

**STATE OF NEW MEXICO
CITY OF LOVINGTON**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018



INTRODUCTORY SECTION

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CITY OF LORDSBURG
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CITY OF LORDSBURG
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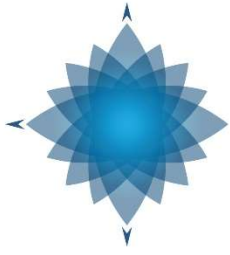
**STATE OF NEW MEXICO
CITY OF LORDSBURG
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2018**

City of Lovington

<u>Elected Officials</u>	<u>Title</u>
David Trujillo	Mayor
Bernard Butcher	Mayor Pro-Tem
Paul Campos	Commissioner
Scott Gandy	Commissioner
Arthur Sanchez	Commissioner

<u>Administration</u>	<u>Title</u>
Gary Lee Chapman	Finance Director
James Williams	City Manager
Anna Juarez	City Clerk

FINANCIAL SECTION



Independent Auditor's Report

Wayne Johnson,
New Mexico State Auditor
The City Commission
City of Lovington
Lovington, New Mexico

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund of the City of Lovington, New Mexico, as of and for the year-ended June 30, 2018, and the related notes to the financial statements which collectively comprise the City's basic financial statements 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 misstatement, 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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and Schedule of proportionate share of the net pension liability and the schedule of contributions and notes to the Required Supplementary Information on pages 53-59 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 evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Town's financial statements, and the combining and individual fund financial statements, and the budgetary comparisons. The schedules 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 schedules 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 schedules required by 2.2.2 NMAC 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, 2018, 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 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 City's internal control over financial reporting and compliance.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 13, 2018

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

As management of the City of Lovington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements of the City of Lovington and additional information provided.

Financial Highlights

The assets of the City of Lovington exceeded its liabilities at the close of the most recent fiscal year by \$26,869,656 (net position). However with a negative unrestricted net position of (\$1,706,919 or a negative 6.35%), the City does not have the ability to encumber additional liabilities outside of its ongoing obligations to citizens and creditors.

The City's total net position decreased by \$2,626,632. The decrease can be attributed primarily to local economic factors that led to a reduction of anticipated state funding and a reliance on cash reserves.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19,834,807, a decrease of \$653,575 in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,984,942 or 57.4% of total general fund expenditures.

The City's total debt decreased by \$575,366 (6.47%) during the current fiscal year due to payments on the outstanding principal balance.

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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

The government-wide financial statements can be found on pages 12 – 13 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 14 – 17 of this report.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Proprietary Funds. The City of Lovington maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lovington uses enterprise funds to account for its ambulance, solid waste, and water and sewer utility funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the, solid waste, Sewer/Water and Ambulance, all of which are considered major funds of the City of Lovington.

The basic proprietary fund financial statements can be found on pages 20 - 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 52 of this report.

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 can be found on pages 62 – 74 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lovington, assets exceeded liabilities by \$26,869,656 at the close of the most recent fiscal year.

The largest portion of the City of Lovington's net position (\$26,660,866 or 99.24%) reflect its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, furniture, vehicles, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2018 and June 30, 2017.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

CITY OF LOVINGTON NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 8,344,621	8,617,517	2,332,601	2,903,935	10,677,222	11,521,452
Noncurrent assets other than capital assets	-	-	300,000	478,033	300,000	478,033
Capital assets, net	22,049,750	21,691,174	13,057,130	13,291,970	35,106,880	34,983,144
Total assets	30,394,371	30,308,691	15,689,731	16,673,938	46,084,102	46,982,629
Deferred outflows of resources	1,930,047	3,136,590	479,664	668,981	2,409,711	3,805,571
Total assets and deferred outflows	32,324,418	33,445,281	16,169,395	17,342,919	48,493,813	50,788,200
Current liabilities	1,646,329	822,742	1,631,215	1,220,546	3,277,544	2,043,288
Noncurrent liabilities	9,592,297	11,926,670	7,327,765	7,096,710	16,920,062	19,023,380
Total liabilities	11,238,626	12,749,412	8,958,980	8,317,256	20,197,606	21,066,668
Deferred inflows of resources	1,250,985	207,487	179,072	21,263	1,430,057	228,750
Total liabilities and deferred outflows	12,489,611	12,956,899	9,138,052	8,338,519	21,627,663	21,295,418
Net investment in capital assets	19,884,780	20,378,364	6,776,116	6,708,205	26,660,896	27,086,569
Restricted	1,912,203	3,592,238	-	-	1,912,203	3,592,238
Unrestricted	(1,962,176)	(3,482,220)	255,227	2,296,195	(1,706,949)	(1,186,025)
Total net position	\$ 19,834,807	20,488,382	7,031,343	9,004,400	26,866,150	29,492,782

An additional portion of the City of Lovington's net position of \$1,912,203 (7%) represents resources that are subject to external restrictions on how they may be used. With a negative unrestricted net position of (\$1,706,949 or a negative 6.35%), the City does not have additional resources available to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lovington is able to report positive balances in all three categories of net position for the business-type activities, but not the governmental activities, due to economic conditions. The same situation held true for the prior fiscal year.

Governmental Activities. Governmental activities decreased the City of Lovington's net position by \$654 (in thousands). Key elements of this increase are as follows:

Revenues increased by \$2,057 (in thousands), with \$2,312 (in thousands) of this due to an increase in gross receipts taxes.

Intergovernmental revenues were down by \$724 (in thousands) due primarily to reduced funding from State Grants.

Business-Type Activities. Business-type activities decreased the City's net position by \$1,973 (in thousands). Key elements of this decrease are as follows:

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Revenues decreased by \$1,088 (in thousands), while expenditures increased by \$270 (in thousands).

CHANGES IN CITY OF LOVINGTON NET POSITION

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues	\$					
Taxes	9,703	7,391	-	-	9,703	7,391
Intergovernmental	638	1,362	76	11	714	1,373
Charges for services	269	577	4,786	6,038	5,055	6,615
Other	1,164	387	100	1	1,264	388
Total Revenues	11,774	9,717	4,962	6,050	16,736	15,767
Expenses						
General Government	2,122	2,647	-	-	2,122	2,647
Public Safety	4,454	5,878	-	-	4,454	5,878
Public Works	1,810	1,662	-	-	1,810	1,662
Culture and recreation	3,978	2,110	-	-	3,978	2,110
Conservation and development	-	254	-	-	-	254
Interest on long-term debt	54	99	-	-	54	99
Water, Sewer, Solid Waste and Ambulance	-	-	6,945	6,675	6,945	6,675
Total expenses	12,418	12,650	6,945	6,675	19,363	19,325
Transfers	(10)	(19)	10	-	-	(19)
Changes in net position	(654)	(2,952)	(1,973)	(625)	(2,627)	(3,577)

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$7,005,113 a decrease of \$1,158,424 in comparison with the prior year. Approximately 27% of the total amount, \$1,912,203 is restricted for subsequent year's expenditures, which have externally enforceable limitations imposed on the spendable fund balance. However, the City has a positive unassigned net position of approximately \$4,823,416, as such, the City has unrestricted resources available to meet the City's ongoing obligations to citizens and creditors.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance totaled \$5,252,945 of which \$4,984,942 was unassigned. This represents 57.4% of total general fund expenditures.

The fund balance of the City's general fund increased by \$387,208 during the current fiscal year due to improved local economic conditions.

Proprietary Funds. The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the three proprietary funds at the end of the year amounted to \$7,031,343 a decrease of \$1,973,057 from the prior fiscal year.

General Fund Budgetary Highlights

There were amendments to the City of Lovington's fiscal year 2018 operating and capital budget. A statement reporting the original and final budget amount compared to the City's actual financial activity for the general fund is provided in this report at page 18.

There was a favorable variance of \$391,420 in the general fund revenues. The primary impact was a favorable variance of \$646,013 in Gross Receipt Taxes, charges for services had an unfavorable variance of \$66,364, fines and forfeitures had an unfavorable impact of \$28,625, and State grants had an unfavorable variance of \$202,399 and the rest in miscellaneous revenues.

The net favorable variance of \$814,381 in general fund expenditures was due primarily to all our departments efforts not expending all the funds budgeted. \$508,772 was not expended in the general government function, and \$64,142 was not expended in the public safety function, \$32,623 was not expended in the public works function, and \$135,452 was not expended in the Culture and recreation function.

Capital Asset and Debt Administration

Capital Assets. The City of Lovington's investment in capital assets for its governmental and business type activities as of June 30, 2018 amounts to \$35,107 (in thousands, net of accumulated depreciation). This investment in capital assets includes land, land-right of ways, land improvements, library collection, historical treasures, buildings and improvements, computers, machinery and equipment, furniture and fixtures, vehicles, and infrastructure.

