of eliminating unused checking accounts and the consolidation of other checking accounts as allowed. Additional education and modification of the City purchasing policy will be performed to ensure that stricter accounting of expenditures is achieved. Modification of the City personnel ordinance in regards to leave and compensation benefits is being performed to ensure accurate accounting of accruals and compensated absences. The City will continue to 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.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2009-002- DFA Cash Report Does not Reconcile to the City’s Cash (Material Weakness)

Condition: For the year ended June 30, 2014, the City’s cash did not tie to the report submitted to the Department of Finance and Administration. The City’s cash differed from the DFA report by \$105,233.

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 or in total 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 has received direction in the past from DFA. However, the City will communicate with DFA immediately and determine both verbal and written direction regarding the requirements for reporting cash balances and what is required by DFA.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2010-003—Cash Activity Not Recorded (Material Weakness)

Condition: The City did not record all bank accounts in their general ledger system. There are two accounts operated by the Municipal court that the City has not recorded on their books in the amount of \$27,655. The City did not also report a large sum of Petty Cash that had been set aside in the amount of \$69,958. The City had a total cash balance reported of \$11,198,512 on their books when it should have been reporting \$11,295,939.

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, 2014.

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 continue to be strengthened through the review, modification, and creation of written policy and procedure regarding cash. All staff will be provided training and will ensure that each employee has a clear understanding of policy and procedure.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2011-006—Procurement Code – Bids (Other)

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

- Five (5) instances out of seven (7) where there is no evidence that the bid or proposal notice was published in the newspaper.
- One (1) instance out of seven (7) where there is no evidence that the bid or proposal was sealed.
- Three (3) instances where there is no invitation for bid of proposal that includes the specifications for the services or construction project.
- Five (5) bids there is no evidence that the City calculated the preferred 5% in-state preference before awarding the bid.
- Four (4) instances of no documentation of written notice to the awarded bidder.
- In one (1) instance, there were identical proposals submitted. There was no criteria or written documentation as to why one proposal was selected over the other.
- There was one (1) instance where all bids were rejected. There is no written documentation as to why all bids were rejected.
- There was one (1) instance where there was no documentation as to which bidder was awarded the job.

Criteria: Auditing Standards state that the 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. Good accounting policies require that the City be able to produce documentation of contracts.

The New Mexico Procurement Code, Section 13-1-1 to 13-1-199, NMSA 1978 documents the requirements required by the Purchasing Act. Such requirements include:

- 1) For single purchases in excess of \$60,000 for tangible property or in excess of \$60,000 for services, sealed, written bids must be solicited.
- 2) The invitation for bid or proposal includes the specifications for the services; construction or items of tangible personal property to be procured; determination for evaluation for all bids and proposals; all contractual terms and conditions applicable to the procurement; the locations where bids are to be received; and the date, time, and place of the bid opening.
- 3) An invitation for bids or a notice thereof shall be published not less than ten calendar days prior to the date set forth for the opening of bids. The notice shall be published at least once in at least three newspapers of general circulation in this state or the agency’s website that is maintained for the purpose.
- 4) A five percent preference is given to a bidder growing, producing, processing, manufacturing, or is a resident dealer for goods and services in the State of New Mexico.
- 5) The bid is awarded to the lowest bidder, except in the instance that one or more bidders have been evaluated as having a higher score than the lowest bidder.
- 6) Written notice is provided to the awarded bidder with reasonable promptness.
- 7) In the instance that all bids or proposals are rejected, a determination containing the reasons for cancellation shall be made part of the procurement file.

Effect: Without appropriate supporting documentation, the City has no assurance that all revenues and disbursements have been properly authorized and disbursed in accordance with applicable grant agreements and follow good accounting procurement practices. When files are disorganized, this provides for the possibility that noncompliance with the Procurement Code could go unnoticed by management.

Cause: The City did not comply with the procurement code and ensure that all documentation was maintained in the bid or proposal file.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

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

Auditors' Recommendation: All documentation should be kept in the file including requests that include preferences will be given to certain entities, newspaper clippings showing the date of circulation and who is circulating the advertisement, documentation of the official opening of bids/proposals, evaluation sheets completed by the responsible individuals, and documented written notice of awarding the bidder.

Views of Responsible Officials and Planned Corrective Actions: The City will develop a checklist to supplement our procurement policy that will ensure that all required documentation and information is included in the bid file. The developed process will ensure that management will review and verify that proper procurement was conducted.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2012-002 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, 2014. These checks totaled \$746.74.
- The City maintained 19 checks in the general operating account at Lea County State Bank. These checks totaled \$5,555.67.
- The City maintained 39 checks in the Water Department account at Western Commerce Bank. These checks totaled \$1,700.00.

