



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
CITY OF GALLUP**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2017

**STATE OF NEW MEXICO
CITY OF GALLUP
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For the Year Ended June 30, 2017**

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CITY OF GALLUP
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**STATE OF NEW MEXICO
CITY OF GALLUP
Official Roster
As of June 30, 2017**

CITY COUNCIL

| NAME | TITLE |
|-----------------|-------------------------|
| Jackie McKinney | Mayor |
| Linda Garcia | Councilor - District #1 |
| Allan Landavazo | Councilor - District #2 |
| Yogash Kumar | Councilor - District #3 |
| Fran Palochack | Councilor - District #4 |

ADMINISTRATIVE OFFICIALS

| NAME | TITLE |
|--------------------|-------------------------|
| Maryann Ustick | City Manager |
| Curtis Hayes | City Attorney |
| Patty Holland, CPA | Chief Financial Officer |

INDEPENDENT AUDITOR'S REPORT

Wayne Johnson
New Mexico State Auditor
To the City Manager and City Councilors
The City of Gallup
Gallup, 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 Gallup (the City), as of and for the year ended June 30, 2017, 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 also have audited the financial statements of each of the City's nonmajor governmental, internal service funds, and fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017, 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.

Opinions

In our opinion, 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, 2017, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, internal service fund, and fiduciary funds of the City as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the 2017 financial statements have been restated due to misstatements and GASB 82 implementation. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, and the Schedules related to PERA and Net Pension Liabilities, listed as "Required Supplementary Information" in the table of contents, 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 City's financial statements, the combining and individual fund financial statements, and the schedule of changes in assets and liabilities - agency funds. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the financial data schedule required by the U.S. Department of Housing and Urban Development, and the other schedules listed as "other supplementary information" in the table of contents, required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, the financial data schedule, and other schedules listed as "other supplementary information" in the table of contents, required by 2.2.2 NMAC, 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 auditing standards generally accepted in the United States of America. In our opinion, the additional schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 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.

Hinkle & Landers, P.C.

Hinkle + Landers, PC
Albuquerque, New Mexico
December 13, 2017

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

As management of the City of Gallup, we offer the readers of the City of Gallup financial statements this narrative overview and analysis of the financial activities of the City of Gallup for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements of the City of Gallup and additional information provided.

Financial Highlights

- The assets of the City of Gallup exceeded its liabilities at the close of the most recent fiscal year by \$182,116,692 (net position). Of this amount, \$68,174,726 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's governmental activities net position increased by \$2,887,658, compared to prior year. Charges for services, capital grants, and gross receipts grew to help generate higher revenues while expenses were held to minimal growth, which led to the position change in net position.
- The business-type activities total net position assets increased by \$11,132,466, compared to prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Gallup's basic financial statements. The City of Gallup'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 Gallup's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Gallup'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 Gallup is improving or deteriorating.

The *statement of activities* presents information showing how the government'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 of Gallup 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 include general government, culture and recreation, public safety, health and welfare, and public works (highways and streets). The business-type activities of the City include the operations of Utilities, Solid Waste, Airport, The Fitness Center, Rodeo, Gamarco Billings, and Risk Management internal service fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate housing authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements are found in this report as noted in the Table of Contents.

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 Gallup, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Gallup can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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

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

The City of Gallup maintains thirty-one (31) individual governmental funds. Information is presented separately in the governmental fund financials and the combining and individual fund statements and schedules. The major governmental fund consists of only the General Fund. Data from the other thirty (30) governmental funds are also combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in this report, in the form of the combining and individual fund statements and schedules, as noted in the Table of Contents.

The City of Gallup 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 and any major special revenue funds, to demonstrate compliance with this budget.

The budgets of each governmental fund are found in this report as noted in the Table of Contents.

Proprietary funds. The City maintains two different 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 uses enterprise funds to account for its Electric, Water, Waste Water, Solid Waste, The Fitness Center, Rodeo, and Gamerco Billings. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its insurance administration. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 Joint Utilities, which is considered to be the major proprietary fund of the City. Conversely, the internal service fund is combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements are found in this report as noted in the Table of Contents.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements are found in this report as noted in the Table of Contents.

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 are found in this report as noted in the Table of Contents.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules are found in this report as noted in the Table of Contents.

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

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 Gallup, assets exceeded liabilities by \$182,116,692 at the close of the most recent fiscal year.

The largest portion of the City of Gallup' net position, 57%, reflects its net investment in capital assets (e.g. land, buildings, machinery and equipment less accumulated depreciation), 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 capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole. This was also true for the prior fiscal year.

**City of Gallup
Net Position
(In thousands)**

| | Governmental | | Business-type Activities | | Total | |
|--|------------------|------------------|--------------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Current and other assets | \$ 31,386 | 23,434 | 81,839 | 83,387 | 113,225 | 106,820 |
| Capital assets, net of accumulated depreciation | 67,641 | 64,067 | 75,708 | 64,453 | 143,349 | 128,520 |
| Deferred outflows of resources | 9,982 | 4,416 | 2,839 | 827 | 12,821 | 5,242 |
| Total assets and deferred outflows or resources | <u>109,009</u> | <u>91,917</u> | <u>160,386</u> | <u>148,666</u> | <u>269,395</u> | <u>240,583</u> |
| Current and other assets | \$ 4,821 | 3,800 | 6,917 | 6,269 | 11,738 | 10,069 |
| Long-term liabilities outstanding | 53,628 | 40,682 | 20,995 | 21,113 | 74,623 | 61,794 |
| Deferred inflows of resources | 840 | 603 | 77 | 20 | 917 | 623 |
| Total liabilities and deferred inflows of resources | <u>\$ 59,289</u> | <u>45,084</u> | <u>27,989</u> | <u>27,402</u> | <u>87,278</u> | <u>72,486</u> |
| Net position | <u>\$ 49,720</u> | <u>46,832</u> | <u>132,397</u> | <u>121,264</u> | <u>182,117</u> | <u>168,097</u> |

Overall net position increased by \$14,020,124. This was an 8.3% increase from prior year. Many of the City's grant projects rolled over from prior year grant awards. Overall revenues increased with charges for services, operating grants and contributions, capital grants. Expenses increased only slightly overall.

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

**City of Gallup
Statement of Activities
(In thousands)**

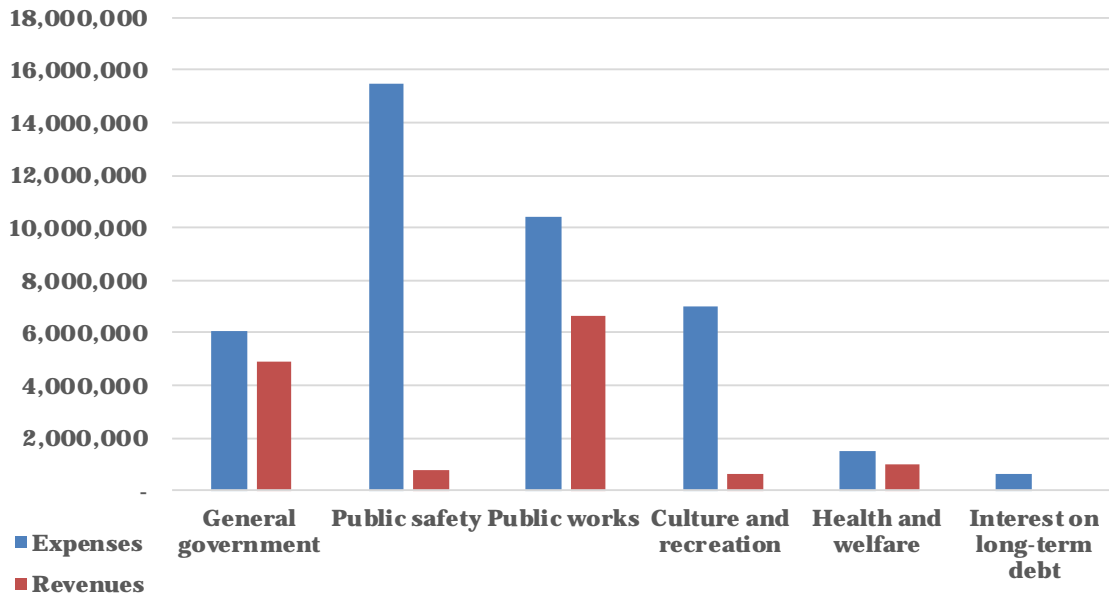
| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Revenues | | | | | | |
| Taxes | \$ 28,015 | 27,481 | 4,039 | 4,650 | 32,054 | 32,131 |
| Intergovernmental | 9,116 | 4,441 | 3,053 | 5,666 | 12,169 | 10,107 |
| Charges for services | 4,895 | 4,162 | 40,267 | 38,127 | 45,162 | 42,289 |
| Other | 220 | 410 | 621 | 2,060 | 841 | 2,470 |
| Total revenue | <u>42,246</u> | <u>36,494</u> | <u>47,980</u> | <u>50,503</u> | <u>90,227</u> | <u>86,997</u> |
| Expenses | | | | | | |
| General government | 6,073 | 10,050 | - | - | 6,073 | 10,050 |
| Public safety | 15,463 | 12,968 | - | - | 15,463 | 12,968 |
| Public works | 10,434 | 5,895 | - | - | 10,434 | 5,895 |
| Culture and recreation | 6,996 | 6,148 | - | - | 6,996 | 6,148 |
| Health and welfare | 1,494 | 1,024 | - | - | 1,494 | 1,024 |
| Interest on long-term debt | 653 | 700 | - | - | 653 | 700 |
| Joint utility | - | - | 29,544 | 30,202 | 29,544 | 30,202 |
| Solid waste | - | - | 3,143 | 3,019 | 3,143 | 3,019 |
| Fitness center | - | - | 261 | 250 | 261 | 250 |
| Rodeo | - | - | 232 | 235 | 232 | 235 |
| Gamerco | - | - | 418 | 405 | 418 | 405 |
| Total expenses | <u>41,112</u> | <u>36,785</u> | <u>33,597</u> | <u>34,111</u> | <u>74,710</u> | <u>70,896</u> |
| Transfers | <u>2,763</u> | <u>4,172</u> | <u>(2,763)</u> | <u>(4,172)</u> | <u>-</u> | <u>-</u> |
| Change in net position | <u>\$ 3,896</u> | <u>3,881</u> | <u>11,621</u> | <u>12,220</u> | <u>15,517</u> | <u>16,101</u> |

Governmental activities. Governmental activities increased the City's net position by \$2,887,658 (net restatements), thereby accounting for 21% of the total increase in the net position of the City. Key elements of this increase are as follows:

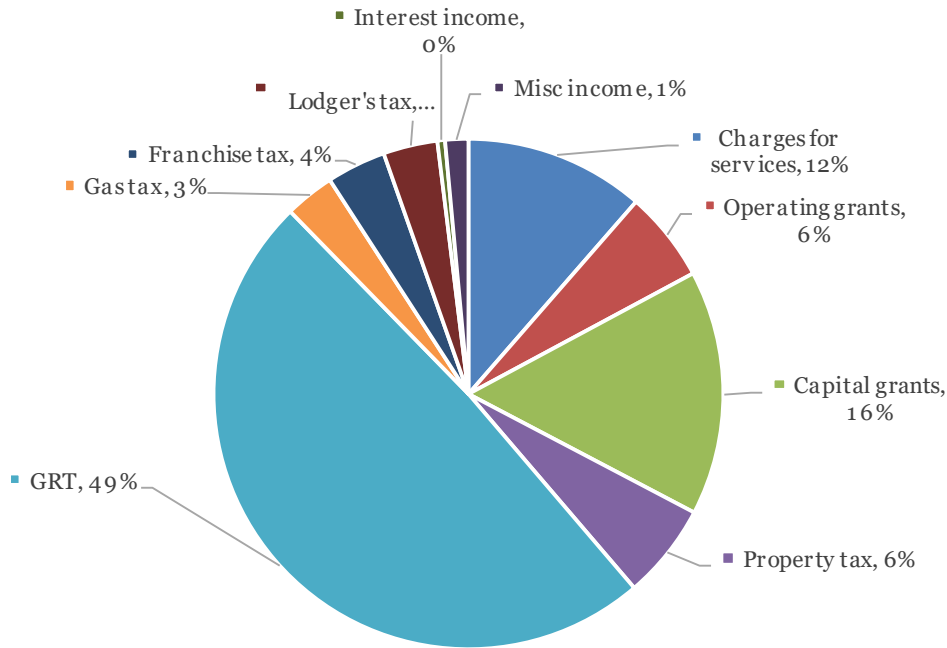
- Operating and capital grants increased by \$4,675,397, primarily due to the continuing efforts to renew and obtain new funding. Primary new funding includes programming related to detoxification services and safe shelter housing.
- Charges for services decreased by \$266,739 due to decreases in usage of recreational facilities around the City as well as reduced special programs health and welfare.
- Expenses increased by \$4,326,485, representing an increase of 12% from the prior fiscal year.

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

**Governmental Activities
Expenses and Program Revenues**



Governmental Activities Revenue Sources



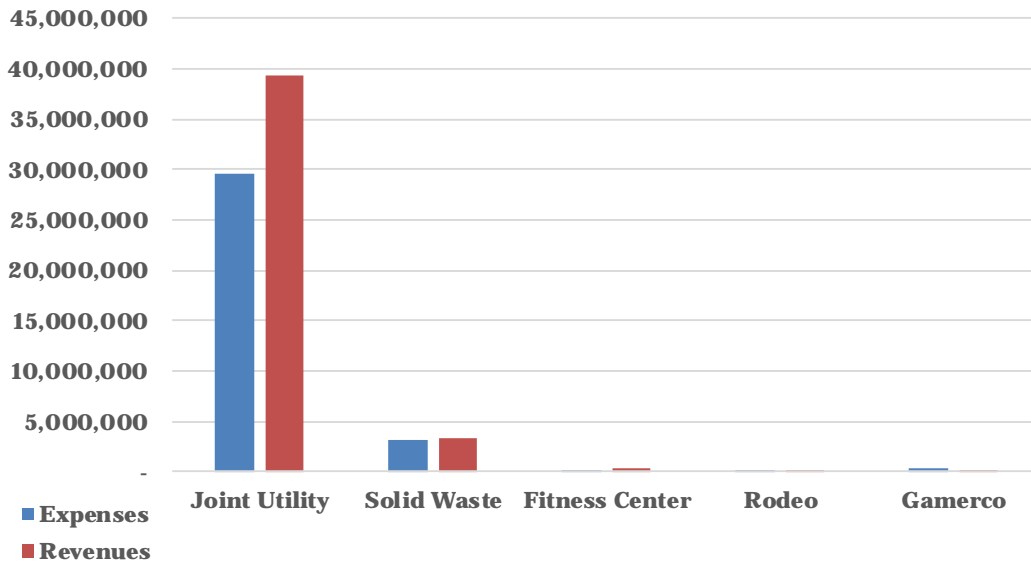
Business-type activities. Business-type activities increased the City's net position by \$11,132,466 (net restatements), accounting for 79% of the total growth of the government's net position. Key elements of this increase are as follows:

- Charges for services increased by \$2,140,667, representing a 6% increase from the prior fiscal year, primarily due to rate increases to help support upcoming capital projects and major repair and maintenance of the utility system.

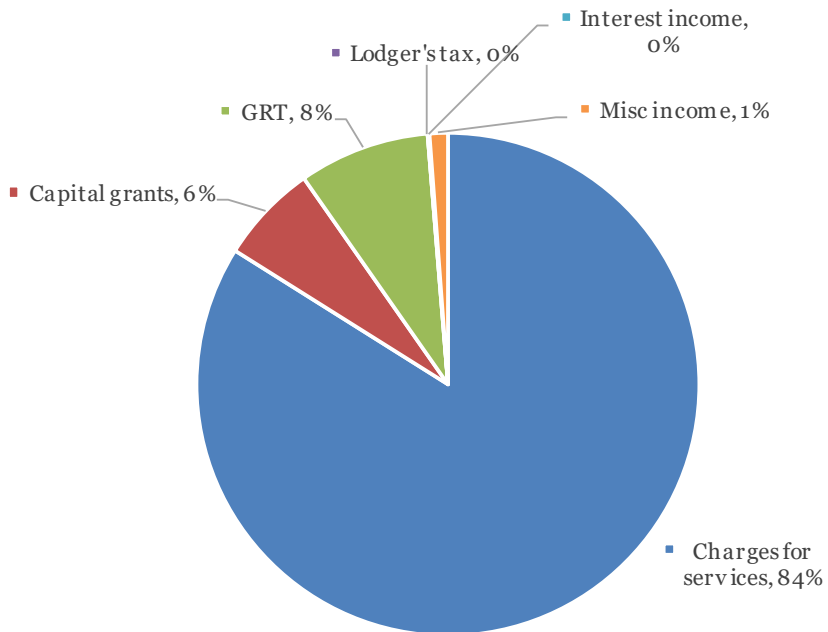
**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

- Operating and capital grants decreased by \$2,612,319, representing a 46% decrease from the prior fiscal year. This represents a decrease in funding from NMFA for the Navajo Gallup pipeline project.
- Overall expenses for business-type activities decreased \$513,559. Specifically, the expenses for the Joint Utility fund decreased \$658,444, representing a decrease of 2% from the prior fiscal year.

**Business-Type Activities
Expenses and Program Revenues**



Business-Type Activities Revenue Sources



**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,604,868, an increase of \$7,859,508, or 42%, in comparison with the prior year. The General Fund individually had an increase in fund balance of \$7,098,520, which is available for spending at the City's discretion.

Key factors in this increase are as follows:

- Gross receipts increased by \$970,071,
- State capital grants increased by \$1,527,401
- Federal capital grants increased by \$3,107,108
- Capital outlay increased by \$4,495,404, and
- Debt service principal decreased by \$1,050,913.

Proprietary funds. The City of Gallup' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total unrestricted net position at the end of the year amounted to \$69,662,830. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled \$1,024,900 in revenues and \$6,981,076 in expenditures and can be briefly summarized as follows:

- Grants had increased revenue of \$971,706, as a result of renewal of existing grants and receipt of new funding.
- Charges for service had increased revenue of \$48,044.
- General Government expenditures increased by \$378,677.
- Public safety expenditures increased by \$153,683.
- Public works expenditures increased by \$1,821,507.
- Culture and recreation expenditures increased by \$156,238.
- Capital outlay expenditures increased by \$4,470,971.

Capital Asset and Debt Administration

Capital assets. The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$143,348,532 (net of accumulated depreciation and relate). This investment in capital assets includes land, construction in process, buildings, improvements, machinery and equipment, vehicles, and distribution systems; net of accumulated depreciation. The total increase in the City's investment in capital assets for the current fiscal year was 12% (3% increase for governmental activities and 9% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Land and construction in process acquisitions, and deletions resulted in a combined increase of \$12,169,076.
- Building acquisitions, and deletions, net accumulated depreciation, resulted in a decrease of \$1,254,116.

**STATE OF NEW MEXICO
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Management's Discussion and Analysis
For the Year Ended June 30, 2017**

- Miscellaneous improvements acquisitions, and deletions, net accumulated depreciation, resulted in an increase of \$311,791.
- Equipment acquisitions, and deletions, net accumulated depreciation, resulted in an increase of \$1,450,895.
- Infrastructure acquisitions, and deletions, net accumulated depreciation, resulted in an increase of \$2,150,970.

**City of Gallup
Capital Assets
(In thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Land | \$ 13,491 | 13,441 | 2,835 | 2,793 | 16,326 | 16,234 |
| Construction in progress | 184 | 487 | 24,466 | 21,780 | 24,650 | 22,267 |
| Buildings | 15,429 | 15,957 | 21,054 | 544 | 36,483 | 16,502 |
| Other improvements | 648 | 322 | 530 | 2,956 | 1,178 | 3,277 |
| Equipment | 3,953 | 2,560 | 3,014 | 24,294 | 6,966 | 26,854 |
| Infrastructure | 33,936 | 31,300 | 23,808 | 12,086 | 57,745 | 43,386 |
| Net capital assets | \$ 67,641 | 64,067 | 75,708 | 64,453 | 143,349 | 128,520 |

Additional information on the City of Gallup' capital assets can be found in Note 5 in the Notes to the Financial Statements, as noted in the Table of Contents.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$32,500,000. Of this amount, \$6,015,000 comprises debt back by property taxes, \$15,855,000 comprises debt backed by gross receipts tax revenues, and \$10,630,000 is backed by revenue generated by Utilities. The remaining debt of \$6,359,463 is made up of loans backed by specific operational revenue sources. Other debt compensated absences, net pension liability, and landfill closure liability total an additional \$41,332,410.

**City of Gallup
Long-term Debt
(In thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| GO bonds | \$ 6,015 | 795 | - | - | 6,015 | 795 |
| Revenue bonds | 15,855 | 17,285 | 10,630 | 12,650 | 26,485 | 29,935 |
| Notes payable | 750 | 858 | 5,610 | 5,942 | 6,359 | 6,801 |
| Compensated absences | 1,298 | 1,090 | 346 | 377 | 1,645 | 1,467 |
| Net pension liability | 32,637 | 23,046 | 6,862 | 4,553 | 39,500 | 27,598 |
| Landfill closure liability | - | - | 188 | 207 | 188 | 207 |
| Total Debt | \$ 56,555 | 43,074 | 23,637 | 23,729 | 80,192 | 66,803 |

During the current fiscal year, the City's total debt outstanding increased by \$13,388,954. During the year the City took out a new General Obligation bond in the amount of \$5,365,000.

Credit Ratings

Currently the City does not have a bond rating. We are working to have the rating established within the next fiscal year.

**STATE OF NEW MEXICO
CITY OF GALLUP
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Debt Limitation

Article IX, Section 13 of the State Constitution limits the powers of the City to incur general obligation debt to an aggregate amount, including existing indebtedness, not to exceed four (4) percent of the value of the taxable property in the City as shown by the last preceding general assessments. The current general obligation debt limitation for the City is approximately \$14.0 million, with approximately \$8 million as remaining capacity.

Additional information on the City's long-term debt can be found in the Notes to the Financial Statements as noted in the Table of Contents.

Economic Factors and Next Year's Budget

- Budget revenues for fiscal year 2018 were projected using a 5-year average adjusted for a 3-year trend analysis.
- Inflationary trends in the region compare favorably to national indices.

During the current fiscal year, unreserved fund balance in the general fund increased \$6,888,805. The City has appropriated \$738,000 of fund balance for spending in the 2018 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges for services during the 2018 fiscal year.

Utilities increased rates for the 2017 budget year. Electric rates increased by an average of 7.8% for all customers water rates increased by 4.95% for residential service, 4.2% for non-residential service, the Navajo Gallup Water Supply Project fee increased by 53.13%, the water surcharge increase was 2.9%, and waste water rates increased by 15.0% overall. These rate increases were necessary to for projected operational needs as well as capital improvements needs and financing of additional capital improvements.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Gallup, Finance Department, P.O. Box 1270, Gallup, New Mexico 87305. In addition, information concerning the City's component unit, Gallup Housing Authority's and their complete financial statements can be obtained from the Gallup Housing Authority, 203 Debra, Gallup, New Mexico 87301.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Net Position
As of June 30, 2017**

| | Primary Government | | Total | Component Unit |
|--|----------------------------|-----------------------------|----------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | | Gallup Housing Authority |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 7,883,113 | 32,985,704 | 40,868,817 | 396,081 |
| Investments | 11,582,701 | 34,823,549 | 46,406,250 | - |
| Receivables: | | | | |
| Property taxes | 292,645 | - | 292,645 | - |
| Other taxes | 3,745,040 | 600,854 | 4,345,894 | - |
| Grants receivable | 1,850,220 | 928,883 | 2,779,103 | 117,143 |
| Accounts receivables, net | 278,996 | 5,336,677 | 5,615,673 | 6,695 |
| Inventory | 112,873 | 1,860,663 | 1,973,536 | 63,051 |
| Prepaid expenses and other current assets | - | - | - | 12,201 |
| Due from other funds | - | - | - | 66,384 |
| Total current assets | <u>25,745,588</u> | <u>76,536,330</u> | <u>102,281,918</u> | <u>661,555</u> |
| Noncurrent assets | | | | |
| Restricted cash | 5,640,710 | 4,370,478 | 10,011,188 | 52,654 |
| Restricted cash - customer deposits | - | 932,186 | 932,186 | - |
| Land and work in progress | 13,675,157 | 27,301,239 | 40,976,396 | 1,593,833 |
| Capital assets, depreciable | 110,414,524 | 92,987,360 | 203,401,884 | 14,346,828 |
| Less: accumulated depreciation | <u>(56,448,696)</u> | <u>(44,581,052)</u> | <u>(101,029,748)</u> | <u>(8,068,697)</u> |
| Total noncurrent assets | <u>73,281,695</u> | <u>81,010,211</u> | <u>154,291,906</u> | <u>7,924,618</u> |
| Total assets | <u>99,027,283</u> | <u>157,546,541</u> | <u>256,573,824</u> | <u>8,586,173</u> |
| Deferred Outflows of Resources | | | | |
| Pension deferral | 9,981,502 | 2,839,325 | 12,820,827 | 332,760 |
| Total deferred outflows of resources | <u>9,981,502</u> | <u>2,839,325</u> | <u>12,820,827</u> | <u>332,760</u> |
| Total assets and deferred outflows of resources | <u>\$ 109,008,785</u> | <u>160,385,866</u> | <u>269,394,651</u> | <u>8,918,933</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 785,888 | 2,845,034 | 3,630,922 | 51,693 |
| Accrued payroll expenses | 774,525 | 182,758 | 957,283 | 19,402 |
| Accrued tax liability | - | 211,120 | 211,120 | - |
| Deposits held in trust for others | - | 932,186 | 932,186 | 52,654 |
| Accrued interest payable | 111,832 | 18,354 | 130,186 | - |
| Due to other funds | - | - | - | 66,384 |
| Unearned revenue | - | 85,594 | 85,594 | 16,274 |
| Bond premium, net | 221,718 | - | 221,718 | - |
| Compensated absences, current portion | 843,982 | 225,040 | 1,069,022 | 14,406 |
| Notes and loans payable, current portion | 112,905 | 333,294 | 446,199 | - |
| Bonds payable, current portion | 1,970,000 | 2,065,000 | 4,035,000 | - |
| Landfill closure costs, current portion | - | 18,813 | 18,813 | - |
| Total current liabilities | <u>4,820,850</u> | <u>6,917,193</u> | <u>11,738,043</u> | <u>220,813</u> |
| Noncurrent liabilities | | | | |
| Compensated absences | 454,452 | 121,176 | 575,628 | 11,786 |
| Notes and loans payable | 636,660 | 5,276,604 | 5,913,264 | - |
| Bonds payable | 19,900,000 | 8,565,000 | 28,465,000 | - |
| Landfill closure costs | - | 169,313 | 169,313 | - |
| Net pension liability | <u>32,637,216</u> | <u>6,862,418</u> | <u>39,499,634</u> | <u>865,934</u> |
| Total noncurrent liabilities | <u>53,628,328</u> | <u>20,994,511</u> | <u>74,622,839</u> | <u>877,720</u> |
| Total liabilities | <u>58,449,178</u> | <u>27,911,704</u> | <u>86,360,882</u> | <u>1,098,533</u> |
| Deferred Inflows of Resources | | | | |
| Pension deferral | 839,689 | 77,388 | 917,077 | 8,595 |
| Total deferred inflows of resources | <u>839,689</u> | <u>77,388</u> | <u>917,077</u> | <u>8,595</u> |
| Net Position | | | | |
| Net investment in capital assets | 44,909,588 | 59,449,295 | 104,358,883 | 7,871,964 |
| Restricted for: | | | | |
| Other purposes | 8,667,332 | 2,352,463 | 11,019,795 | - |
| Security deposits | - | 932,186 | 932,186 | - |
| Unrestricted | <u>(3,857,002)</u> | <u>69,662,830</u> | <u>65,805,828</u> | <u>(60,159)</u> |
| Total net position | <u>49,719,918</u> | <u>132,396,774</u> | <u>182,116,692</u> | <u>7,811,805</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 109,008,785</u> | <u>160,385,866</u> | <u>269,394,651</u> | <u>8,918,933</u> |