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

- \$ 129,859 Roof replacement – Fire/Police Station
- \$ 46,493 Police Pickup
- \$ 166,499 (4) Police Cars
- \$ 59,819 Restroom Remodel – Harold Runnel Park
- \$ 500,887 IPR Treatments on Municipal roads
- \$ 267,167 Polk Street Drainage Improvement
- \$ 181,343 Washington Street Reconstruction

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

CITY OF LOVINGTON CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	152,981	152,981	323,082	323,082	476,063	476,063
Construction in progress	1,326,140	591,561	15,405	26,017	1,341,545	617,578
Infrastructure	20,121,580	19,066,514	1,793,023	1,714,315	21,914,603	20,780,829
Buildings and improvements	17,037,632	16,816,491	19,564,449	19,542,845	36,602,081	36,359,336
Library collection	1,630,836	1,630,836	-	-	1,630,836	1,630,836
Machinery and equipment	4,656,502	4,547,940	5,236,185	5,034,035	9,892,687	9,581,975
Vehicles	3,169,412	2,956,421	1,468,252	1,236,602	4,637,664	4,193,023
Total Capital Assets	<u>48,095,083</u>	<u>45,762,744</u>	<u>28,400,396</u>	<u>27,876,896</u>	<u>76,495,479</u>	<u>73,639,640</u>
Less Accumulated depreciation	<u>(26,045,332)</u>	<u>(24,071,570)</u>	<u>(15,343,266)</u>	<u>(14,584,926)</u>	<u>(41,388,598)</u>	<u>(38,656,496)</u>
Capital Assets, net	<u>22,049,751</u>	<u>21,691,174</u>	<u>13,057,130</u>	<u>13,291,970</u>	<u>35,106,881</u>	<u>34,983,144</u>

Additional information on the City of Lovington's capital assets can be found in Notes 1 and 5 on pages 29 – 30 and 40 – 41 of this report.

Debt Administration. At the end of the current fiscal year, the City of Lovington had total debt from outstanding loans of \$9,625,180, which is secured by Water and Wastewater operating revenues and Gross Receipt Taxes.

CITY OF LOVINGTON LONG TERM DEBT

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Loans	2,165,000	2,315,000	6,158,399	6,583,765	8,323,399	8,898,765
Capital Lease	-	-	122,615	-	122,615	-
Compensated absences	958,012	772,970	221,154	200,192	1,179,166	973,162
Total debt outstanding	<u>3,123,012</u>	<u>3,087,970</u>	<u>6,502,168</u>	<u>6,783,957</u>	<u>9,625,180</u>	<u>9,871,927</u>

State statutes currently limit the amount of general obligation debt the City may issue up to 4.00% of its total assessed valuation for general purposes. Additional information on the City of Lovington's debt can be found in Note 6 on pages 41 – 43 of this report.

Economic Factors and Next Year's Budget

The City of Lovington is located in Lea County, New Mexico. Our municipality, which serves as the County Seat, is located in the southeastern corner of the State of New Mexico. With our economy based predominately upon the revenues generated by the petroleum industry, the entire area is on the

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

forefront of production of energy from other natural resources (wind, nuclear, solar, and biological). The inherent nature of the “boom and bust” cycle is evident with the unemployment rates found within Lea County as well as the rise and fall of the revenues our municipality experiences. At the beginning of the fiscal year, the unemployment rate was at 7.2%. By the end of the fiscal year, the unemployment rate in Lea County was below 3.6%. This is directly attributed to the price of oil and natural gas. In visiting with operators in the petroleum industry, the average 12-month price of West Texas Intermediate Crude (\$56.29) experienced in the fiscal year allows them to operate and sustain profitable operations. With virtual unemployment, the City experienced a surge in revenues that can be attributed to the sale of goods and services due to the increased amount of discretionary income by individuals as well as the increased demand for services by the industry. Utilizing historical data, City staff were able to provide our Commission with conservative numbers and estimates that allowed us to continue to provide services to the citizens, restore previously frozen positions, and make infrastructure improvements within the community. In addition, our Commission and staff worked to ensure that our reserves were replenished in anticipation of future “bust” cycles.

City staff have been diligently working to resolve prior year(s) audit findings so that accurate reporting of the City's financial position can be a possible and in compliance with GAAP. Efforts to reach this goal have included implementation of policies, procedures, additional training of staff, and use of technology. To preserve the City's financial resources, management has also made it a priority to ensure that an equipment replacement program is implemented so that higher quality and more efficient equipment is purchased to replace antiquated items. Implementation of our financial management software was a vital component to ensuring that we could comply with GAAP standards, have accurate tracking of revenues and expenses, as well as increasing our transparency.

The prediction that our economy would recover from the previous fiscal year proved to be true. Even though we have increased revenues, management remains dedicated to conservative budgeting. City efforts continue to be focused on infrastructure and capital improvement projects, realignment of staff for increased efficiency, new business recruitment through joint efforts with our economic development partners, and quality of life enhancements.

Request for Information

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
As of June 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ 5,893,115	684,901	6,578,016
Investments	327,138	14,961	342,099
Receivables			
Accounts receivable	16,535	1,098,258	1,114,793
Taxes receivable	1,769,426	-	1,769,426
Other receivables	68,480	10	68,490
Due from other funds	434	(434)	-
Inventories	269,493	534,905	804,398
Total current assets	<u>8,344,621</u>	<u>2,332,601</u>	<u>10,677,222</u>
Non-current assets:			
Investments	-	300,000	300,000
Capital assets	48,095,084	28,400,389	76,495,473
Less: Accumulated depreciation	<u>(26,045,334)</u>	<u>(15,343,259)</u>	<u>(41,388,593)</u>
Total non-current assets	<u>22,049,750</u>	<u>13,357,130</u>	<u>35,406,880</u>
Total assets	<u>30,394,371</u>	<u>15,689,731</u>	<u>46,084,102</u>
Deferred Outflows of Resources:			
Employer contributions subsequent to the measure	391,039	80,043	471,082
Actuarial experience	284,279	47,750	332,029
Investment experience	386,015	75,831	461,846
Change in assumptions	316,385	56,986	373,371
Change in proportion	<u>552,329</u>	<u>219,054</u>	<u>771,383</u>
Total deferred outflows of resources	<u>1,930,047</u>	<u>479,664</u>	<u>2,409,711</u>
Total assets and deferred outflows of resources	<u>\$ 32,324,418</u>	<u>16,169,395</u>	<u>48,493,813</u>
Liabilities, deferred inflows of resources and net position:			
Liabilities:			
Accounts payable	\$ 1,003,895	489,451	1,493,346
Accrued payroll liabilities	210,392	45,323	255,715
Accrued interest	10,825	56,506	67,331
Due to other government	1	6,391	6,392
Customer deposits	8,970	512,215	521,185
Current portion of compensated absences	257,246	69,673	326,919
Current portion of long-term debt	<u>155,000</u>	<u>451,656</u>	<u>606,656</u>
Total current liabilities	1,646,329	1,631,215	3,277,544
Non-current liabilities			
Compensated absences	700,766	151,482	852,248
Net pension liability	6,881,531	1,346,925	8,228,456
Notes payable	<u>2,010,000</u>	<u>5,829,358</u>	<u>7,839,358</u>
Total non-current liabilities	<u>9,592,297</u>	<u>7,327,765</u>	<u>16,920,062</u>
Total liabilities	11,238,626	8,958,980	20,197,606
Deferred inflows of resources:			
Actuarial experience	898,376	126,643	1,025,019
Change in assumptions	79,229	10,752	89,981
Change in proportion	<u>273,380</u>	<u>41,677</u>	<u>315,057</u>
Total deferred inflows of resources	1,250,985	179,072	1,430,057
Net position			
Net Investment in Capital Assets	19,884,750	6,776,116	26,660,866
Restricted Net Position	1,912,203	-	1,912,203
Unrestricted Net Position	<u>(1,962,146)</u>	<u>255,227</u>	<u>(1,706,919)</u>
Total net position	<u>19,834,807</u>	<u>7,031,343</u>	<u>26,866,150</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 32,324,418</u>	<u>16,169,395</u>	<u>48,493,813</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

<u>Functions/programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes In Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities							
General government	\$ 2,121,513	262,833	498,752	-	(1,359,928)	-	(1,359,928)
Public safety	4,453,879	-	139,374	-	(4,314,505)	-	(4,314,505)
Public works	1,810,163	-	-	-	(1,810,163)	-	(1,810,163)
Culture and recreation	3,978,488	6,483	-	-	(3,972,005)	-	(3,972,005)
Interest expense	53,919	-	-	-	(53,919)	-	(53,919)
Total governmental activities	<u>12,417,962</u>	<u>269,316</u>	<u>638,126</u>	<u>-</u>	<u>(11,510,520)</u>	<u>-</u>	<u>(11,510,520)</u>
Business-type activities:							
Solid waste	2,224,275	1,282,678	-	-	-	(941,597)	(941,597)
Water and wastewater	3,218,594	2,698,300	-	76,309	-	(443,985)	(443,985)
Ambulance	1,502,139	805,033	-	-	-	(697,106)	(697,106)
Total business-type activities	<u>6,945,008</u>	<u>4,786,011</u>	<u>-</u>	<u>76,309</u>	<u>-</u>	<u>(2,082,688)</u>	<u>(2,082,688)</u>
Total primary government	<u>19,362,970</u>	<u>5,055,327</u>	<u>638,126</u>	<u>76,309</u>	<u>(11,510,520)</u>	<u>(2,082,688)</u>	<u>(13,593,208)</u>
General revenues:							
Taxes							
Property taxes levied for general purposes					\$ 447,790	-	447,790
Gross receipts taxes					8,828,953	-	8,828,953
Other taxes and fees					425,962	-	425,962
Licenses and permits					16,979	105	17,084
Fines, forfeitures, and penalties					141,257	-	141,257
Interest income					56,934	3,840	60,774
Miscellaneous income					948,900	95,856	1,044,756
Transfers					(9,830)	9,830	-
Total general revenue and transfers					<u>10,856,945</u>	<u>109,631</u>	<u>10,966,576</u>
Changes in net position					(653,575)	(1,973,057)	(2,626,632)
Beginning net position					20,488,382	9,004,400	29,492,782
Net position, end of year					<u>\$ 19,834,807</u>	<u>7,031,343</u>	<u>26,866,150</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018**