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 2012-003 Pledged Collateral (Material Weakness)

Condition: Deposits at Wells Fargo Bank were not collateralized in accordance with State of New Mexico Statutes. The required collateral was \$404,617. The collateral provided by the banks was \$340,313, resulting in a shortfall of \$64,304.

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: Monthly review by the Finance Director of the pledged collateral available at our banking institutions is available. In the event the required amount is not available, the Finance Director will contact the institution and request the issue be corrected. In addition, the banking institution will be required to provide the City documentation as to why the collateral was not available and verification that they have corrected the issue.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2013-003 Internal Controls over Consumable Inventory (Material Weakness)

Condition: During testwork of consumable inventory, ACG noted that the City had a lack of control over tracking inventory to be able to restate beginning balances. There was no policy in effect for the current year that 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 track inventory on their books and make adjustments for inventory that is used throughout the year. 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: A consumable inventory policy was developed at the end of the fiscal year. Staff have been advised that if we continue to follow this policy, this finding will be resolved during our next audit. Management is ensuring that all employees have received training on this policy and are complying with its content and direction.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-001 Bank Reconciliation Preparation (Material Weakness)

Condition: The City erroneously included a transfer to the operating account at Lea County State Bank from the Wells Fargo Multipurpose Senior Center account in the amount of \$51,973 on the June 30, 2014 reconciliation. Through review of the deposit slip on the Lea County State Bank operating account statement for July 2014, this deposit was not prepared until July.

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 City of Lovington's cash accounts may not properly reflect the cash available to each fund.

Cause: The City was planning to make this transfer prior to the fiscal year end, but did not physically prepare the deposit slip to deposit at the bank prior to year end.

Auditors' Recommendation: We recommend that the City review that outstanding checks and deposits in transit be reviewed prior to final preparation of the bank statement to ensure that only those items that have actually been prepared are properly included on the reconciliation.

Views of Responsible Officials and Planned Corrective Actions: This is the result of trying to ensure correct fund balances with a correcting JE. I don't know why this one is a finding.

We are reviewing outstanding checks and deposits in transit prior to final preparation of the bank statement to ensure that only items that have actually been prepared are properly included on the bank reconciliation.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-002 Unable to Provide Evidence of Sanitization of Disposed Software or Electronic Media (Other)

Condition: The City was unable to provide evidence of sanitization of disposed software or electronic media.

Criteria: Per NM State Audit Rule 2.2.2.10 T, Disposition of Property. In the event a computer is disposed of the agency shall “sanitize” all licensed software and any electronic media pertaining to the agency. Hard drive erasure certification is still required even if the asset originally cost less than \$5,000 and was not included in the capital asset inventory. According to the May 5, 2002 memorandum from the Chief Information Technology Security and Privacy Office on this subject, ‘ordinary file deletion procedures do not erase the information stored on hard disks or other magnetic media’. Sanitizing erases or overwrites totally and unequivocally, all information stored on the media.

Effect: Without evidence to ensure computers, software, or other electronic media, confidential information belonging to the City may make its way into inappropriate hands.

Cause: For the 2014 fiscal year management did not have available evidence of the sanitizing process for computers, software, or other electronic media.

Auditors’ Recommendations: The City should ensure that they keep a form of evidence that computers, software, or other electronic media are sanitized prior to disposition.

Views of Responsible Officials and Planned Corrective Action: A policy will be created and approved by Commission that disposed software and electronic media will be correctly sanitized. A key component of this policy will be that when computer media and hardware is being disposed of, the hard drive will be formatted, removed from the computer, and physically destroyed as to render it inoperable. Upon this action, the department head will prepare a statement indicating the aforementioned actions were taken. City Commission will certify the sanitizing and destruction of electronic media once per year.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-003 Travel and Per Diem (Other)

Condition: During testwork regarding compliance with the Per Diem and Mileage Act, we noted in two instances totaling \$181.62, there was no evidence that the written approval from the Board for the employee to be reimbursed for actual expenses in lieu of per diem rates occurred prior to the trip/expense occurring.

Criteria: Auditing Standards state that the 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. Good accounting policies require that the City be able to produce documentation of contracts.