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Activities
For the Year Ended June 30, 2017**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit |
|---|-------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | | | | | | | | |
| General government | \$ 6,072,665 | 4,014,126 | 910,452 | 936 | (1,147,151) | - | (1,147,151) | - |
| Public safety | 15,462,776 | 139,470 | 630,974 | - | (14,692,332) | - | (14,692,332) | - |
| Public works | 10,434,213 | - | - | 6,655,536 | (3,778,677) | - | (3,778,677) | - |
| Culture and recreation | 6,995,650 | 241,429 | 428,024 | - | (6,326,197) | - | (6,326,197) | - |
| Health and welfare | 1,494,447 | 500,000 | 490,270 | - | (504,177) | - | (504,177) | - |
| Interest on long-term debt | 652,721 | - | - | - | (652,721) | - | (652,721) | - |
| <i>Total governmental activities</i> | <u>41,112,472</u> | <u>4,895,025</u> | <u>2,459,720</u> | <u>6,656,472</u> | <u>(27,101,255)</u> | <u>-</u> | <u>(27,101,255)</u> | <u>-</u> |
| Business-type Activities: | | | | | | | | |
| Joint utility | 29,543,676 | 36,336,455 | - | 3,053,251 | - | 9,846,030 | 9,846,030 | - |
| Solid waste | 3,142,944 | 3,282,312 | - | - | - | 139,368 | 139,368 | - |
| Fitness center | 260,889 | 296,941 | - | - | - | 36,052 | 36,052 | - |
| Rodeo | 231,565 | 167,349 | - | - | - | (64,216) | (64,216) | - |
| Gamerco | 418,115 | 184,287 | - | - | - | (233,828) | (233,828) | - |
| <i>Total business-type activities</i> | <u>33,597,189</u> | <u>40,267,344</u> | <u>-</u> | <u>3,053,251</u> | <u>-</u> | <u>9,723,406</u> | <u>9,723,406</u> | <u>-</u> |
| <i>Total Primary Government</i> | <u>74,709,661</u> | <u>45,162,369</u> | <u>2,459,720</u> | <u>9,709,723</u> | <u>(27,101,255)</u> | <u>9,723,406</u> | <u>(17,377,849)</u> | <u>-</u> |
| Component Units: | | | | | | | | |
| Gallup Housing Authority | \$ 2,377,831 | 802,665 | 1,345,822 | - | - | - | - | (229,344) |
| General Revenues: | | | | | | | | |
| Taxes | | | | | | | | |
| Property taxes, levied for general purposes | | | | \$ 2,589,717 | - | - | 2,589,717 | - |
| Gross receipts taxes | | | | 20,981,619 | 4,038,854 | - | 25,020,473 | - |
| Gas taxes | | | | 1,352,388 | - | - | 1,352,388 | - |
| Franchise tax | | | | 1,612,224 | - | - | 1,612,224 | - |
| Lodger's tax | | | | 1,478,840 | - | - | 1,478,840 | - |
| Investment income | | | | (205,064) | 55,855 | - | (149,209) | 35 |
| Miscellaneous income | | | | 629,409 | 565,060 | - | 1,194,469 | 31,668 |
| Gain/(loss) on sale of assets | | | | (204,127) | - | - | (204,127) | - |
| Transfers | | | | 2,762,630 | (2,762,630) | - | - | - |
| Total general revenues and transfers | | | | <u>30,997,636</u> | <u>1,897,139</u> | <u>-</u> | <u>32,894,775</u> | <u>(197,641)</u> |
| Change in net position | | | | 3,896,381 | 11,620,545 | - | 15,516,926 | (197,641) |
| Net position, beginning | | | | 46,832,260 | 121,264,308 | - | 168,096,568 | 8,053,918 |
| Restatements | | | | (1,008,723) | (488,079) | - | (1,496,802) | (44,472) |
| Net position, beginning restated | | | | <u>45,823,537</u> | <u>120,776,229</u> | <u>-</u> | <u>166,599,766</u> | <u>8,009,446</u> |
| Net position, ending | | | | <u>\$ 49,719,918</u> | <u>132,396,774</u> | <u>-</u> | <u>182,116,692</u> | <u>7,811,805</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Balance Sheet
Governmental Funds
As of June 30, 2017**

| | <u>General Fund</u> | <u>Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---|-------------------|
| <i>Assets</i> | | | | |
| Cash and investments | \$ 2,150,023 | 1,389,273 | 3,761,158 | 7,300,454 |
| Restricted cash | 5,290,493 | 140,155 | 210,062 | 5,640,710 |
| Investments | 7,198,188 | 248,330 | 1,654,473 | 9,100,991 |
| Inventory | 112,873 | - | - | 112,873 |
| Receivables: | | | | |
| Property taxes | 238,569 | 54,076 | - | 292,645 |
| Other taxes | 3,638,802 | - | 106,238 | 3,745,040 |
| Grants receivable | 102,786 | - | 1,747,434 | 1,850,220 |
| Accounts receivables, net | 211,493 | - | 67,503 | 278,996 |
| Due from other funds | 650,000 | - | - | 650,000 |
| <i>Total assets</i> | <u>\$ 19,593,227</u> | <u>1,831,834</u> | <u>7,546,868</u> | <u>28,971,929</u> |
| <i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i> | | | | |
| <i>Liabilities</i> | | | | |
| Accounts payable | \$ 105,121 | - | 643,946 | 749,067 |
| Accrued payroll expenses | 663,826 | - | 104,488 | 768,314 |
| Due to other funds | 150,000 | - | 500,000 | 650,000 |
| <i>Total liabilities</i> | <u>918,947</u> | <u>-</u> | <u>1,248,434</u> | <u>2,167,381</u> |
| <i>Deferred inflows of resources</i> | | | | |
| Deferred inflows - property taxes | 162,548 | 37,132 | - | 199,680 |
| <i>Total deferred inflows of resources</i> | <u>162,548</u> | <u>37,132</u> | <u>-</u> | <u>199,680</u> |
| <i>Fund balances</i> | | | | |
| Nonspendable | 112,873 | - | - | 112,873 |
| Restricted | 2,368,898 | - | 6,298,434 | 8,667,332 |
| Committed | | | | |
| Debt service | - | 1,794,702 | - | 1,794,702 |
| Assigned | - | - | - | - |
| Unassigned | 16,029,961 | - | - | 16,029,961 |
| <i>Total fund balances</i> | <u>18,511,732</u> | <u>1,794,702</u> | <u>6,298,434</u> | <u>26,604,868</u> |
| <i>Total liabilities, deferred inflows of resources, and fund balances</i> | <u>\$ 19,593,227</u> | <u>1,831,834</u> | <u>7,546,868</u> | <u>28,971,929</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Reconciliation of the Governmental Fund Balance
to Statement of Net Position
As of June 30, 2017**

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

| | | |
|--|----|--------------|
| Fund balances - total governmental funds | \$ | 26,604,868 |
| | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet (less Internal Service Funds). | | 67,640,985 |
| | | |
| Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position. Internal Service Fund balances not included in other reconciling items: | | |
| Total net position, ending | | 2,841,810 |
| | | |
| Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet: | | |
| Bonds and notes payable | | (20,536,660) |
| Compensated absences | | (451,870) |
| Net pension related deferrals and liability | | (23,323,252) |
| | | |
| Other current liabilities (bonds payable) are not available to pay for current period expenditures and therefore are deferred in the funds: | | |
| Accrued interest payable | | (111,832) |
| Bonds and notes payable | | (2,082,905) |
| Compensated absences | | (839,188) |
| Bond premium, net | | (221,718) |
| | | |
| Revenues not collected within sixty days after year end are considered "available" revenues and are considered to be "unavailable" revenues in the fund financial statements, but are considered revenue in the Statement of Activities: | | |
| Property taxes | | 199,680 |
| Net position of governmental activities | \$ | 49,719,918 |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017**

| | <u>General Fund</u> | <u>Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---|--------------------|
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ 2,036,310 | 509,903 | - | 2,546,213 |
| Gross receipts | 20,973,494 | - | - | 20,973,494 |
| Gasoline and motor vehicle | - | - | 1,352,388 | 1,352,388 |
| Franchise | 1,612,224 | - | - | 1,612,224 |
| Lodger's | - | - | 1,478,840 | 1,478,840 |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | 775,713 | - | 1,376,268 | 2,151,981 |
| State capital grants | - | - | 3,288,499 | 3,288,499 |
| Federal operating grants | 121,622 | - | 186,117 | 307,739 |
| Federal capital grants | - | - | 3,367,972 | 3,367,972 |
| Charges for services | 802,571 | - | 380,899 | 1,183,470 |
| Licenses and fees | 146,842 | - | - | 146,842 |
| Investment income | (85,140) | (10,760) | (37,981) | (133,881) |
| Miscellaneous | 988,638 | - | 671,732 | 1,660,370 |
| <i>Total revenues</i> | <u>27,372,274</u> | <u>499,143</u> | <u>12,064,734</u> | <u>39,936,151</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | 8,133,945 | 2,144 | 14,054 | 8,150,143 |
| Public safety | 11,144,410 | - | 326,450 | 11,470,860 |
| Public works | 2,155,763 | - | 2,675,124 | 4,830,887 |
| Culture and recreation | 3,409,133 | - | 2,244,848 | 5,653,981 |
| Health and welfare | - | - | 1,358,829 | 1,358,829 |
| Capital outlay | 3,583,529 | - | 3,814,666 | 7,398,195 |
| <i>Debt service:</i> | | | | |
| Principal | - | 1,683,615 | - | 1,683,615 |
| Interest | - | 564,914 | - | 564,914 |
| <i>Total expenditures</i> | <u>28,426,780</u> | <u>2,250,673</u> | <u>10,433,971</u> | <u>41,111,424</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(1,054,506)</u> | <u>(1,751,530)</u> | <u>1,630,763</u> | <u>(1,175,273)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Proceeds from issuance of debt | - | 5,365,000 | - | 5,365,000 |
| Transfers in | 11,008,783 | 2,732,624 | 4,097,694 | 17,839,101 |
| Transfers out | (3,546,337) | (5,365,000) | (5,948,563) | (14,859,900) |
| <i>Total other financing sources (uses)</i> | <u>7,462,446</u> | <u>2,732,624</u> | <u>(1,850,869)</u> | <u>8,344,201</u> |
| <i>Net change in fund balance</i> | 6,407,940 | 981,094 | (220,106) | 7,168,928 |
| <i>Fund balance, - beginning</i> | 11,413,212 | 813,608 | 6,518,540 | 18,745,360 |
| <i>Restatement</i> | 690,580 | - | - | 690,580 |
| <i>Fund balance - beginning as restated</i> | <u>12,103,792</u> | <u>813,608</u> | <u>6,518,540</u> | <u>19,435,940</u> |
| <i>Fund balance - ending</i> | <u>\$ 18,511,732</u> | <u>1,794,702</u> | <u>6,298,434</u> | <u>26,604,868</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

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

| | | |
|--|----|-------------------------|
| Net change in fund balances - total governmental funds | \$ | 7,168,928 |
| Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | | |
| Capital expenditures recorded in capital outlay | | 7,072,950 |
| In the Statement of Activities, a loss is recorded for assets that are removed from service that are not fully depreciated. Thus, the change in net position differs from the change in fund balance by the amount of loss recorded for deleted capital assets. | | (204,127) |
| Depreciation expense on capital assets, excluding internal service fleet fund, is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditure in governmental funds. | | (3,295,402) |
| Adjustment to accumulated depreciation is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditure in governmental funds. | | 363 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management to individual funds. The net change of the internal service funds resulting from transactions not recorded with governmental funds. | | (361,860) |
| Expenses in the Statement of Activities that do not consume current financial resources are not reported as expenditures in the funds: | | |
| Change in compensated absences | | (206,682) |
| The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities: | | |
| Issuance of long-term debt payable | | (5,365,000) |
| Principal payments on bonds and loans payable | | 1,683,615 |
| Change in accrued interest | | (111,832) |
| Amortization of bond premium | | 24,025 |
| 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 governmental funds. | | |
| Pension expense | | (2,552,100) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds: | | |
| Change in deferred inflows related to property taxes receivable | | <u>43,503</u> |
| Change in net position of governmental activities | \$ | <u><u>3,896,381</u></u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund (101, 390, 392, 393, 394)
For the Year Ended June 30, 2017

| | <u>Original Approved Budget</u> | <u>Final Approved Budget</u> | <u>Actual</u> | <u>Favorable (Unfavorable)</u> |
|--|-------------------------------------|----------------------------------|---------------------|------------------------------------|
| <i>Revenues:</i> | | | | |
| <i>Taxes</i> | | | | |
| Property | \$ 2,308,690 | 2,308,690 | 2,243,492 | (65,198) |
| Gross receipts | 20,190,938 | 20,190,938 | 20,863,764 | 672,826 |
| Franchise | 1,357,556 | 1,357,556 | 1,638,489 | 280,933 |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | - | 881,097 | 733,509 | (147,588) |
| Federal operating grants | - | 90,609 | 103,640 | 13,031 |
| Charges for services | 927,269 | 975,313 | 1,226,308 | 250,995 |
| Licenses and fees | 137,455 | 137,455 | 146,842 | 9,387 |
| Interest income | 280,260 | 280,260 | (85,140) | (365,400) |
| Miscellaneous | 709,191 | 714,341 | 794,980 | 80,639 |
| <i>Total revenues</i> | <u>25,911,359</u> | <u>26,936,259</u> | <u>27,665,884</u> | <u>729,625</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | 8,373,391 | 8,752,068 | 7,919,881 | 832,187 |
| Public safety | 11,856,721 | 12,010,404 | 10,997,898 | 1,012,506 |
| Public works | 2,092,496 | 3,914,003 | 2,080,229 | 1,833,774 |
| Culture and recreation | 3,708,030 | 3,864,268 | 3,366,396 | 497,872 |
| Capital outlay | 435,600 | 4,906,571 | 1,148,210 | 3,758,361 |
| <i>Total expenditures</i> | <u>26,466,238</u> | <u>33,447,314</u> | <u>25,512,614</u> | <u>7,934,700</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(554,879)</u> | <u>(6,511,055)</u> | <u>2,153,270</u> | <u>8,664,325</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash | - | 1,382,358 | - | (1,382,358) |
| Transfers in | 3,001,706 | 8,427,609 | 8,427,608 | (1) |
| Transfers out | (2,446,827) | (3,298,912) | (3,298,909) | 3 |
| <i>Total other financing sources (uses)</i> | <u>554,879</u> | <u>6,511,055</u> | <u>5,128,699</u> | <u>(1,382,356)</u> |
| <i>Net change in fund balance</i> | - | - | 7,281,969 | 7,281,969 |
| <i>Fund balance - beginning of year</i> | <u>-</u> | <u>-</u> | <u>11,413,212</u> | |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>-</u> | <u>18,695,181</u> | |
| Change in fund balance (Budget Basis) | | | \$ 7,281,969 | |
| To adjust applicable revenue accruals and deferrals | | | 2,040,139 | |
| To adjust applicable expenditure accruals | | | <u>(2,914,168)</u> | |
| Change in fund balance (GAAP basis) | | | <u>\$ 6,407,940</u> | |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Net Position
Proprietary Funds
As of June 30, 2017**

| | Joint Utility | Nonmajor Funds | Total | Governmental Activities Internal Service Fund 603 |
|---|--------------------------|---------------------------|--------------------|--|
| <i>Assets</i> | | | | |
| <i>Current Assets</i> | | | | |
| Cash and cash equivalents | \$ 31,547,096 | 1,438,608 | 32,985,704 | 582,659 |
| Investments | 30,544,024 | 4,279,525 | 34,823,549 | 2,481,710 |
| Receivables: | | | | |
| Other taxes | 600,854 | - | 600,854 | - |
| Grants receivable | 928,883 | - | 928,883 | - |
| Accounts receivables, net | 4,853,203 | 483,474 | 5,336,677 | - |
| Inventory | 1,860,663 | - | 1,860,663 | - |
| Due from other funds | 200,100 | - | 200,100 | - |
| <i>Total current assets</i> | <u>70,534,823</u> | <u>6,201,607</u> | <u>76,736,430</u> | <u>3,064,369</u> |
| <i>Noncurrent Assets</i> | | | | |
| Restricted cash | 4,370,478 | - | 4,370,478 | - |
| Restricted cash - customer deposits | 932,186 | - | 932,186 | - |
| Land and work in progress | 27,076,354 | 224,885 | 27,301,239 | - |
| Capital assets, depreciable | 87,883,988 | 5,103,372 | 92,987,360 | - |
| Less: accumulated depreciation | (41,321,888) | (3,259,164) | (44,581,052) | - |
| <i>Total noncurrent assets</i> | <u>78,941,118</u> | <u>2,069,093</u> | <u>81,010,211</u> | <u>-</u> |
| <i>Total assets</i> | <u>149,475,941</u> | <u>8,270,700</u> | <u>157,746,641</u> | <u>3,064,369</u> |
| <i>Deferred Outflows of Resources</i> | | | | |
| Pension deferral | 2,277,402 | 561,923 | 2,839,325 | 123,137 |
| <i>Total assets and deferred outflows of resources</i> | <u>\$ 151,753,343</u> | <u>8,832,623</u> | <u>160,585,966</u> | <u>3,187,506</u> |
| <i>Liabilities, Deferred Inflows of Resources, and Net Position</i> | | | | |
| <i>Liabilities:</i> | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 2,658,650 | 186,384 | 2,845,034 | 36,821 |
| Accrued payroll expenses | 145,374 | 37,384 | 182,758 | 6,211 |
| Accrued tax liability | 209,962 | 1,158 | 211,120 | - |
| Deposits held in trust for others | 932,186 | - | 932,186 | - |
| Accrued interest payable | 18,354 | - | 18,354 | - |
| Due to other funds | 200,100 | - | 200,100 | - |
| Unearned revenue | 83,823 | 1,771 | 85,594 | - |
| Compensated absences, current portion | 179,140 | 45,900 | 225,040 | 4,794 |
| Notes and loans payable, current portion | 333,294 | - | 333,294 | - |
| Bonds payable, current portion | 2,065,000 | - | 2,065,000 | - |
| Landfill closure costs, current portion | - | 18,813 | 18,813 | - |
| <i>Total current liabilities</i> | <u>6,825,883</u> | <u>291,410</u> | <u>7,117,293</u> | <u>47,826</u> |
| <i>Noncurrent Liabilities</i> | | | | |
| Compensated absences | 96,460 | 24,716 | 121,176 | 2,582 |
| Notes and loans payable | 5,276,604 | - | 5,276,604 | - |
| Bonds payable | 8,565,000 | - | 8,565,000 | - |
| Landfill closure costs | - | 169,313 | 169,313 | - |
| Net pension liability | 5,560,435 | 1,301,983 | 6,862,418 | 290,686 |
| <i>Total noncurrent liabilities</i> | <u>19,498,499</u> | <u>1,496,012</u> | <u>20,994,511</u> | <u>293,268</u> |
| <i>Total liabilities</i> | <u>26,324,382</u> | <u>1,787,422</u> | <u>28,111,804</u> | <u>341,094</u> |
| <i>Deferred Inflows of Resources</i> | | | | |
| Pension deferral | 61,080 | 16,308 | 77,388 | 4,602 |
| <i>Total deferred inflows of resources</i> | <u>61,080</u> | <u>16,308</u> | <u>77,388</u> | <u>4,602</u> |
| <i>Net Position:</i> | | | | |
| Net investment in capital assets | 57,380,202 | 2,069,093 | 59,449,295 | - |
| Restricted: | | | | |
| Debt service | 2,352,463 | - | 2,352,463 | - |
| Security deposits | 932,186 | - | 932,186 | - |
| Unrestricted | 64,703,030 | 4,959,800 | 69,662,830 | 2,841,810 |
| <i>Total net position</i> | <u>125,367,881</u> | <u>7,028,893</u> | <u>132,396,774</u> | <u>2,841,810</u> |
| <i>Total liabilities, deferred inflows of resources, and net position</i> | <u>\$ 151,753,343</u> | <u>8,832,623</u> | <u>160,585,966</u> | <u>3,187,506</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017

| | Joint Utility | Nonmajor Funds | Total | Governmental Activities Internal Service Fund 603 |
|--|--------------------------|---------------------------|--------------------|--|
| <i>Operating revenues:</i> | | | | |
| Charges for services | \$ 36,336,455 | 3,930,889 | 40,267,344 | 2,495,305 |
| <i>Total operating revenues</i> | <u>36,336,455</u> | <u>3,930,889</u> | <u>40,267,344</u> | <u>2,495,305</u> |
| <i>Operating expenses:</i> | | | | |
| Personnel services | 3,883,932 | 976,227 | 4,860,159 | 451,923 |
| Contractual services | 5,110,180 | 1,695,458 | 6,805,638 | 132,394 |
| Supplies and equipment | 108,306 | 67,713 | 176,019 | 34,505 |
| Repairs and maintenance | 2,166,190 | 203,415 | 2,369,605 | 481,712 |
| Utilities | 718,988 | 45,345 | 764,333 | - |
| COGS (electricity) | 11,918,998 | - | 11,918,998 | - |
| Miscellaneous | 3,064,283 | 516,935 | 3,581,218 | 1,515,447 |
| Depreciation and amortization | 2,315,869 | 548,420 | 2,864,289 | - |
| <i>Total operating expenses</i> | <u>29,286,746</u> | <u>4,053,513</u> | <u>33,340,259</u> | <u>2,615,981</u> |
| <i>Operating income (loss)</i> | <u>7,049,709</u> | <u>(122,624)</u> | <u>6,927,085</u> | <u>(120,676)</u> |
| <i>Non-operating revenues (expenses):</i> | | | | |
| Gross receipts and other taxes | 3,563,554 | 475,300 | 4,038,854 | - |
| Investment income | 114,406 | (58,551) | 55,855 | (68,376) |
| Interest expense | (256,930) | - | (256,930) | - |
| Miscellaneous income | 562,185 | 2,875 | 565,060 | 43,764 |
| <i>Total non-operating revenues (expenses)</i> | <u>3,983,215</u> | <u>419,624</u> | <u>4,402,839</u> | <u>(24,612)</u> |
| Transfers in | 18,987,111 | 49,593 | 19,036,704 | - |
| Transfers out | (21,512,916) | (286,418) | (21,799,334) | (216,572) |
| Federal capital grants | 2,952,175 | - | 2,952,175 | - |
| State capital grants | 101,076 | - | 101,076 | - |
| <i>Net capital grants and transfers</i> | <u>527,446</u> | <u>(236,825)</u> | <u>290,621</u> | <u>(216,572)</u> |
| <i>Change in net position</i> | 11,560,370 | 60,175 | 11,620,545 | (361,860) |
| <i>Net position, beginning of year</i> | 114,300,531 | 6,963,777 | 121,264,308 | 3,203,670 |
| <i>Restatement</i> | (493,020) | 4,941 | (488,079) | - |
| <i>Beginning net position, as restated</i> | <u>113,807,511</u> | <u>6,968,718</u> | <u>120,776,229</u> | <u>3,203,670</u> |
| <i>Net position, end of year</i> | <u>\$ 125,367,881</u> | <u>7,028,893</u> | <u>132,396,774</u> | <u>2,841,810</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Major Proprietary Funds
Statement of Cash Flows
For The Year Ended June 30, 2017**

| | Joint Utility | Nonmajor Funds | Total | Governmental Activities Internal Service Fund 603 |
|---|--------------------------|---------------------------|---------------------|--|
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | \$ 34,895,323 | 4,054,322 | 38,949,645 | 2,495,305 |
| Payments to employees | (3,607,232) | (920,586) | (4,527,818) | (437,448) |
| Payments to suppliers | (7,404,286) | (2,012,878) | (9,417,164) | (686,501) |
| Other receipts/(payments) | (14,983,282) | (565,747) | (15,549,029) | (1,515,447) |
| <i>Net cash provided (used) by operating activities</i> | <u>8,900,523</u> | <u>555,111</u> | <u>9,455,634</u> | <u>(144,091)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Gross receipts and other taxes | 3,563,554 | 475,300 | 4,038,854 | - |
| Grants and agreements | 101,076 | - | 101,076 | - |
| Miscellaneous revenue | 562,185 | 2,875 | 565,060 | 43,764 |
| Restatement | (493,020) | 4,941 | (488,079) | - |
| Transfers from other funds | 18,987,111 | 49,593 | 19,036,704 | - |
| Transfers to other funds | (21,512,916) | (286,418) | (21,799,334) | (216,572) |
| <i>Net cash provided (used) by noncapital financing activities</i> | <u>1,207,990</u> | <u>246,291</u> | <u>1,454,281</u> | <u>(172,808)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (13,492,028) | (627,093) | (14,119,121) | - |
| Principal payments | (2,352,463) | - | (2,352,463) | - |
| Interest payments | (256,930) | - | (256,930) | - |
| Capital grant revenue | 2,952,175 | - | 2,952,175 | - |
| <i>Net cash provided (used) by capital and related financing activities</i> | <u>(13,149,246)</u> | <u>(627,093)</u> | <u>(13,776,339)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | |
| Purchases of investments, net | 2,186,280 | (631,116) | 1,555,164 | 368,376 |
| Investment income | 114,406 | (58,551) | 55,855 | (68,376) |
| <i>Net cash provided (used) by investing activities</i> | <u>2,300,686</u> | <u>(689,667)</u> | <u>1,611,019</u> | <u>300,000</u> |
| Net increase (decrease) in cash and cash equivalents | (740,047) | (515,358) | (1,255,405) | (16,899) |
| Balances - beginning of year | 37,589,807 | 1,953,966 | 39,543,773 | 599,558 |
| Balances - end of year | <u>\$ 36,849,760</u> | <u>1,438,608</u> | <u>38,288,368</u> | <u>582,659</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Nonmajor Proprietary Funds
Statement of Cash Flows
For The Year Ended June 30, 2017**

| | Joint Utility | Nonmajor Funds | Total | Governmental Activities Internal Service Fund 603 |
|---|--------------------------|---------------------------|------------------|--|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 7,049,709 | (122,624) | 6,927,085 | (120,676) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 2,315,869 | 548,420 | 2,864,289 | - |
| Pension expense | 290,240 | 64,161 | 354,401 | 11,169 |
| Landfill postclosure costs | - | (18,812) | (18,812) | - |
| Bad debt expense | 319,406 | 33,048 | 352,454 | - |
| (Increase) decrease in: | | | | |
| Accounts receivable | (1,760,538) | 90,385 | (1,670,153) | - |
| Inventory | 53,411 | - | 53,411 | - |
| (Decrease) increase in: | | | | |
| Accounts payable | 662,565 | (2,718) | 659,847 | (37,890) |
| Accrued payroll | 5,491 | 3,369 | 8,860 | 1,529 |
| Customer deposits | (13,917) | - | (13,917) | - |
| Unearned revenue | 654 | 1,771 | 2,425 | - |
| Compensated absences | (19,031) | (11,889) | (30,920) | 1,777 |
| Other liabilities | (3,335) | - | (3,335) | - |
| Due from/to other funds | (1) | (30,000) | (30,001) | - |
| | <u>(1)</u> | <u>(30,000)</u> | <u>(30,001)</u> | <u>-</u> |
| <i>Net cash provided (used) by operating activities</i> | <u>\$ 8,900,523</u> | <u>555,111</u> | <u>9,455,634</u> | <u>(144,091)</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Fiduciary Assets and Liabilities
Agency Funds
As of June 30, 2017

| | |
|---------------------------|--------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ <u>817,864</u> |
| <i>Total assets</i> | \$ <u><u>817,864</u></u> |
| LIABILITIES | |
| Deposits payable | \$ <u>817,864</u> |
| <i>Total liabilities</i> | \$ <u><u>817,864</u></u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gallup (City) was founded in 1881. The City is a home rule municipality operating under the powers granted by the constitution and laws of the State of New Mexico. The City operated under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public utilities (electricity, water, wastewater, and solid waste), health and social services, culture-recreation, education, public improvements, housing, planning and zoning, and general administrative services.

The City of Gallup is a body politic and corporate under the name and form of government selected by its qualified electors. The City may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has elected not to follow subsequent private-sector guidance. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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 No. 14 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 is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the 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 within the reporting entity. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity. Based upon the application of these criteria, the City does have a component unit that is required to be reported under GASB Statements No. 14, No. 39, and No. 61.

**STATE OF NEW MEXICO
CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

Discretely Presented Component Unit

The Gallup Housing Authority (the Authority) is responsible for providing low-income public housing services within city limits. A board appointed by the City's elected council governs the Authority. However, the City is financially accountable for the Authority because the City's council must approve any debt issuances and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is presented as a Component Unit with a separately issued financial statement.

Complete financial statements for the component unit may be obtained at the entity's administrative office: Gallup Housing Authority, 203 Debra, Gallup, New Mexico 87301.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities and changes in net position) report information on all of the non-fiduciary 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.

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, if applicable, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, if applicable. 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 receivables in the year for which they are billed.

Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered available if they are collected within 60 days of the end of the current fiscal period.

**STATE OF NEW MEXICO
CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

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. 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.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 airport, solid waste, wastewater, and golf course funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City has elected to report the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of resources for the payment of principal and interest for all debt relating to governmental funds. The resources of this fund are generated by the City's share of the gross receipts tax and lodger's tax.

The government reports the following major proprietary fund:

The *Joint Utilities Fund* accounts for the activities of the City's electric, wastewater, and water systems.

Additionally, the government reports the following fund types:

Internal Service Fund accounts for the operations of the Risk Management Fund which services the City's departments on a cost-reimbursement basis

Fiduciary Fund is purely custodial (assets equal liabilities) and does not involve the measurement of results of operations. This fund accounts for assets held by the City in a trustee capacity.

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 and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Joint Utilities Fund is combined with funds that have identical activities for financial statement reporting.

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 services, facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources are to be used as specified within each program grant agreement, and (c) program-specific

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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.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

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.

Investments

The City's investments are regulated by state law as well as by guidelines and rules promulgated by the State Investment Council and the State Treasurer. All investments are generally highly liquid in nature and are integrated with cash on the financial statements with appropriate disclosure. Investments are stated at fair value, which is determined using selected bases. Certificates of deposit are reported at carrying amount, which reasonably estimates fair value. Investments in a U.S. Treasury Fund and repurchase agreements are valued at the last reported sales price at current exchange rates. Additional cash, investment information, and fair values are presented in Note 2.

The City also participates in the State Treasurer Local Government Investment Pool. State law and regulations regulate this pool. Investment in the pool is reported at carrying amount, which reasonably estimates fair value.

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 as revenue when levied, net of estimated refunds and uncollectable amounts. Property taxes are considered to be 100% collectible.

The City estimates the allowance for uncollectible accounts based off the days delinquent and a percentage of current year and prior year write offs. The City has estimated all accounts that are greater than 90 days to be uncollectible as well as a percentage of the accounts that are less than 90 days old.

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 November 10th and April 10th are considered delinquent and the City may

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assess penalties and interest. The taxes attach as an enforceable lien on property thirty (3) days thereafter, at which time they become delinquent. Property taxes are collected by McKinley County and remitted monthly to the City.

Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption, and are valued at cost using a first-in, first-out (FIFO) method. Expendable supplies are accounted for using the consumption method. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as expenditures when consumed rather than when purchased.

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 debt service purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used and restricted for future debt service payments.

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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. 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. Library books and periodicals are estimated to have a useful life of less than one year or are under the capitalization threshold and are expensed when purchased.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense capitalized by the City during the current fiscal year. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Type</u> | <u>Years</u> |
|----------------------------|--------------|
| Land | Perpetuity |
| Construction in progress | Perpetuity |
| Land improvements | 40 |
| Buildings and improvements | 40 |
| Infrastructure | 40 |
| Equipment and vehicles | 6 |

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Accrued Expenses

Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through June 30, 2017, along with applicable PERA and Retiree Health Care.

Unearned Revenue/Deferred Revenue

There are two types of unearned revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding deferred inflow for deferred revenue. The other type of deferred revenue is "unavailable revenue." Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available, to finance expenditures of the current fiscal period, and all other eligibility requirements have been met, then the assets must be offset by a corresponding deferred inflow for deferred revenue.

The taxes receivables are an aggregate of uncollected amounts assessed for the current fiscal year, as well as delinquent balances carried forward from the nine preceding fiscal years. Except for taxes received in advance or under protest, tax revenue received is distributed within thirty days to other local governmental units and county funds. While some of the delinquent outstanding balances will eventually be eliminated through corrections, litigation, and other property tax administrative procedures, the majority of the balances will ultimately be realized through delinquent payment or tax sales. The aggregate amount of this ultimate realization is generally difficult to ascertain at any point in time. Thus, taxes not collected within sixty days' official year end are carried in the liability section of the balance sheet as deferred revenue on the fund basis financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then.

The City has the following deferred outflows of resources during fiscal year 2017 on the fund financials:

Deferred Outflows of Resources - Fund Financials

| | | |
|-------------------------------------|----|-----------|
| Pension deferrals | \$ | 2,962,462 |
| Total deferred inflows of resources | \$ | 2,962,462 |

The City has the following deferred outflows of resources during fiscal year 2017 on the government-wide financials:

Deferred Outflows of Resources - GW

| | | |
|--------------------------------------|----|------------|
| Pension deferrals | \$ | 12,820,827 |
| Total deferred outflows of resources | \$ | 12,820,827 |

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for *deferred inflows of resources*.

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This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue.