	<u>Major Funds</u>			<u>Total Non-Major Funds</u>	<u>Total Funds</u>
	<u>General Fund</u>	<u>Spec Revenue</u>	<u>Capital Projects Capital</u>		
		<u>Gasoline Tax</u>	<u>Improve-ments</u>		
Assets and deferred inflows of resources:					
Assets:					
Cash and cash equivalents	\$ 3,423,078	1,684	934,580	1,431,406	5,790,748
Investments	309,185	-	-	17,953	327,138
Receivables					
Accounts receivable	16,535	-	-	-	16,535
Taxes receivable	1,502,503	40,399	147,644	78,879	1,769,425
Other receivables	68,480	-	-	-	68,480
Due from other funds	435	-	-	-	435
Inventories	268,003	-	-	1,491	269,494
Total assets	<u>5,588,219</u>	<u>42,083</u>	<u>1,082,224</u>	<u>1,529,729</u>	<u>8,242,255</u>
Deferred Outflows of Resources:					
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 5,588,219</u>	<u>42,083</u>	<u>1,082,224</u>	<u>1,529,729</u>	<u>8,242,255</u>
Liabilities, deferred inflows of resources and fund balances:					
Liabilities:					
Accounts payable	\$ 119,666	178,483	675,096	30,651	1,003,896
Accrued payroll liabilities	172,329	1,707	-	12,879	186,915
Due to other funds	-	-	-	-	-
Due to other government	1	-	-	-	1
Other liabilities	5,918	-	-	3,052	8,970
Total liabilities	<u>297,914</u>	<u>180,190</u>	<u>675,096</u>	<u>46,582</u>	<u>1,199,782</u>
Deferred Inflows of Resources:					
"Unavailable" revenues	37,360	-	-	-	37,360
Total deferred inflows of resources	<u>37,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,360</u>
Fund balances:					
Nonspendable	268,003	-	-	1,491	269,494
Restricted	-	-	407,128	1,505,075	1,912,203
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	4,984,942	(138,107)	-	(23,419)	4,823,416
Total fund balances	<u>5,252,945</u>	<u>(138,107)</u>	<u>407,128</u>	<u>1,483,147</u>	<u>7,005,113</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 5,588,219</u>	<u>42,083</u>	<u>1,082,224</u>	<u>1,529,729</u>	<u>8,242,255</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
TO THE STATEMENT OF NET POSITION
As of June 30, 2018**

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

Total fund balance - Governmental funds	\$	7,005,113
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The City uses internal service funds to charge the costs of certain activities, such as self-insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. The net effect of this consolidation is an increase to net position		78,890
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		22,049,750
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Delinquent property tax not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the statement of activities.		37,360
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds:

Deferred outflows of resources related to:		
Employer contribution subsequent to the measurement date		391,039
Actuarial experience		284,279
Investment experience		386,015
Change in assumptions		316,385
Change in proportion		552,329
Deferred inflows of resources related to:		
Actuarial experience		(898,376)
Investment experience		-
Change in assumptions		(79,229)
Change in proportion		(273,380)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Net pension liability	\$	(6,881,531)	
Accrued interest payable		(10,825)	
Current compensated absences		(257,246)	
Noncurrent compensated absences		(700,766)	
Current notes payable		(155,000)	
Noncurrent notes payable	\$	(2,010,000)	
			(10,015,368)

Net position for governmental activities	\$	19,834,807
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018**

	<u>Major Funds</u>			<u>Total Non-Major Funds</u>	<u>Total Funds</u>
	<u>General Fund</u>	<u>Spec Revenue</u> <u>Gasoline Tax</u>	<u>Capital Projects</u> <u>Capital Improve-ments</u>		
Revenues:					
Taxes					
Property	\$ 428,729	-	-	-	428,729
Gross receipts/State shared	7,422,496	201,057	883,144	322,256	8,828,953
Other	211,709	-	-	214,254	425,963
Licenses and permits	16,979	-	-	-	16,979
Charges for services	262,833	-	-	6,483	269,316
Fines and forfeitures	103,313	-	-	37,944	141,257
Intergovernmental revenue					
Federal grants	-	-	-	14,377	14,377
State grants	266,838	25,219	72,546	259,147	623,750
Interest income	33,380	7,073	9,633	6,842	56,928
Miscellaneous income	836,797	-	-	112,103	948,900
Total revenues	<u>9,583,074</u>	<u>233,349</u>	<u>965,323</u>	<u>973,406</u>	<u>11,755,152</u>
Expenditures:					
Current:					
General government	1,518,589	-	-	275,779	1,794,368
Public safety	4,623,874	-	-	93,856	4,717,730
Public works	680,842	54,420	-	-	735,262
Culture and recreation	1,357,740	-	-	685,519	2,043,259
Capital outlay	503,083	1,394,377	1,390,030	81,392	3,368,882
Debt service					
Principal	-	-	-	150,000	150,000
Interest	-	-	-	69,244	69,244
Total expenditures	<u>8,684,128</u>	<u>1,448,797</u>	<u>1,390,030</u>	<u>1,355,790</u>	<u>12,878,745</u>
Excess (deficiency) of revenues over (under) expenditures	898,946	(1,215,448)	(424,707)	(382,384)	(1,123,593)
Other financing sources (uses):					
Transfers in	54,973	85,000	686,471	742,313	1,568,757
Transfers out	(566,711)	(51,320)	(952,148)	(33,409)	(1,603,588)
Total other financing sources (uses):	<u>(511,738)</u>	<u>33,680</u>	<u>(265,677)</u>	<u>708,904</u>	<u>(34,831)</u>
Net change in fund balances	387,208	(1,181,768)	(690,384)	326,520	(1,158,424)
Beginning fund balance	<u>4,865,737</u>	<u>1,043,661</u>	<u>1,097,512</u>	<u>1,156,627</u>	<u>8,163,537</u>
Ending fund balance	<u>\$ 5,252,945</u>	<u>(138,107)</u>	<u>407,128</u>	<u>1,483,147</u>	<u>7,005,113</u>

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

**STATE OF NEW MEXICO
CITY OF LORDSBURG
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
As of June 30, 2018**

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

Total net change in fund balances-governmental funds	\$ (1,158,424)
Change in net position of the internal service funds, which are presented in the Statement of Activities as governmental activities but are not presented with the governmental fund financial statements.	25,007
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimates useful lives and reported as depreciation expense.	
Capital expenditures recorded as capital outlay or other expenses	2,332,339
Depreciation expense on capital assets 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 an expenditure in the governmental funds.	(1,973,762)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred inflows of resources related to property taxes receivable	19,061
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.	
(Increase)/decrease in compensated absences	(185,042)
(Increase)/decrease in accrued interest	15,325
Principal payments on long-term debt	150,000
Expenditures in the statement of activities that do not provide current financial resources are not reported as expenditures in the funds	
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:	
Employer contributions subsequent to the measurement date	391,039
Pension expense	(269,116)
Rounding	<u>(2)</u>
Change in net position of governmental activities	<u>\$ (653,575)</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes				
Property	\$ 436,081	436,081	425,508	(10,573)
Gross receipts	5,747,956	6,331,140	6,977,153	646,013
Other	451,350	253,575	196,304	(57,271)
Licenses and permits	19,560	20,478	16,979	(3,499)
Charges for services	295,258	359,967	293,603	(66,364)
Fines and forfeitures	124,875	127,520	98,895	(28,625)
Intergovernmental revenue				
Federal grants	2,550	550	-	(550)
State grants	210,123	644,360	441,961	(202,399)
Interest income	2,283	35,146	35,852	706
Miscellaneous income	797,130	740,072	854,054	113,982
Total revenues	<u>8,087,166</u>	<u>8,948,889</u>	<u>9,340,309</u>	<u>391,420</u>
Expenditures:				
Current:				
General government	1,603,718	1,846,113	1,337,341	508,772
Public safety	4,769,590	4,701,572	4,637,430	64,142
Public works	754,121	695,951	663,328	32,623
Culture and recreation	1,370,537	1,504,734	1,369,282	135,452
Capital outlay	513,300	559,147	535,467	23,680
Debt service				
Principal	-	49,712	-	49,712
Interest	-	-	-	-
Total expenditures	<u>9,011,266</u>	<u>9,357,229</u>	<u>8,542,848</u>	<u>814,381</u>
Excess (deficiency) of revenues over (under) expenditures	(924,100)	(408,340)	797,461	(422,961)
Other financing sources (uses):				
Transfers in	35,803	53,654	53,654	-
Transfers out	(332,775)	(432,799)	(271,507)	161,292
Total other financing sources (uses):	<u>(296,972)</u>	<u>(379,145)</u>	<u>(217,853)</u>	<u>161,292</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,221,072)	(787,485)	579,608	<u>(261,669)</u>
Budgeted cash carryover	<u>1,221,072</u>	<u>787,485</u>	-	
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>579,608</u>	
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ 579,608	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			244,085	
Adjustments to expenditures for accrued wages and expenditures			(436,485)	
Net change in fund balance (GAAP)			<u>\$ 387,208</u>	