The Per Diem and Mileage Act, Section 10-8-1 to 10-8-8, NMSA 1978 documents the requirements required by the Act. Such requirements include:

- 1) With prior written approval of the secretary or the secretary's designee or the local public body, a nonsalaried public officer of a state agency or local public body, a salaried public officer of a state agency or local public body, or a salaried employee of a state agency or local public body is entitled to per diem expenses under this subsection and shall receive:
 - a. Reimbursement for actual expenses for lodging; and
 - b. Reimbursement for actual expenses for meals not to exceed \$30.00 per day for in-state travel and \$45.00 per day for out of state travel

Effect: The City is at risk of being fined and/or otherwise penalized for not complying with government regulations and the City is reimbursing more travel expense than is allowed.

Cause: The City was not in compliance with the Mileage and Per Diem Act.

Auditors' Recommendation: We recommend the City implement a procedure to review the travel and per diem expenditures prior to payment and ensure all reimbursements are in compliance with State Statutes and the City's policy.

Views of Responsible Officials and Planned Corrective Actions: Management agrees and will implement the auditors' recommendation.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-004 PERA Reconciliation (Other)

Condition: During PERA reconciliation testwork, ACG was unable to reconcile employer contributions to the general ledger. In addition, the files were unclear in the correct wages to report to PERA with the all the adjustments made.

Criteria: According to NMAC 2.80.500.8(A and B), each state agency or affiliated public employer shall be responsible for deducting the applicable contribution from the salary or wages paid to each member for each payroll period. The employer shall transmit to PERA the member and employer contributions for every member in its employ for each pay period on or before the fifth working day following the payday applicable to the pay period. The contributions shall be accompanied by a transmittal report in a format designated by PERA, which shall clearly set forth the amount of employer and member contributions, and adjustments for prior pay periods if applicable, transmitted.

Effect: The amount of PERA that is matched by the City may not be correctly recorded in the general ledger and may not be detected due to the lack of the reconciliation process in the event that the reports don't clearly state contributions remitted.

Cause: The City had several adjustments during the year, some of which affected a pay period more than once, due to changes in contribution rates that were changed several months after the fact.

Auditor's Recommendation: The auditor recommends that management perform a year end reconciliation to tie out wages reported to PERA as well as employer contributions to the trial balance to ensure that all wages have been reported to PERA accordingly. The City should also maintain documentation for each payment that ties to the remittance forms and clearly shows how each report was calculated.

Views of Responsible Officials and Planned Corrective Actions: Prior contributions are under review while policy and procedures will be reviewed to ensure proper accounting and reconciliation with PERA.

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-005 Untimely Deposit (Other)

Condition: During our internal control testwork over cash receipts, it was noted that one out of five receipts were not deposited within 24 hours of receipt. The receipt is in the amount of \$78.67 and was deposited two days after receipt.

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

Effect: Checks may go missing between receipt and deposit creating a greater chance for a misappropriation of funds.

Cause: The City of Lovington did not have adequate controls in place to ensure deposits were made within the 24 hour period.

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

Views of Responsible Officials and Planned Corrective Action: Management agrees and will implement the auditors' recommendation.

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Responses
June 30, 2014

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-006 Restatement (Material Weakness)

Condition: During our testwork over due to/froms, cash, capital assets, and compensated absences we became aware of materially incorrect balances reported in prior years.

Restatements were noted as follows:

Budgetary Basis

Fund Name	Fund Balance/Net Position Originally Reported		Restate Due To/Froms	Restate Cash	Fund Balance/Net Position Restated	
	6/30/13	6/30/13			6/30/13	6/30/13
General Fund	\$ 5,247,294	\$ 2,085,276	\$ -	\$ -	\$ 7,332,570	
Corrections Fund	77,152	(95,147)	-	-	(17,995)	
Lodger's Tax Fund	11,315	(20,754)	-	-	(9,439)	
Gasoline Tax Fund	525,286	(713,650)	-	-	(188,364)	
Recreation Fund	34,863	(22,988)	-	-	11,875	
Economic Development Fund	-	(815,382)	-	-	(815,382)	
Solid Waste Fund	1,630,202	(1,300,026)	69,958		400,134	
Water & Wastewater Fund	19,121,248	1,335,792	-		20,457,040	
Ambulance Fund	664,187	(446,408)	-		217,779	
Capital Project Replace & Repair Water Lines Fund	3,536	(3,536)	-		-	
	<u>\$ 27,315,083</u>	<u>\$ 3,177</u>	<u>\$ 69,958</u>		<u>\$ 27,388,218</u>	