The City has the following deferred inflows of resources during fiscal year 2017 on the fund financials:

Deferred Inflows of Resources - Fund Financials

| | | |
|-------------------------------------|----|---------|
| Property tax revenue | \$ | 199,680 |
| Pension deferrals | | 81,990 |
| Total deferred inflows of resources | \$ | 281,670 |

The City has the following deferred inflows of resources during fiscal year 2017 on the government-wide financials:

Deferred Inflows of Resources - GW

| | | |
|-------------------------------------|----|---------|
| Pension deferrals | \$ | 917,077 |
| Total deferred inflows of resources | \$ | 917,077 |

Compensated Absences

Vacation Pay – Vacation is accrued by the following table:

| Months of Service | 40hr Work Week Employees | 42hr Work Week Employees | 56hr Work Week Employees |
|--------------------------|---|---|---|
| 0-60 months | 3.077 hrs per pay period | 3.23 hrs per pay period | 4.21 hrs per pay period |
| 61-180 months | 4.616 hrs per pay period | 4.847 hrs per pay period | 6.46 hrs per pay period |
| 181 + months | 6.15 hrs per pay period | 6.458 hrs per pay period | 8.61 hrs per pay period |
| Max accrual | 280 hours | 294 hours | 392 hours |

Sick Leave Pay – Regular full-time, forty, (40) hour work week employees will accrue sick leave at the rate of 3.69 hours per pay period. Regular full-time, forty-two (42) hour work week police and corrections employees will accrue sick leave at the rate of 3.875 hours per pay period. Regular full-time, fifty-six (56) hour work week firefighters will accrue sick leave at the rate of 5.17 hours per pay period. Sick leave accrual is limited to a maximum of 1500 hours. Employees who qualify for or initiate an application for any retirement plan under PERA or other qualified retirement program are entitled to be paid for unused sick leave at a rate equal to thirty-three, (33%) percent of their hourly rate for up to 1,000 hours of sick leave.

Vested or accumulated vacation/sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental or proprietary fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation/sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net

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position. For bonds issued after GASB 34 was implemented, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums, discounts as well as issuance costs, are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Net Position

Equity is classified as net position and displayed in three components in the government-wide financial statements and the proprietary funds:

- *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.
- *Restricted Net Position* – Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – All other net position that do not meet the definition of “restricted” or “investment in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Balances

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The Statement only applies to Governmental funds and does not extend to Proprietary fund types. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable* – Amounts not in a spendable form, such as prepaid expenses, inventories, or long-term portion of receivables or property held for resale, if the use of the proceeds from the collection/sale of property held for resale is not otherwise constrained. Nonspendable amounts also include amounts legally or contractually required to remain intact, such as the principal of a permanent fund.
- *Restricted* – Amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government).
- *Committed* – Amounts constrained to specific purposes by the governmental entity’s highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action to remove or change the constraint.
- *Assigned* – Amounts constrained by the City intends to be used for a specific purposes. Intent can be expressed by the governing body (City Council) or an official or body to which the governing body delegates authority. The authorization policy is in governmental funds, other than the general fund, assigned fund balance represents the

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amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for that purpose of that fund.

- *Unassigned* –Balances available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

See the Schedule of Fund Balances, per the table of contents, for additional information about fund balances.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance department has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The New Mexico Department of Finance and Administration (DFA) requires that 1/12 of the 2017 budgets expenditures in the general fund be restricted as subsequent-year expenditures to provide adequate cash reserves. The City follows this requirement in order to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. The City has restricted \$2,368,898 for minimum fund balance at June 30, 2017.

E. 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.

F. Indirect expenses

The City allocated indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other administrative services. Allocations are charged to programs based on use of the services determined by various allocation methodologies.

G. 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 1 the Budget Director submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Fund and Enterprise Funds. Management subsequently submits the budget (1) to the New Mexico Department of Finance and Administration for review and approval; and (2) to the City Council for review and enactment of a resolution legally adopting the budget. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and

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appropriations. Additionally, the New Mexico Department of Finance and Administration must approve any amendments to the budget.

Governmental fund budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Proprietary fund budgets are prepared on the GAAP basis. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The City does not budget for depreciation expense, only capital outlay.

Each fund's appropriated budget is prepared on a Non-GAAP cash basis at the detailed line item level. Revenues are budgeted by department and general ledger account. Expenditures are budgeted by department and general ledger account. Expenditures may not exceed appropriations at the fund level. All budget revisions at this level are subject to final review and approval by the City Council. Revisions to the budget were made throughout the year.

Budgetary Compliance – Budgetary control is required to be maintained at the individual fund level.

Budget Amendments – Budget increases and decreases can only be accomplished by Council resolution, followed by DFA approval. Similarly, budget transfers must follow the same procedure.

Budgetary Basis – State law prescribes that the City's budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparisons shown in exhibits are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget as amended.

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, Capital Projects Funds and Debt Service Funds.

The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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, 2017 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

H. Interfund Activity

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.

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I. Evaluation of Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position/balance sheet date but before the financial statements are issued. The City recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position/balance sheet, including the estimates inherent in the process of preparing the financial statements. The City's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position/balance sheet but arose after the statement of financial position/balance sheet date and before financial statements are available to be issued. The organization has evaluated subsequent events through December 13, 2017, which is the date the financial statements were available to be issued.

During fiscal year 2017, the City hired an outside accounting firm to conduct a review of the City's Customer Care Division and provide a consulting report. The report was finalized on September 11, 2017. The report identified areas of improvement in the Customer Care Division. The findings of the consulting report are outlined in this report, in the Schedule of Findings and Questioned Costs, as noted in the Table of Contents.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City's cash balances consist of demand deposits, interest bearing savings accounts, money market accounts and bonds. The majority of City's cash and investments are pooled. All interest income is accounted for in the related funds.

The City's investments consist of certificates of deposit, money markets, bonds, and investments in the NM State Treasurer's LGIP fund.

The City's cash, cash equivalents, investments, and collateral pledged are identified on the table of contents of this report.

A summary of the City's cash and investments as of June 30, 2017 is as follows:

| Cash and investments | Amount |
|--|----------------------|
| Cash and cash equivalents | |
| Cash on hand | \$ 12,540 |
| Cash | 52,617,515 |
| Subtotal cash and cash equivalents | <u>52,630,055</u> |
| Investments | |
| State Treasurer's Investment Pool | 292 |
| Certificates of deposit - maturities > 90 days | 14,499,637 |
| Money markets | 16,152,160 |
| US Agency Securities | 15,754,161 |
| Subtotal investments | <u>46,406,250</u> |
| Total cash and investments | <u>\$ 99,036,305</u> |
| | |
| Cash and investments by fund type | Amount |
| Governmental funds | \$ 22,042,155 |
| Internal service funds | 3,064,369 |
| Subtotal governmental activities | <u>25,106,524</u> |
| Business-type activities | 73,111,917 |
| Fiduciary funds | 817,864 |
| Total cash and investments | <u>\$ 99,036,305</u> |

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit be collateralized by the depository thrift or banking institution. At present, state statutes require that a

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minimum of fifty percent of uninsured balances on deposit with anyone institution must be collateralized, with higher requirements up to 100% for financially troubled institutions. Investments in repurchase agreements must be collateralized at 102% of the contract. In addition, some bond covenants require debt service reserve amounts to be collateralized at 105%. The City's Schedule of Collateral is presented in this report, as stated in the table of contents.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, City, or political subdivision of the State of New Mexico.

As of June 30, 2017, the City's bank and investment balances of \$76,443,149 were exposed to custodial credit risk as follows:

| | |
|--|----------------------|
| Uninsured, collateralized with securities held by pledging financial institution's trust department or agent in the City's name. | \$ 63,465,764 |
| Uninsured and uncollateralized | - |
| Total uninsured deposits | <u>\$ 63,465,764</u> |

Custodial Credit Risk Investments - Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the City's name.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer, of more than 5%. The City's investments are diversified to avoid including concentration of credit risk. With the exception of authorized pools, no more than 50% of the total investment portfolio is in one single security type or financial institution.

Credit Risk - The City's investments shall be in accordance with State Law 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips, and US Government securities which are backed by the full faith and credit of the U.S. Government. Negotiable securities of the State of New Mexico or any county, municipality, or school district with the advice and consent of the Board of Finance per 6-10-44 NMSA 1978, 6-10-10 NMSA 1978, 6-10-10 NMSA 1978.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City investments. The City's investment policy follows New Mexico State Statute Section 6-10-36E (NMSA, 1978 Comp) requiring the interest rate on time deposits shall not be less than the rated fixed 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.

Foreign Currency Risk - Deposits and Investments - The City is not exposed to the risk that exchange rates will adversely affect the fair value of an investment as none of the investments pools or certificates of deposit are dominated in a foreign currency.

Custodial Credit Risk Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City funds may not be returned. The City is required to obtain from each bank that is a deposit only for public funds pledged collateral in an aggregate amount equal to 50% of the public money in each account. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

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As of June 30, 2017, the City's investments were rated as follows:

| Investment Type | Cost Basis | Market Value | Rating | Weighted Average |
|---|----------------------|---------------------|---------------|-------------------------|
| Pinnacle Bank - Money Market | \$ 16,152,111 | 16,152,111 | N/A | >1 Year |
| Investment Centers of America - CDs | 12,477,434 | 12,477,434 | *** | >5 Years |
| Federal National Mortgage Association Bonds | 7,114,379 | 7,114,379 | AA+ | >8 Years |
| Federal Home Loan Mortgage Bonds | 4,954,147 | 4,954,147 | AA+ | >5 Years |
| Pinnacle Bank - CDs | 2,022,203 | 2,022,203 | *** | >1 Year |
| Municipal Bonds | 1,956,857 | 1,956,857 | **** | >8 Years |
| Federal Home Loan Bank Bonds | 1,728,778 | 1,728,778 | AA+ | >5 Years |
| State of NM Local Government Investment Pool (LGIP) | 292 | 292 | ** | >1 Year |
| Investment Centers of America - Money Market | 49 | 49 | N/A | >1 Year |
| | <u>\$ 46,406,250</u> | <u>46,406,250</u> | | |

*Based on Moody's or Standard & Poor's rating

**LGIP, collateralized by State

***Certificate of Deposit, fully collateralized

****Ratings on Municipal bonds vary, each bond underwritten by and subject to Section 6-10-10(F)(1) and Section 6-13-6, NMSA 1978. Each bond has revenue as security

State Treasurer Local Governmental Investment Pool

As of June 30, 2017, the City has the following invested in the State Treasurer Local Government Investment Pool:

| Financial Institution | Cost Basis | Market | Risk Rating |
|---|-------------------|---------------|--|
| State of NM Local Government Investment Pool (LGIP) | \$ 292 | 292 | AAAm [58] day WAM (R); [106] day WAM (F) |

New Mexico State Statutes authorize the creation of the short-term investment fund in the New Mexico State Treasury. The Statutes authorize the State Treasurer to pool monies received from local public bodies for investment purposes with public monies under control. The purpose of the local short-term fund is to provide a voluntary investment alternative for local political subdivisions to realize the maximum return consistent with safe and prudent management. The local short-term investment fund, along with other public monies in the State Treasurer's investment account, is invested in repurchase agreements secured at 102% by U.S. Government Securities. The State Treasurer has the responsibility to pledge collaterals at 102% of investment balances for the City. All investing is performed in accordance with State Statutes and the City's investment policy. Per review of GASB Statement No. 72, the State Treasurer Local Government Investment Pool is exempt from GASB 72, and should continue to be measured and disclosed in accordance with existing literature.

The investments are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer Local Government Investment Pool is not SEC registered. Section 67-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government, or by its departments or agencies and are either direct obligations of the United States, or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. 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 local government investment pool is voluntary.

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The LGIP's portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investment to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates.

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of June 30, 2016, the City's investment in the New MexiGROW Local Government Investment Pool (LGIP) was rated AAAM by Standard & Poor's. The independent auditor's report, together with the financial statements, the accompanying notes to the financial statements, and the independent auditor's report on compliance and internal controls are available from New Mexico State Treasurer, 2019 Galisteo Street, Bldg K, Santa Fe, New Mexico 87504, upon written request.

Credit Risk LGIP – With respect to credit risk, the LGIP, is rated AAAM by Standard & Poor's. Therefore, the LGIP reports AAAM for credit risk. Public funds are not required to disclose custodial credit risk for external investment pools. Therefore, the LGIP is exempt from this requirement.

Concentration of Risk – GASB Statement No. 40 defines concentration of credit risk as investments of more than 5% in any one issuer. External investment pools, such as LGIP, are excluded from the requirement of disclosing concentration of credit risk. Therefore, the LGIP is exempt from this disclosure.

Foreign Currency Risk – GASB Statement No. 40 defines interest rate risk that interest rate variation may adversely affect the fair value of an investment. The City is not exposed to the risk that exchange rates will adversely affect the fair value of an investment as none of the investments pools or certificates of deposit are dominated in a foreign currency.

Fair Value Measurement (GASB 72)

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement Number 72, Fair Value Measurement and Application. This statement changes the definition of fair value and adds new disclosure requirements. GASB 72 is effective for periods beginning after June 15, 2015 (i.e., financial statements for June 30, 2016, and beyond).

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City's mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a table format for the fair value disclosures.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach: this uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach: this technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach: this approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB 72 establishes a hierarchy of inputs to the valuation techniques listed above.

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The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy's three levels are as follows:

Level 1

Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. (Examples: equity securities traded on an open market, actively traded mutual funds, and US treasuries)

Level 2

Are significant other observable inputs:

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c) Inputs other than quoted prices that are observable for the asset or liability, such as:
 1. Interest rates and yield curves observable at commonly quoted intervals,
 2. Implied volatilities, and
 3. Credit spreads.
- d) Market-corroborated inputs.

(Examples: a bond valued using market corroborated inputs such as yield curves, a bond valued using matrix pricing, and an interest rate swap valued using the LIBOR swap rate observed at commonly quoted intervals for the full term of the swap)

Level 3

Are significant unobservable inputs for an asset or liability. (Examples: Commercial real estate valued using a forecast of cash flows based on a university's own data and an interest rate swap valued using data that is neither directly observable nor corroborated by observable market data)

The City has the following recurring fair value measurements as of June 30:

| <u>Description</u> | <u>Level 2</u> |
|----------------------|----------------|
| US Agency Securities | \$ 15,754,161 |

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2017, including the applicable allowances for uncollectible accounts, are as follows:

| Governmental Funds | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Non-major Funds</u> | <u>Total Governmenta</u> |
|------------------------------------|-------------------------|------------------------------|----------------------------|------------------------------|
| Accounts | \$ 211,493 | - | 67,503 | 278,996 |
| Taxes | | | | |
| Property tax | 238,569 | 54,076 | - | 292,645 |
| Other | 3,638,802 | - | 106,238 | 3,745,040 |
| Grants receivable | 102,786 | - | 1,747,434 | 1,850,220 |
| Subtotal | <u>4,191,650</u> | <u>54,076</u> | <u>1,921,175</u> | <u>6,166,901</u> |
| Less: Allowance for uncollectibles | - | - | - | - |
| Net receivables | <u>\$ 4,191,650</u> | <u>54,076</u> | <u>1,921,175</u> | <u>6,166,901</u> |

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| Business-Type Funds | | Joint Utility | Non-Major Funds | Total Business-Type | Internal Service Funds |
|------------------------------------|----|--------------------------|----------------------------|--------------------------------|---------------------------------------|
| Accounts | \$ | 5,131,848 | 513,289 | 5,645,137 | - |
| Taxes | | | | | |
| Property tax | | - | - | - | - |
| Other | | 600,854 | - | 600,854 | - |
| Grants | | 928,883 | - | 928,883 | - |
| Subtotal | | 6,661,585 | 513,289 | 7,174,874 | - |
| Less: Allowance for uncollectibles | | (278,645) | (29,815) | (308,460) | - |
| Net receivables | \$ | <u>6,382,940</u> | <u>483,474</u> | <u>6,866,414</u> | <u>-</u> |

In accordance with GASB No. 63 and 65, the property tax revenues totaling \$ that were not collected within the period of availability have been reclassified as deferred inflow of resources in the governmental fund financial statements.

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

The City recorded interfund receivable/payable to reflect a temporary loan between funds. The purpose of the loans were to cover cash shortages until grant reimbursements could be obtained. All interfund receivables/payables are expected to be repaid within one year. Interfund balances as of June 30, 2017, are as follows:

| Due from other funds | Due to other funds | Amount |
|-------------------------|----------------------------------|-------------------|
| General Fund | Gallup Detox (290) | \$ 150,000 |
| General Fund | Legislative Appropriations (391) | 350,000 |
| General Fund | General Fund | 150,000 |
| Joint Utility | Joint Utility | 200,100 |
| | | <u>\$ 850,100</u> |

The City recorded interfund transfers to reflect transfers of cash in accordance with the budget. Transfers and payments within the City are substantially for the purpose of subsidizing operating functions and funding capital projects, primarily street projects. All transfers made during the year were considered routine and were consistent with the general characteristics of the City's transfer policy. The composition of interfund transfers during the year ended June 30, 2017 is as follows:

| | | Transfers In | | | | | | |
|----------------------|----------------------------------|---------------------|-------------------|------------------------------------|--------------------------|-------------------------------------|-----------------------------|------------|
| | | General | Debt Service | Non-Major Governmental Funds | Joint Utility Fund | Non-Major Business-Type Funds | Internal Service Fund | Total |
| Transfers Out | General | \$ 28,033 | 2,299,585 | 838,011 | 380,708 | - | - | 3,546,337 |
| | Debt Service Fund | 5,365,000 | - | - | - | - | - | 5,365,000 |
| | Non-Major Governmental Funds | 800,803 | 433,039 | 1,363,000 | 3,306,001 | 45,721 | - | 5,948,564 |
| | Joint Utility | 4,335,034 | - | 1,888,110 | 15,289,771 | - | - | 21,512,915 |
| | Non-Major Business-Type Funds | 286,418 | - | - | - | - | - | 286,418 |
| | Internal Service Fund | 193,495 | - | 8,573 | 10,631 | 3,872 | - | 216,571 |
| | Total | \$ | <u>11,008,783</u> | <u>2,732,624</u> | <u>4,097,694</u> | <u>18,987,111</u> | <u>49,593</u> | <u>-</u> |

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NOTE 5 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2017, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Primary Government

Governmental Activities includes

| | Balance June 30, 2016 | Additions | Deletions | Adjustments & Transfers | Balance June 30, 2017 |
|--|--------------------------|--------------------|--------------------|----------------------------|--------------------------|
| <i>Internal Service Funds</i> | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 13,441,176 | 165,293 | (115,000) | - | 13,491,469 |
| Construction in progress | 487,064 | - | - | (303,376) | 183,688 |
| Total capital assets not being depreciated | <u>13,928,240</u> | <u>165,293</u> | <u>(115,000)</u> | <u>(303,376)</u> | <u>13,675,157</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | 23,511,723 | 55,234 | - | - | 23,566,957 |
| Other improvements | 642,950 | 328,134 | - | 14,996 | 986,080 |
| Equipment | 10,683,466 | 2,422,752 | (1,113,848) | - | 11,992,370 |
| Infrastructure | 69,479,200 | 4,101,537 | - | 288,380 | 73,869,117 |
| Total capital assets being depreciated | <u>104,317,339</u> | <u>6,907,657</u> | <u>(1,113,848)</u> | <u>303,376</u> | <u>110,414,524</u> |
| Total capital assets | <u>118,245,579</u> | <u>7,072,950</u> | <u>(1,228,848)</u> | <u>-</u> | <u>124,089,681</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | (7,554,436) | (583,785) | - | - | (8,138,221) |
| Other improvements | (321,421) | (17,001) | - | 363 | (338,059) |
| Equipment | (8,123,417) | (940,891) | 1,024,721 | - | (8,039,587) |
| Infrastructure | (38,179,104) | (1,753,725) | - | - | (39,932,829) |
| Total accumulated depreciation | <u>(54,178,378)</u> | <u>(3,295,402)</u> | <u>1,024,721</u> | <u>363</u> | <u>(56,448,696)</u> |
| Total capital assets net of depreciation | <u>\$ 64,067,201</u> | <u>3,777,548</u> | <u>(204,127)</u> | <u>363</u> | <u>67,640,985</u> |

Business-Type Activities

| | Balance June 30, 2016 | Additions | Deletions | Adjustments & Transfers | Balance June 30, 2017 |
|--|--------------------------|--------------------|------------------|----------------------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 2,792,944 | 41,996 | - | - | 2,834,940 |
| Construction in progress | 12,086,137 | 12,442,504 | - | (62,341) | 24,466,300 |
| Total capital assets not being depreciated | <u>14,879,081</u> | <u>12,484,500</u> | <u>-</u> | <u>(62,341)</u> | <u>27,301,240</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | 32,841,052 | - | - | - | 32,841,052 |
| Other improvements | 583,192 | - | - | - | 583,192 |
| Equipment | 9,666,335 | 985,576 | (625,822) | - | 10,026,089 |
| Infrastructure | 48,825,640 | 649,045 | - | 62,341 | 49,537,026 |
| Total capital assets being depreciated | <u>91,916,219</u> | <u>1,634,621</u> | <u>(625,822)</u> | <u>62,341</u> | <u>92,987,359</u> |
| Total capital assets | <u>106,795,300</u> | <u>14,119,121</u> | <u>(625,822)</u> | <u>-</u> | <u>120,288,599</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | (11,061,157) | (725,565) | - | - | (11,786,722) |
| Other improvements | (38,710) | (14,701) | - | - | (53,411) |
| Equipment | (6,710,790) | (927,415) | 625,822 | - | (7,012,383) |
| Infrastructure | (24,531,928) | (1,196,608) | - | - | (25,728,536) |
| Total accumulated depreciation | <u>(42,342,585)</u> | <u>(2,864,289)</u> | <u>625,822</u> | <u>-</u> | <u>(44,581,052)</u> |
| Total capital assets net of depreciation | <u>\$ 64,452,715</u> | <u>11,254,832</u> | <u>-</u> | <u>-</u> | <u>75,707,547</u> |

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Depreciation expense for the year ended June 30, 2017 was charged to the following functions and funds:

| | |
|--------------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 1,160,497 |
| Public safety | 1,156,867 |
| Public works | 299,596 |
| Culture and recreation | 637,503 |
| Health and welfare | 40,939 |
| Total | <u>3,295,402</u> |
| Internal Service Fund | |
| Total governmental activities | <u>\$ 3,295,402</u> |
| Business type activities: | |
| Solid Waste | 547,562 |
| Joint Utility | 2,315,869 |
| Fitness Center | 858 |
| Rodeo | - |
| Gamerco | - |
| Total business-type activities | <u>\$ 2,864,289</u> |

NOTE 6 – LONG-TERM DEBT

A. Governmental Activities Debt:

The governmental funds have incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment. The following schedule shows the changes to its various forms of debt during the fiscal year ended June 30, 2017:

| | <u>Balance June 30, 2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2017</u> | <u>Due Within One Year</u> |
|---|----------------------------------|-------------------|--------------------|----------------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds | | | | | |
| GO Bond Series 2011 | \$ 795,000 | - | (145,000) | 650,000 | 150,000 |
| GO Bond Series 2017 | - | 5,365,000 | - | 5,365,000 | 345,000 |
| Gross receipts tax revenue bonds | | | | | |
| Series 2010A | 9,300,000 | - | (505,000) | 8,795,000 | 530,000 |
| Series 2012 | 7,985,000 | - | (925,000) | 7,060,000 | 945,000 |
| Total bonds payable | <u>18,080,000</u> | <u>5,365,000</u> | <u>(1,575,000)</u> | <u>21,870,000</u> | <u>1,970,000</u> |
| NMFA Notes payable | | | | | |
| NMFA 4 - Westside Fire Station | 858,180 | - | (108,615) | 749,565 | 112,905 |
| Total notes payable | <u>858,180</u> | <u>-</u> | <u>(108,615)</u> | <u>749,565</u> | <u>112,905</u> |
| Compensated Absences | <u>1,084,376</u> | <u>989,823</u> | <u>(783,141)</u> | <u>1,291,058</u> | <u>839,188</u> |
| Net pension liability | <u>23,045,777</u> | <u>9,615,895</u> | <u>(24,456)</u> | <u>32,637,216</u> | <u>-</u> |
| Internal Service Fund | | | | | |
| Compensated Absences | <u>5,599</u> | <u>16,950</u> | <u>(15,173)</u> | <u>7,376</u> | <u>4,794</u> |
| Governmental-activities long-term liabilities | <u>\$ 43,073,932</u> | <u>15,987,668</u> | <u>(2,506,385)</u> | <u>56,555,215</u> | <u>3,076,887</u> |

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The GO Bond

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Series 2011 is a 10-year bond and the GO Bond Series 2017 is a 15-year bond with equal amounts of principal maturing each year. Principal is paid annually each August and interest is paid semi-annually each February and August.

Pledged Revenues

Ordinance S2010-2 has dedicated the basic ad valorem property tax security for payment of the Bond. The ordinance provides further security by pledging the full faith and credit of the City for the payment of the principal of and interest on the Series 2011 and 2017 Bonds when due. Included in such pledge are all funds of the City, except those specifically limited to another use or prohibited from use for such debt service by the State Constitution, state or federal law, revenue bond trust agreements or City ordinances pledging funds for payment of revenue bonds.

The following are the revenues pledged for each GO Bond for the fiscal year ended June 30, 2017:

- GO Bonds Series 2011 - \$171,675
- GO Bonds Series 2017 – none in fiscal year 2017

The general obligation bonds are as follows:

| General obligation bonds | <u>Date of Issue</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Amount of Original Issue</u> | <u>Balance June 30, 2017</u> |
|---------------------------------|----------------------|-----------------|----------------------|-------------------------------------|----------------------------------|
| GO Bond Series 2011 | 2/24/2011 | 6/1/2020 | 3.00-4.00% | \$ 3,630,000 | 650,000 |
| GO Bond Series 2017 | 2/17/2017 | 8/31/2031 | 1.367-3.40% | 5,365,000 | 5,365,000 |
| | | | | <u>\$ 8,995,000</u> | <u>6,015,000</u> |

The annual requirements to amortize the *GO Bonds* outstanding as of June 30, 2017, including interest payments are as follows:

GO Bonds Series 2011

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> |
|--|-------------------|-----------------|-------------------------------|
| 2018 | \$ 150,000 | 22,250 | 172,250 |
| 2019 | 160,000 | 16,800 | 176,800 |
| 2020 | 170,000 | 10,200 | 180,200 |
| 2021 | 170,000 | 3,400 | 173,400 |
| 2022 | - | - | - |
| 2023-2027 | - | - | - |
| 2028-2032 | - | - | - |
| | <u>\$ 650,000</u> | <u>52,650</u> | <u>702,650</u> |

GO Bonds Series 2017

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> |
|--|---------------------|------------------|-------------------------------|
| 2018 | \$ 345,000 | 132,873 | 477,873 |
| 2019 | 180,000 | 135,351 | 315,351 |
| 2020 | 180,000 | 132,195 | 312,195 |
| 2021 | 190,000 | 128,521 | 318,521 |
| 2022 | 370,000 | 122,410 | 492,410 |
| 2023-2027 | 2,000,000 | 467,511 | 2,467,511 |
| 2028-2032 | 2,100,000 | 169,722 | 2,269,722 |
| | <u>\$ 5,365,000</u> | <u>1,288,583</u> | <u>6,653,583</u> |

Gross Receipts Tax Revenue Bonds

The City issues bonds where the City pledges income from the receipt of sales tax revenue (Gross Receipts Tax). Sales tax bonds have been issued for governmental activities. The original amount of sales tax bonds

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issued in prior years was \$28,850,000. These bonds provided funds for the construction of many City capital improvements.

Pledged Revenues

The City pledges an intercept of gross receipts tax (GRT) revenues for these bonds, which has varying interest rates that range from 2.0% to 5.125%. Ordinance S2012-2 has dedicated GRT revenue derived pursuant to Section 7-9-4 NMSA 1978, imposed on persons engaging in business in the State, which revenues are remitted monthly by the Revenue Division of the Taxation and Revenue Department of the State to the City as authorized by Sections 7-1-6.1 and 7-1-6.4 NMSA 1978, and which remittances as of the date of adoption of the Bond Ordinance are equal to one and two hundred twenty-five thousand percent (1.225%) of the taxable gross receipts reports to the City for the month for which such remittance is made; provided that if a greater amount of such gross receipts tax revenues are hereafter provide to be remitted to the City under applicable law, such additional amounts shall be included as revenues pledged pursuant to the Bond Ordinance; and provided further that the amount of revenues pledged pursuant to the Bond Ordinance shall never be less than the greater of: (i) 1.225% of the taxable gross receipts remitted to the City as set forth above or (ii) the maximum amount at any time provided hereinafter to be remitted to the City under applicable law.

The following are the revenues pledged for each Gross Receipts Tax Revenue Bond for the fiscal year ended June 30, 2017:

- Infrastructure Sales Tax Revenue Bonds Series 2010A - \$888,783
- Refunding Revenue Bonds Series 2012 - \$1,098,275

The GRT revenue bonds are as follows:

| Gross receipts tax revenue bonds | Date of Issue | Maturity | Interest Rate | Amount of Original Issue | Balance June 30, 2017 |
|---|----------------------|-----------------|----------------------|---------------------------------|------------------------------|
| Series 2010A | 6/30/2010 | 6/1/1930 | 2.00-3.00% | \$ 11,910,000 | 8,795,000 |
| Series 2012 | 9/27/2012 | 6/1/2024 | 2.17% | 9,325,000 | 7,060,000 |
| | | | | <u>\$ 21,235,000</u> | <u>15,855,000</u> |

The annual requirements to amortize the *GRT Revenue Bonds* outstanding as of June 30, 2017, including interest payments are as follows:

Infrastructure Sales Tax Revenue Bonds Series 2010A

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|------------------------------------|---------------------|------------------|---------------------------|
| 2018 | \$ 530,000 | 357,901 | 887,901 |
| 2019 | 550,000 | 342,001 | 892,001 |
| 2020 | 575,000 | 313,814 | 888,814 |
| 2021 | 595,000 | 293,689 | 888,689 |
| 2022 | 615,000 | 272,864 | 887,864 |
| 2023-2027 | 3,475,000 | 978,425 | 4,453,425 |
| 2028-2032 | 2,455,000 | 217,875 | 2,672,875 |
| | <u>\$ 8,795,000</u> | <u>2,776,569</u> | <u>11,571,569</u> |

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Refunding Revenue Bonds Series 2012

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 945,000 | 153,202 | 1,098,202 |
| 2019 | 965,000 | 132,696 | 1,097,696 |
| 2020 | 985,000 | 111,754 | 1,096,754 |
| 2021 | 1,010,000 | 90,380 | 1,100,380 |
| 2022 | 1,030,000 | 68,464 | 1,098,464 |
| 2023-2027 | 2,125,000 | 69,440 | 2,194,440 |
| 2028-2032 | - | - | - |
| | <u>\$ 7,060,000</u> | <u>625,936</u> | <u>7,685,936</u> |

Total Revenue and GO Bonds

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|----------------------|------------------|-------------------------------|
| 2018 | \$ 1,970,000 | 666,226 | 2,636,226 |
| 2019 | 1,855,000 | 626,848 | 2,481,848 |
| 2020 | 1,910,000 | 567,963 | 2,477,963 |
| 2021 | 1,965,000 | 515,990 | 2,480,990 |
| 2022 | 2,015,000 | 463,738 | 2,478,738 |
| 2022-2026 | 7,600,000 | 1,515,376 | 9,115,376 |
| 2027-2031 | 4,555,000 | 387,597 | 4,942,597 |
| | <u>\$ 21,870,000</u> | <u>4,743,738</u> | <u>26,613,738</u> |

Notes Payable

The City has issued low interest rate loans provided by intergovernmental agencies for the acquisition of minor equipment needs and construction of major capital facilities. The City has obtained a loan from the New Mexico Finance Authority in June 2007 to construct a west side fire station. The original loan amount was \$1,452,605 with interest rates ranging from 3.42% to 3.86%. The term of the loan is sixteen (16) years with payments commencing November 2008. Principal is paid annually each May and interest is paid semi-annually each November and May.