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
GASOLINE TAX FUND - SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes				
Property	-	-	-	-
Gross receipts	\$ 220,000	220,000	198,897	(21,103)
Other	-	-	-	-
Licenses and permits	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Intergovernmental revenue				
Federal grants	-	-	-	-
State grants	353,916	353,916	34,053	(319,863)
Other grants	-	-	-	-
Interest income	400	400	7,073	6,673
Miscellaneous income	-	-	-	-
Total revenues	<u>574,316</u>	<u>574,316</u>	<u>240,023</u>	<u>(334,293)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	41,920	51,858	54,287	(2,429)
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	1,128,236	1,120,962	1,247,082	(126,120)
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>1,170,156</u>	<u>1,172,820</u>	<u>1,301,369</u>	<u>(128,549)</u>
Excess (deficiency) of revenues over (under) expenditures	(595,840)	(598,504)	(1,061,346)	(205,744)
Other financing sources (uses):				
Proceeds from debt issuance	-	-	-	-
Transfers in	-	62,541	-	(62,541)
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses):	<u>(50,000)</u>	<u>12,541</u>	<u>(50,000)</u>	<u>(62,541)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(645,840)	(585,963)	(1,111,346)	<u>(268,285)</u>
Budgeted cash carryover	<u>645,840</u>	<u>585,963</u>	<u>1,111,346</u>	
Net change in fund balance	\$ <u>-</u>	<u>-</u>	<u>-</u>	
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ (1,111,346)	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			78,326	
Adjustments to expenditures for accrued wages and expenditures			(148,748)	
Net change in fund balance (GAAP)			<u>\$ (1,181,768)</u>	

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2018**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Assets and deferred inflows of resources:					
Assets:					
Cash and cash equivalents	\$ (130,566)	478,730	336,737	684,901	102,368
Investments	14,961	-	-	14,961	-
Receivables					
Accounts receivable, net	366,275	587,170	144,813	1,098,258	-
Other receivables	-	-	10	10	-
Due from other funds	-	501	-	501	-
Inventories	-	524,261	10,644	534,905	-
Total current assets	<u>250,670</u>	<u>1,590,662</u>	<u>492,204</u>	<u>2,333,536</u>	<u>102,368</u>
Non-current assets:					
Long-term Investments	-	300,000	-	300,000	-
Capital assets, net	<u>336,026</u>	<u>11,739,056</u>	<u>982,048</u>	<u>13,057,130</u>	<u>-</u>
Total non-current assets	<u>336,026</u>	<u>12,039,056</u>	<u>982,048</u>	<u>13,357,130</u>	<u>-</u>
Total assets	<u>586,696</u>	<u>13,629,718</u>	<u>1,474,252</u>	<u>15,690,666</u>	<u>102,368</u>
Deferred Outflows of Resources:					
Employer contributions subsequent to the measurement date	6,537	33,129	40,377	80,043	-
Actuarial experience	3,348	16,968	27,434	47,750	-
Investment experience	6,991	35,430	33,410	75,831	-
Change in assumptions	3,930	19,914	33,142	56,986	-
Change in proportion	27,451	139,119	52,484	219,054	-
Total deferred outflows of resources	<u>48,257</u>	<u>244,560</u>	<u>186,847</u>	<u>479,664</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 634,953</u>	<u>13,874,278</u>	<u>1,661,099</u>	<u>16,170,330</u>	<u>102,368</u>
Liabilities, deferred inflows of resources and net position:					
Liabilities:					
Accounts payable	\$ 416,431	62,225	10,795	489,451	-
Accrued payroll liabilities	3,648	31,164	10,511	45,323	23,478
Accrued interest	-	56,506	-	56,506	-
Due to other funds	-	-	935	935	-
Due to other government	-	6,391	-	6,391	-
Customer deposits	-	512,215	-	512,215	-
Current portion of compensated absences	728	49,919	19,026	69,673	-
Current portion of long-term debt	-	433,406	18,250	451,656	-
Total current liabilities	<u>420,807</u>	<u>1,151,826</u>	<u>59,517</u>	<u>1,632,150</u>	<u>23,478</u>
Non-current liabilities					
Compensated absences	-	106,981	44,501	151,482	-
Total pension liability	85,211	431,837	829,877	1,346,925	-
Notes payable	-	5,724,993	104,365	5,829,358	-
Total non-current liabilities	<u>85,211</u>	<u>6,263,811</u>	<u>978,743</u>	<u>7,327,765</u>	<u>-</u>
Total liabilities	<u>506,018</u>	<u>7,415,637</u>	<u>1,038,260</u>	<u>8,959,915</u>	<u>23,478</u>
Deferred inflows of resources:					
Actuarial experience	4,364	22,118	100,161	126,643	-
Change in assumptions	881	4,462	5,409	10,752	-
Change in proportion	-	-	41,677	41,677	-
Total deferred inflows of resources	<u>5,245</u>	<u>26,580</u>	<u>147,247</u>	<u>179,072</u>	<u>-</u>
Net position					
Net Investment in Capital Assets	336,026	5,580,657	859,433	6,776,116	-
Unrestricted Net Position	<u>(212,336)</u>	<u>851,404</u>	<u>(383,841)</u>	<u>255,227</u>	<u>78,890</u>
Total net position	<u>123,690</u>	<u>6,432,061</u>	<u>475,592</u>	<u>7,031,343</u>	<u>78,890</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 634,953</u>	<u>13,874,278</u>	<u>1,661,099</u>	<u>16,170,330</u>	<u>102,368</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2018**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Operating revenues:					
Charges for services	\$ 1,282,678	2,698,300	805,033	4,786,011	-
Total operating revenues	<u>1,282,678</u>	<u>2,698,300</u>	<u>805,033</u>	<u>4,786,011</u>	<u>-</u>
Operating expenses:					
Personnel services	219,181	1,465,141	1,169,547	2,853,869	-
Operating expenses	1,995,327	968,412	261,590	3,225,329	-
Depreciation and amortization	<u>9,767</u>	<u>682,803</u>	<u>65,762</u>	<u>758,332</u>	<u>-</u>
Total operating expenses	2,224,275	3,116,356	1,496,899	6,837,530	-
Operating income (loss)	(941,597)	(418,056)	(691,866)	(2,051,519)	-
Non-operating revenues (expenses):					
State grants - capital	-	76,309	-	76,309	-
Miscellaneous	3,814	86,731	5,416	95,961	-
Interest income	-	535	3,305	3,840	7
Interest expense	<u>-</u>	<u>(102,238)</u>	<u>(5,240)</u>	<u>(107,478)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>3,814</u>	<u>61,337</u>	<u>3,481</u>	<u>68,632</u>	<u>7</u>
Income (loss) before transfers	(937,783)	(356,719)	(688,385)	(1,982,887)	7
Other financing sources/(uses)					
Transfers in	35,600	-	33,454	69,054	25,000
Transfers out	<u>(7,428)</u>	<u>(51,796)</u>	<u>-</u>	<u>(59,224)</u>	<u>-</u>
Total other financing sources/(uses)	28,172	(51,796)	33,454	9,830	25,000
Change in net position	(909,611)	(408,515)	(654,931)	(1,973,057)	25,007
Net position, beginning of year	<u>1,033,301</u>	<u>6,840,576</u>	<u>1,130,523</u>	<u>9,004,400</u>	<u>53,883</u>
Net position, end of year	<u>\$ 123,690</u>	<u>6,432,061</u>	<u>475,592</u>	<u>7,031,343</u>	<u>78,890</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2018**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:					
Receipts from customers and users	\$ 1,611,996	2,816,122	805,929	5,234,047	-
Receipts from subsidy grants	-	-	-	-	-
Payments to suppliers	(1,720,475)	(1,277,643)	(259,219)	(3,257,337)	(3,206)
Payments to employees	(176,075)	(1,289,182)	(431,208)	(1,896,465)	-
Net cash provided (used) for operating activities	<u>(284,554)</u>	<u>249,297</u>	<u>115,502</u>	<u>80,245</u>	<u>(3,206)</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	35,600	-	33,454	69,054	25,000
Transfers to other funds	(7,428)	(51,796)	-	(59,224)	-
Tax receipts	-	-	-	-	-
Miscellaneous income	3,814	86,731	5,416	95,961	-
Net cash provided (used) for noncapital financing activities	<u>31,986</u>	<u>34,935</u>	<u>38,870</u>	<u>105,791</u>	<u>25,000</u>
Cash flows from capital and related financing activities:					
Intergovernmental receipts-capital	-	76,309	-	76,309	-
Acquisition and construction of capital assets	-	(160,018)	(363,480)	(523,498)	-
Proceeds from sale of capital assets	-	-	-	-	-
Principal paid on long-term debt	-	(425,366)	(17,463)	(442,829)	-
Interest paid on long-term debt	-	(102,238)	(5,240)	(107,478)	-
Interfund loans and repayments	-	(501)	985	484	-
Long-term debt proceeds	-	-	140,078	140,078	-
Net cash provided (used) for capital and related financing activities.	<u>-</u>	<u>(611,814)</u>	<u>(245,120)</u>	<u>(856,934)</u>	<u>-</u>
Cash flows from investing activities:					
Proceeds from sale and maturities of investments	44,737	69,962	-	114,699	-
Purchase of investments	-	(300,000)	-	(300,000)	-
Interest and dividends	-	535	3,305	3,840	7
Net cash provided (used) for investing activities.	<u>44,737</u>	<u>(229,503)</u>	<u>3,305</u>	<u>(181,461)</u>	<u>7</u>
Net increase (decrease) in cash and cash equivalents	<u>(207,831)</u>	<u>(557,085)</u>	<u>(87,443)</u>	<u>(852,359)</u>	<u>21,801</u>
Cash and cash equivalents – beginning of year	<u>77,265</u>	<u>1,035,815</u>	<u>424,180</u>	<u>1,537,260</u>	<u>80,567</u>
Cash and cash equivalents – end of year	<u>\$ (130,566)</u>	<u>478,730</u>	<u>336,737</u>	<u>684,901</u>	<u>102,368</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (941,597)	(418,056)	(691,866)	(2,051,519)	-
Adjustments					
Depreciation and amortization	9,767	682,803	65,762	758,332	-
Noncash pension expense/change in deferrals	42,199	134,324	712,791	889,314	-
Changes in assets and liabilities:					
Receivables	329,318	117,822	896	448,036	-
Inventories	-	(366,205)	-	(366,205)	-
Accounts payable	274,852	22,792	2,371	300,015	(3,206)
Accrued expenses and other liabilities	3,648	32,968	10,511	47,127	-
Deposits	-	34,182	-	34,182	-
Compensated absences	(2,741)	8,667	15,037	20,963	-
Net cash provided by operating activities	<u>\$ (284,554)</u>	<u>249,297</u>	<u>115,502</u>	<u>80,245</u>	<u>(3,206)</u>