Proprietary Funds

Fund Name	Fund Balance/Net Position Originally Reported		Budgetary Basis Restatement	Restate Capital Assets	Restate Accounts Payable	Restate Compensated Absences	Fund Balance/Net Position Restated
	6/30/13	6/30/13					
Solid Waste Fund	\$ 1,517,952	\$ (1,230,068)	\$ (610)	\$ -	\$ 1,037	\$ 288,311	
Water & Wastewater Fund	10,555,392	1,335,792	203,842	(16,724)	(20,444)	12,057,858	
Ambulance Fund	591,009	(446,408)	(4,171)	-	(14,830)	125,600	
Capital Project Replace & Repair Water Lines Fund	3,536	(3,536)	-	-	-	-	
	<u>\$ 12,667,889</u>	<u>\$ (344,220)</u>	<u>\$ 199,061</u>	<u>\$ (16,724)</u>	<u>\$ (34,237)</u>	<u>\$ 12,471,769</u>	

Governmental Activities

Fund Name	Fund Balance/Net Position Originally Reported		Budgetary Basis Restatement	Restate Capital Assets	Restate Compensated Absences	Fund Balance/Net Position Restated
	6/30/13	6/30/13				
Governmental Activities	\$ 27,817,997	\$ 417,355	\$ (701,295)	\$ (79,351)	\$ 27,454,706	
	<u>\$ 27,817,997</u>	<u>\$ 417,355</u>	<u>\$ (701,295)</u>	<u>\$ (79,351)</u>	<u>\$ 27,454,706</u>	

B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)

FS 2014-006 Restatement (Material Weakness) – continued

Criteria: New Mexico Statutes, Section 6-5-2, NMSA 1978, requires local public bodies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal laws and rules related to financial matters.

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. Good accounting policies require accurate records be kept and be able to be substantiated.

Cause: The City of Lovington did not have qualified staff overseeing their financial matters for a number of years.

Effect: Prior year balances were not reported accurately.

Auditors' Recommendation: We recommend that the City establish a quality control process for verifying year end balances and the accuracy of underlying reports.

Views of Responsible Officials and Planned Corrective Action: This should be a onetime adjustment. Accounting practices are being updated.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

HAFS 2008-001 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

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: 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.

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: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have sufficient staff for segregation of duties and financial expertise to comply with the recommendations.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2012-001 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 \$81,006 for concrete driveway projects should not have been capitalized in the current year as they related to several different dwelling units whose cost individually did not exceed \$5,000. In addition, the fee accountant recorded depreciation for the entire fiscal year on 2014 asset additions rather than prorating the amount based on the month the asset was placed in service. Combined with the assets that should not have been capitalized, this resulted in an adjustment of \$9,196.62 to current year depreciation.

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 individually for amounts greater than \$5,000.

Views of Responsible Officials and Planned Corrective Actions: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have accounting expertise to ensure proper depreciation is calculated on each asset and that individual cost of assets will exceed \$5,000.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2013-001 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:

- Journal entries were not provided to management in a timely manner to permit monthly review of journal entries made by the fee accountant.
- 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 five out of 10 samples for an amount of \$24,106.60 that no supporting documentation maintained by the fee accountant was included to support the entry. Three of these samples did not have a journal entry number, and one did not have the date it was posted.

Criteria: As required by NMSA 1978 Section 6-6-3, the 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 2014 management and the body charged with governance did not have expertise and/or training to implement an adequate internal control structure.

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. Additionally, the Authority should review and approve all journal entries in writing made 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: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they should ensure a comprehensive internal control structure is designed, documented and implemented. All Journals are expected to be reviewed.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2013-002 Voided and Stale Dated Checks (Significant Deficiency)

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. This would indicate that checks were not being properly voided in the system.

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.

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' Recommendation: 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: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they should have a system for voiding checks and recording them in the accounting system that meet GAAP.

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

HAFS 2013-003 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%. In 2013, it was estimated to be 0%. For the 2014 year, the allowance was 30%. Based on client documentation provided in the prior year, 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: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they should have the experience to ensure historical calculation are being maintained in order to better estimate the percentage of uncollectible accounts.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2013-004 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 of the listing.

Views of Responsible Officials and Planned Corrective Actions: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have sufficient staff and expertise to perform annual inventory of capital assets and have the Authority board certify the inventory as to its correctness.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2014-001 Inaccurate Accounts Receivable Listing (Material Weakness)

Condition: The Authority did not provide an accurate accounts receivable listing. During operating subsidy testwork, it was noted that material journal entries in the amount of \$75,031 were necessary for accounts receivable to appear to be fairly stated at year end.