Pledged Revenues

The City has entered into a loan agreement with NMFA and had pledged finds from the State's Fire Protection fund to pay principal and interest annually. Pledged revenues for the fiscal year ended June 30, 2017 totaled \$145,705.

The loan is as follows:

| NMFA Notes payable | Date of Issue | Maturity | Interest Rate | Amount of Original Issue | Balance June 30, 2017 |
|--------------------------------|----------------------|-----------------|----------------------|-------------------------------------|----------------------------------|
| NMFA 4 - Westside Fire Station | 6/29/2007 | 5/1/2022 | 3.42-3.86% | \$ 1,452,605 | 749,565 |

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The annual requirements to amortize the *NMFA 2015-PP – Westside Fire Station* outstanding as of June 30, 2017, including interest payments are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|-------------------|-----------------|-------------------------------|
| 2018 | \$ 112,905 | 28,530 | 141,435 |
| 2019 | 117,410 | 24,318 | 141,728 |
| 2020 | 122,141 | 19,892 | 142,033 |
| 2021 | 127,101 | 15,251 | 142,352 |
| 2022 | 132,287 | 10,395 | 142,682 |
| 2023-2027 | 137,721 | 5,316 | 143,037 |
| 2028-2032 | - | - | - |
| | <u>\$ 749,565</u> | <u>103,702</u> | <u>853,267</u> |

B. Business-Type Activities Debt:

The proprietary funds have incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment. The following schedule shows the changes to its various forms of debt during the fiscal year ended June 30, 2017:

| | Balance June 30, 2016 | Additions | Retirements | Balance June 30, 2017 | Due Within One Year |
|---|----------------------------------|------------------|--------------------|----------------------------------|--------------------------------|
| Business-type Activities: | | | | | |
| Revenue Bonds | | | | | |
| Revenue Bonds Series 2012 | \$ 12,650,000 | - | (2,020,000) | 10,630,000 | 2,065,000 |
| Total bonds payable | <u>12,650,000</u> | <u>-</u> | <u>(2,020,000)</u> | <u>10,630,000</u> | <u>2,065,000</u> |
| NMFA Notes Payable | | | | | |
| NMFA 8 - Storage Tank | 1,432,643 | - | (87,873) | 1,344,770 | 88,093 |
| NMFA 9 - Water Tank | 1,268,488 | - | (77,805) | 1,190,683 | 77,999 |
| NMFA 11 - Water System | 1,544,253 | - | (79,463) | 1,464,790 | 79,662 |
| NMFA 12 - Water Project | 1,696,977 | - | (87,322) | 1,609,655 | 87,540 |
| Total notes payable | <u>5,942,361</u> | <u>-</u> | <u>(332,463)</u> | <u>5,609,898</u> | <u>333,294</u> |
| Compensated Absences | <u>377,136</u> | <u>183,159</u> | <u>(214,079)</u> | <u>346,216</u> | <u>225,040</u> |
| Landfill Closure Liability | <u>206,938</u> | <u>-</u> | <u>(18,812)</u> | <u>188,126</u> | <u>18,813</u> |
| Net pension liability | <u>4,552,552</u> | <u>2,315,755</u> | <u>(5,889)</u> | <u>6,862,418</u> | <u>-</u> |
| Business-type activities long-term liabilities | <u>\$ 23,728,987</u> | <u>2,498,914</u> | <u>(2,591,243)</u> | <u>23,636,658</u> | <u>2,642,147</u> |

Revenue Bonds

The City issues bonds where the City pledges income derived from the net revenues from the operations of the municipal joint water and sewer distribution systems. A Revenue bond has been issued for business-type activities. The original amount of this revenue bond issued in prior years was \$20,290,000. These bonds provided funds for the completion of many capital improvement projects for the City's water and wastewater distribution systems. The interest rate on this bond is 1.94%.

Pledged Revenues

Ordinance S2012-3 has pledged future revenues from the water and wastewater system, net of operation and maintenance expenses, to the payment of interest on and principal of revenue bonds. The bonds are payable solely from utility customer net revenues and are payable through June 2025. The pledged revenues shall be in an amount sufficient to pay principal, premium, if any, interest and other amounts due under the bond agreement, including an amount sufficient to cure any deficiencies in the debt service

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account or the bond agreement reserve account. Pledged revenues for the fiscal year ended June 30, 2017 totaled \$2,265,411.

The revenue bond is as follows:

| General obligation bonds | Date of Issue | Maturity | Interest Rate | Amount of Original Issue | Balance June 30, 2017 |
|---------------------------------|----------------------|-----------------|----------------------|-------------------------------------|----------------------------------|
| Revenue Bonds Series 2012 | 6/1/2013 | 6/1/2025 | 1.94% | \$ 20,290,000 | 10,630,000 |

The annual requirements to amortize the *Joint Water and Sewer Refunding Revenue Bonds Series 2012* outstanding as of June 30, 2017, including interest payments are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|------------------|-----------------|-------------------------------|
| 2018 | \$ 2,065,000 | 206,222 | 2,271,222 |
| 2019 | 1,765,000 | 166,161 | 1,931,161 |
| 2020 | 1,795,000 | 131,920 | 1,926,920 |
| 2021 | 1,030,000 | 97,097 | 1,127,097 |
| 2022 | 1,050,000 | 77,115 | 1,127,115 |
| 2023-2027 | 2,925,000 | 110,871 | 3,035,871 |
| 2028-2032 | - | - | - |
| | \$ 10,630,000 | 789,386 | 11,419,386 |

Notes Payable

The City has issued low interest rate loans provided by intergovernmental agencies for the construction of major capital facilities. The City has 4 notes with NMFA in their business-type funds.

1. The Joint Utilities Fund received a loan of \$1,748,652 from the New Mexico Finance Authority. These funds secured the construction of a storage tank pipeline. The loan closed on October 19, 2012, and the City's first payment was due on June 1, 2013. The loan will be repaid over a twenty (20) year period. The loan is interest free; however, the City will pay administrative fees over the life of the loan of 0.25%, annually, of the unpaid principal balance of the loan amount.
2. Also, the Joint Utilities Fund received a loan of \$1,515,534 from the New Mexico Finance Authority. These funds secured the construction of the Navajo Gallup Water Supply. The loan closed on March 22, 2013, and the City's first payment was due on June 1, 2013. The loan will be repaid over a twenty (20) year period. The loan is interest free; however, the City will pay administrative fees over the life of the loan of 0.25%, annually, of the unpaid principal balance of the loan amount.
3. The Joint Utilities Fund received a loan of \$1,600,000 from the New Mexico Finance Authority. These funds secured the construction of the Navajo Gallup Water Supply. The loan closed September 18, 2015 and the City's first payment was due on June 1, 2016. The loan will be repaid over a twenty (20) year period. The loan is interest free; however, the City will pay administrative fees over the life of the loan of 0.25%, annually, of the unpaid principal balance of the loan amount.
4. The Joint Utilities Fund received a loan of \$1,718,067 from the New Mexico Finance Authority. These funds are for the purpose of financing the cost of planning, design, and construction of multiple storage tanks, a pump station, and metering station. The loan closed March 4, 2016 and the City's first payment was due on June 1, 2016. The loan will be repaid over a twenty (20) year period. The loan is interest free; however, the City will pay administrative fees over the life of the loan of 0.25%, annually, of the unpaid principal balance of the loan amount.

Pledged Revenues

The City has pledged utility revenues for the 4 loans with NMFA in their business-type funds. The pledged revenues shall be in an amount sufficient to pay principal, premium, if any, interest, administrative fees, and other amounts due under the loan agreement. There is a lien on the pledged revenues subordinate to all other liens thereon present and future, except that the lien on the Pledged Revenues of any future loans

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from the Lender/Grantor to the Borrower/Grantee pursuant to the Water Project Finance Act or the Colonias Infrastructure Act, secured by the Pledged Revenues shall be on a parity with this Loan/Grant.

The following are the revenues pledged for each loan for the fiscal year ended June 30, 2017:

- NMFA Gallup 8 WTB-0215 – Gameraco Storage Tank Pipeline - \$91,455
- NMFA Gallup 9 WTB-0215 – Navajo Gallup Water Supply - \$80,976
- NMFA Gallup 11 WTB-0283 – Water Project - \$83,324
- NMFA Gallup 12 WTB-0334 – Storage Tank/Waterline/Pump Station Project - \$91,565

Notes payables are as follows:

| NMFA Notes Payable | Date of Issue | Maturity | Interest Rate | Amount of Original Issue | Balance June 30, 2017 |
|---|----------------------|-----------------|----------------------|---------------------------------|------------------------------|
| NMFA 8 - Storage Tank | 3/22/2013 | 6/1/2032 | 0.25% | \$ 1,515,534 | 1,344,770 |
| NMFA 9 - Water Tank | 10/19/2012 | 6/1/2032 | 0.25% | 1,748,652 | 1,190,683 |
| NMFA 11 - Water Project | 9/18/2015 | 6/1/2035 | 0.25% | 1,600,000 | 1,464,790 |
| NMFA 12 - Storage Tank/ Waterline/Pump Station Project | 3/4/2016 | 6/1/2035 | 0.25% | 1,718,067 | 1,609,655 |
| | | | | <u>\$ 6,582,253</u> | <u>5,609,898</u> |

The annual requirements to amortize the *Notes Payable* outstanding as of June 30, 2017, including interest payments are as follows:

NMFA Gallup 8 WTB-0215 – Gameraco Storage Tank Pipeline

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 88,093 | 3,362 | 91,455 |
| 2019 | 88,313 | 3,142 | 91,455 |
| 2020 | 88,534 | 2,921 | 91,455 |
| 2021 | 88,755 | 2,700 | 91,455 |
| 2022 | 88,977 | 2,478 | 91,455 |
| 2023-2027 | 448,234 | 9,041 | 457,275 |
| 2028-2032 | 453,864 | 3,411 | 457,275 |
| 2033-2037 | - | - | - |
| | <u>\$ 1,344,770</u> | <u>27,055</u> | <u>1,371,825</u> |

NMFA Gallup 9 WTB-0215 – Navajo Gallup Water Supply

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 77,999 | 2,977 | 80,976 |
| 2019 | 78,194 | 2,782 | 80,976 |
| 2020 | 78,390 | 2,586 | 80,976 |
| 2021 | 78,585 | 2,390 | 80,975 |
| 2022 | 78,782 | 2,194 | 80,976 |
| 2023-2027 | 396,874 | 8,004 | 404,878 |
| 2028-2032 | 401,859 | 3,019 | 404,878 |
| 2033-2037 | - | - | - |
| | <u>\$ 1,190,683</u> | <u>23,952</u> | <u>1,214,635</u> |

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NMFA Gallup 11 WTB-0283 – Water Project

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 79,662 | 3,662 | 83,324 |
| 2019 | 79,861 | 3,463 | 83,324 |
| 2020 | 80,060 | 3,263 | 83,323 |
| 2021 | 80,261 | 3,063 | 83,324 |
| 2022 | 80,461 | 2,862 | 83,323 |
| 2023-2027 | 405,333 | 9,433 | 414,766 |
| 2028-2032 | 410,426 | 7,216 | 417,642 |
| 2033-2037 | 248,726 | 2,073 | 250,799 |
| | <u>\$ 1,464,790</u> | <u>35,035</u> | <u>1,499,825</u> |

NMFA Gallup 12 WTB-0334 –Storage Tank/Waterline/Pump Station Project

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 87,540 | 4,024 | 91,564 |
| 2019 | 87,759 | 3,805 | 91,564 |
| 2020 | 87,978 | 3,586 | 91,564 |
| 2021 | 88,198 | 3,366 | 91,564 |
| 2022 | 88,419 | 3,145 | 91,564 |
| 2023-2027 | 445,420 | 12,401 | 457,821 |
| 2028-2032 | 451,016 | 6,805 | 457,821 |
| 2033-2037 | 273,325 | 1,367 | 274,692 |
| | <u>\$ 1,609,655</u> | <u>38,499</u> | <u>1,648,154</u> |

Total Business-Type Notes Payable

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--|---------------------|-----------------|-------------------------------|
| 2018 | \$ 333,294 | 14,025 | 347,319 |
| 2019 | 334,127 | 13,192 | 347,319 |
| 2020 | 334,962 | 12,356 | 347,318 |
| 2021 | 335,799 | 11,519 | 347,318 |
| 2022 | 336,639 | 10,679 | 347,318 |
| 2021-2025 | 1,695,861 | 38,879 | 1,734,740 |
| 2026-2030 | 1,717,165 | 20,451 | 1,737,616 |
| 2031-2034 | 522,051 | 3,440 | 525,491 |
| | <u>\$ 5,609,898</u> | <u>124,541</u> | <u>5,734,439</u> |

Landfill Liability

As of November 7, 2013, the City had a cost estimate to conduct post-closure care activities at the former Gallup Landfill (landfill) for the remainder of the post-closure care period. The present value at that time amortized over 14 years at a discount rate of 4.125% is \$188,126. This liability will be offset by costs the city incurs relating to; Performing landfill inspections, record keeping, and reporting in accordance with the post-closure care plan; performing maintenance on the final landfill cover and site vegetation; inspecting and repairing site fencing and/or security; performing environmental monitoring including landfill gas and groundwater; and a contingency for installing one new groundwater monitoring well within the landfill vicinity.

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City established limited risk management programs for workers' compensation (as discussed below) and

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unemployment claims. Premiums for unemployment claims are paid to the appropriate internal service fund by all other funds and are available to pay claims, claims reserves, and administrative costs of the program.

Effective January 1, 1991, the City established a limited risk management program for workers' compensation. The City contracted with the New Mexico Self Insurer Fund (Fund) as administrator for this program. At the beginning of each policy period, the City pays a retention premium which covers expenses of the Fund, including, but not limited to, reinsurance expenses, claims adjusting, rating and underwriting, safety and loss control, reporting and administration. In the retention rating year (1/1/91 – 1/1/92), the City paid a "loss fund deposit" to the Fund equal to 15% of the estimated "manual premium". This deposit is retained by the Fund for the benefit of the City in paying all applicable claims and costs for all policy periods. Each anniversary date, the deposit will be reviewed and revised if necessary. The City's self-insured specific retention is \$250,000 per accident, with aggregate of 150% of the "manual premium" for a policy period.

The City accounts for this program in its Internal Service Fund, Workers Compensation. The Workers Compensation Fund allocates the cost of providing claim servicing and claim payments by charging a "premium" to each participating governmental and business-type activities fund, based on each fund's percentage of the estimated "manual premium". This charge considers recent trends in actual claims experience and makes provision for catastrophic loss.

The Workers Compensation fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payout), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claims adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for the current fiscal year.

The City continues to carry commercial insurance for all other risks. The City is in the process of establishing a fund for property and liability self-insurance. As of June 30, 2017, no claims activity had taken place in the fund. The only activity for the year ended June 30, 2017 consisted of interest earned from the fund's bank account.

NOTE 8 – PERA PENSION PLAN

Plan Description

Substantially all of the City'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, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute the following percentages of their gross salary: 17.8% for law enforcement, 17.7% for fire protection; and 14.65% for municipal employees. The City was required to contribute the following percentages of the gross covered salary: 18.90% for law enforcement plan members, 21.65% for fire protection plan members; and 9.55% for municipal plan members. The contribution requirements of plan members and the City of Gallup are established in State Statute under Chapter 10, Article 11 NMSA 1978. Additionally, the City has elected to adopt the 75% pick-up provision allowed by state statute thereby reducing all employee contributions.

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The following table details the actual contribution rates:

| Categories | City with Pick-Up | Employee | Total |
|--------------------|------------------------------|-----------------|--------------|
| Regular > \$20,000 | 20.53% | 3.67% | 24.20% |
| Regular < \$20,000 | 19.41% | 3.29% | 22.70% |
| Police Officers | 32.07% | 4.63% | 36.70% |
| Firefighters | 34.74% | 4.61% | 39.35% |

The City's contributions to PERA for the following fiscal years is identified below:

| | 2017 | 2016 | 2015 |
|--|---------------------|------------------|------------------|
| City contributions | \$ 1,885,639 | 1,940,198 | 1,865,348 |
| City contributions picked up on behalf of employee | 1,693,839 | 1,558,127 | 1,619,962 |
| Employee contributions | 568,177 | 580,209 | 557,947 |
| | <u>\$ 4,147,655</u> | <u>4,078,534</u> | <u>4,043,257</u> |

NOTE 9 – PENSION PLAN AND POST-EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description – *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits provided – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II – The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the

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2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions – See PERA's publicly available financial report and comprehensive annual financial report obtained at <http://saonm.org/> using the Audit Report Search function for agency 366, for the employer and employee contribution rates in effect for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions; At June 30, 2017, the City reported a liability of \$39,499,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The City's proportion of the net pension liability was based on a projection of the City long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was 1,3155%, which was a decrease of 0.0531% from its proportion measured as of June 30, 2015.

For PERA Fund Division; Municipal General Division, at June 30, 2017, the City reported a liability of \$16,513,450 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 1.0336%, which was a decrease of 0.0163% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal General Division pension expense of \$1,841,211. At June 30, 2017, the City reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| Municipal General Division | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 825,081 | 161,162 |
| Changes of assumptions | 968,320 | 2,746 |
| Net difference between projected and actual earnings on pension plan investments | 3,038,443 | - |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 34,346 | 128,787 |
| The City contributions subsequent to the measurement date | 885,456 | - |
| Total | <u>\$ 5,751,646</u> | <u>292,695</u> |

\$885,456 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | Amount |
|------------------------|--------------|
| 2018 | \$ (991,563) |
| 2019 | (991,563) |
| 2020 | (1,825,316) |
| 2021 | (765,053) |
| 2022 | - |
| Thereafter | - |

For PERA Fund Division; Municipal Police Division, at June 30, 2017, the City reported a liability of \$11,759,530 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 1.5938%, which was an increase of 0.0075% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal Police Division pension expense of \$1,610,107. At June 30, 2017, the City reported PERA Fund Division; Municipal Police Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| Municipal Police Division | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 863,322 | - |
| Changes of assumptions | 778,885 | 212,080 |
| Net difference between projected and actual earnings on pension plan investments | 1,859,837 | - |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 169,388 | - |
| The City contributions subsequent to the measurement date | 575,041 | - |
| Total | <u>\$ 4,246,473</u> | <u>212,080</u> |

\$575,041 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | Amount |
|------------------------|--------------|
| 2018 | \$ (857,953) |
| 2019 | (857,953) |
| 2020 | (1,266,851) |
| 2021 | (476,595) |
| 2022 | - |
| Thereafter | - |

For PERA Fund Division; Municipal Fire Division, at June 30, 2017, the City reported a liability of \$11,226,654 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 1.6829%, which was a decrease of 0.1124% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal Fire Division pension expense of \$1,422,096.

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At June 30, 2017, the City reported PERA Fund Division; Municipal Fire Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| Municipal Fire Division | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 508,397 | - |
| Changes of assumptions | 593,846 | - |
| Net difference between projected and actual earnings on pension plan investments | 935,122 | - |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 360,201 | 412,302 |
| The City contributions subsequent to the measurement date | 425,142 | - |
| Total | <u>\$ 2,822,708</u> | <u>412,302</u> |

\$425,142 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | Amount |
|------------------------|--------------|
| 2018 | \$ (592,404) |
| 2019 | (592,404) |
| 2020 | (570,271) |
| 2021 | (230,185) |
| 2022 | - |
| Thereafter | - |

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------------|--|
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent of Pay, Open |
| Amortization period | Solved for based on statutory rates |
| Asset valuation method | Fair Value |
| Actuarial assumptions | |
| Investment rate of return | 7.48% annual rate, net of investment expense |
| Projected benefit payment | 100 years |
| Payroll growth | 2.75% for first 10 years, then 3.25 annual rate |
| Projected salary increases | 2.75% to 14.00% annual rate |
| Includes inflation at | Includes inflation at 2.25% for the first 10 years and 2.75% thereafter |
| Mortality assumption | RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA. |
| Experience study dates | July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2015 (economic) |

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation

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For the Year Ended June 30, 2017**

date to the plan year ended June 30, 2016. These assumptions were adopted by the Board use in the June 30, 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>All Funds - Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------|---|
| Global Equity | 43.50% | 7.39% |
| Risk Reduction & Mitigation | 21.50% | 1.79% |
| Credit Oriented Fixed Income | 15.00% | 5.77% |
| Real Assets | 20.00% | 7.35% |
| Total | <u>100.00%</u> | |

Discount rate – A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016. This rate was an increase from the fiscal year 2016 rate of 7.45%. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.48 percent, as well as what the employer name’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.48 percent) or 1-percentage-point higher (8.48 percent) than the current rate:

| <u>PERA Fund Division</u> | <u>1% Decrease (6.48%)</u> | <u>Current Discount Rate (7.48%)</u> | <u>1% Increase (8.48%)</u> |
|----------------------------|----------------------------|--------------------------------------|----------------------------|
| Municipal General Division | \$ 24,620,085 | 16,513,450 | 9,789,399 |
| Municipal Police Division | \$ 17,301,189 | 11,759,530 | 7,227,103 |
| Municipal Fire Division | \$ 14,684,405 | 11,226,654 | 8,386,472 |

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERA financial reports, available at <http://www.nmpera.org/>.

NOTE 10 – POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTHCARE PLAN

Plan Description: The City of Gallup contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which the event

**STATE OF NEW MEXICO
CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report, and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy: The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The City of Gallup' contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$310,785, \$303,815, and \$306,051, respectively, which equal the required contributions for each year.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City provides two optional deferred compensation 457 plans. These plans were created in accordance with IRC Section 457. The plans are available to any City employee. Nationwide Retirement Solutions, Inc. and International City/City Managers Association (ICMA) Retirement Corporation administer the individual plans. Employee contributions totaled \$249,303 for Nationwide and \$4,030 for ICMA for the year ended June 30, 2017.

NOTE 12 – LABOR UNIONS

The City has three labor unions: United Mine Workers of America (UMWA), Gallup Police Officers Association, and Gallup Firefighters union. The UMWA agreement went into effect on January 8, 2013. Employees covered under this plan are non-probationary laborers as specified in the contract. The Police agreement went into effect on November 14, 2013. Employees covered under this plan include non-probationary uniformed police officers up to the rank of sergeant. The Firefighters collective bargaining

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agreement went into effect June 10, 2014. Employees covered under this plan include non-probationary firefighters up to the rank of battalion commanders.

Copies of each collective bargaining agreement can be obtained from the City of Gallup Human Resources Department, P.O. Box 1270, Gallup, NM 87305.

NOTE 13 – CONTINGENCIES

The City of Gallup is a party in various lawsuits. The City is insured by the New Mexico Self Insurers Fund. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

In the normal course of operations, the City receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise, as a result of these audits, is not believed to be material.

NOTE 14 – DEFICIT FUND BALANCES

U.S. generally accepted accounting principles require disclosures of certain information concerning individual funds including:

Deficit fund balances of individual funds

| <u>Fund</u> | <u>Fund Type</u> | <u>Amount</u> |
|-------------|------------------|---------------|
| Rodeo (590) | Proprietary | \$ (63,659) |

NOTE 15 – OPERATING LEASES

The reporting entity has entered into a number of operating leases, which contain cancellation provisions and are subject to annual appropriations. The rent expenditures for these leases were primarily from the General Fund. Future minimum lease payments are:

| <u>Fiscal Year</u> <u>Ending June 30,</u> | <u>Amount</u> |
|--|-------------------|
| 2018 | \$ 250,170 |
| 2019 | 222,249 |
| 2020 | 91,139 |
| 2021 | 58,892 |
| 2022 | 53,901 |
| | <u>\$ 676,351</u> |

Lease expenditures for the year ended June 30, 2017 were approximately \$384,772.

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**STATE OF NEW MEXICO
CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 16 – COMMITMENTS

The City of Gallup has several projects under construction related to water and wastewater utilities. Below is a summary list of projects.

| <u>Project</u> | <u>Total Cost</u> | <u>Amount Expensed as of June 30, 2017</u> | <u>Percent Complete</u> | <u>Estimated Date of Completion</u> |
|---|----------------------|--|-----------------------------|---|
| UNM Waterline | \$ 542,503 | 381,235 | 70% | 7/31/2017 |
| Golf Course Reconstruction | 3,798,038 | 2,910,742 | 77% | 6/30/2018 |
| Fuel Farm Modifications | 104,433 | 70,674 | 68% | 6/30/2018 |
| Airport Runway | 3,892,727 | 3,235,327 | 83% | 6/30/2018 |
| Water Dist Rehab | 234,000 | 65,798 | 28% | 6/30/2018 |
| Underfrequency loan/sunshine | 138,353 | 10,374 | 7% | 6/30/2018 |
| Grandview Tank | 3,470,000 | 162,469 | 5% | 6/30/2018 |
| Allison Substation (elec) | 1,500,000 | 6,439 | 0% | 6/30/2018 |
| Allison Extension Redesign | 114,365 | 11,048 | 10% | 6/30/2018 |
| 12" waterline along rr tracks | 477,221 | 455,591 | 95% | 6/30/2018 |
| Fiberoptic | 86,284 | 43,694 | 51% | 6/30/2018 |
| 5th St Waterline | 789,485 | 697,646 | 88% | 6/30/2018 |
| Airport Design Runway | 238,757 | 203,695 | 85% | 6/30/2018 |
| Solid Waste Facility Design | 200,000 | 9,970 | 5% | 6/30/2018 |
| Eng Design 16" waterline HWY 66 to park | 106,665 | 13,746 | 13% | 6/30/2018 |
| Maxwell Sewer Bridge | 1,333,432 | 79,900 | 6% | 6/30/2018 |
| Navajo Gallup | 59,584,044 | 12,301,644 | 21% | 6/30/2025 |
| Navajo Gallup NMFA | 4,000,000 | 4,000,000 | 100% | 6/30/2025 |
| | <u>\$ 80,610,307</u> | <u>24,659,992</u> | | |

NOTE 17 – RESTATEMENT OF NET POSITION

Restatements were made as follows:

| <u>Fund Description</u> | <u>Fund</u> | <u>Reason</u> | <u>Amount</u> |
|-------------------------|-------------|---|--|
| Government-wide | N/A | GASB Statement No. 82 requires a restatement of employer "pickup" contributions that are now considered employee contributions for purposes of calculations of the employer allocation percentage in GASB Statement No. 68 entries. | \$ (1,699,303) |
| General fund | 101 | Prior period adjustment due to correction of PY GRT. Total governmental activities | 690,580 <u>(1,008,723)</u> |
| Joint Utility | multiple | Prior period adjustment due to correction of PY GRT. | (493,020) |
| Solid Waste | 504 | Prior period adjustment due to correction of PY GRT. Total proprietary (business-type) funds Total restatements | 4,941 <u>(488,079)</u> \$ <u>(1,496,802)</u> |

**STATE OF NEW MEXICO
CITY OF GALLUP
For the Year Ended June 30, 2017**

NONMAJOR SPECIAL REVENUE FUNDS

Corrections Fees (201) – To account for a \$10 fee imposed upon conviction of an individual as stipulated under Section 35-14-11 NMSA 1978. The funds collected are restricted to use in the operation of the City's jail facilities.

Emergency Medical Service (EMS) (206) – To account for funds made available to municipalities in proportion to their needs for use in the establishment of emergency medical services in order to reduce injury and loss of life under Section 24-10A and 24-10B NMSA 1978. These funds are to be spent on the training of personnel and non-administrative expenditures involved in providing this service.

Fire Protection (209) – To account for the accumulation of resources from the State's Fire Protection Fund. These funds are to be used for the operation, maintenance, and betterment of local fire districts under Section 59A-53-1 to 59A-53-17 NMSA 1978.

Law Enforcement Protection (211) – To account for the accumulation of resources received from the City's equitable distribution of funds to municipal police under Section 29-13 NMSA 1978. The funds are for the use in the maintenance and improvement of the police department in order to enhance their effectiveness.

Library (213) – To account for the accumulation of resources received from the New Mexico State Grant in Aid. Under Chapter 59 of the laws of 1981 and the New Mexico State Library Rule 81-2 funds are limited to the purchase of books and other non-administrative purchases for the library.

Lodger's Tax (214) – To account for the resources from the lodger's tax levied by the City under Sections 3-38-13 to 3-38-24 NMSA 1978. The occupancy tax is imposed and collected on certain revenues of lodging establishments. The funds may be used for tourist related facilities, advertising, promotions, collecting and administering the tax, and various other uses as cited in the state law.

Municipal Street (216) – To account for resources received from the one-cent gasoline tax imposed by Section 71-6.27 NMSA 1978. The funds are to be used for the reconstruction, resurfacing, maintaining and repairing, or other improvement of existing or new alleys, streets, roads, or bridges.

Juvenile Recreation (217) - To account for the accumulation of resources from the City's distribution of the State's one-cent cigarette tax. These funds are to be spent on the operation of recreation facilities, including salaries of instructors and other employees within the guidelines set forth on disposition of revenues collected under the authority of the laws of the State of New Mexico (Section 7-12-15 NMSA 1978).

Intergovernmental Grants (218) – To account for the resources from various City governmental grants. These funds are to be spent on expenditures outlines in the grant awards (Resolution R2002-10).

Senior Citizens (219) – To account for the resources from the New Mexico Area Agency on Aging. The funds are to be spent on expenditures associated with the operation of the City's Senior Citizen Centers (Resolution R2002-10).

Gallup Express Bussing System (289) – To account for funding from state and city to support the operations of the Gallup Express Bussing System.

Gallup Detox (290) – To account for funding from McKinley liquor excise tax to support building maintenance upgrades.

Community Development Block Grant (CDBG) (291) – To account for the accumulation of resources received from the US Department of Housing and Urban Development (Federal CFDA 14.228). These funds are a part of the comprehensive housing program of rehabilitation and new construction (Resolution R2002-10).