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

**STATE OF NEW MEXICO
CITY OF LORDSBURG
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
As of June 30, 2018**

	<u>2018</u>
Assets:	\$
Cash	59,586
Accounts receivable	<u>961</u>
Total assets	\$ <u><u>60,547</u></u>
Liabilities:	
Accounts payable	\$ <u>60,547</u>
Total liabilities	\$ <u><u>60,547</u></u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lovington (the "City") was incorporated in 1918 by the laws of the State of New Mexico. 881. The City operates under the Commission-Mayor form of government and provides the following services as authorized by its charter: public safety (police, ambulance and fire), streets, sanitation, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

The City of Lovington 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 law 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 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 governmental units.

A. Financial Reporting Entity

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

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, or the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance, part of the government's operation. Each discreetly 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 City does not have any component units. Additionally, the City is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2018.

B. Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (also known as *proprietary or enterprise funds*), which rely to a significant extent on fees and charges for support.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes 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.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting, as are the proprietary funds (business-type activities and enterprise) and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes, net of estimated refunds, are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements.

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which include revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues include activities that have the characteristics of an exchange transaction, such as a) sales and services and b) contracts and grants. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as a) investment income and b) miscellaneous.

Operating expenses include activities that have the characteristic of an exchange transaction, such as a) employee salaries, benefits, and related expenses; b) utilities, supplies, and other services; c) professional fees; d) repairs and maintenance; and e) depreciation expenses related to City capital assets and long-term debt. Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on capital assets-related debt that are defined as nonoperating expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Under the requirements of GASB Statement No. 34, the City is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following, which include funds that were not required to be presented as major but were at the discretion of management:

The City reports the following major governmental funds:

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Gasoline Tax – Accounts for the receipts and expenditures of special gasoline tax which is restricted for use in repairing and maintaining roads and streets within the municipality. (7-1-6.27, NMSA 1978)

Capital Improvement Fund – To account for repair, maintenance, construction, and improvements to water systems, sewer systems, road systems, buildings, and grounds. Financing provided by the City's hold harmless gross receipts taxes and bonds. (City Ordinance 528)

The City reports the following major proprietary funds:

The *Solid Waste Fund* accounts for all activities necessary to provide solid waste refuse collection services provided by the City. (City Ordinance 445)

The *Water and Wastewater Fund* accounts for all activities necessary to provide water and sewer services for the residents of the City. (Section 3-27-2, NMSA 1978)

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

Additionally, the government reports the following fund types:

The *Fiduciary Funds* account for resources held for others. They are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are used to account for assets that the City holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. 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 in the Statement of Activities.

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

Deposits and investments: The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Both unrestricted and restricted cash are included in the Statement of Cash Flows.

State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Government, and the State Treasury's Investment Pool.

Investments for the City are reported at fair market value, which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Income, gains, and

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

losses on investments are reported as a component of investment income on the Statement of Activities.

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 in the event they are not received within sixty (60) days of year end.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied. Property taxes are considered to be 100% collectible.

Property taxes are levied on November 1st based on the assessed value of property as listed on the previous January 1st 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 assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the City.

Prepaid expenses: Prepaid expenses include insurance and contract payments to vendors that reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. For the year ended June 30, 2016, there were none.

Restricted assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or outside agencies as to the specific purpose for which they may be used and restricted for future debt service payments.

Inventory: The City's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventory is actually consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Capital assets: Capital assets, which include property, plant, equipment, and infrastructure assets

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

(e.g., roads, bridges, sidewalks, and similar items), are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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. The City of Lovington was a Phase III government for purposes of implementing GASB Statement No. 34, and therefore, was not required to include the historical cost of infrastructure assets retroactive to 1980. 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. There were no assets donated to the City for the year ended June 30, 2018.

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.

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

Asset Type	Years
Buildings and improvements	40-50
Infrastructure	20-30
Library collection	15
Machinery and equipment	5-10
Vehicles	5-10

Accrued expenses: Accrued expenses are comprised of accrued payroll and payroll expenditures based on amounts earned by the employees through June 30, 2018, along with the applicable Public Employees Retirement Association (PERA) and other benefits and taxes costs.

Deferred outflows of resources: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City has five types of items that qualify for reporting in this category: changes of assumptions in the amount of \$373,371, changes in proportion in the amount of \$771,383, difference between expected and actual experience in the amount of \$332,030, employer contributions subsequent to the measurement date in the amount of \$471,082 and net difference between projected and actual investment earnings in the amount of \$461,846. These amounts are reported in the Statement of Net Position and will be recognized as outflows of resources in future periods.

Deferred inflows of resources: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance

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expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City has one item which arises under the modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item, property taxes, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The City has recorded \$- related to property taxes considered "unavailable". In addition, the City has three types of items presented on the Statement of Net Position which arise due to the implementation of GASB Statement No. 68 and the related net pension liability. Accordingly, the items, changes of assumptions in the amount of \$89,981, changes in proportion in the amount of \$315,057 and, differences between expected and actual experience in the amount of \$1,025,018, are reported on the Statement of Net Position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

Compensated absences: The City permits employees to accumulate a limited amount of earned, but unused vacation leave, sick leave, and compensatory time based on employment classification and length of employment. The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. Proprietary funds report the liability as incurred.

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule depending on the length of service. No more than seven and a half (7.5) working days, or sixty (60) hours of annual leave, may be carried forward from one year to the next. All excess annual leave shall be forfeited if not used, unless extenuating circumstances warrant approval of an extension by the City Commission.

Qualified employees are entitled to accumulate sick leave according to a graduated leave schedule depending on the length of service. No more than seventy-two (72) working days, or five hundred and seventy-six (576) hours of sick leave, may be carried forward from one year to the next. All excess sick leave shall be forfeited if not used, unless extenuating circumstances warrant approval of an extension by the City Commission.

Qualified employees are entitled to accumulate compensatory time according to amount of overtime worked. No more than seven and a half (7.5) working days, or sixty (60) hours of sick leave, may be carried forward from one year to the next. All excess compensatory time shall be forfeited if not used, unless extenuating circumstances warrant approval of an extension by the City Commission.

Vested or accumulated vacation leave, sick leave, and compensatory time 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 and proprietary funds. Amounts vested, or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide Statement of Net Position.

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

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fiduciary net position of the New Mexico PERA and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. 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.

Long-term obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or proprietary activity. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums and discounts 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 or fund balance classification policies and procedures:

Fund balance classification policies and procedures: For restricted fund balances, the City includes amounts that can be spent only for the specific purposes stipulated by statute, ordinance, resolution, or enabling legislation. Fund balances in this category represent the remaining amount that is restricted for future use in the specific fund.

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

For assigned fund balance, the City Commission or an official or body to which the City Commission delegates the authority is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

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

- Nonspendable Fund Balance: At June 30, 2018, the nonspendable fund balance on the governmental balance sheet is \$268,003.
- Restricted Fund Balance: At June 30, 2018, the restricted fund balance on the governmental funds balance sheet is made up of \$1,912,203 for the restricted purposes as defined by each fund.