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: Because the Authority did not provide an accurate listing, it creates the possibility that accounts receivable could be materially misstated for the current year end.

Cause: The Authority did not properly identify receivable items at year end.

Auditors' Recommendations: ACG recommends that the Authority perform a careful review at year end when looking through subsequent receipts as well as grant award amounts still outstanding to correctly identify items that are considered to be accruals at year end.

Views of Responsible Officials and Planned Corrective Actions: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have sufficient staff and expertise, which should perform careful reviews of year end receipts as well as grant award amounts for accruals.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

HAFS 2014-002 Late IPA Recommendation Form (Other)

Condition: The Authority did not submit its completed and signed IPA Recommendation Form for Audits to the State Auditor by the deadline.

Criteria: The New Mexico Administrative Code (NMAC) 2.2.2.8 paragraph 6 of subsection G states that “the agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadline.” For local public bodies, this deadline date is May 15th.

Effect: Recommendation and related contracts that are not received by the State Auditor is a violation of the New Mexico Administrative Code.

Cause: The Authority did not submit their IPA Recommendation timely.

Auditors’ Recommendation: We recommend that the Authority ensure all reports are filed timely with the State Auditor to be in compliance with all New Mexico State Statutes.

Views of Responsible Officials and Planned Corrective Actions: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have sufficient staff and expertise, who know the State reporting requirements and deadlines, so that all reports are filed on a timely basis.

FS 2014-003 Expenditures in Excess of Budget (Significant Deficiency)

Condition: The Authority over expended its budget in the following fund:

Low Rent Public Housing Fund	\$77,220
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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 Authority money.

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

Auditors’ Recommendations: We recommend the Authority 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: Beginning with the next calendar year the Eastern Regional Housing Authority will be assuming the management of Lovington Housing Authority programs and they have sufficient staff and expertise, who will ensure budget adjustments are made and the budget is not over expended.

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Responses
June 30, 2014

D. **PRIOR YEAR AUDIT FINDINGS**

Primary Government:

FS 2007-006 (2007-06) – Expenditures in Excess of Budget – Revised and Repeated

FS 2008-001 (2008-01) – Deficiencies in Internal Control Structure Design, Operation, and Oversight – Revised and Repeated

FS 2008-005 (2008-05) – Capital Assets – Resolved

FS 2009-002 (2009-02) – DFA Cash Report Does not Reconcile to the City’s Cash – Revised and Repeated

FS 2010-003 (2010-03) – Cash Activity Not Recorded – Revised and Repeated

FS 2011-006 (2011-06) – Procurement Code – Bids – Revised and Repeated

FS 2012-002 (2012-02) – Stale Dated Transactions Not Cancelled – Revised and Repeated

FS 2012-003 (2012-03) – Pledged Collateral – Revised and Repeated

FS 2013-001 (2013-01) – Capital Asset Certification – Resolved

FS 2013-002 (2013-02) – Capital Asset Additions, Repairs, and Maintenance – Resolved

FS 2013-003 (2013-03) – Internal Controls over Consumable Inventory – Revised and Repeated

Component Unit:

HAFS 2008-001 (2008-01) Deficiencies in Internal Control Structure, Design, Operation, and Oversight- Revised and Repeated

HAFS 2012-001 (2012-01) Deficiencies in Accounting for Capital Assets- Revised and Repeated

HAFS 2012-003 (2012-03) Information Security Disaster Recovery Policy- Revised and Repeated

HAFS 2013-001 (2013-01) Deficiencies in Internal Control Over Journal Entries- Revised and Repeated

HAFS 2013-002 (2013-02) Voided and Stale Dated Checks- Revised and Repeated

HAFS 2013-003 (2013-03) Inconsistency in Allowance For Tenant Receivables- Revised and Repeated

HAFS 2013-004 (2013-04) Capital Asset Certification- Revised and Repeated

STATE OF NEW MEXICO

City of Lovington

Other Disclosures

June 30, 2014

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 October 31, 2014. The following individuals were in attendance.

City of Lovington

Scott Gandy, *Mayor*

Gary Lee Chapman, *Finance Director*

James Williams, *City Manager*

City of Lovington Housing Authority

Maria Rios, *Vice Chairman*

Accounting & Consulting Group, LLP

Shelley Olson, CPA, *Manager*

Jessica Huff, CPA, *In-charge*