Business Improvement District (293) – To account for the accumulation of resources received from a property owner assessment. These funds are to be spent on improvements in the Downtown area.

**STATE OF NEW MEXICO
CITY OF GALLUP
For the Year Ended June 30, 2017**

NONMAJOR CAPITAL PROJECTS FUNDS

Airport (308) – To account for the costs associated with Airport improvements.

02/11 Sales Tax Revenue Bonds Capital Projects Fund (313) – To account for the financial resources provided by the February 2011 Sales Tax Revenue Bonds. Proceeds are to be used to refund the 2000 issue and for the construction of a new Eastside Fire Station, for the installation of field turf on two (2) baseball fields and a football field, for improvements at the Northside Senior Center, and for improvements at Red Rock Park, which total \$12,000,000.

Legislative Appropriations (391) – To account for the financial resources received from the State of New Mexico. Resources are restricted by project. Funds are received on a cost reimbursement basis, once the City completes the project.

Public Works (399) – To account for the financial resources for various capital construction projects. Transfers from various funds and grants from the State of New Mexico Provide resources for the construction projects.

**STATE OF NEW MEXICO
CITY OF GALLUP
Combining Balance Sheet
Non-Major Governmental Fund
As of June 30, 2017**

| | Special Revenue Funds | Capital Projects Funds | Total |
|--|--------------------------------------|---------------------------------------|------------------|
| <i>Assets</i> | | | |
| Cash and cash equivalents | \$ 2,447,454 | 1,313,704 | 3,761,158 |
| Restricted cash | 210,062 | - | 210,062 |
| Investments | 1,654,473 | - | 1,654,473 |
| Receivables | | | |
| Other taxes | 106,238 | - | 106,238 |
| Grants receivable | 493,572 | 1,253,862 | 1,747,434 |
| Accounts receivables, net | 67,503 | - | 67,503 |
| <i>Total assets</i> | <u>\$ 4,979,302</u> | <u>2,567,566</u> | <u>7,546,868</u> |
| <i>Liabilities, deferred inflows of resources, and fund balances</i> | | | |
| Accounts payable | \$ 40,084 | 603,862 | 643,946 |
| Accrued payroll expenses | 104,488 | - | 104,488 |
| Due to other funds | 150,000 | 350,000 | 500,000 |
| <i>Total liabilities</i> | <u>294,572</u> | <u>953,862</u> | <u>1,248,434</u> |
| <i>Deferred inflows of resources</i> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Total Liabilities and Deferred Inflow of Resources</i> | <u>294,572</u> | <u>953,862</u> | <u>1,248,434</u> |
| <i>Fund balances</i> | | | |
| Nonspendable | - | - | - |
| Restricted | 4,684,730 | 1,613,704 | 6,298,434 |
| Committed | - | - | - |
| Assigned | - | - | - |
| Unassigned | - | - | - |
| <i>Total fund balances</i> | <u>4,684,730</u> | <u>1,613,704</u> | <u>6,298,434</u> |
| <i>Total liabilities, deferred inflows of resources, and fund balances</i> | <u>\$ 4,979,302</u> | <u>2,567,566</u> | <u>7,546,868</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combing Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2017

| | Special Revenue Funds | Capital Projects Funds | Total |
|--|--------------------------------------|---------------------------------------|--------------------|
| <i>Revenues:</i> | | | |
| <i>Taxes:</i> | | | |
| Gasoline and motor vehicle | \$ 1,352,388 | - | 1,352,388 |
| Lodger's | 1,478,840 | - | 1,478,840 |
| <i>Intergovernmental:</i> | | | |
| State operating grants | 1,376,268 | - | 1,376,268 |
| State capital grants | 267,589 | 3,020,910 | 3,288,499 |
| Federal operating grants | 186,117 | - | 186,117 |
| Federal capital grants | 456,178 | 2,911,794 | 3,367,972 |
| Charges for services | 380,899 | - | 380,899 |
| Investment income | (42,758) | 4,777 | (37,981) |
| Miscellaneous | 531,732 | 140,000 | 671,732 |
| <i>Total revenues</i> | <u>5,987,253</u> | <u>6,077,481</u> | <u>12,064,734</u> |
| <i>Expenditures:</i> | | | |
| <i>Current:</i> | | | |
| General government | 14,054 | - | 14,054 |
| Public safety | 326,450 | - | 326,450 |
| Public works | 2,587,399 | 87,725 | 2,675,124 |
| Culture and recreation | 2,244,848 | - | 2,244,848 |
| Health and welfare | 1,358,829 | - | 1,358,829 |
| Capital outlay | 758,729 | 3,055,937 | 3,814,666 |
| <i>Total expenditures</i> | <u>7,290,309</u> | <u>3,143,662</u> | <u>10,433,971</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(1,303,056)</u> | <u>2,933,819</u> | <u>1,630,763</u> |
| <i>Other financing sources (uses)</i> | | | |
| Transfers in | 2,202,172 | 1,895,522 | 4,097,694 |
| Transfers out | (2,001,735) | (3,946,828) | (5,948,563) |
| <i>Total other financing sources (uses)</i> | <u>200,437</u> | <u>(2,051,306)</u> | <u>(1,850,869)</u> |
| <i>Net change in fund balances</i> | (1,102,619) | 882,513 | (220,106) |
| <i>Fund balances - beginning of year</i> | 5,787,349 | 731,191 | 6,518,540 |
| <i>Restatement</i> | - | - | - |
| <i>Fund balance - beginning of year, as restated</i> | <u>5,787,349</u> | <u>731,191</u> | <u>6,518,540</u> |
| <i>Fund balances - end of year</i> | <u>\$ 4,684,730</u> | <u>1,613,704</u> | <u>6,298,434</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Combining Balance Sheet
Non-Major Governmental Funds - Special Revenue Funds
As of June 30, 2017**

| | Corrections 201 | EMS 206 | Fire Protection 209 | Law Enforcement 211 | Library 213 | Lodger's Tax 214 |
|--|----------------------------|--------------------|------------------------------------|------------------------------------|------------------------|---------------------------------|
| <i>Assets</i> | | | | | | |
| Cash and cash equivalents | \$ 414,647 | 1,288 | 313,460 | 2,015 | 112,943 | 1,049,292 |
| Investments | - | - | - | - | - | 926,840 |
| Receivables | | | | | | |
| Grants receivable | - | - | - | - | 4,415 | - |
| Total assets | \$ 414,647 | 1,288 | 313,460 | 2,015 | 117,358 | 1,976,132 |
| <i>Liabilities</i> | | | | | | |
| Accounts payable | - | - | - | 2,015 | - | 12,883 |
| Accrued payroll expenses | - | - | - | - | - | 16,669 |
| Total liabilities | - | - | - | 2,015 | - | 29,552 |
| <i>Fund balances</i> | | | | | | |
| Nonspendable | - | - | - | - | - | - |
| Restricted | 414,647 | 1,288 | 313,460 | - | 117,358 | 1,946,580 |
| Committed | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| Total fund balances | 414,647 | 1,288 | 313,460 | - | 117,358 | 1,946,580 |
| Total liabilities and fund balances | \$ 414,647 | 1,288 | 313,460 | 2,015 | 117,358 | 1,976,132 |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combining Balance Sheet
Non-Major Governmental Funds - Special Revenue Funds
As of June 30, 2017

| | Municipal Street 216 | Juvenile Recreation 217 | Intergovern- mental Grants 218 | Senior Citizens 219 | Gallup Express Busing System 289 | Gallup Detox 290 |
|--|-------------------------------------|--|---|------------------------------------|---|---------------------------------|
| <i>Assets</i> | | | | | | |
| Cash and cash equivalents | \$ 320,149 | 800 | 8,814 | 180,368 | - | 12,099 |
| Restricted cash | 210,062 | - | - | - | - | - |
| Investments | 727,633 | - | - | - | - | - |
| Receivables | | | | | | |
| Other taxes | 106,238 | - | - | - | - | - |
| Grants receivable | 297,245 | - | - | 42,492 | - | 149,420 |
| Accounts receivables, net | 19,757 | - | - | - | - | - |
| <i>Total assets</i> | <u>\$ 1,681,084</u> | <u>800</u> | <u>8,814</u> | <u>222,860</u> | <u>-</u> | <u>161,519</u> |
| <i>Liabilities</i> | | | | | | |
| Accounts payable | \$ 10,078 | - | - | 992 | - | 428 |
| Accrued payroll expenses | 49,732 | - | - | 35,043 | - | 3,044 |
| Due to other funds | - | - | - | - | - | 150,000 |
| <i>Total liabilities</i> | <u>59,810</u> | <u>-</u> | <u>-</u> | <u>36,035</u> | <u>-</u> | <u>153,472</u> |
| <i>Fund balances</i> | | | | | | |
| Nonspendable | - | - | - | - | - | - |
| Restricted | 1,621,274 | 800 | 8,814 | 186,825 | - | 8,047 |
| Committed | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| <i>Total fund balances</i> | <u>1,621,274</u> | <u>800</u> | <u>8,814</u> | <u>186,825</u> | <u>-</u> | <u>8,047</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 1,681,084</u> | <u>800</u> | <u>8,814</u> | <u>222,860</u> | <u>-</u> | <u>161,519</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Combining Balance Sheet
Non-Major Governmental Funds - Special Revenue Funds
As of June 30, 2017**

| | CDBG 201 | Business Improvement District 293 | Total Special Revenue Funds |
|--|---------------------|--|--|
| <i>Assets</i> | | | |
| Cash and cash equivalents | \$ 24,375 | 7,204 | 2,447,454 |
| Restricted cash | - | - | 210,062 |
| Investments | - | - | 1,654,473 |
| Receivables | | | |
| Other taxes | - | - | 106,238 |
| Grants receivable | - | - | 493,572 |
| Accounts receivables, net | - | 47,746 | 67,503 |
| <i>Total assets</i> | <u>\$ 24,375</u> | <u>54,950</u> | <u>4,979,302</u> |
| <i>Liabilities</i> | | | |
| Accounts payable | \$ - | 13,688 | 40,084 |
| Accrued payroll expenses | - | - | 104,488 |
| Due to other funds | - | - | 150,000 |
| <i>Total liabilities</i> | <u>-</u> | <u>13,688</u> | <u>294,572</u> |
| <i>Fund balances</i> | | | |
| Nonspendable | - | - | - |
| Restricted | 24,375 | 41,262 | 4,684,730 |
| Committed | - | - | - |
| Assigned | - | - | - |
| Unassigned | - | - | - |
| <i>Total fund balances</i> | <u>24,375</u> | <u>41,262</u> | <u>4,684,730</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 24,375</u> | <u>54,950</u> | <u>4,979,302</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Combining Balance Sheet
Non-Major Governmental Funds - Capital Project Funds
As of June 30, 2017**

| | Airport 308 | 02/11 Sales Tax Revenue Bonds Capital Projects 313 | Legislative Appropriations 391 | Public Works 399 | Total Capital Project Funds |
|--|------------------------|---|---|---------------------------------|--|
| <i>Assets</i> | | | | | |
| Cash and cash equivalents | \$ 88,081 | - | 36,557 | 1,189,066 | 1,313,704 |
| Receivables | | | | | |
| Grants receivable | 536,340 | - | 316,341 | 401,181 | 1,253,862 |
| Total assets | \$ 624,421 | - | 352,898 | 1,590,247 | 2,567,566 |
| <i>Liabilities</i> | | | | | |
| Accounts payable | \$ 348,075 | - | - | 255,787 | 603,862 |
| Due to other funds | - | - | 350,000 | - | 350,000 |
| Total liabilities | 348,075 | - | 350,000 | 255,787 | 953,862 |
| <i>Fund balances</i> | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 276,346 | - | 2,898 | 1,334,460 | 1,613,704 |
| Committed | - | - | - | - | - |
| Assigned | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| Total fund balances | 276,346 | - | 2,898 | 1,334,460 | 1,613,704 |
| Total liabilities and fund balances | \$ 624,421 | - | 352,898 | 1,590,247 | 2,567,566 |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds - Special Revenue Funds
For the Year Ended June 30, 2017

| | Corrections | EMS | Fire | Law | Library | Lodger's Tax |
|--|--------------------|---------------|-------------------|--------------------|----------------|---------------------|
| | 201 | 206 | Protection | Enforcement | 213 | 214 |
| | 201 | 206 | 209 | 211 | 213 | 214 |
| <i>Revenues:</i> | | | | | | |
| Taxes: | | | | | | |
| Lodger's | \$ - | - | - | - | - | 1,478,840 |
| Intergovernmental: | | | | | | |
| State operating grants | - | 15,322 | 548,452 | 67,200 | 83,519 | - |
| Charges for services | 139,470 | - | - | - | 5,601 | - |
| Investment income | - | - | - | - | - | (20,381) |
| <i>Total revenues</i> | <u>139,470</u> | <u>15,322</u> | <u>548,452</u> | <u>67,200</u> | <u>89,120</u> | <u>1,458,459</u> |
| <i>Expenditures:</i> | | | | | | |
| Current: | | | | | | |
| Public safety | 70,075 | 15,563 | 163,429 | 77,383 | - | - |
| Culture and recreation | - | - | - | - | 52,669 | 1,315,783 |
| Capital outlay | - | - | 65,937 | - | - | - |
| <i>Total expenditures</i> | <u>70,075</u> | <u>15,563</u> | <u>229,366</u> | <u>77,383</u> | <u>52,669</u> | <u>1,315,783</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>69,395</u> | <u>(241)</u> | <u>319,086</u> | <u>(10,183)</u> | <u>36,451</u> | <u>142,676</u> |
| <i>Other financing sources (uses)</i> | | | | | | |
| Transfers in | - | - | - | - | - | 733 |
| Transfers out | - | - | (650,472) | - | - | (148,263) |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>(650,472)</u> | <u>-</u> | <u>-</u> | <u>(147,530)</u> |
| <i>Net change in fund balances</i> | 69,395 | (241) | (331,386) | (10,183) | 36,451 | (4,854) |
| <i>Fund balance - beginning of year</i> | 345,252 | 1,529 | 644,846 | 10,183 | 80,907 | 1,951,434 |
| <i>Restatement</i> | - | - | - | - | - | - |
| <i>Fund balance - beginning of year, as restated</i> | <u>345,252</u> | <u>1,529</u> | <u>644,846</u> | <u>10,183</u> | <u>80,907</u> | <u>1,951,434</u> |
| <i>Fund balances - end of year</i> | <u>\$ 414,647</u> | <u>1,288</u> | <u>313,460</u> | <u>-</u> | <u>117,358</u> | <u>1,946,580</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds - Special Revenue Funds
For the Year Ended June 30, 2017

| | Municipal Street <u>216</u> | Juvenile Recreation <u>217</u> | Inter- governmental Grants <u>218</u> | Senior Citizens <u>219</u> | Gallup Express Busing System <u>289</u> | Gallup Detox <u>290</u> |
|--|-----------------------------------|--------------------------------------|--|----------------------------------|---|-------------------------------|
| <i>Revenues:</i> | | | | | | |
| Taxes: | | | | | | |
| Gasoline and motor vehicle | \$ 1,352,388 | - | - | - | - | - |
| Intergovernmental: | | | | | | |
| State operating grants | - | - | 13,118 | 158,387 | - | 490,270 |
| State capital grants | 267,589 | - | - | - | - | - |
| Federal operating grants | - | - | - | 186,117 | - | - |
| Federal capital grants | 455,242 | - | 936 | - | - | - |
| Investment income | (22,377) | - | - | - | - | - |
| Miscellaneous | - | - | - | 31,732 | - | 500,000 |
| <i>Total revenues</i> | <u>2,052,842</u> | <u>-</u> | <u>14,054</u> | <u>376,236</u> | <u>-</u> | <u>990,270</u> |
| <i>Expenditures:</i> | | | | | | |
| Current: | | | | | | |
| General government | - | - | 14,054 | - | - | - |
| Public works | 2,587,399 | - | - | - | - | - |
| Culture and recreation | - | - | - | 642,379 | - | - |
| Health and welfare | - | - | - | - | - | 1,358,829 |
| Capital outlay | 530,078 | - | - | 162,714 | - | - |
| <i>Total expenditures</i> | <u>3,117,477</u> | <u>-</u> | <u>14,054</u> | <u>805,093</u> | <u>-</u> | <u>1,358,829</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(1,064,635)</u> | <u>-</u> | <u>-</u> | <u>(428,857)</u> | <u>-</u> | <u>(368,559)</u> |
| <i>Other financing sources (uses)</i> | | | | | | |
| Transfers in | 1,669,121 | - | - | 532,318 | - | - |
| Transfers out | (1,203,000) | - | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>466,121</u> | <u>-</u> | <u>-</u> | <u>532,318</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balances</i> | (598,514) | - | - | 103,461 | - | (368,559) |
| <i>Fund balances - beginning of year</i> | 2,219,788 | 800 | 8,814 | 83,364 | - | 376,606 |
| <i>Restatement</i> | - | - | - | - | - | - |
| <i>Fund balance - beginning of year, as restated</i> | <u>2,219,788</u> | <u>800</u> | <u>8,814</u> | <u>83,364</u> | <u>-</u> | <u>376,606</u> |
| <i>Fund balances - end of year</i> | <u>\$ 1,621,274</u> | <u>800</u> | <u>8,814</u> | <u>186,825</u> | <u>-</u> | <u>8,047</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds - Special Revenue Funds
For the Year Ended June 30, 2017

| | CDBG | Business Improvement District | Total Special Revenue Funds |
|--|------------------|--|--|
| | 291 | 293 | |
| <i>Revenues:</i> | | | |
| Taxes: | | | |
| Gasoline and motor vehicle | \$ - | - | 1,352,388 |
| Lodger's | - | - | 1,478,840 |
| Intergovernmental: | | | |
| State operating grants | - | - | 1,376,268 |
| State capital grants | - | - | 267,589 |
| Federal operating grants | - | - | 186,117 |
| Federal capital grants | - | - | 456,178 |
| Charges for services | - | 235,828 | 380,899 |
| Investment income | - | - | (42,758) |
| Miscellaneous | - | - | 531,732 |
| <i>Total revenues</i> | <u>-</u> | <u>235,828</u> | <u>5,987,253</u> |
| <i>Expenditures:</i> | | | |
| Current: | | | |
| General government | - | - | 14,054 |
| Public safety | - | - | 326,450 |
| Public works | - | - | 2,587,399 |
| Culture and recreation | - | 234,017 | 2,244,848 |
| Health and welfare | - | - | 1,358,829 |
| Capital outlay | - | - | 758,729 |
| <i>Total expenditures</i> | <u>-</u> | <u>234,017</u> | <u>7,290,309</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>1,811</u> | <u>(1,303,056)</u> |
| <i>Other financing sources (uses)</i> | | | |
| Transfers in | - | - | 2,202,172 |
| Transfers out | - | - | (2,001,735) |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>200,437</u> |
| <i>Net change in fund balances</i> | - | 1,811 | (1,102,619) |
| <i>Fund balances - beginning of year</i> | 24,375 | 39,451 | 5,787,349 |
| <i>Restatement</i> | - | - | - |
| <i>Fund balance - beginning of year, as restated</i> | <u>24,375</u> | <u>39,451</u> | <u>5,787,349</u> |
| <i>Fund balances - end of year</i> | <u>\$ 24,375</u> | <u>41,262</u> | <u>4,684,730</u> |

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF GALLUP
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds - Capital Project Funds
For the Year Ended June 30, 2017

| | Airport | 02/11 Sales Tax Revenue Bonds Capital Projects | Legislative Appropriations | Public Works | Total Capital Project Funds |
|--|--------------------|---|---------------------------------------|-------------------------|--|
| | 308 | 313 | 391 | 399 | |
| <i>Revenues:</i> | | | | | |
| State capital grants | \$ 225,374 | - | 374,213 | 2,421,323 | 3,020,910 |
| Federal capital grants | 2,911,794 | - | - | - | 2,911,794 |
| Investment income | - | 4,777 | - | - | 4,777 |
| Miscellaneous | - | - | - | 140,000 | 140,000 |
| <i>Total revenues</i> | <u>3,137,168</u> | <u>4,777</u> | <u>374,213</u> | <u>2,561,323</u> | <u>6,077,481</u> |
| <i>Expenditures:</i> | | | | | |
| <i>Current:</i> | | | | | |
| Public works | 362 | - | 25,151 | 62,212 | 87,725 |
| Capital outlay | - | - | - | 3,055,937 | 3,055,937 |
| <i>Total expenditures</i> | <u>362</u> | <u>-</u> | <u>25,151</u> | <u>3,118,149</u> | <u>3,143,662</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>3,136,806</u> | <u>4,777</u> | <u>349,062</u> | <u>(556,826)</u> | <u>2,933,819</u> |
| <i>Other financing sources (uses)</i> | | | | | |
| Transfers in | 235,000 | - | - | 1,660,522 | 1,895,522 |
| Transfers out | (3,306,001) | (184,792) | (349,062) | (106,973) | (3,946,828) |
| <i>Total other financing sources (uses)</i> | <u>(3,071,001)</u> | <u>(184,792)</u> | <u>(349,062)</u> | <u>1,553,549</u> | <u>(2,051,306)</u> |
| <i>Net change in fund balances</i> | 65,805 | (180,015) | - | 996,723 | 882,513 |
| <i>Fund balances - beginning of year</i> | 210,541 | 180,015 | 2,898 | 337,737 | 731,191 |
| <i>Restatement</i> | - | - | - | - | - |
| <i>Fund balance - beginning of year, as restated</i> | <u>210,541</u> | <u>180,015</u> | <u>2,898</u> | <u>337,737</u> | <u>731,191</u> |
| <i>Fund balances - end of year</i> | <u>\$ 276,346</u> | <u>-</u> | <u>2,898</u> | <u>1,334,460</u> | <u>1,613,704</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
For the Year Ended June 30, 2017**

NONMAJOR PROPRIETARY FUNDS

Solid Waste (504) – To account for the operations of the City’s refuse system. Activities of the fund include the administration and operation of the system. All costs are financed through user fees.

Fitness Center (516) – To account for the operations of the Fitness Center Health Club. Activities of the fund include administration, operation, and maintenance of the facility. All costs are financed through membership dues.

Rodeo (590) – To account for the operations of NHJFR. Activities of the fund include administration and operation of the rodeo. All costs are financed through ticker sales and sponsorships.

Gamerco (592) – To account for the operation of wastewater, water, and solid waste collection services to the residents of the township of Gamerco. Activities of the fund include administration, operation, and maintenance of the distribution system.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Net Position
Non-Major Proprietary Funds
As of June 30, 2017**

| | Solid Waste 504 | Fitness Center 516 | Rodeo 590 | Gamerco 592 | Total |
|---|----------------------------|-----------------------------------|----------------------|------------------------|------------------|
| <i>Assets</i> | | | | | |
| <i>Current Assets</i> | | | | | |
| Cash and cash equivalents | \$ 636,037 | 628,219 | 16,528 | 157,824 | 1,438,608 |
| Investments | 4,279,525 | - | - | - | 4,279,525 |
| Receivables: | | | | | |
| Accounts receivables, net | 355,716 | - | - | 127,758 | 483,474 |
| <i>Total current assets</i> | <u>5,271,278</u> | <u>628,219</u> | <u>16,528</u> | <u>285,582</u> | <u>6,201,607</u> |
| <i>Noncurrent Assets</i> | | | | | |
| Land and work in progress | 171,995 | 52,890 | - | - | 224,885 |
| Capital assets, depreciable | 5,085,970 | 17,402 | - | - | 5,103,372 |
| Less: accumulated depreciation | (3,258,306) | (858) | - | - | (3,259,164) |
| <i>Total noncurrent assets</i> | <u>1,999,659</u> | <u>69,434</u> | <u>-</u> | <u>-</u> | <u>2,069,093</u> |
| <i>Total Assets</i> | <u>7,270,937</u> | <u>697,653</u> | <u>16,528</u> | <u>285,582</u> | <u>8,270,700</u> |
| <i>Deferred Outflows of Resources</i> | | | | | |
| Pension deferral | 476,742 | 85,181 | - | - | 561,923 |
| <i>Total Assets and Deferred Outflows of Resources</i> | <u>\$ 7,747,679</u> | <u>782,834</u> | <u>16,528</u> | <u>285,582</u> | <u>8,832,623</u> |
| <i>Liabilities</i> | | | | | |
| <i>Current liabilities</i> | | | | | |
| Accounts payable | \$ 88,966 | - | 80,187 | 17,231 | 186,384 |
| Accrued payroll expenses | 33,049 | 4,335 | - | - | 37,384 |
| Accrued tax liability | - | 1,158 | - | - | 1,158 |
| Unearned revenue | - | - | - | 1,771 | 1,771 |
| Compensated absences | 42,773 | 3,127 | - | - | 45,900 |
| Landfill closure costs, current portion | 18,813 | - | - | - | 18,813 |
| <i>Total current liabilities</i> | <u>183,601</u> | <u>8,620</u> | <u>80,187</u> | <u>19,002</u> | <u>291,410</u> |
| <i>Noncurrent Liabilities</i> | | | | | |
| Compensated absences | 23,032 | 1,684 | - | - | 24,716 |
| Landfill closure costs | 169,313 | - | - | - | 169,313 |
| Net pension liability | 1,090,407 | 211,576 | - | - | 1,301,983 |
| <i>Total noncurrent liabilities</i> | <u>1,282,752</u> | <u>213,260</u> | <u>-</u> | <u>-</u> | <u>1,496,012</u> |
| <i>Total liabilities</i> | <u>1,466,353</u> | <u>221,880</u> | <u>80,187</u> | <u>19,002</u> | <u>1,787,422</u> |
| <i>Deferred Inflows of Resources</i> | | | | | |
| Pension deferral | 11,583 | 4,725 | - | - | 16,308 |
| <i>Total deferred inflows of resources</i> | <u>11,583</u> | <u>4,725</u> | <u>-</u> | <u>-</u> | <u>16,308</u> |
| <i>Net Position</i> | | | | | |
| Net investment in capital assets | 1,999,659 | 69,434 | - | - | 2,069,093 |
| Unrestricted | 4,270,084 | 486,795 | (63,659) | 266,580 | 4,959,800 |
| <i>Total net position</i> | <u>6,269,743</u> | <u>556,229</u> | <u>(63,659)</u> | <u>266,580</u> | <u>7,028,893</u> |
| <i>Total Liabilities, Deferred Inflows or Resources, and Net Position</i> | <u>\$ 7,747,679</u> | <u>782,834</u> | <u>16,528</u> | <u>285,582</u> | <u>8,832,623</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Revenues, Expenses and Changes in Fund Net Position
Non-Major Proprietary Funds
For the Year Ended June 30, 2017**

| | Solid Waste 504 | Fitness Center 516 | Rodeo 590 | Gamerco 592 | Total |
|--|----------------------------|-----------------------------------|----------------------|------------------------|------------------|
| <i>Operating revenues:</i> | | | | | |
| Charges for services | \$ 3,282,312 | 296,941 | 167,349 | 184,287 | 3,930,889 |
| <i>Total operating revenues</i> | <u>3,282,312</u> | <u>296,941</u> | <u>167,349</u> | <u>184,287</u> | <u>3,930,889</u> |
| <i>Operating expenses:</i> | | | | | |
| Personnel services | 840,591 | 135,636 | - | - | 976,227 |
| Contractual services | 1,102,029 | 12,051 | 163,263 | 418,115 | 1,695,458 |
| Supplies and equipment | 64,125 | 3,588 | - | - | 67,713 |
| Repairs and maintenance | 139,870 | 63,545 | - | - | 203,415 |
| Utilities | 8,851 | 36,494 | - | - | 45,345 |
| Miscellaneous | 439,916 | 8,717 | 68,302 | - | 516,935 |
| Depreciation and amortization | 547,562 | 858 | - | - | 548,420 |
| <i>Total operating expenses</i> | <u>3,142,944</u> | <u>260,889</u> | <u>231,565</u> | <u>418,115</u> | <u>4,053,513</u> |
| <i>Operating income (loss)</i> | <u>139,368</u> | <u>36,052</u> | <u>(64,216)</u> | <u>(233,828)</u> | <u>(122,624)</u> |
| <i>Non-operating revenues (expenses):</i> | | | | | |
| Gross receipts and other taxes | 475,300 | - | - | - | 475,300 |
| Investment income | (58,551) | - | - | - | (58,551) |
| Miscellaneous | 2,875 | - | - | - | 2,875 |
| <i>Total non-operating revenues (expenses)</i> | <u>419,624</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>419,624</u> |
| Transfers in | 3,265 | 607 | 45,721 | - | 49,593 |
| Transfers out | (286,418) | - | - | - | (286,418) |
| <i>Net capital grants and transfers</i> | <u>(283,153)</u> | <u>607</u> | <u>45,721</u> | <u>-</u> | <u>(236,825)</u> |
| <i>Change in net position</i> | 275,839 | 36,659 | (18,495) | (233,828) | 60,175 |
| <i>Net position, beginning of year</i> | 5,988,963 | 519,570 | (45,164) | 500,408 | 6,963,777 |
| <i>Restatement</i> | 4,941 | - | - | - | 4,941 |
| <i>Beginning net position, as restated</i> | <u>5,993,904</u> | <u>519,570</u> | <u>(45,164)</u> | <u>500,408</u> | <u>6,968,718</u> |
| <i>Net position, end of year</i> | <u>\$ 6,269,743</u> | <u>556,229</u> | <u>(63,659)</u> | <u>266,580</u> | <u>7,028,893</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Cash Flows
Non-Major Proprietary Funds
For The Year Ended June 30, 2017**

| | Solid Waste 504 | Fitness Center 516 | Rodeo 590 | Gamerco 592 | Total |
|---|----------------------------|-----------------------------------|----------------------|------------------------|------------------|
| Cash flows from operating activities: | | | | | |
| Receipts from customers and users | \$ 3,156,272 | 295,687 | 167,349 | 435,014 | 4,054,322 |
| Payments to employees | (796,044) | (124,542) | - | - | (920,586) |
| Payments to suppliers | (1,311,464) | (116,787) | (109,973) | (474,654) | (2,012,878) |
| Other receipts/(payments) | (458,728) | (8,717) | (98,302) | - | (565,747) |
| <i>Net cash provided (used) by operating activities</i> | <u>590,036</u> | <u>45,641</u> | <u>(40,926)</u> | <u>(39,640)</u> | <u>555,111</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Gross receipts and other taxes | 475,300 | - | - | - | 475,300 |
| Miscellaneous revenue | 2,875 | - | - | - | 2,875 |
| Restatement | 4,941 | - | - | - | 4,941 |
| Transfers from other funds | 3,265 | 607 | 45,721 | - | 49,593 |
| Transfers to other funds | (286,418) | - | - | - | (286,418) |
| <i>Net cash provided (used) by noncapital financing activities</i> | <u>199,963</u> | <u>607</u> | <u>45,721</u> | <u>-</u> | <u>246,291</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Purchase of capital assets | (609,691) | (17,402) | - | - | (627,093) |
| <i>Net cash provided (used) by capital and related financing activities</i> | <u>(609,691)</u> | <u>(17,402)</u> | <u>-</u> | <u>-</u> | <u>(627,093)</u> |
| Cash flows from investing activities: | | | | | |
| Purchases of investments, net | (631,116) | - | - | - | (631,116) |
| Investment income | (58,551) | - | - | - | (58,551) |
| <i>Net cash provided (used) by investing activities</i> | <u>(689,667)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(689,667)</u> |
| Net increase (decrease) in cash and cash equivalents | (509,359) | 28,846 | 4,795 | (39,640) | (515,358) |
| Balances - beginning of year | 1,145,396 | 599,373 | 11,733 | 197,464 | 1,953,966 |
| Balances - end of year | <u>\$ 636,037</u> | <u>628,219</u> | <u>16,528</u> | <u>157,824</u> | <u>1,438,608</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Statement of Cash Flows
Non-Major Proprietary Funds
For The Year Ended June 30, 2017**

| | <u>Solid Waste 504</u> | <u>Fitness Center 516</u> | <u>Rodeo 590</u> | <u>Gamerco 592</u> | <u>Total</u> |
|---|----------------------------|-----------------------------------|----------------------|------------------------|----------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ 139,368 | 36,052 | (64,216) | (233,828) | (122,624) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation expense | 547,562 | 858 | - | - | 548,420 |
| Pension expense | 53,682 | 10,479 | - | - | 64,161 |
| Landfill postclosure costs | (18,812) | - | - | - | (18,812) |
| Bad debt expense | 33,048 | - | - | - | 33,048 |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (159,088) | (1,254) | - | 250,727 | 90,385 |
| (Decrease) increase in: | | | | | |
| Accounts payable | 3,411 | (1,109) | 53,290 | (58,310) | (2,718) |
| Accrued payroll | 3,114 | 255 | - | - | 3,369 |
| Unearned revenue | - | - | - | 1,771 | 1,771 |
| Compensated absences | (12,249) | 360 | - | - | (11,889) |
| Due from/to other funds | - | - | (30,000) | - | (30,000) |
| <i>Net cash provided (used) by operating activities</i> | <u>\$ 590,036</u> | <u>45,641</u> | <u>(40,926)</u> | <u>(39,640)</u> | <u>555,111</u> |