Minimum Fund Balance Policy: The City's policy for maintaining a minimum amount of fund balance

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for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the City holds cash reserves (as approved in the subsequent year's preliminary budget) of 1/12th of the General Fund budgetary basis expenditures of \$8,542,848 and the City's self-imposed reserve of \$711,904 for the year ended June 30, 2018. As these amounts are an accumulation of resources and not a true restriction or commitment of expenditures, they are reflected within the unassigned fund balance of the general fund.

Equity is classified as net position and displayed in three components:

a. Net investment in capital assets:

This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position:

Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for "special revenue, debt service, and capital projects" are described on pages 76.

c. Unrestricted net position:

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

Interfund transactions: Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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, on the economic resources measurement focus and accrual basis of accounting. 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.

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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. Significant estimates in the City's financial statements include the depreciation on capital assets, the net pension liability and related items, and the current portion of compensated absences.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City adopts budgets for each individual fund (governmental and proprietary).

In late winter or early spring, the City prepares a budget calendar, thus starting the budgetary process for the upcoming June 1 fiscal year. Budget request forms are distributed to City departments with a specified completion date. Legally mandated advance notices are formally published for grant availability and other purposes once budget hearings have been scheduled. The budget hearings are then held with all City department heads. Generally, in late May or early June, a budget meeting is held for tentative approval of the completed budget by the City Commission. After tentative approval at the City level, the budget is submitted to the New Mexico Department of Finance and Administration (DFA) for approval of a temporary operational budget beginning June 1.

Immediately after July 1, when ending cash balances for the preceding fiscal year have been accurately ascertained, a final hearing is convened for finalization of the budget, and it is resubmitted to DFA for formal approval. None of the above budgetary processes are legally required to occur at any specified time; however DFA requires that the time frame be such that they (DFA) render their final budget approval no later than September 1 of the budget year in question.

During the course of the fiscal year, the City prepares monthly budget reports. Under New Mexico State law, each year's budget appropriation legally lapses at year-end.

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

Actual fund revenues may be either over or under the budgeted amounts; however, the variance is required to be reasonable, particularly in the case of over-budgeted revenues. Major over-budgeted revenues require a budget amendment as soon as the extent of the shortage is reasonably ascertainable.

Budget Amendments – Budget increases and decreases can only be accomplished by City Commission 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.

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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, 2018 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

The following is a summary of the City’s cash and cash equivalents balances by fund type as of June 30, 2018:

Fund Type	Amount
Primary government	
Governmental funds	\$ 5,893,115
Business-type activities	684,901
Fiduciary funds	59,586
Total cash and cash equivalents - primary government	\$ 6,637,602

The City’s cash and cash equivalents are listed in more detail on page 77 of this report.

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the City properly followed State investment requirements as of June 30, 2018.

Deposits of funds may be made in interest or noninterest bearing checking accounts in one or more banks, or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

The rate of interest in nondemand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than 100% of the asking price on United States treasury bills of the same maturity on the day of deposit.

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

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All of the City's accounts are at an insured depository institution, including all noninterest-bearing transaction accounts, which will be insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

Custodial Credit Risk- Deposits Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

As of June 30, 2017, the City's bank balances of \$6,751,269 were exposed to custodial credit risk as follows:

Insured through federal depository insurance	\$	301,601
Uninsured, collateralized with securities held by pledging financial institution's trust department or agent in the City's name.		5,607,385
Uninsured and uncollateralized		<u>842,479</u>
Total cash per bank statements	\$	<u><u>6,751,465</u></u>

The City's Schedule of Collateral is presented on page 78 of this report.

Investments

A summary of the City's investments by fund type as of June 30, 2018 is as follows:

Fund Type	Amount
Primary government	
Governmental funds	\$ 327,138
Business-type activities	<u>314,961</u>
Total cash and cash equivalents - primary government	\$ <u><u>642,099</u></u>

The City's investments as of June 30, 2018 are as follows:

Investment	Market Value	Credit Risk- Rating	Weighted Average Maturity
New MexiGROW LGIP	\$ 341,963	AAAm	50 day WAM(R); 100 day WAM(F)
Estacado FCU- CD's	<u>300,136</u>		5 year maturity - 6/26/2023
	\$ <u><u>642,099</u></u>		

The City invests excess cash in the New MexiGROW Local Government Investment Pool (LGIP). The LGIP investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not Securities and Exchange Commission (SEC) registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10P and Sections 6-10-10.1A and E, NMSA 1978.

The pool does not have unit shares. Per Sections 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

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Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the 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 policy related to investments is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an instrument. The City does not have a formal investment policy that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair Value Measurements

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See above for discussion of valuation methodologies used to measure fair value of investments.

New *MexiGROW LGIP* is valued at the daily closing price as reported by the fund. These investments held by the City are open-end funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the City are deemed to be actively traded.

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Certificates of deposits – The carrying amounts approximate fair value because of the relatively short maturity of those instruments and the fixed value of the return at maturity.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The City maintained a balance of \$341,963 in investments at June 30, 2018 which required fair value disclosure. The following table sets forth by level within the fair value hierarchy of the City's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
\$	<u>341,963</u>	<u>-</u>	<u>-</u>	<u>341,963</u>

NOTE 4 – RECEIVABLES

At June 30, 2018, receivables consisted of the following:

Governmental activities:

	<u>General</u>	<u>Gasoline</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Tax Fund</u>	<u>Governmental</u>	<u>Receivables</u>
			<u>Funds</u>	
Taxes:	\$			
Property	58,239	-	-	58,239
Gross receipts taxes	1,394,423	-	209,486	1,603,909
Franchise taxes	44,924	-	-	44,924
Gasoline and oil taxes	4,917	40,399	-	45,316
Lodger's taxes	-	-	17,037	17,037
Charges for services	41,627	-	-	41,627
Miscellaneous	43,388	-	-	43,388
Subtotal	<u>1,587,518</u>	<u>40,399</u>	<u>226,523</u>	<u>1,854,440</u>
Less: Allowance for uncollectibles	-	-	-	-
Net Receivables	<u>\$ 1,587,518</u>	<u>40,399</u>	<u>226,523</u>	<u>1,854,440</u>

Receivables for governmental funds are considered to be 100% collectible.

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Business-type activities:

	<u>Solid Waste</u>	<u>Water and Wasterwater</u>	<u>Ambulance</u>	<u>Total</u>
Charges for services	\$ 366,275	587,170	1,553,982	2,507,427
Other	-	-	10	10
Total business activities	366,275	587,170	1,553,992	2,507,437
Less: Allowance for uncollectibles	-	-	(1,409,169)	-
Net Receivables	<u>\$ 366,275</u>	<u>587,170</u>	<u>144,823</u>	<u>2,507,437</u>

Receivables for business-type activities related to solid waste and water/wastewater are considered to be 100% collectible. Only the amounts collected within 90 days of year end are considered to be collectible for receivables related to ambulance charges.

NOTE 5 – TRANSFERS AND INTEFUND RECEIVABLES

Net operating transfers, made to close out funds and to supplement other funding sources in the normal course of operations for the year ended June 30, 2018 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Primary Government		
General fund	Capital Improvement	\$ 53,654
General fund	Gasoline tax	1,319
Recreation Fund	General fund	53,500
Senior Citizens Fund	General fund	222,011
CDBG	Gasoline tax	50,000
CDBG	General fund	256
Designated Franchise	General fund	142,687
Unemployment Comp	General fund	25,000
Solid waste	General fund	17,258
Solid waste	Water/Wastewater fund	18,342
Debt service fund	Capital Improvement	212,022
Debt service fund	Solid waste	7,428
Gasoline tax	General fund	85,000
Ambulance fund	Water/Wastewater fund	33,453
Lea Theater	General fund	21,000
		<u>\$ 942,930</u>

In addition, the City made transfers from the General fund to fiduciary activities for the year ended June 30, 2018, as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Fiduciary activities	General fund	\$ 4,178
		<u>\$ 4,178</u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2018 is as follows:

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<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General fund	Ambulance fund	\$ 434
Water & Waste Water	Ambulance fund	501
		<u>\$ 935</u>

All interfund loans are short-term and are expected to be repaid within a year.

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2018. Land and construction in progress are not subject to depreciation.