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017**

| | <u>Balance</u> <u>June 30, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|----------------------------------|--|------------------|------------------|--|
| MUNICIPAL COURT | | | | |
| 704 | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 12,318 | 48,133 | (48,348) | 12,103 |
| Total assets | <u>\$ 12,318</u> | <u>48,133</u> | <u>(48,348)</u> | <u>12,103</u> |
| Liabilities | | | | |
| Deposits payable | \$ 12,318 | 48,133 | (48,348) | 12,103 |
| Total liabilities | <u>\$ 12,318</u> | <u>48,133</u> | <u>(48,348)</u> | <u>12,103</u> |
| TRUST & AGENCY | | | | |
| 799 | | | | |
| Municipal Court | | | | |
| Cash and cash equivalents | \$ 830,237 | 40,874 | (65,350) | 805,761 |
| Total assets | <u>\$ 830,237</u> | <u>40,874</u> | <u>(65,350)</u> | <u>805,761</u> |
| Liabilities | | | | |
| Deposits payable | \$ 830,237 | 40,874 | (65,350) | 805,761 |
| Total liabilities | <u>\$ 830,237</u> | <u>40,874</u> | <u>(65,350)</u> | <u>805,761</u> |
| TOTALS - ALL AGENCY FUNDS | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 842,555 | 89,007 | (113,698) | 817,864 |
| Total assets | <u>\$ 842,555</u> | <u>48,133</u> | <u>(48,348)</u> | <u>817,864</u> |
| Liabilities | | | | |
| Deposits payable | \$ 842,555 | 89,007 | (113,698) | 817,864 |
| Total liabilities | <u>\$ 842,555</u> | <u>89,007</u> | <u>(113,698)</u> | <u>817,864</u> |

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF GALLUP'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------------|----------------------|----------------------|
| | Measurement Date as of | | |
| | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| The City's proportion of the net pension liability (asset) (%) | | | |
| Municipal General | 1.0336% | 1.0499% | 1.0439% |
| Municipal Police | 1.5938% | 1.5863% | 1.5291% |
| Municipal Fire | <u>1.6829%</u> | <u>1.7953%</u> | <u>1.6470%</u> |
| | 1.3155% | 1.3686% | 1.3130% |
| The City's proportionate share of the net pension liability (asset) (\$) | | | |
| Municipal General | \$ 16,513,450 | 10,704,640 | 8,143,540 |
| Municipal Police | 11,759,530 | 7,627,820 | 4,984,700 |
| Municipal Fire | <u>11,226,654</u> | <u>9,265,869</u> | <u>6,874,567</u> |
| | \$ 39,499,634 | 27,598,329 | 20,002,807 |
| The City's covered payroll | | | |
| Municipal General | \$ 9,194,497 | 8,676,609 | 10,073,283 |
| Municipal Police | 3,288,433 | 3,098,125 | 3,992,894 |
| Municipal Fire | <u>2,035,150</u> | <u>2,084,001</u> | <u>2,143,801</u> |
| | \$ 14,518,080 | 13,858,735 | 16,209,978 |
| The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | | | |
| Municipal General | 179.60% | 123.37% | 80.84% |
| Municipal Police | 357.60% | 246.21% | 124.84% |
| Municipal Fire | 551.64% | 444.62% | 320.67% |
| Plan fiduciary net position as a percentage of the total pension liability | | | |
| Municipal General | 69.18% | 76.99% | 81.29% |
| Municipal Police | 69.18% | 76.99% | 81.29% |
| Municipal Fire | 69.18% | 76.99% | 81.29% |

*Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the City is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF GALLUP'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|------------------|
| Contractually required contribution | | | |
| Municipal General | \$ 885,456 | 878,074 | 828,616 |
| Municipal Police | 575,041 | 621,514 | 585,546 |
| Municipal Fire | <u>425,142</u> | <u>440,610</u> | <u>451,186</u> |
| | \$ 1,885,639 | 1,940,198 | 1,865,348 |
| Contributions in relation to the contractually required contribution | | | |
| Municipal General | \$ 885,456 | 878,074 | 828,616 |
| Municipal Police | 575,041 | 621,514 | 585,546 |
| Municipal Fire | <u>425,142</u> | <u>440,610</u> | <u>451,186</u> |
| | \$ 1,885,639 | 1,940,198 | 1,865,348 |
| Contribution deficiency (excess) | | | |
| Municipal General | \$ - | - | - |
| Municipal Police | - | - | - |
| Municipal Fire | <u>-</u> | <u>-</u> | <u>-</u> |
| | \$ - | - | - |
| The City's covered payroll | | | |
| Municipal General | \$ 9,271,792 | 9,194,497 | 8,676,609 |
| Municipal Police | 3,042,547 | 3,288,433 | 3,098,125 |
| Municipal Fire | <u>1,963,706</u> | <u>2,035,150</u> | <u>2,084,001</u> |
| | \$ 14,278,045 | 14,518,080 | 13,858,735 |
| Contributions as a percentage of covered payroll | | | |
| Municipal General | 9.55% | 9.55% | 9.55% |
| Municipal Police | 18.90% | 18.90% | 18.90% |
| Municipal Fire | 21.65% | 21.65% | 21.65% |

**Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the City is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2017**

Changes of Benefit Terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Changes of Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2016 report is available at <http://www.nmpera.org/>

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations
As of June 30, 2017**

| Description/Project | SHARE Fund # | Agreement Date | Reversion Date | Original Appropriation Award (\$) | Expenditures as of June 30, 2016 | Current Year Expenditures | Remaining Balance as of June 30, 2017 |
|-----------------------------|-------------------------|---------------------------|---------------------------|--|---|--------------------------------------|--|
| 15-0520 WWTP | 89200 | 12/14/2015 | 6/30/2019 | 150,000 | \$ - | 101,076 | 48,924 |
| 16-2457 Indian Hills Lights | 89200 | 9/21/2016 | 6/30/2020 | 50,000 | - | 19,098 | 30,902 |
| 14-1955 Skate Park | 89200 | 9/30/2014 | 6/30/2018 | 40,000 | 29,875 | 10,125 | - |
| 14-1169 NC Equip | 89200 | 11/18/2015 | 6/30/2018 | 13,410 | - | 13,410 | - |
| 14-1170 NC Imp. | 89200 | 11/18/2015 | 6/30/2018 | 90,000 | - | - | 90,000 |
| 14-1171 NC Renovation | 89200 | 11/18/2015 | 6/30/2018 | 35,000 | - | - | 35,000 |
| 14-1172 Vehicles | 89200 | 11/18/2015 | 6/30/2018 | 160,000 | - | 160,000 | - |
| 14-1173 NC Meals Equip | 89200 | 11/20/2015 | 6/30/2018 | 16,400 | - | 11,580 | 4,820 |
| 14-1954 Cemetery | 89200 | 10/19/2015 | 6/30/2018 | 40,000 | - | - | 40,000 |
| 15-0806 Olivia Park | 89200 | 2/23/2016 | 6/30/2019 | 60,000 | - | 60,000 | - |
| 15-0807 Olivia Park | 89200 | 2/23/2016 | 6/30/2019 | 100,000 | - | 100,000 | - |
| 15-1134 Skate Park | 89200 | 2/23/2016 | 6/30/2017 | 50,000 | - | - | 50,000 |
| 16-2458 Police Vehicle | 89200 | 9/21/2016 | 6/30/2018 | 285,000 | - | - | 285,000 |
| 16-2459 Skate Park | 89200 | 9/21/2016 | 6/30/2020 | 195,000 | - | - | 195,000 |
| 14-2077 Allison | 89200 | 3/4/2015 | 6/30/2018 | 150,000 | 139,244 | 10,756 | - |
| 15-0942 Allison | 89200 | 1/27/2016 | 6/30/2019 | 2,250,000 | - | 1,206,564 | 1,043,436 |
| 15-1034 Allison | 89200 | 1/27/2016 | 6/30/2019 | 1,600,000 | - | 858,181 | 741,819 |
| 15-1029 Allison | 89200 | 1/27/2016 | 6/30/2019 | 650,000 | - | 345,822 | 304,178 |
| | | | | | \$ <u>169,119</u> | <u>2,896,612</u> | <u>2,869,079</u> |

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Cash, Investments, and Pledged Collateral
By Bank and Account
As of June 30, 2017**

| Account Name | Account Type | Wells Fargo Bank, NA | Investment Centers of America | Pinnacle Bank | New Mexico Finance Authority | NM Local Government Investment Pool | Petty cash | Reconciling Items | Book Balance |
|---|------------------------|------------------------|-------------------------------|--------------------|------------------------------|-------------------------------------|---------------|--------------------|-------------------|
| Cash, cash equivalents, and investments | | | | | | | | | |
| Operational | Checking* | \$ 45,564,386 | - | - | - | - | - | (2,970,168) | 42,594,218 |
| Gallup Municipal Court | Checking* | 16,997 | - | - | - | - | - | (4,894) | 12,103 |
| Escrow - Rio Puerco Project | Checking* | 210,062 | - | - | - | - | - | - | 210,062 |
| Community Block Grant | Checking* | 5 | - | - | - | - | - | - | 5 |
| CI Funding | Checking* | - | - | - | - | - | - | - | - |
| Money Market Mutual Funds | Money Market* | - | 49 | 16,152,111 | - | - | - | - | 16,152,160 |
| Certificate of Deposits | Certificate of Deposit | - | 12,477,434 | 2,022,203 | - | - | - | - | 14,499,637 |
| Federal National Mortgage Association | US Agency Securities | - | 7,114,379 | - | - | - | - | - | 7,114,379 |
| Federal Home Loan Mortgage | US Agency Securities | - | 4,954,147 | - | - | - | - | - | 4,954,147 |
| Federal Home Loan Bank | US Agency Securities | - | 1,728,778 | - | - | - | - | - | 1,728,778 |
| New Mexico Municipal | US Agency Securities | - | 1,956,857 | - | - | - | - | - | 1,956,857 |
| NMFA | Reserves | - | - | - | 9,801,127 | - | - | - | 9,801,127 |
| NM Local Government Investment Pool (LGIP) | Investment Pool | - | - | - | - | 292 | - | - | 292 |
| Petty cash | Petty Cash | - | - | - | - | - | 12,540 | - | 12,540 |
| Subtotal cash and investments | | <u>45,791,450</u> | <u>28,231,644</u> | <u>18,174,314</u> | <u>9,801,127</u> | <u>292</u> | <u>12,540</u> | <u>(2,975,062)</u> | <u>99,036,305</u> |
| Total amount of deposit in bank | | | | | | | | | |
| FDIC coverage | | 45,791,450 | 12,477,385 | 18,174,314 | - | - | - | - | - |
| Total uninsured public funds | | <u>(250,000)</u> | <u>(12,477,385)</u> | <u>(250,000)</u> | - | - | - | - | - |
| | | 45,541,450 | - | 17,924,314 | - | - | - | - | - |
| 50% Collateral Requirement | | | | | | | | | |
| (Section 6-10-17 NMSA 1978) | | 1,941,567 | - | 8,962,157 | - | - | - | - | - |
| 102% Collateral Requirement | | | | | | | | | |
| (Section 6-10-10(H) NMSA 1978) | | 42,514,877 | - | - | - | - | - | - | - |
| | | <u>44,456,444</u> | - | <u>8,962,157</u> | - | - | - | - | - |
| Pledged security at: | | | | | | | | | |
| Wells Fargo FNMA FNMS 2.50 % - 3140F7BU2 5/1/2031 | | 2,156,448 | - | - | - | - | - | - | - |
| Wells Fargo FNMA FNMS 3.00% - 31418AJK5 9/1/2032 | | 10,916 | - | - | - | - | - | - | - |
| Wells Fargo FHG-3 3.50% - 3128MJW972 10/1/2045 | | 42,514,877 | - | - | - | - | - | - | - |
| Pinnacle Bank FNMA 11 123 JG 2.50% - 3136A2PHO 3/28/2041 | | - | - | 567,053 | - | - | - | - | - |
| Pinnacle Bank FNMA 12 103 BA 2.50% - 3136A8ZK9 2/25/2042 | | - | - | 422,463 | - | - | - | - | - |
| Pinnacle Bank FMMS Ko44 A1 2.32% - 3137BHCX3 3/25/2024 | | - | - | 4,211,317 | - | - | - | - | - |
| Pinnacle Bank FMMS Ko79 AE 2.08% - 3137AQVW5 2/19/2019 | | - | - | 3,020,850 | - | - | - | - | - |
| Pinnacle Bank FHLB BONDS 5.25% - 3133XN4B2 12/9/2022 | | - | - | 11,728,454 | - | - | - | - | - |
| Pinnacle Bank FNMA 11 112 DA 2.00% - 3136A1K62 10/25/2040 | | - | - | 249,234 | - | - | - | - | - |
| Total collateral | | <u>44,682,241</u> | - | <u>20,199,371</u> | - | - | - | - | - |
| Amount over/(under) collateralized | | <u>\$ 225,797</u> | - | <u>11,237,214</u> | - | - | - | - | - |
| Amount over/(under) collateralized & insured | | <u>\$ (45,315,653)</u> | - | <u>(6,687,100)</u> | - | - | - | - | - |
| Total book balance | | <u>\$ 42,816,388</u> | <u>44,449,101</u> | <u>46,405,958</u> | <u>9,801,127</u> | <u>292</u> | <u>12,540</u> | - | - |

*denotes interest bearing account

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Fund Balances
As of June 30, 2017**

| | <u>General Fund</u> | <u>Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|---|-------------------------|-------------------------|---|-------------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventory | \$ 112,873 | - | - | 112,873 |
| Prepaid expenses | - | - | - | - |
| Subtotal nonspendable | <u>112,873</u> | <u>-</u> | <u>-</u> | <u>112,873</u> |
| Restricted for: | | | | |
| Operation of the correction facilities | - | - | 414,647 | 414,647 |
| EMS training of personnel and admin expenses | - | - | 1,288 | 1,288 |
| Operation, maintenance, and betterment of local fire districts | - | - | 313,460 | 313,460 |
| Operation, maintenance, and betterment of police departments | - | - | - | - |
| Library books and non-admin purchases | - | - | 117,358 | 117,358 |
| Tourism | - | - | 1,946,580 | 1,946,580 |
| Road repairs, maintenance, and improvements | - | - | 1,621,274 | 1,621,274 |
| City-wide recreation facilities | - | - | 800 | 800 |
| Metro redevelopment and improvements | - | - | 50,076 | 50,076 |
| Operating/administering senior citizens facility | - | - | 186,825 | 186,825 |
| Navajo Gallup water supply pipeline project | - | - | - | - |
| Gallup Express Busing system | - | - | - | - |
| Building maintenance and upgrades | - | - | 8,047 | 8,047 |
| Housing rehabilitation and construction | - | - | 24,375 | 24,375 |
| Airport improvements | - | - | 276,346 | 276,346 |
| Construction of Eastside Fire Station, installation of field turf, and Northside Senior Center & Red Rock Park improvements | - | - | - | - |
| Capital construction projects funded by State of New Mexico | | | | |
| Legislative Appropriations | - | - | 1,337,358 | 1,337,358 |
| Minimum fund balance requirement | 2,368,898 | - | - | 2,368,898 |
| Subtotal restricted | <u>2,368,898</u> | <u>-</u> | <u>6,298,434</u> | <u>8,667,332</u> |
| Committed to: | | | | |
| Debt service | - | 1,794,702 | - | 1,794,702 |
| Subtotal committed | <u>-</u> | <u>1,794,702</u> | <u>-</u> | <u>1,794,702</u> |
| Assigned to: | | | | |
| None | - | - | - | - |
| Subtotal assigned | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Unassigned: | | | | |
| | 16,029,961 | - | - | 16,029,961 |
| Total fund balances | <u>\$ 18,511,732</u> | <u>1,794,702</u> | <u>6,298,434</u> | <u>26,604,868</u> |

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Joint Powers Agreements
For the Year Ended June 30, 2017**

| | Joint Powers Agreement | Participants | Responsible Party | Description | Beginning and Ending Dates | Total estimated project amount and amount applicable to Agency | Amount contributed by City during current FY | Audit Responsibility |
|---|---|--|----------------------|---|-------------------------------|---|---|-------------------------|
| 1 | Northwest New Mexico Regional Solid Waste Authority | City of Gallup McKinley County Cibola County City of Grants Village of Milan | All | Operation or solid waste authority and its facilities | 11/23/16 until terminated | None | None | None |
| 2 | Liquor Excise Tax | City of Gallup McKinley County | McKinley County | Liquor Excise tax usage | 7/1/16-6/30/20 | None | None | None |
| 3 | Animal Control Operation | City of Gallup Gallup McKinley | Both | Joint funding of operation of animal control services | 7/1/16 until terminated | 450,000 | 270,000 | City |

See Independent Auditor's Report

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Financial Data Schedule - Balance Sheet
As of June 30, 2017

| Line Item Number | Description | Project Total | 14.871 Housing Choice Vouchers | 14.249 Section 8 Moderate Rehabilitation Single Room Occupancy | 2 State/Local | Subtotal | ELIM | Total |
|------------------|---|---------------------|--------------------------------|--|---------------|------------------|-----------------|------------------|
| 111 | Cash - Unrestricted | \$ 282,599 | 96,859 | 16,623 | - | 396,081 | - | 396,081 |
| 112 | Cash - Restricted - Modernization and Development | - | - | - | - | - | - | - |
| 113 | Cash - Other Restricted | - | - | - | - | - | - | - |
| 114 | Cash - Tenant Security Deposits | 52,654 | - | - | - | 52,654 | - | 52,654 |
| 115 | Cash - Restricted for Payment of Current Liabilities | - | - | - | - | - | - | - |
| 100 | Total Cash | 335,253 | 96,859 | 16,623 | - | 448,735 | - | 448,735 |
| 121 | Accounts Receivable - PHA Projects | - | - | - | - | - | - | - |
| 122 | Accounts Receivable - HUD Other Projects | 116,002 | 1,141 | - | - | 117,143 | - | 117,143 |
| 124 | Accounts Receivable - Other Government | - | - | - | - | - | - | - |
| 125 | Accounts Receivable - Miscellaneous | - | - | - | - | - | - | - |
| 126 | Accounts Receivable - Tenants | 11,084 | - | - | - | 11,084 | - | 11,084 |
| 126.1 | Allowance for Doubtful Accounts - Tenants | (4,389) | - | - | - | (4,389) | - | (4,389) |
| 126.2 | Allowance for Doubtful Accounts - Other | - | - | - | - | - | - | - |
| 127 | Notes, Loans, & Mortgages Receivable - Current | - | - | - | - | - | - | - |
| 128 | Fraud Recovery | 55,000 | 1,538 | - | - | 56,538 | - | 56,538 |
| 128.1 | Allowance for Doubtful Accounts - Fraud | (55,000) | (1,538) | - | - | (56,538) | - | (56,538) |
| 129 | Accrued Interest Receivable | - | - | - | - | - | - | - |
| 120 | Total Receivables, Net of Allowances for Doubtful Accounts | 122,697 | 1,141 | - | - | 123,838 | - | 123,838 |
| 131 | Investments - Unrestricted | - | - | - | - | - | - | - |
| 132 | Investments - Restricted | - | - | - | - | - | - | - |
| 135 | Investments - Restricted for Payment of Current Liability | - | - | - | - | - | - | - |
| 142 | Prepaid Expenses and Other Assets | 11,965 | 237 | - | - | 12,202 | - | 12,202 |
| 143 | Inventories | 70,057 | - | - | - | 70,057 | - | 70,057 |
| 143.1 | Allowance for Obsolete Inventories | (7,006) | - | - | - | (7,006) | - | (7,006) |
| 144 | Inter Program Due From | 49,650 | - | 16,733 | - | 66,383 | (66,383) | - |
| 145 | Assets Held for Sale | - | - | - | - | - | - | - |
| 150 | Total Current Assets | 582,616 | 98,237 | 33,356 | - | 714,209 | (66,383) | 647,826 |
| 161 | Land | 1,593,833 | - | - | - | 1,593,833 | - | 1,593,833 |
| 162 | Buildings | 13,804,172 | - | - | - | 13,804,172 | - | 13,804,172 |
| 163 | Furniture, Equipment & Machinery - Dwellings | 56,659 | - | - | - | 56,659 | - | 56,659 |
| 164 | Furniture, Equipment & Machinery - Administration | 471,055 | 14,942 | - | - | 485,997 | - | 485,997 |
| 165 | Leasehold Improvements | - | - | - | - | - | - | - |
| 166 | Accumulated Depreciation | (8,053,886) | (14,811) | - | - | (8,068,697) | - | (8,068,697) |
| 167 | Construction in Progress | - | - | - | - | - | - | - |
| 168 | Infrastructure | - | - | - | - | - | - | - |
| 160 | Total Capital Assets, Net of Accumulated Depreciation | 7,871,833 | 131 | - | - | 7,871,964 | - | 7,871,964 |
| 171 | Notes, Loans and Mortgages Receivable - Non-Current | - | - | - | - | - | - | - |
| 172 | Notes, Loans, & Mortgages Receivable - Non Current - Past Due | - | - | - | - | - | - | - |
| 173 | Grants Receivable - Non Current | - | - | - | - | - | - | - |
| 174 | Other Assets | - | - | - | - | - | - | - |
| 176 | Investments in Joint Ventures | - | - | - | - | - | - | - |
| 180 | Total Non-Current Assets | 7,871,833 | 131 | - | - | 7,871,964 | - | 7,871,964 |
| 200 | Deferred Outflow of Resources | 326,566 | 6,194 | - | - | 332,760 | - | 332,760 |
| 290 | Total Assets and Deferred Outflow of Resources | \$ 8,781,015 | 104,562 | 33,356 | - | 8,918,933 | (66,383) | 8,852,550 |
| 311 | Bank Overdraft | \$ - | - | - | - | - | - | - |
| 312 | Accounts Payable <= 90 Days | 14,020 | 84 | - | - | 14,104 | - | 14,104 |
| 313 | Accounts Payable >90 Days Past Due | - | - | - | - | - | - | - |
| 321 | Accrued Wage/Payroll Taxes Payable | 18,855 | 547 | - | - | 19,402 | - | 19,402 |
| 322 | Accrued Compensated Absences - Current Portion | 14,260 | 145 | - | - | 14,405 | - | 14,405 |
| 324 | Accrued Contingency Liability | - | - | - | - | - | - | - |
| 325 | Accrued Interest Payable | - | - | - | - | - | - | - |
| 331 | Accounts Payable - HUD PHA Programs | - | - | 12,616 | - | 12,616 | - | 12,616 |
| 332 | Account Payable - PHA Projects | - | - | - | - | - | - | - |
| 333 | Accounts Payable - Other Government | - | - | - | - | - | - | - |
| 341 | Tenant Security Deposits | 52,654 | - | - | - | 52,654 | - | 52,654 |
| 342 | Unearned Revenue | 13,620 | 2,654 | - | - | 16,274 | - | 16,274 |
| 343 | Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue | - | - | - | - | - | - | - |
| 344 | Current Portion of Long-term Debt - Operating Borrowings | - | - | - | - | - | - | - |
| 345 | Other Current Liabilities | - | - | - | - | - | - | - |
| 346 | Accrued Liabilities - Other | 24,974 | - | - | - | 24,974 | - | 24,974 |
| 347 | Inter Program - Due To | 607 | 19,113 | - | 46,663 | 66,383 | (66,383) | - |
| 348 | Loan Liability - Current | - | - | - | - | - | - | - |
| 310 | Total Current Liabilities | 138,990 | 22,543 | 12,616 | 46,663 | 220,812 | (66,383) | 154,429 |

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Financial Data Schedule - Balance Sheet
As of June 30, 2017

| Line Item Number | Description | Project Total | 14.871 Housing Choice Vouchers | 14.249 Section 8 Moderate Rehabilitation Single Room Occupancy | 2 State/Local | Subtotal | ELIM | Total |
|------------------|--|---------------------|--------------------------------|--|-----------------|------------------|-----------------|------------------|
| 351 | Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue | - | - | - | - | - | - | - |
| 352 | Long-term Debt, Net of Current - Operating Borrowings | - | - | - | - | - | - | - |
| 353 | Non-current Liabilities - Other | - | - | - | - | - | - | - |
| 354 | Accrued Compensated Absences - Non Current | 11,668 | 119 | - | - | 11,787 | - | 11,787 |
| 355 | Loan Liability - Non Current | - | - | - | - | - | - | - |
| 356 | FASB 5 Liabilities | - | - | - | - | - | - | - |
| 357 | Accrued Pension and OPEB Liabilities | 853,847 | 12,087 | - | - | 865,934 | - | 865,934 |
| 350 | Total Non-Current Liabilities | <u>865,515</u> | <u>12,206</u> | <u>-</u> | <u>-</u> | <u>877,721</u> | <u>-</u> | <u>877,721</u> |
| 300 | Total Liabilities | 1,004,505 | 34,749 | 12,616 | 46,663 | 1,098,533 | (66,383) | 1,032,150 |
| 400 | Deferred Inflow of Resources | 8,423 | 172 | - | - | 8,595 | - | 8,595 |
| 508.4 | Net Investment in Capital Assets | 7,871,833 | 131 | - | - | 7,871,964 | - | 7,871,964 |
| 511.4 | Restricted Net Position | - | - | - | - | - | - | - |
| 512.4 | Unrestricted Net Position | (103,746) | 69,510 | 20,740 | (46,663) | (60,159) | - | (60,159) |
| 513 | Total Equity - Net Assets / Position | <u>7,768,087</u> | <u>69,641</u> | <u>20,740</u> | <u>(46,663)</u> | <u>7,811,805</u> | <u>-</u> | <u>7,811,805</u> |
| 600 | Total Liabilities, Deferred Inflows of Resources and Equity - Net | <u>\$ 8,781,015</u> | <u>104,562</u> | <u>33,356</u> | <u>-</u> | <u>8,918,933</u> | <u>(66,383)</u> | <u>8,852,550</u> |

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Financial Data Schedule - Statement of Revenues and Expenditures
As of June 30, 2017

| Line Item Number | Description | 14.871 Housing Choice | | 14.249 Section 8 Moderate Rehabilitation Single | | 2 State/ Local | Subtotal | ELIM | Total |
|------------------------|---|-----------------------------|----------------|---|----------|-------------------|------------------|----------|------------------|
| | | Project Total | Vouchers | Room Occupancy | | | | | |
| 70300 | Net Tenant Rental Revenue | \$ 766,013 | - | - | - | - | 766,013 | - | 766,013 |
| 70400 | Tenant Revenue - Other | 36,652 | - | - | - | - | 36,652 | - | 36,652 |
| 70500 | Total Tenant Revenue | 802,665 | - | - | - | - | 802,665 | - | 802,665 |
| 70600 | HUD PHA Operating Grants | 1,000,039 | 171,594 | 14,963 | - | - | 1,186,596 | - | 1,186,596 |
| 70610 | Capital Grants | 159,226 | - | - | - | - | 159,226 | - | 159,226 |
| 70710 | Management Fee | - | - | - | - | - | - | - | - |
| 70720 | Asset Management Fee | - | - | - | - | - | - | - | - |
| 70730 | Book Keeping Fee | - | - | - | - | - | - | - | - |
| 70740 | Front Line Service Fee | - | - | - | - | - | - | - | - |
| 70750 | Other Fees | - | - | - | - | - | - | - | - |
| 70700 | Total Fee Revenue | - | - | - | - | - | - | - | - |
| 70800 | Other Government Grants | - | - | - | - | - | - | - | - |
| 71100 | Investment Income - Unrestricted | 18 | 17 | - | - | - | 35 | - | 35 |
| 71200 | Mortgage Interest Income | - | - | - | - | - | - | - | - |
| 71300 | Proceeds from Disposition of Assets Held for Sale | - | - | - | - | - | - | - | - |
| 71310 | Cost of Sale of Assets | - | - | - | - | - | - | - | - |
| 71400 | Fraud Recovery | - | - | - | - | - | - | - | - |
| 71500 | Other Revenue | 16,173 | 15,495 | - | - | - | 31,668 | - | 31,668 |
| 71600 | Gain or Loss on Sale of Capital Assets | - | - | - | - | - | - | - | - |
| 72000 | Investment Income - Restricted | - | - | - | - | - | - | - | - |
| 70000 | Total Revenue | 1,978,121 | 187,106 | 14,963 | - | - | 2,180,190 | - | 2,180,190 |
| 91100 | Administrative Salaries | 225,274 | 7,952 | 1,570 | - | - | 234,796 | - | 234,796 |
| 91200 | Auditing Fees | 19,467 | 2,736 | 394 | - | - | 22,597 | - | 22,597 |
| 91300 | Management Fee | - | - | - | - | - | - | - | - |
| 91310 | Book-keeping Fee | - | - | - | - | - | - | - | - |
| 91400 | Advertising and Marketing | 4,538 | 201 | 41 | - | - | 4,780 | - | 4,780 |
| 91500 | Employee Benefit contributions - Administrative | 123,809 | 3,598 | 149 | - | - | 127,556 | - | 127,556 |
| 91600 | Office Expenses | 46,373 | 2,049 | 420 | - | - | 48,842 | - | 48,842 |
| 91700 | Legal Expense | 22,246 | 19 | - | - | - | 22,265 | - | 22,265 |
| 91800 | Travel | 1,822 | 6 | - | - | - | 1,828 | - | 1,828 |
| 91810 | Allocated Overhead | - | - | - | - | - | - | - | - |
| 91900 | Other | 57,505 | 864 | 178 | - | - | 58,547 | - | 58,547 |
| 91000 | Total Operating - Administrative | 501,034 | 17,425 | 2,752 | - | - | 521,211 | - | 521,211 |
| 92000 | Asset Management Fee | - | - | - | - | - | - | - | - |
| 92100 | Tenant Services - Salaries | - | - | - | - | - | - | - | - |
| 92200 | Relocation Costs | - | - | - | - | - | - | - | - |
| 92300 | Employee Benefit Contributions - Tenant Services | - | - | - | - | - | - | - | - |
| 92400 | Tenant Services - Other | 9,339 | - | - | - | - | 9,339 | - | 9,339 |
| 92500 | Total Tenant Services | 9,339 | - | - | - | - | 9,339 | - | 9,339 |
| 93100 | Water | 101,252 | - | - | - | - | 101,252 | - | 101,252 |
| 93200 | Electricity | 104,793 | - | - | - | - | 104,793 | - | 104,793 |
| 93300 | Gas | 70,094 | - | - | - | - | 70,094 | - | 70,094 |
| 93400 | Fuel | - | - | - | - | - | - | - | - |
| 93500 | Labor | - | - | - | - | - | - | - | - |
| 93600 | Sewer | 53,711 | - | - | - | - | 53,711 | - | 53,711 |
| 93700 | Employee Benefit Contributions - Utilities | - | - | - | - | - | - | - | - |
| 93800 | Other Utilities Expense | 15,518 | - | - | - | - | 15,518 | - | 15,518 |
| 93000 | Total Utilities | 345,368 | - | - | - | - | 345,368 | - | 345,368 |
| 94100 | Ordinary Maintenance and Operations - Labor | 279,304 | - | - | - | - | 279,304 | - | 279,304 |
| 94200 | Ordinary Maintenance and Operations - Materials and Other | 156,535 | - | - | - | - | 156,535 | - | 156,535 |
| 94300 | Ordinary Maintenance and Operations Contracts | 164,940 | - | - | - | - | 164,940 | - | 164,940 |
| 94500 | Employee Benefit Contributions - Ordinary Maintenance | 153,211 | - | - | - | - | 153,211 | - | 153,211 |
| 94000 | Total Maintenance | 753,990 | - | - | - | - | 753,990 | - | 753,990 |
| 95100 | Protective Services - Labor | - | - | - | - | - | - | - | - |
| 95200 | Protective Services - Other Contract Costs | - | - | - | - | - | - | - | - |
| 95300 | Protective Services - Other | - | - | - | - | - | - | - | - |
| 95500 | Employee Benefit Contributions - Protective Services | - | - | - | - | - | - | - | - |
| 95000 | Total Protective Services | - | - | - | - | - | - | - | - |
| 96110 | Property Insurance | 46,750 | 1,049 | - | - | - | 47,799 | - | 47,799 |
| 96120 | Liability Insurance | 22,563 | 40 | - | - | - | 22,603 | - | 22,603 |
| 96130 | Workmen's Compensation | 13,413 | 58 | - | - | - | 13,471 | - | 13,471 |
| 96140 | All Other Insurance | 9,455 | 15 | - | - | - | 9,470 | - | 9,470 |
| 96100 | Total Insurance Premiums | 92,181 | 1,162 | - | - | - | 93,343 | - | 93,343 |
| 96200 | Other General Expenses | 20,406 | - | - | - | - | 20,406 | - | 20,406 |
| 96210 | Compensated Absences | 29,293 | 627 | - | - | - | 29,920 | - | 29,920 |
| 96300 | Payments in Lieu of Taxes | - | - | - | - | - | - | - | - |
| 96400 | Bad debt - Tenant Rents | 29,334 | 1,538 | - | - | - | 30,872 | - | 30,872 |
| 96500 | Bad debt - Mortgages | - | - | - | - | - | - | - | - |
| 96600 | Bad debt - Other | - | - | - | - | - | - | - | - |

STATE OF NEW MEXICO
 GALLUP HOUSING AUTHORITY
 A COMPONENT UNIT OF THE CITY OF GALLUP
 Financial Data Schedule - Statement of Revenues and Expenditures
 As of June 30, 2017

| Line Item Number | Description | Project Total | 14.871 Housing Choice Vouchers | 14.249 Section 8 Moderate Rehabilitation Single Room Occupancy | 2 State/Local | Subtotal | ELIM | Total |
|------------------|---|---------------|--------------------------------|--|---------------|-----------|-----------|-----------|
| 96800 | Severance Expense | - | - | - | - | - | - | - |
| 96000 | Total Other General Expenses | 79,933 | 2,165 | - | - | 81,198 | - | 81,198 |
| 96710 | Interest of Mortgage (or Bonds) Payable | - | - | - | - | - | - | - |
| 96720 | Interest on Notes Payable (Short and Long Term) | - | - | - | - | - | - | - |
| 96730 | Amortization of Bond Issue Costs | - | - | - | - | - | - | - |
| 96700 | Total Interest Expense and Amortization Cost | - | - | - | - | - | - | - |
| 96900 | Total Operating Expenses | 1,780,945 | 20,752 | 2,752 | - | 1,804,449 | - | 1,804,449 |
| 97000 | Excess of Operating Revenue over Operating Expenses | 197,176 | 166,354 | 12,211 | - | 375,741 | - | 375,741 |
| 97100 | Extraordinary Maintenance | - | - | - | - | - | - | - |
| 97200 | Casualty Losses - Non-capitalized | - | - | - | - | - | - | - |
| 97300 | Housing Assistance Payments | - | 148,097 | 7,374 | - | 155,471 | - | 155,471 |
| 97350 | HAP Portability-In | - | 14,014 | - | - | 14,014 | - | 14,014 |
| 97400 | Depreciation Expense | 403,888 | 9 | - | - | 403,897 | - | 403,897 |
| 97500 | Fraud Losses | - | - | - | - | - | - | - |
| 97600 | Capital Outlays - Governmental Funds | - | - | - | - | - | - | - |
| 97700 | Debt Principal Payment - Governmental Funds | - | - | - | - | - | - | - |
| 97800 | Dwelling Units Rent Expense | - | - | - | - | - | - | - |
| 90000 | Total Expenses | 2,184,833 | 182,872 | 10,126 | - | 2,377,831 | - | 2,377,831 |
| 10010 | Operating Transfer In | 122,813 | - | - | - | 122,813 | (122,813) | - |
| 10020 | Operating Transfer Out | (122,813) | - | - | - | (122,813) | 122,813 | - |
| 10030 | Operating Transfers from/to Primary Government | - | - | - | - | - | - | - |
| 10040 | Operating Transfers from/to Component Unit | - | - | - | - | - | - | - |
| 10050 | Proceeds from Notes, Loans and Bonds | - | - | - | - | - | - | - |
| 10060 | Proceeds from Property Sales | - | - | - | - | - | - | - |
| 10070 | Extraordinary Items, Net Gain/Loss | - | - | - | - | - | - | - |
| 10080 | Special Items (Net Gain/Loss) | - | - | - | - | - | - | - |
| 10091 | Inter Project Excess Cash Transfer In | - | - | - | - | - | - | - |
| 10092 | Inter Project Excess Cash Transfer Out | - | - | - | - | - | - | - |
| 10093 | Transfers between Program and Project - In | - | - | - | - | - | - | - |
| 10094 | Transfers between Project and Program - Out | - | - | - | - | - | - | - |
| 10100 | Total Other financing Sources (Uses) | - | - | - | - | - | - | - |
| 10000 | Excess (Deficiency) of Total Revenue Over (Under) Total Expenses | (206,712) | 4,234 | 4,837 | - | (197,641) | - | (197,641) |
| 11020 | Required Annual Debt Principal Payments | \$ - | - | - | - | - | - | - |
| 11030 | Beginning Equity | 8,018,826 | 65,852 | 15,903 | (46,663) | 8,053,918 | - | 8,053,918 |
| 11040 | Prior Period Adjustments, Equity Transfers and Correction of Errors | (44,027) | (445) | - | - | (44,472) | - | (44,472) |
| 11050 | Changes in Compensated Absence Balance | - | - | - | - | - | - | - |
| 11060 | Changes in Contingent Liability Balance | - | - | - | - | - | - | - |
| 11070 | Changes in Unrecognized Pension Transition Liability | - | - | - | - | - | - | - |
| 11080 | Changes in Special Term/Severance Benefits Liability | - | - | - | - | - | - | - |
| 11090 | Changes in Allowance for Doubtful Accounts - Dwelling Rents | - | - | - | - | - | - | - |
| 11100 | Changes in Allowance for Doubtful Accounts - Other | - | - | - | - | - | - | - |
| 11170 | Administrative Fee Equity | - | 69,641 | - | - | 69,641 | - | 69,641 |
| 11180 | Housing Assistance Payments Equity | - | - | - | - | - | - | - |
| 11190 | Unit Months Available | 3,204 | 396 | 96 | - | 3,696 | - | 3,696 |
| 11210 | Number of Unit Months Leased | 3,003 | 396 | 43 | - | 3,442 | - | 3,442 |
| 11270 | Excess Cash | \$ 220,740 | - | - | - | 220,740 | - | 220,740 |
| 11610 | Land Purchases | - | - | - | - | - | - | - |
| 11620 | Building Purchases | \$ 159,226 | - | - | - | 159,226 | - | 159,226 |
| 11630 | Furniture & Equipment - Dwelling Purchases | - | - | - | - | - | - | - |
| 11640 | Furniture & Equipment - Administrative Purchases | 31,395 | - | - | - | 31,395 | - | 31,395 |
| 11650 | Leasehold Improvements Purchases | - | - | - | - | - | - | - |
| 11660 | Infrastructure Purchases | - | - | - | - | - | - | - |
| 13510 | CFFP Debt Service Payments | - | - | - | - | - | - | - |
| 13901 | Replacement Housing Factor Funds | - | - | - | - | - | - | - |

STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

| Federal Grantor/Program Title | CFDA Number | Project/ Pass-Through Number | Federal Expenditures |
|--|----------------|---------------------------------|-------------------------|
| City of Gallup | | | |
| U.S. Department of Health and Human Services | | | |
| Passed through State of New Mexico Agency on Aging | | | |
| Aging Cluster: | | | |
| Title III B | 93.044 | 2016-16-60013 | \$ 29,178 |
| Title III C1 | 93.045 | 2016-16-60013 | 78,460 |
| Title III C2 | 93.045 | 2016-16-60013 | 18,001 |
| Nutrition Services Incentive Program | 93.053 | 2016-16-60013 | 60,477 |
| Total Aging Cluster | | | <u>186,116</u> |
| Total U.S. Department of Health and Human Services | | | 186,116 |
| U.S. Department of Transportation | | | |
| Passed through New Mexico Department of Transportation | | | |
| Operation DWI | 20.608 | 16-AL-64-037 | 18,371 |
| Operation DWI | 20.608 | 17-AL-64-PO2 | 13,046 |
| Operation DWI | 20.608 | 17-AL-64-037 | 13,859 |
| NMDOT TAPF | 20.205 | D15001 CN610082 | 455,242 |
| DOT Federal Aviation | * | 20.106 | 3-35-00019-025-2016 |
| | | | <u>2,911,794</u> |
| Total U.S. Department of Transportation | | | 3,412,312 |
| U.S. Department of the Interior | | | |
| Passed through NM Bureau of Land Management | | | |
| BOR Smart Meter/Toilet Replacement Program | 15.530 | R14AS400003 | 936 |
| Navajo-Gallup Water Supply Project | * | 15.552 | 11-WC-40-435 #49 |
| | | | 2,949,385 |
| Development NGWSP/Drought Contingency Plan | 15.514 | R16AC00112 | 1,627 |
| Total U.S. Department of the Interior | | | <u>2,951,948</u> |
| U.S. Department of Homeland Security | | | |
| Emergency Management Performance | 97.042 | MT-2016-EP-0005-S01 | 15,498 |
| Total U.S. Department of Homeland Security | | | <u>15,498</u> |
| U.S. Department of Justice | | | |
| Passed through the Office of the Justice Assistance | | | |
| Bureau of Justice Assistance | | | |
| FY14 Local JAG Program | 16.738 | 2014-DJ-BX-1207 | 8,078 |
| FY15 Local JAG Program | 16.738 | 2015-DJ-BX-0643 | 18,543 |
| FY16 Local JAG Program | 16.738 | 2016-DJ-BX-0901 | 34,228 |
| Total U.S. Department of Justice | | | <u>60,849</u> |
| Total Federal Financial Assistance - City of Gallup | | | <u>\$ 6,626,723</u> |
| Gallup Housing Authority (Component Unit) | | | |
| U.S. Department of Housing and Urban Development | | | |
| Housing Choice Voucher Program | 14.871 | N/A | \$ 171,594 |
| Low Rent Public Housing Program | * | 14.850 | N/A |
| | | | 870,726 |
| Public Housing Capital Fund Program | 14.872 | N/A | 288,539 |
| Section 8 Moderate Rehabilitation Single Room Occupancy | 14.249 | N/A | 14,963 |
| Total Direct from U.S. Housing and Urban Development | | | <u>\$ 1,345,822</u> |
| Total Federal Financial Assistance - Gallup Housing Authority | | | <u>1,345,822</u> |
| Total Federal Financial Assistance | | | <u>\$ 7,972,545</u> |

* = Denotes major program

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds

City of Gallup

| | |
|---|-----------------|
| Federal grant revenue per fund financials | \$ 6,627,886 |
| Federal expenditures per SEFA | 6,626,723 |
| Difference - not all grants are reimbursement based | <u>\$ 1,163</u> |

Gallup Housing Authority (Component Unit)

| | |
|---|--------------|
| Federal grant revenue per fund financials | \$ 1,345,822 |
| Federal expenditures per SEFA | 1,345,822 |
| Difference | <u>\$ -</u> |

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant expenditure activity for the financial statements of the organization. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance.

Note 2 - Non-Cash Federal Assistance

No non-cash federal assistance was received during the year ended June 30, 2017.

Note 3 - Subrecipients

The organization provided the following federal awards to subrecipients during the year:

| Subrecipient | CFDA Number | Project Number | Amount Provided |
|---------------------------------------|-------------|-----------------|------------------|
| McKinley County | 16.738 | 2016-DJ-BX-0901 | \$ 13,108 |
| Total funds provided to subrecipients | | | <u>\$ 13,108</u> |

Note 4 - Federal Insurance

The organization is re-deemed an employee of the Federal Government for the purposes of malpractice liability protection under the Federal Tort Claims Act (FTCA) during the budget period, for the period this audit report covers.

Note 5 - Indirect Cost Rate

The organization did not use the 10 percent de minimis indirect cost rate.

**INDEPENDENT AUDITOR'S 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**

Wayne Johnson
New Mexico State Auditor
To the City Manager and City Councilors
The City of Gallup
Gallup, New Mexico

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, the budgetary comparison of the general fund, of the City of Gallup (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and the combining and individual funds of the City presented as supplementary information of and have issued our report thereon dated December 13, 2017.

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 opinions 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies; 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-008, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, and 2017-015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items; 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-008, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, and 2017-015.

The City's Response to the Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM 87102
December 13, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Wayne Johnson
New Mexico State Auditor
To the City Manager and City Councilors
City of Gallup
Gallup, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the City of Gallup and the Gallup Housing Authority (collectively referred to as the "City" herein) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
December 13, 2017

**STATE OF NEW MEXICO
CITY OF GALLUP
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | None |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | None |

Federal Awards:

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | None |
| b. Significant deficiencies identified not considered to be material weaknesses? | None |
| 2. Type of auditor's report issued on compliance for major programs | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a)? | None |
| 4. Identification of major programs: | |

| CFDA Numbers Funding Source | Name of Federal Programs | Funding Source |
|---|------------------------------------|---|
| 14.850 | Low Rent Public Housing Program | U.S. Dept. of Housing and Urban Development |
| 20.106 | DOT Federal Aviation | U.S. Department of Transportation |
| 15.552 | Navajo-Gallup Water Supply Project | U.S. Dept. of the Interior |
| 5. Dollar threshold used to distinguish between type A and type B programs: | | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | | No |

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Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

| Reference # | Finding | Status of Current and Prior Year Findings | Type of Finding* |
|------------------------------|---|--|-----------------------------|
| Prior Year Findings | | | |
| 2016-001 | SAS 115 MATERIAL ADJUSTMENTS BY AUDITOR | Resolved | A |
| 2016-002 | UTILITY DEPOSIT ACCOUNTS OUTDATED | Resolved | A, G |
| 2016-003 | GOLF COURSE PRO-SHOP INVENTORY NOT RECONCILED | Resolved | B |
| 2016-004 | MATERIAL CORRECTIONS TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DURING AUDIT PROCESS | Resolved | D |
| HA2016-001 | VACATED TENANT'S FILES LACKING REQUIRED DOCUMENTATION | Resolved | F |
| HA2016-002 | INCORRECT PERA CONTRIBUTION REIMBURSEMENTS TO EMPLOYEES, NET PENSION LIABILITY CALCULATIONS, AND PERA EXPENSE ACCOUNT CODING | Resolved | B |
| Current Year Findings | | | |
| 2017-001 | ANNUAL REEVALUATION OF POST CLOSURE CARE FOR MUNICIPAL LANDFILL | Current | B, G |
| 2017-002 | MISSING CASH COLLECTION BAGS | Current | B, G |
| 2017-003 | SHARING OF CASH DRAWERS | Current | B, G |
| 2017-004 | RESTRICTIVELY ENDORSE CHECKS AS SOON AS RECEIVED | Current | B, G |
| 2017-005 | SECURE UN-DEPOSITED CASH AND DEPOSIT TIMELY | Current | B, G |
| 2017-006 | SEGREGATION OF DUTIES | Current | B, G |
| 2017-007 | DELINQUENCY NOTICE AND CHARGES | Current | B, G |
| 2017-008 | CREDIT CARD POSTING TO MERCHANT STATEMENTS | Current | B, G |
| 2017-009 | LACK OF CONTROLS OVER MAXWELL STATION WATER REVENUES | Current | B, G |
| 2017-010 | CASH HANDLING POLICY AND PROCEDURES | Current | B, G |
| 2017-011 | RECONCILIATION OF WATER PRODUCED AND BILLED TO CUSTOMERS | Current | B, G |
| 2017-012 | TAX AND PENALTY EXEMPT MASTER FILE | Current | B, G |
| 2017-013 | REVIEW AND APPROVAL OF VOIDED AND REFUNDED TRANSACTIONS | Current | B, G |
| 2017-014 | IMPROVE IT GENERAL CONTROLS | Current | B, G |
| 2017-015 | DAILY CASH RECEIPTS DO NOT AGREE TO AMOUNTS DEPOSITED | Current | B, G |

* Legend for Type of Findings

- A.** Material Weakness in Internal Control Over Financial Reporting
- B.** Significant Deficiency in Internal Control Over Financial Reporting
- C.** Other Matters Involving Internal Control Over Financial Reporting
- D.** Material Weakness in Internal Control Over Compliance of Federal Awards
- E.** Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F.** Instance of Noncompliance related to Federal Awards
- G.** Non-compliance with State Audit Rule, NM State Statutes, NMAC, or other entity compliance

PRIOR YEAR FINDINGS – CITY OF GALLUP

None

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CURRENT YEAR FINDINGS – CITY OF GALLUP

2017-001 – ANNUAL REEVALUATION OF POST CLOSURE CARE FOR MUNICIPAL LANDFILL

Type of Finding: B, G

Statement of Condition

During review of the City’s post closure care requirements for the closed Gallup Municipal Landfill, it was determined that the City was not properly performing the required annual reevaluations.

Criteria

Per NMAC 20.9.10.10; During the active life of the facility and during the post-closure care period, the owner or operator shall annually adjust the post-closure care estimate for inflation, and any other factors affecting post-closure care costs. The owner or operator shall place a copy of the adjusted estimate in the operating record.

Effect

The City may not have the appropriate funds set aside to cover the post closure care costs.

Cause

The City had been using a 2013 financial assurance cost estimate that they believed to be adequate.

Recommendation

We recommend the City have a reassessment of post-closure costs performed annually and adjust the liability as needed per the cost estimate.

Management Response

The City Water and Sanitation Department tasked its consultant, CDM Smith, with conducting the Financial Assurance Estimate of Post Closure Care for the Regional Landfill. This will be done on an annual basis.

Finding Resolution Timeline: This was completed November 7, 2017.

Designated Employee Position: The Water and Sanitation Department Director and Solid Waste Supervisor will task a City Consultant with conducting this analysis on an annual basis and provide copies of the analysis to the City Finance Department and City Clerk’s Office.

CURRENT YEAR FINDINGS – CITY OF GALLUP - CUSTOMER CARE DIVISION CONSULTING REPORT

The following findings were taken from the City of Gallup – Customer Care Division Consulting Report dated September 11, 2017. Per New Mexico State Audit Rule 2.2.2.9.L.2(a) “...All findings from special audits performed under the oversight of the state auditor shall be included in the findings of the annual financial and compliance audits of the related fiscal year.” As a result, the findings from the Consulting Report have been presented below as findings 2017-002 through 2017-015.

2017-002 – MISSING CASH COLLECTION BAGS

Type of Finding: B, G

Statement of Condition

The Finance Department noted two missing cash bags from collections at Red Rock Park on December 2, 2016 and December 5, 2016 totaling \$5,820. Per confirmation with two customers, checks that were included in these missing cash bags have not cleared the bank.

Criteria

In accordance with NMSA Section 6-10-2 (Public money; cash books; daily balance; public record), it is the duty of

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CITY OF GALLUP
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

If cash bags received are not properly safeguarded and accounted for an employee may intentionally or mistakenly discard or steal cash bags and there may be a considerable delay in the discovery of the act. The City has less money to spend to its intended programs or functions.

Cause

Cash bags were all processed at the end of the day and safeguards over collections received from other departments for deposit were not properly monitored or functioning.

Recommendation

We recommend that the City implement policies and procedures to log and process cash bags immediately upon receipt and implement controls to issue receipts to each department dropping off the deposits. In addition, departments should reconcile the amount deposited back to the receipt.

Management Response

The Customer Care Division implemented changes on how the cash bags were processed in January 2017 soon after being notified that there were two bags of money missing or unaccounted for from Red Rock Park. After watching the video and seeing two bags of money inadvertently being thrown in the trash, management immediately changed the procedure to have the bags checked in on the log sheet requiring two signatures. The deposit bags are counted and receipted while the department staff member bringing the deposit wait until the cash has been verified. Once verified the department bringing in the deposit is given a copy of the receipt printed from the receipt printer with the original staying with the deposit. In the event that the amount of the deposit does not correspond with their paper work, the whole deposit is returned to the originating department, so they can correct the discrepancy with their deposit. All paperwork and receipts require two signatures one from the Customer Service Representative and the other from the department bringing in the deposit. An email was sent to all department managers on the new procedure.

Finding Resolution Timeline: Action was taken immediately. Training of staff on the processes is ongoing.

Designated Employee Position: Customer Care Manager

2017-003 – SHARING OF CASH DRAWERS

Type of Finding: B, G

Statement of Condition

Cash collection personnel occasionally share cash drawers even though cash drawers are assigned to one person. We observed cash drawers are periodically left actively logged in and unattended and noted that each drawer if not fully locked can be opened with a single keystroke. We tested a sample of 16 video recordings and noted the following:

- a. 1 of 16 videos showed a customer care representative entering a payment on their own account.
- b. 2 of 16 videos showed a customer care representative entering a payment on another employee's drawer and login identification.
- c. 2 of 16 videos we did not see a transfer of payment between the account holder and the customer care representative and were unable to determine if payment was processed.

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d. 4 of 16 videos showed a customer care representative in the secured area alone for some period of time.

Criteria

Per the Currency Handling Procedures Customer Service Policy for the City, “each customer care representative is assigned a cash drawer with starting cash of \$200. Each drawer has a key that is unique to the drawer. The cashier is responsible for securing the money at all times.”

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Theft or errors could occur and remain undetected when proper controls are not in place over cash receipts or adjustments. Due to sharing of cash drawers, individual accountability cannot be maintained.

Cause

There are not enough cash drawers for all personnel authorized to perform collections, cash drawers are left logged in and when someone is assigned a cash drawer leaves temporarily another collector may fill in and use a cash drawer not assigned to them.

Recommendation

Enforce current policy to ensure a separate cash drawer is assigned to each collector. This provides individual accountability over the cash received by that person. The City may also need to invest in additional cash drawers to ensure that each employee is assigned their own cash drawer and invest in additional informational technology security that does not allow a cash drawer to open with a stroke of a key.

Management Response

The City has renovated the Customer Care area and has installed five new workstations including five new registers with locking cash drawers with individual unique keys, including check validating receipt printers. The new stations will also have a security camera placed directly above each of registers with audio to ensure safety and accuracy in cash handling. A policy on the sharing of register drawers was implemented on February 14, 2017 and employees are following the policy.

Finding Resolution Timeline: Construction was completed 12/2017. Policies have been implemented regarding sharing of drawers. Training is ongoing.

Designated Employee Position: Customer Care Manager

2017-004 – RESTRICTIVELY ENDORSE CHECKS AS SOON AS RECEIVED

Type of Finding: B, G

Statement of Condition

Checks are not always immediately restrictively endorsed when received and some are not endorsed until deposited at the bank. Checks received in the mail are not endorsed or logged when the mail is opened but are endorsed when posted to the accounting system. Additionally, if bags of cash and checks are received from offsite locations, those checks may not be endorsed since they are not associated with receivable balances that are processed. Offsite collections are posted in aggregate balances by type of revenue collected and not at the individual check level. We reviewed two examples of cancelled checks from offsite locations noting that they did not have the City’s endorsement on the cancelled check but had a standard endorsement that appears to be placed on the check by the bank at time of the deposit.

Criteria

The Currency Handling Procedure Customer Service policy required checks to be validated during the posting

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procedures.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Lack of proper restrictive endorsement may increase the City's susceptibility for check fraud. In addition, by not logging the mail there is no record of the checks that have been received by customers.

Cause

Employees do not have clear guidance on when checks should be endorsed.

Recommendation

Review current policies and update to ensure both onsite and offsite collections receive timely restrictive endorsement. This will help limit the negotiability of checks and help ensure that checks received can only be deposited into the City's bank account.

Management Response

The Customer Care Division now validates all checks received over the counter and stamp all checks received in the mail and check to see that all checks coming in from other departments are either validated or stamped with City endorsement. New receipt printers with check validation have been installed and are currently being utilized.

Finding Resolution Timeline: Construction was completed 12/2017. Policies have been implemented, checks are being validated. Training is ongoing.

Designated Employee Position: Customer Care Manager

2017-005 – SECURE UN-DEPOSITED CASH AND DEPOSIT TIMELY

Type of Finding: B, G

Statement of Condition

Our review of the physical security of cash and checks revealed the following:

- a. The vault remains open throughout the day. One of the locks on the cabinet in the vault used to secure customer care representative drawers and un-deposited funds is broken and has been for some time. Furthermore, the master key to the vault cabinet drawers and customer care representative keys are kept in an unlocked drawer that is accessible by all customer care representatives.
- b. An unsecured shelf in the vault contains coin bags containing cash collections from the Maxwell site for water sales. These bags are left on a shelf in the vault and never secured in a locked drawer. We were informed that portions of the cash collections are never deposited because the City only deposits \$1,000 of the collection at a time and any excess coinage remains on the vault shelf. Two employees retrieve the coinage from the Maxwell water distribution machines twice each week, but one employee currently keeps the key to the machine on his personal key ring. The site is not monitored by video and the City does not obtain any activity reports from the water distribution system to reconcile coins collected or water distributed.
- c. We noted over 10 checks that the City is holding in the vault that have not been deposited into the City's bank account. Most of the checks are for customer deposits to establish new utility accounts and some of checks are dated as far back as September 2016.

Criteria

Good accounting controls require internal controls to ensure that assets are properly safeguarded against theft.

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NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Without proper access limitations, unauthorized access to cash may lead to misappropriation of assets.

Cause

Current policies lack guidance relative to properly securing access to the vault and drawers or ensuring that combinations are periodically changed, and the master key access is restricted.

Recommendation

We recommend that current policies and procedures be updated to ensure that un-deposited cash and prepared deposits are in a vault or safe until they are deposited in the bank and access to the vault, drop box and drawers are locked when not in use and that the master key is properly secured with limited access. We also recommend that all coin bags be kept in a secured location until counted and deposited. In addition, all deposits should be deposited on a timely basis.

Management Response

The vault will remain closed during normal operating hours which began July 17, 2017. Maxwell water station funds are now counted and deposited on the same day it is collected from the water station regardless of the amount. The full amount had always been deposited including the excess coins, it was broken down into \$1000.00 increments, which was for the benefit of the bank. The vault has a camera installed that is placed directly above the cash drawer steel cabinet for monitoring purposes. The master key to this cabinet are now secured in a wall vault with a combination and key lock that houses all important keys accessible only to management. Checks are no longer being held for pending deposits.

Finding Resolution Timeline: Policies were implemented immediately once made aware of the issue. Training is ongoing.

Designated Employee Position: Customer Care Manager

2017-006 – SEGREGATION OF DUTIES

Type of Finding: B, G

Statement of Condition

We noted several areas where segregation of incompatible duties was present, and it does not appear there was adequate review and accountability for work and actions of staff, including:

- a. The employee preparing the daily deposit also collects and records customer payments, prepares daily reconciliations for her drawer as well as compiles balances and collections from the three representative drawers as well as collections from other departments (e.g., City Clerk, Red Rock Park, etc.). The employee also has the ability to negotiate special payment arrangements with customers. The cash, checks and credit card receipts are compiled for deposit on the customer care representative's desk which is visible through the customer cashier windows.
- b. A customer care representative who posts and adjusts customer delinquency notices and fees can also collect and record customer payments.
- c. A customer care representative has the ability to manually adjust and approve their own adjustments to delinquency transaction processing data without proper supervision and approval prior to the data posting to the system.

Criteria

A strong system of controls requires separation between custody of assets, recording of transactions and

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CITY OF GALLUP
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authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Theft or errors could occur and remain undetected when proper controls are not in place over cash receipts or adjustments.