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Balance 06/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/18</u>
Non-depreciable capital assets:				
Land	\$ 152,981	-	-	152,981
Construction in progress	591,561	818,192	(83,613)	1,326,140
Total non-depreciable capital assets	<u>744,542</u>	<u>818,192</u>	<u>(83,613)</u>	<u>1,479,121</u>
Capital assets being depreciated:				
Buildings and improvements	16,816,491	221,141	-	17,037,632
Infrastructure	19,066,514	1,055,066	-	20,121,580
Library collection	1,630,836			1,630,836
Machinery and equipment	4,547,940	108,562	-	4,656,502
Vehicles	2,956,421	212,991		3,169,412
Total capital assets being depreciated	45,018,202	1,597,760	-	46,615,962
Less accumulated depreciation for:				
Buildings and improvements	(6,914,828)	(448,802)	-	(7,363,630)
Infrastructure	(12,136,027)	(888,252)	-	(13,024,279)
Library collection	(1,294,390)	(108,722)		(1,403,112)
Machinery and equipment	(1,947,118)	(321,077)	-	(2,268,195)
Vehicles	(1,779,207)	(206,909)		(1,986,116)
Total accumulated depreciation	<u>(24,071,570)</u>	<u>(1,973,762)</u>	<u>-</u>	<u>(26,045,332)</u>
Total capital assets being depreciated	<u>20,946,632</u>	<u>(376,002)</u>	<u>-</u>	<u>20,570,630</u>
Total capital assets, net of depreciation	<u>\$ 21,691,174</u>	<u>442,190</u>	<u>(83,613)</u>	<u>22,049,751</u>

Depreciation expense for the year ended June 30, 2018 was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 151,070
Public safety	273,735
Public works	996,112
Culture and recreation	<u>552,845</u>
Total governmental activities	\$ 1,973,762

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<u>BUSINESS-TYPE ACTIVITIES</u>	<u>Balance 06/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/18</u>
Non-depreciable capital assets:				
Land	323,082	-	-	323,082
Construction in progress	\$ 26,017	10,540	(21,152)	15,405
Total non-depreciable capital assets	<u>349,099</u>	<u>10,540</u>	<u>(21,152)</u>	<u>338,487</u>
Capital assets being depreciated:				
Buildings and improvements	19,542,845	21,604	-	19,564,449
Infrastructure	1,714,315	78,708	-	1,793,023
Machinery and equipment	5,034,037	202,148	-	5,236,185
Vehicles	1,236,602	231,650	-	1,468,252
Total capital assets being depreciated	<u>27,527,799</u>	<u>534,110</u>	<u>-</u>	<u>28,061,909</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,179,463)	(361,546)	-	(11,541,009)
Infrastructure	(798,528)	(80,255)	-	(878,783)
Machinery and equipment	(2,032,741)	(259,382)	-	(2,292,123)
Vehicles	(574,192)	(57,159)	-	(631,351)
Total accumulated depreciation	<u>(14,584,924)</u>	<u>(758,342)</u>	<u>-</u>	<u>(15,343,266)</u>
Total capital assets being depreciated	<u>12,942,875</u>	<u>(224,232)</u>	<u>-</u>	<u>12,718,643</u>
Total capital assets, net of depreciation	<u>\$ 13,291,974</u>	<u>(213,692)</u>	<u>(21,152)</u>	<u>13,057,130</u>

Depreciation expense for the year ended June 30, 2018 was charged to business-type activities as follows:

Business type activities	
Solid Waste Fund	\$ 9,767
Water and Wastewater Fund	682,813
Ambulance Fund	65,762
Total governmental activities	<u>\$ 758,342</u>

NOTE 6 – LONG TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2018 are summarized as follows:

	<u>Balance June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Amount due within one year</u>
Governmental funds debt					
Revenue Bonds	\$ 2,315,000	-	(150,000)	2,165,000	345,000
Compensated absences	772,970	442,288	(257,246)	958,012	257,246
Total governmental activities	<u>\$ 3,087,970</u>	<u>442,288</u>	<u>(407,246)</u>	<u>3,123,012</u>	<u>602,246</u>
Business-type funds debt					
Notes payable	\$ 6,583,765		(425,366)	6,158,399	433,406
Capital lease	-	140,078	(17,463)	122,615	18,250
Compensated absences	200,192	91,498	(70,536)	221,154	69,673
Total business-type activities	<u>\$ 6,783,957</u>	<u>231,576</u>	<u>(513,365)</u>	<u>6,502,168</u>	<u>521,329</u>

Compensated Absences: Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2018, government-wide

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compensated absences increased \$185,042 from the prior year accrual, while business-type activities increased by \$20,962. Compensated absences are liquidated by the respective funds in which they are accrued.

Governmental Activities:

Bonds Payable: On August 4, 2015, the City entered into a bond purchase agreement with the New Mexico Finance Department to borrow an amount of \$3,500,000 for the purpose of constructing, purchasing, furnishing, equipping, rehabilitating, making additions to, or making improvements to capital items. The loan is financed over a period of fifteen (15) years in amounts of \$585,000 to \$210,000 at a 3.00% interest rate. The bonds are secured with pledged revenues from the three-eighths of one percent (0.375%) Municipal Hold Harmless Gross Receipts Tax.

On June 29, 2018, the City entered into a bond purchase agreement with the New Mexico Finance Department to borrow an amount of \$3,950,000 for the purpose of constructing, purchasing, furnishing, equipping, rehabilitating, making additions to, or making improvements to capital items. The loan is financed over a period of twenty (20) years in amounts of \$375,000 to \$70,000 at a 3.19% interest rate. No amounts from this issuance were received during the year ended June 30, 2018, as a result no liability has been reflected in the financial statements for this debt. The bonds are secured with pledged revenues from the three-eighths of one percent (0.375%) Municipal Hold Harmless Gross Receipts Tax.

Debt service requirements on long-term debt for governmental activities at June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 155,000	64,950	219,950
2020	160,000	60,300	220,300
2021	160,000	55,500	215,500
2022	165,000	50,700	215,700
2023	170,000	45,750	215,750
2024-2028	940,000	148,800	1,088,800
2029-2033	<u>415,000</u>	<u>18,750</u>	<u>433,750</u>
Total	<u>\$ 2,165,000</u>	<u>444,750</u>	<u>2,609,750</u>

Business type activities:

Notes Payable: On March 16, 2004, the City entered into a loan agreement with the New Mexico Environment Department to borrow an amount of \$4,000,000 for the purpose of construction of the wastewater treatment plant. This loan was increased to \$5,500,000 on November 7, 2006. The loan is financed over a period of twenty (20) years in equal annual amounts of \$355,563 at a 2.00% interest rate.

On June 29, 2007, the City entered into a loan agreement with the New Mexico Finance Department to borrow an amount of \$2,020,000 for the purpose of financing the costs of a necessary drinking water project for improvements to the City's municipal water utility system, including but not limited to, the replacement of the flooring of a storage tank. This loan was increased to \$3,535,000 on May 30, 2008.

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The loan is financed over a period of twenty-two (22) years in annual amounts varying between \$194,222 to \$217,124 at 1.75% interest rate.

Debt service requirements on long-term debt for business-type activities at June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 433,406	113,422	546,828
2020	441,607	108,226	549,833
2021	449,970	99,869	549,839
2022	458,499	91,346	549,845
2023	467,199	82,653	549,852
2024-2028	2,472,656	276,716	2,749,372
2029-2033	<u>1,435,062</u>	<u>53,448</u>	<u>1,488,510</u>
Total	<u>\$ 6,158,399</u>	<u>825,680</u>	<u>6,984,079</u>

Capital Lease: The City has entered into certain capital lease agreements under which the related equipment will become the property of the City when all terms of the lease agreements are met. Capital lease obligations are reported for those leases where the fair market value of the leased asset at inception of the lease is \$25,000 or more.

The following schedule presents future minimum lease payments as of June 30, 2018:

<u>Future minimum lease payments</u>	<u>Amount</u>
2019	\$ 23,780
2020	23,780
2021	23,780
2022	23,780
2023	23,780
2024	<u>23,780</u>
Net Minimum Lease Payments	142,680
Less: Interest	<u>(20,065)</u>
Present Value of Minimum Lease Payments	<u>\$ 122,615</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2018, include the following:

Machinery and equipment	\$ 140,078
Less: Accumulated depreciation	<u>(15,008)</u>
Total	<u>\$ 125,070</u>

Amortization of leased machinery and equipment under capital assets is included with depreciation expense.

NOTE 7 – PENSION PLAN-PUBLIC EMPLOYEE RETIREMENT ASSOCIATION

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

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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 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.

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Contributions. See PERA’s compressive annual financial report for Contribution provided description.

PERA Contribution Rates and Pension Factors as of July 1, 2017						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events

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or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

For PERA Fund Division Municipal Plan: At June 30, 2018, the City reported a liability of \$1,629,664 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 0.1186%, which was an increase of 0.0132% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$659,911. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 64,035	83,467
Changes of assumptions	75,152	16,840
Net difference between projected and actual earnings on pension plan investments	133,704	-
Changes in proportion and differences between City contributions and proportionate share of contributions	525,006	-
City contributions subsequent to the measurement date	<u>125,021</u>	<u>-</u>
	<u>\$ 922,918</u>	<u>100,307</u>

\$125,021 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date 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:	
2017	\$ 355,660
2018	316,699
2019	64,305
2020	(39,074)
2021	-
Thereafter	\$ -

For PERA Fund Division Municipal Police Plan: At June 30, 2018, the City reported a liability of \$1,870,590 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 0.3367%, which was a decrease of 0.0078% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$124,653. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,610	349,502
Changes of assumptions	111,294	43,497
Net difference between projected and actual earnings on pension plan investments	150,650	-
Changes in proportion and differences between City contributions and proportionate share of contributions	27,051	62,144
City contributions subsequent to the measurement date	<u>124,652</u>	<u>-</u>
	<u>\$ 527,257</u>	<u>455,143</u>

\$124,652 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date 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:		
2017	\$	(30,497)
2018		85,964
2019		(63,956)
2020		(44,049)
2021		-
Thereafter	\$	-