Cause

Lack of policies and procedures and management oversight relative to ensure incompatible functions are properly segregated.

Recommendation

Management should review existing duties and reorganize use of personnel to ensure that cash receipting, posting, adjusting, preparation of deposit slips, and deposit to the bank is properly segregated to help safeguard cash receipts including un-deposited funds.

Management Response

- a. The employee preparing the deposit is the lead person who has the authority to prepare the daily deposits, verify the funds turned in by the customer service representatives. Her manager verifies her drawer. As the lead person she has the authority to make, decisions regarding customer accounts including making payment arrangements. The deposit desk has been moved to an area out of customer view, and with the renovation of the Customer Care Division, the deposit desk is behind a partition. This was done March 6, 2017 via a memo to the collection specialist.
- b. The Collections Specialist does not have the authority to collect payments as well as arrange payment agreements for customers. As of March 6, 2017, duties related to collecting payments were removed from the Collections Specialist.
- c. The Collection Specialist had the authority manually adjust transactions in the transaction processing menu to adjust customer accounts which has now been removed from her menu. Adjustments must be signed off on by the Customer Care Manager and processed by the billing department. This was implemented March 6, 2017 via memo to the collection specialist.

Finding Resolution Timeline: Policies were implemented immediately once made aware of the issue. Training is ongoing.

Designated Employee Position: Customer Care Manager

2017-007 – DELINQUENCY NOTICE AND CHARGES

Type of Finding: B, G

Statement of Condition

One staff is responsible for managing delinquent customer accounts including posting transactions, negotiating payment contracts and adjusting fees. The same staff prepares the 7-day late notice, the 14-day late notice with a \$10 delinquency notice fee and the 3-day shut off notice. The same staff also has the authority to post or waive the \$10 delinquency notice fees, shut off fees (ranging from \$100 to \$250) and adjust the dates the notices that are to be sent out. Due to the nature of how the notices and fees are generated there is no audit trail showing manual adjustments made to data prior to posting. We noted that the staff can adjust and remove the notice and fee from any account, including the staff's account or other employee related accounts.

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We walked-through the process and noted the following observations:

- a. The notices are generated through the system when the staff inputs parameters and initiates a system report of all the accounts that are 7 or 14 days overdue or that are scheduled for shut off. These reports are 'queued' and adjustments can be made until midnight when the report is posted automatically. There is no record or tracking of any adjustments made before the reports are posted. After the first notice is generated the staff prepares the 14-day notices that also result in a \$10 notice delivery fee. The 14-day notice informs the customer of a 3-day shut off notice that service is to be terminated unless payment is received within three days from the date of the notice. On February 23, 2016, the system transaction processing report showed 537 customer accounts with delinquent balances totaling \$213,156 requiring a 14 day notice along with a \$10 delivery fee. However, the customer care representative manually adjusted the accounts so only a few of the 537 accounts were served delivery notices and charged the \$10 fee. The customer representative also has the same ability to manually adjust final shut off notices and wave or write off any shut off fees.
- b. The current City policy is to assess a \$10 notice delivery fee on all accounts with delinquent balances greater than \$60 and delinquent 14 days late receiving the late fee and shut off notice and to perform shut off 3 days later unless payment is received. Once shut off has been performed residential customers are assessed a \$100 fee and commercial customers are assessed a \$250 fee. However, the minimum system report balance is \$100 which is above the City's \$60 delinquency balance minimum and the staff sets parameters even higher than \$100 because they don't believe they can timely deliver all the notices. Based on an Adjustment Summary schedule, we noted that reconnect and notice fees range from \$158,540 to \$208,910 from 2012 through 2015, and the amount in 2016 went down to \$118,730. In 2016, reconnect fees were assessed to 284 accounts (down from 819 accounts in 2015). Using the delinquency report as of December 7, 2016, the City had 3,015 accounts that should be subject to shut off in accordance with Section 8-6A-3(I2) of the Ordinance. Below is the summary based on active accounts:

| Delinquent balance (over 30 days) | No. accounts |
|-----------------------------------|--------------|
| \$100 and above | 1,325 |
| \$60 and above | 1,910 |
| \$25 and above | 2,518 |
| \$10 and above | 2,824 |

- c. There is no independent supervisory review of any adjustments made prior to posting by the customer care representative.
- d. The staff person in-charge of delinquent accounts can also process and collect payments from customers by accessing collection drawers assigned to other staff. We observed an instance of the staff making payment on their account on one of the 4 drawers assigned to other staff via video surveillance records. We were also informed that staff can take payments from customers via telephone which is against City policy.
- e. We noted several employees of the Division who had not paid timely during our period of review that were never assessed a delinquency notice fee or shut off from services.
- f. There are 51 accounts with delinquent balance of over \$1,000 (total of \$356,213.05), based on the delinquency report as of December 7, 2016. There is no evidence that these accounts have payment arrangements nor that those arrangements were presented to and approved by the City Manager as required by Ordinance Section 8-6A-3E.
- g. Section 8-6A-3(I.2) of the Ordinance provides for the assessment of interest of 15% per annum on the outstanding balance for accounts that are delinquent for 30 days. Based on the delinquent report as of December 7, 2016, delinquent accounts for over 30 days amounted to \$745,906.89.
- h. Section 8-6A-3(C) of the Ordinance provides for the assessment of notice fee not to exceed \$25. The City has been using \$10 as the notice fee amount but could not locate any supporting documentation to show authorization of this amount.

We selected a sample of 25 delinquent accounts and manual adjustments to customer accounts and attempted to confirm with customers if delinquent fees or shut off charges were paid by the customer.

- 16 accounts were considered closed and did not have current contact information on file.

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- 3 accounts we confirmed the customer remembered receiving a delinquent notice, however did not know when what day it had been received and whether or not a late fee had been incurred or paid.
- 6 accounts we attempted to confirm and could not reach the customer.

We reviewed 11 employee utility account statements for employees who should have had delinquencies during the period of our review and noted 7 employees or 31 times during the period where employees should have received a delinquency fee of \$10. In addition, we noted two employees or 24 times where employees should have been shut off from service. Our inquiry noted there was no specific procedure related to employee delinquent accounts and only a few delinquent accounts are provided notice each month. In addition, all procedures related to delinquent accounts were completed by one individual employee.

Criteria

City Ordinance Chapter 6 contains service rates and charges and specifies required notices on and shutoff requirements for delinquent accounts. Section 8-6A-3 requires:

- a. All utility bills shall be due and payable in full fourteen (14) calendar days after mailing to the utility account address on file with the City. (Ord. 2011-2, 3-22-2011)
- b. Seven (7) days after the due date, if full payment has not been received by the City, a preliminary notice of utility service termination shall be mailed to the utility account address which shall advise the account holder that the City shall terminate all utility service to the subject location unless suitable payment arrangements are made within seven (7) days of mailing date of said preliminary cutoff notice.
- c. If the utility account customer fails to respond or make suitable payment arrangements within the seven (7) day preliminary termination notice period, the City shall deliver to the utility service address a write notice advising the utility customer that all city utilities shall be physically terminated not more than seventy-two (72) hours from the time said final cutoff notice is delivered to the utility service address. The City may attempt to reach by telephone or e-mail the account customer and property owner if they have provided that contact information to the City, prior to actual utility cutoff. A property owner may request upon notification that utility service and account responsibility be transferred to them, in lieu of service termination. The property owner shall be responsible for all utility charges incurred at the service address after their request. The utility account shall be assessed a fee to recover the cost of notice service, not to exceed twenty-five dollars (\$25). Customer service management shall set the fee amount through administrative policy. (Ord. 2012-1-1-24-2012)
- d. Once City utility service is terminated it shall not be restored unless the utility customer executes a written agreement with the City specifying suitable payment terms for all delinquent amounts owed and providing for timely payment of future utility bills. (Ord. 2011-2-3-22-2011)
- e. Delinquent account payment agreements not exceeding one thousand dollars (\$1,000) may be approved by the customer service division management. All delinquent account payment arrangements exceeding one thousand (\$1,000) may only be approved by the City manager. (Ord. 2012-1,1-24-2012)
- f. Failure to comply with the terms of a written account payment agreement by a city utility customer shall be cause for immediate termination of utility service. Written notice shall be made no more than seventy-two (72) hours prior to cutoff by delivery to the utility service address. No further notice shall be required prior to cutoff.
- g. The existence of extraordinary compelling circumstances shall allow the city manager to vary utility cutoff, restoration of service, and payment terms for residential customers. Said circumstances shall be documented and placed in the utility account customer's city file. Such waivers of customary practice should be temporary and allowed in a manner which minimizes financial loss or risk to the City. Commercial, business, or industrial utility accounts shall not be allowed such waivers, unless they are granted by majority vote of the city council at a duly authorized public council meeting.
- h. A sixty (60) day time limit shall be imposed on all bona fide billing disputes. If a utility customer does not dispute his/her bill within sixty (60) days of the bill date, the charges therein shall be considered proper and owed by the customer. (Ord. 2011-2, 3-22-2011).
- i. A reconnect fee, and interest shall be imposed on delinquent utility accounts left unpaid for thirty (30) days or more after their billing date, as follows:
 1. Interest shall accrue at the rate of fifteen percent (15%) per annum on the outstanding balance until paid in full, unless a different rate is set in a written payment agreement.

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2. A reconnect fee of one hundred dollars (\$100) on residential accounts and two hundred fifty dollars (\$250) on all other accounts following disconnection of utility services for nonpayment.
3. An additional after hours reconnect fee of thirty-five dollars (\$35) shall be assessed to a customer submitting sufficient payment of his/her account for reconnection after three thirty o'clock (3:30) P.M., unless the customer orders the restoration of services for the next business day. This fee may be waived at the discretion of customer service division management. (Ord. 2012-1, 1-24-2012).

Effect

Customers, including City employees, are not being provided proper late notices and are not being assessed notice delivery and interest fees or being disconnected in accordance with City ordinance causing City fees to decrease and aged customer receivable balances to increase without interest or penalty.

Cause

The City has allowed customer care representatives to regulate delinquencies without adequate supervision and review. Delinquency accounts have been allowed to increase faster than the City has provided resources to adequately timely serve notice and conduct cutoff.

Recommendation

The City should review the current ordinance, current policies and procedures and automated and manual processing process and consider industry best practices for handling of delinquent accounts including processing, notices and fee and penalty assessments practices. The City should consider updating the current ordinance and current practices, policies and procedures. In addition, the City should review currently delinquent accounts and assess fees as necessary and shut off service as necessary. Every effort should be made by the city to collect fees assessed on all accounts.

Management Response

As part of the Customer Care strategic plan for Fiscal Year 2018, staff will be updating the ordinance to reflect the industry standard. Once updated, staff will be trained on new ordinances and supporting polices. This will be done by presentation to the mayor and the City council December 2017 with an effective date of February 2018. The City will reassess reviewing the delinquent accounts after the ordinance has been changed and approved.

Finding Resolution Timeline: April 2018

Designated Employee Position: Customer Care Manager

2017-008 – CREDIT CARD POSTING TO MERCHANT STATEMENTS

Type of Finding: B, G

Statement of Condition

New credit card machines were installed on June 26, 2016. The new machines have not been set to automatically post every night, therefore the Clerk's office did not post their credit card receipts to their merchant account for several months. This resulted in a large posting on February 7, 2017 of \$96,081.

We selected a sample of 12 credit refunds from the 40 refunds totaling \$10,418 to determine if the refunds were proper. To determine if the credit refund was proper we reviewed the refund to see if it was supported by documentation (receipt, customer request for refund, etc.), if the refund was approved by a supervisor independent of the preparer, and if the refund transaction purpose was reasonable. The results of our testing identified the following:

- a. 9 of 12 lacked formal request from the customer for a refund and the only support was a copy of receipt detail with penciled amounts for refund attached to credit refund receipt.
- b. 12 of 12 lacked approval by someone other than the preparer.

Criteria

In accordance with NMSA Section 6-10-2 (Public money; cash books; daily balance; public record), It is the duty

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of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily to show the balance of public money on hand at the close of each day's business.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Credit card transactions were not posted to the City's merchant account until February causing cash to be understated at the City and customers to receive late postings to their credit card.

Cause

No training when new credit card machines were installed and policies in place to insure payments were posted nightly. Daily close out procedures and monthly merchant account statement reconciliation procedures failed to timely identify unprocessed credit card collections.

Recommendation

Implement a policy and procedure to ensure credit card payments are posted daily or have the credit card machines setup to post automatically each night. Update reconciliation procedures to ensure detail credit card merchant postings are reconciled timely.

Management Response

Department credit card machines have been programmed to auto batch to close at the end of each day. The final unit was programmed on February 8, 2017. All departments are required to turn in the closing batch report to customer service with the daily deposit. The Customer care manager will ensure the closing report matches the deposit detail provided. The Finance Department will monitor daily deposits through customer service with the actual bank activity to ensure proper close and posting of credit card revenue.

Finding Resolution Timeline: Completed

Designated Employee Position: Customer Care Manager

2017-009 – LACK OF CONTROLS OVER MAXWELL STATION WATER REVENUES

Type of Finding: B, G

Statement of Condition

Maxwell water station operations lack proper internal controls and safeguards. There is no system in place to track and reconcile coin and prepaid water card revenues collected and actual water dispensed at time of sale. The collection from the station's water dispensing machine is made twice each week by two personnel from the Division, when the collection is brought back and placed in the vault it is kept unlocked canvas bags and placed on a shelf in the vault. The key to access the site and make the collection is kept by one person on their personal key chain which at times is off site.

The prepaid water cards can be purchased at the Division. We observed the machine used to prepare the prepaid water cards and the process to fund and issue prepaid water cards. To activate a prepaid water card a customer care representative will place a client activation card into the machine and enter the amount they wish to put on a given card, then the unfunded prepaid water card is placed in the machine and the dollar amount is added. We noted that there are no controls in place over the machine and the client activation card. All customer care representatives have access to the machine, the client activation card and unfunded prepaid water cards. The client activation card is placed on top of the machine. There is no system in place that tracks the total amount that is placed on the prepaid water card and the card machine does not interface with the accounting system to ensure

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entries are posted to the accounting system for amounts funded or used. There is also no system in place that tracks the amount of cash and prepaid activity of the dispensing machine at the Maxwell water station, so no reconciliation can be performed.

Criteria

Good accounting controls require internal controls to ensure that assets are properly safeguarded against theft.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Without proper controls over the collection and tracking of the Maxwell water station revenues there is the possibility for personnel to misappropriate cash collected at the station or activate and misappropriate prepaid water. Per analysis, we noted an estimated loss of \$20,569 and \$20,300 in 2016 and 2015, respectively. This analysis assumes that all prepaid cards are fully used, hence the estimated loss is expected to increase by the outstanding balance of all prepaid cards issued.

Cause

The City failed to implement adequate policies and procedures related to the receipt of cash from the Maxwell water station and the loading, distribution and tracking of the prepaid water cards.

Recommendation

Implement controls over the Maxwell water station as follows:

- Monthly reconciliation of water dispensed to the amount deposited and recorded in the general ledger.
- Work with the vendor to obtain listing of prepaid water cards activated and reconcile the amount to the cash deposited in the bank. This will also be used to record liability in the City's general ledger.
- Work with the vendor to determine if data from the station's dispensing machine can track and report to the City coinage collected and prepaid water card amounts used.
- Reconcile coinage collected to amount deposited and posted.
- Limit access to prepaid water card stock, the client activation card and the card machine.
- Keep the key to the stations dispensing machine locked up and require dual sign out of the key.
- Install and monitor video surveillance at the Maxwell water station and the machine to load the prepaid water cards.

Management Response

Staff will implement controls over the Maxwell Station Water Revenues. Staff is in the process of getting quotes to change software and system so that liabilities can be easily tracked. This will be coordinated with the water department, the Finance Department, the IT Department and the Customer Care Department during the Fiscal Year 2019 budget process. Keys to Maxwell will also be locked in wall safe and need to be signed out/in on log.

Finding Resolution Timeline: June 30, 2018

Designated Employee Position: Water/Wastewater Director and Customer Care Manager.

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2017-010 – CASH HANDLING POLICY AND PROCEDURES

Type of Finding: B, G

Statement of Condition

The City's Currency Handling Procedures Customer Service policy mainly addresses procedural information as it relates to financial system and lack policies to ensure complete and sufficient internal controls (including segregation of duties). Current policies also include sections that are no longer applicable to the City or that need to be updated for current processes. In addition, we noted that not all customer care representatives are informed and trained on existing policies and procedures.

Criteria

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Due to the incomplete policy & procedures, lack of proper segregation of duties, and limited review and approval of adjustments may be misappropriated and not timely detected.

Cause

Department management and personnel have transitioned, and certain processing functions and duties of personnel changed over the years and policies and procedures were not updated.

Recommendation

We recommend that policies and procedures be updated to include internal control policies on the following areas at the minimum: accountability for cash receipts, balancing of cash receipts, cash overages and shortages, use of sealed/tamper resistant deposit bag, deposit preparation and transportation of cash, keys and combination, physical security of cash, credit card payments, surprise cash audits, voided transactions, billing and collection of delinquency fees, violations of policy, among others.

In addition, staff should be informed and trained on existing and new policies and procedures annually.

Management Response

The Customer Care manager will update policies and to reflect current practice. New policies will be implemented July 2018. Staff will request funds for an outside firm to write the policies.

Finding Resolution Timeline: July 2018

Designated Employee Position: Customer Care Manager

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2017-011 – RECONCILIATION OF WATER PRODUCED AND BILLED TO THE CUSTOMERS

Type of Finding: B, G

Statement of Condition

We compared water produced from wells (based on the monthly engineering reports) to the water billed/sold to customers. Based on the schedule we prepared below, we noted that water loss each month in 2015 and 2016 ranges from 2.1 to 29.2 million gallons or a water loss (unaccounted water) ranging from 3% to 28%, some months are higher than the acceptable water losses of 10% to 15% for public water system based on Environmental Protection Agency (EPA) report (Control and Mitigation of Drinking Water Losses in Distribution Systems).

| Month | 2016 | | | Pct | 2015 | | | Pct |
|-----------|-----------------------|---------|----------|-----|-----------------------|---------|----------|-----|
| | Gallons (in thousand) | | | | Gallons (in thousand) | | | |
| | Produced | Billed | Variance | | Produced | Billed | Variance | |
| January | 78,811 | 68,318 | 10,493 | 13% | 75,209 | 68,161 | 7,048 | 9% |
| February | 72,246 | 70,079 | 2,167 | 3% | 80,820 | 65,589 | 15,231 | 19% |
| March | 77,599 | 68,406 | 9,193 | 12% | 74,274 | 65,217 | 9,057 | 12% |
| April | 76,044 | 67,271 | 8,773 | 12% | 75,244 | 68,134 | 7,110 | 9% |
| May | 78,485 | 70,793 | 7,692 | 10% | 80,406 | 68,287 | 12,119 | 15% |
| June | 103,994 | 77,698 | 26,296 | 25% | 87,635 | 73,618 | 14,017 | 16% |
| July | 100,983 | 109,232 | (8,249) | -8% | 84,281 | 75,963 | 8,318 | 10% |
| August | 109,818 | 82,316 | 27,502 | 25% | 88,683 | 77,388 | 11,295 | 13% |
| September | 104,826 | 75,494 | 29,332 | 28% | 82,466 | 74,255 | 8,211 | 10% |
| October | 77,499 | 71,873 | 5,626 | 7% | 75,488 | 69,252 | 6,236 | 8% |
| November | 72,317 | 67,018 | 5,299 | 7% | 69,737 | 65,864 | 3,873 | 6% |
| December | 72,641 | 64,586 | 8,055 | 11% | 72,324 | 64,118 | 8,206 | 11% |
| | 1,025,263 | 893,084 | 132,179 | 13% | 946,567 | 835,846 | 110,721 | 12% |

Criteria

Water produced from wells should be reconciled to the consumption report based on billings to consumers. AWWA and IWA provides for a Water Balance Table under M36 standard (Manual Practice for Water Audits and Loss Control). In addition, EPA provides for the development of a Water Loss Control Program to locate and reduce water losses and thus maintain or increase revenue.

Effect

There is unreconciled balance of 242.9 million gallons in 2015 and 2016 that could result in potential loss due to unmetered water accounts or leak from distribution channels.

Cause

The City does not have any procedures in place to analyze components of the water losses.

Recommendation

We recommend that the City perform monthly reconciliation between water produced on all wells compared to water billed for a particular month. Any variances should be reconciled to areas such as usage by other locations that don't have meters. It is important to follow standards set by AWWA and IWA as well as those prescribed by EPA.

Management Response

The Finance Department is hiring an accountant to specialize in the Utility division finances. This new position will include reconciliation of all utility usage to track revenues as well as losses. These will be monitored to ensure maximum revenue and minimum losses. Anticipated hire date is by December 2017.

Finding Resolution Timeline: In a letter dated November 9, 2017, a letter from Mayor Jackie McKinney was sent to State Auditor Tim Keller, the City is conducting annual water loss audits using the AWWA M-36 Method, with results showing annual water losses at less than 10%. This special audit finding was in error.

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Designated Employee Position: Water Conservation Officer and Water and Sanitation Division Director conduct annual water loss audits using the AWWA M-36 Method. If you'd like copies of the audits, please contact the Water and Sanitation Department.

2017-012 – TAX AND PENALTY EXEMPT MASTER FILE

Type of Finding: B, G

Statement of Condition

We obtained the master file for accounts that are exempt from tax, penalty, delinquent and shut-off status. We noted there was no review of tax exempt or penalty exempt accounts. We noted 39 accounts that relate to individuals that are penalty exempt in the system that should have been charged a penalty.

Criteria

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

Incorrect tax classification for some entities and penalty may not be properly assessed to select customers and employees related accounts causing incorrect fees to be billed to customers and lost revenue to the City.

Cause

The City does not have a review process for the master file data.

Recommendation

We recommend that the City review the master file data to ensure that it is accurate and consistent with their expectations. Similar databases such as utility rates will need to be reviewed to ensure that they are consistent with the approved listing of utility rates. We recommend that policies and procedures be implemented to ensure that only certain individuals can make changes to the master file data and any changes are properly approved.

Management Response

The tax penalty function does not exempt accounts from late fees, delinquent notices or shut-off status. The tax penalty function is irrelevant and has not been used since 2010. The purpose of the penalty function was primarily for accounts that were on a payment plan so as not to punish customers who had made payment Arrangements. The City no longer applies penalties to its billing and the penalty option will be eliminated from the customer master files. The quarterly review was completed in July 2017 and will be done again in October 2017 and so on. Purchasing a redundant server is very expensive and will need to be included in the CIP plan for the city. Funding will determine if a redundant server is feasible during the Fiscal Year 2019 budget process. The back- up is now done daily and was implemented after the preliminary audit findings were reviewed. Our Director of Technology is responsible for implementation.

Finding Resolution Timeline: Action was taken immediately, and reviews of files are ongoing as stated above.

Designated Employee Position: IT and Customer Care Manager

2017-013 – REVIEW AND APPROVAL OF VOIDED AND REFUNDED TRANSACTIONS

Type of Finding: B, G

Statement of Condition

The City lacks adequate review and approval process for voided transactions. There were 916 voided cash receipts amounting to \$741,420 that were processed from January 1, 2015 through February 28, 2017. We also noted one

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instance where a credit card charge of \$400 on August 25, 2016, which may have been credited back to the customer twice for a total of \$800.

We selected a sample of 25 voided receipts to determine if the void was proper. To determine if void was proper we reviewed the void to see if it was supported by documentation (receipt, statement, etc.), if the void adjustment was approved by a supervisor independent of the preparer, and if the void transaction purpose was reasonable. the results of our testing identified the following:

- a) 10 of the 25 voids were only supported by a system print screen of the void.
- b) 25 of the 25 voids lacked documentation of supervisory approval by someone other than the preparer of the void.

Criteria

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

With no controls in place for voided and refunded transactions, employees have the ability to inaccurately reflect account postings and misappropriate cash.

Cause

The City failed to implement policies and procedures related to review and approval of voided and refunded transactions.

Recommendation

We recommend that the City implement a process to require review and approval of voided cash receipts and refunds by someone that is independent of the cash receipt function.

Management Response

The Customer Service Division logs voids and management signs off on them. Refunds are done through the transaction center. The Billing Department processes and the Finance Department issues the checks. The Customer Care manager will update polices to reflect current practice. New policies will be implemented July 2018.

Finding Resolution Timeline: July 2018

Designated Employee Position: Customer Care Manager

2017-014 – IMPROVE IT GENERAL CONTROLS

Type of Finding: B, G

Statement of Condition

We performed a limited review of the IT general controls that are relevant to the cash receipt process and noted the following:

- a. Lack of review of users' access listing and their profiles in the Naviline system. As such, there is a possibility that users' access rights in the system are not appropriate and consistent with their roles and responsibilities.
- b. Absence of redundant server for Naviline and other critical applications. In event of system failure or disaster, the City will have to rely on backup tapes and it will take few days or even week before the system is operational
- c. Neptune meter reading data located in one of the computers are not included in the backup process.
- d. The City uses a web-based online processing payment system for utility bills. However, the City does not

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obtain and review applicable SOC report for the service provider.

- e. Audit logs for the Naviline are only kept for one month. The City should maintain logs in accordance with its retention policy.

Criteria

IT, including systems and infrastructure are essential and integral to the efficiency of the City's operations. IT internal controls are essential to maintain the confidentiality, integrity, and availability of data. IT internal controls are as important as the internal controls that surround the input of financial transactions into the City's general ledger.

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 4.1, framework (DS4, Ensure Continuous Service), a Disaster Recovery Plan needs to be developed and tested to reduce impact of a major disruption on key business functions and processes.

Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security and roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

Effect

The absence of a redundant server may pose questions as to the City's ability to respond and recover its critical data and applications on a timely basis in the event of an unforeseen disaster.

Without strong internal controls over the City's IT infrastructure and applications, there is the potential for the confidentiality, integrity, and/or availability of data to be compromised. This compromise could be by an internal user of the system, by an external source (hacker), could be intentional or unintentional, and could be the result of a disaster.

Cause

The City has a small IT Department with limited resources.

Recommendation

We recommend the following:

- a. Review the Naviline users access rights to ensure compatibility with user roles and responsibility and be provided on a "need to know" basis.
- b. Consider and explore a redundant server for Naviline and other critical applications to avoid unnecessary interruption of City's operations.
- c. Perform daily backup of the computer containing Neptune meter reader data.
- d. Perform an annual, documented review of all third-party vendors that provide or maintain financial systems. This includes review of the annual SOC report.
- e. Audit logs should be maintained in accordance with the City's retention policy as well as applicable laws and regulations.

Management Response

The City:

- a. Established a quarterly review of user access not only for Naviline, but with GIS, E-Mail, Domain, and Facility access. When an employee no longer works at the City, the previous process was to disable their access in Naviline. It was effective, but still showed the user had access in the User group security listing in Naviline. We updated the process to remove access while still preserving the records. Next review is in October 2017 with the first review done in July 2017.
- b. We have explored a redundant server for Naviline. It also must come with an A/S 400 to operate and is too costly. We have assessed the risk vs cost and reduced the impact by having a next day maintenance

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contract to replace hardware. We also have a bare metal back-up to restore the system quickly in the event of a catastrophic event. Estimated downtime is 2-3 days.

- c. We have corrected this, and the computer is now backed up daily.
- d. We were unable to obtain a SOC report for Selectron Technologies. We have added a documented review for the 1st week of January 2018. Selectron is a preferred vendor with Superion.

Finding Resolution Timeline: Action was taken immediately, and backups happen daily. Reviews are ongoing as stated above

Designated Employee Position: IT, Customer Care, Finance all review as stated above.

2017-015 – DAILY CASH RECEIPTS DO NOT AGREE TO THE AMOUNTS DEPOSITED

Type of Finding: B, G

Statement of Condition

During our visit to Red Rock Park (the “Park”) we noted that personnel prepare a daily receipt for deposit that is compiled from the daily collection activity. The daily receipts are pre-numbered and our inventory noted 69 receipts that were unaccounted for. The Park also provides each customer who uses the park with a pre-numbered receipt and use one book for customers that pay a monthly usage fee and one book for customers who pay for daily usage periods less than a month. Our inventory of these books notes undocumented gaps in book sequence as well as significant ranges of the Park’s copy of receipts missing. We attempted to reconcile the underlying customer receipt logs supporting the underlying daily pre-numbered receipt for deposit for a sample of 3 days and noted 1 day properly reconciled and 2 days did not fully reconcile. We noted the following instances where customer receipts totaled did not agree to the deposit amounts:

- May 6, 2015 difference of \$570
- August 7, 2015 difference of \$10
- August 10, 2015 difference of \$40

Criteria

In accordance with NMSA Section 6-10-2 (Public money; cash books; daily balance; public record), it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each business day.

NMSA Section 6-5-2C (Internal Accounting Controls) provides that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect

The City is at risk of misappropriation of cash.

Cause

Amounts were not being reconciled by the City.

Recommendation

We recommend that the City implement policies and procedure to properly reconcile all cash receipts against the deposits.

Management Response

Policies and procedures will be updated by June 2018. Staff will be trained by the Customer Care Manager.

Finding Resolution Timeline: June 2018

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Designated Employee Position: Customer Care Manager

CURRENT YEAR FINDINGS – GALLUP HOUSING AUTHORITY

None

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Exit Conference
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A. AUDITOR PREPARED FINANCIAL STATEMENTS

The accompanying financial statements are the responsibility of the City and are based on information from the City's financial records. Assistance was provided by Hinkle + Landers, PC to the City in preparing the financial statements.

B. EXIT CONFERENCE

City of Gallup

An exit conference was held in closed session on December 13, 2017, at the City's offices in Gallup New Mexico. The following individuals were in attendance.

City of Gallup Officials

| | |
|-------------------|-------------------------|
| Jackie McKinney | Mayor |
| Maryann Ustick | City Manager |
| J.M. DeYoung | Assistant City Manager |
| Patty Holland | Chief Financial Officer |
| Charlotte Becenti | Accountant |

Hinkle + Landers, P.C.

| | |
|------------------------------|----------------------------------|
| Farley Vener, CPA, CFE, CGMA | President & Managing Shareholder |
| Katelyn Constantin | Audit Manager |

Gallup Housing Authority (A Component Unit of the City)

An exit conference was held in closed session on November 21, 2017 at the Housing Authority's offices in Gallup, New Mexico. In attendance were the following:

Gallup Housing Authority Officials

| | |
|--------------------|--------------------|
| Richard Kontz | Executive Director |
| James Roger Morris | Commissioner |
| Jim Saucedo | Commissioner |
| Selina Paradise | Housing Manager |
| Telisia Montano | Accountant |

Hinkle + Landers, P.C.

| | |
|------------------------------|----------------------------------|
| Farley Vener, CPA, CFE, CGMA | President & Managing Shareholder |
| Katelyn Constantin | Audit Manager |