For PERA Fund Division Municipal Fire Plan: At June 30, 2018, the City reported a liability of \$4,728,202 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 0.8264%, which was a decrease of 0.0479% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$221,409. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 154,385	592,049
Changes of assumptions	186,925	29,644
Net difference between projected and actual earnings on pension plan investments	177,492	-
Changes in proportion and differences between City contributions and proportionate share of contributions	219,326	252,913
City contributions subsequent to the measurement date	<u>221,409</u>	<u>-</u>
	<u>\$ 959,537</u>	<u>874,606</u>

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\$221,409 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date 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:	
2017	\$ (1,216)
2018	85,893
2019	(170,016)
2020	(51,139)
2021	-
Thereafter	\$ -

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 9 years, then 3.25% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 9 years
	2.75% rate all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disable 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 20, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

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<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 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, 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 7.51 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

PERA Fund Division - Municipal General	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City's proportionate share of the net pension liability	\$ 2,554,222	1,629,664	860,766
PERA Fund Division - Municipal Police	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City's proportionate share of the net pension liability	\$ 2,983,071	1,870,590	957,634
PERA Fund Division - Municipal Fire	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City Housing Authority proportionate share of the net pension liability	\$ 6,337,015	4,728,202	3,402,394

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

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NOTE 8 – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

As authorized under Chapter 6, Section 9D, Laws of 1990, the City has elected not to participate in the Retiree Health Care Plan provided under the Retiree Health Care Act (Chapter 10, Article 7c, NMSA 1978) during the year ended June 30, 2018.

NOTE 9 – DEFERRED COMPENSATION PLAN

The City offers its full-time employees a deferred compensation plan (the “Plan”) created in accordance with Internal Revenue Code section 457. The Plan is administered by Union Central Life Insurance Company. The assets and liabilities are held in trust by Union Central Life Insurance Company.

NOTE 10 – PENSION PLAN

The City contributes to a defined contribution pension plan adopted under the provision of the Internal Revenue Code section 401.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contribution to the participant’s account and the returns earned on investment on those contributions.

The name of the company of this plan is the UNIFI Retirement Plan, and the plan is administered by a third-party administrator Hartgraves Insurance. The provisions of this plan have instituted that the City Manager and City Clerk be the trustees. Further, the Commission of the City has control of any major changes in the plan. Contribution requirements for the plan are one full year of service with the City. An employee can contribute 3.00% to 6.00% of their yearly compensation, and the City will match up to 7.00%. The total amount of employee and employer contributions to the plan at June 30, 2018, 2017, and 2016 were \$195,857, \$220,217, and \$210,264, respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of property; errors and omissions; injuries to employees; and natural disasters. The City participates in the State of New Mexico Self Insurers’ Fund (the “Fund”) which provides for worker’s compensation claims. Through this arrangement, the City retains some risk associated with worker’s compensation claims up to \$250,000 per accident. For risks of loss related to injuries to employees, the City has not obtained coverage from a commercial insurance company but has effectively managed risk through various employee education and prevention programs.

All risk management activities are accounted for in the Internal Service Fund. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining cases, events that might create claims, but for which none have been reported, are considered. The Internal Service Fund pays the worker’s compensation claims and

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premiums, which are then reimbursed by the City's other funds. The general fund pays premiums, and the Internal Service fund pays unemployment premiums. The Fund charges a "premium" to the City to cover expenses of the Fund (including, but not limited to, reinsurance expenses, claims adjusting, rating, and underwriting, safety and loss control, reporting, and administration). This "premium" is equal to 20.00% of the earned normal premium, which is based on a percentage of the City's current payroll. Additionally, the "premium" charge includes a factor for recent actual claims experience.

NOTE 12 – CONTINGENT LIABILITIES

The City is party to various legal proceedings, which are the unavoidable results of governmental operations. 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 effect on the financial condition of the City.

NOTE 13 – FEDERAL AND STATE GRANTS

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 – COMMITMENTS

The City entered into agreements with contractors and architects for various construction projects. As of June 30, 2018, the City had an obligation of \$1,457,601 for these contracts.

NOTE 15 – CONCENTRATIONS

The City depends on financial resources flowing from, or associated with, both the federal government and the State of New Mexico. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities

NOTE 16 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

- A. Deficit fund balance of individual funds. The City had no deficit fund balance as of June 30, 2018.

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- B. Excess of expenditures over budgeted amounts. The City exceeded approved budgetary authority for the year ended June 30, 2018 in the following funds:

<u>Fund</u>	<u>Category</u>	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Over Expended</u>
Gasoline Tax Fund	Major fund	1,172,820	1,301,369	128,549
Corrections Fund	Non-major fund	-	17,914	17,914
Fire Protection Fund	Non-major fund	84,053	89,299	5,246
LEPF	Non-major fund	36,800	36,899	99
Lodgers Tax Fund	Non-major fund	86,750	94,786	8,036
Designated Franchise	Non-major fund	158,463	187,061	28,598
Solid waste fund	Prop fund	1,904,935	2,036,702	131,767

- C. Designated cash appropriations exceeding prior year available balances. The City had no funds that exceeded approved budgetary authority for the year ended June 30, 2018.

NOTE 17 – GASBS 77 TAX ABATEMENT DISCLOSURES

The City was not part of any tax abatement agreements subject to *GASBS 77 Tax Abatement Disclosures* during the year ended June 30, 2018. As a result, they make no such disclosures related to GASBS 77.

NOTE 18 – SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2018 that would possibly require adjustment or disclosure in these financial statements, through December 13 2018, the date that these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
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SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL GENERAL
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.1186%	0.1054%	0.0688%	0.0000%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 1,629,664	\$ 1,683,938	\$ 701,476	\$ -
City of Lovington's covered-employee payroll	\$ 2,103,901	\$ 1,165,346	\$ 692,679	\$ -
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	77.46%	144.50%	101.27%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF THE CITY OF LOVINGTON'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL POLICE
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.3367%	0.3445%	0.3332%	0.3560%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 1,870,590	\$ 2,541,823	\$ 1,602,212	\$ 1,160,521
City of Lovington's covered-employee payroll	\$ 1,602,017	\$ 1,245,268	\$ 1,127,000	\$ 1,277,370
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	116.76%	204.12%	142.17%	90.85%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF THE CITY OF LOVINGTON'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL FIRE
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.8264%	0.8743%	0.7859%	0.8299%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 4,728,202	\$ 5,832,470	\$ 4,056,173	\$ 3,463,997
City of Lovington's covered-employee payroll	\$ 1,416,893	\$ 1,019,135	\$ 978,200	\$ 1,014,763
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	333.70%	572.30%	414.66%	341.36%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Municipal General Division
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 125,021	\$ 99,620	\$ 86,234	\$ 51,259
Contributions in relation to the contractually required contribution	<u>125,021</u>	<u>99,632</u>	<u>86,234</u>	<u>51,259</u>
Contribution deficiency (excess)	<u>-</u>	<u>(12)</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	2,103,901	1,165,346	692,679	-
Contributions as a percentage of covered-employee payroll	5.94%	8.55%	12.45%	0.00%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Municipal Police Division
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 124,652	\$ 131,397	\$ 129,508	\$ 117,165
Contributions in relation to the contractually required contribution	<u>124,652</u>	<u>131,397</u>	<u>129,508</u>	<u>117,165</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	1,602,017	1,245,268	1,127,000	1,277,370
Contributions as a percentage of covered-employee payroll	7.78%	10.55%	11.49%	9.17%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Municipal Fire Division
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 221,409	216,755	220,643	211,793
Contributions in relation to the contractually required contribution	<u>221,409</u>	<u>216,755</u>	<u>220,643</u>	<u>211,793</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
City's covered-employee payroll	1,416,893	1,019,135	978,200	1,014,763
Contributions as a percentage of covered-employee payroll	15.63%	21.27%	22.56%	20.87%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See independent auditors' report
See notes to required supplementary information

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

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>

Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

SPECIAL REVENUE FUNDS

Corrections – Accounts for the collection of fines which are used to supplement the cost of prisoner housing. (33-3-25, NMSA 1978)

EMS Grant – Accounts for state and county proceeds provided for operations of the City's emergency medical services. (24-10A, NMSA 1978)

Fire Protection – To account for the operations and maintenance of fire equipment. Financing is provided by a state allotment. (59A-53-1, NMSA 1978)

Law Enforcement Protection – Accounts for funds received from the state for law enforcement purposes. (29-13-3, NMSA 1978)

Lodgers' Tax – Accounts for lodgers' tax received and various activities to promote tourism in the City. (3-38-14, NMSA 1978)

Recreation – Accounts for operations and maintenance of recreation facilities. Financing is provided by a specific tax on cigarette sales. (7-12-10, NMSA 1978)

Senior Citizens – Accounts for the receipt and expenditures of federal, state, and local funds that are restricted for the purpose of providing meals at the Senior Center, home delivered meals, transportation, and homemaker services for individuals who are 60 and older with a preference on minorities with low incomes, those who live in rural areas, those with limited English proficiency, those with Alzheimer's disease and related disorders, or those at risk of being placed in a nursing home or other facility. (City Commission)

Designated Franchise – Accounts for operations of the City's youth recreational department, in which financing is provided by a designated 2.00% franchise fee and is restricted to youth recreation use. (City Ordinance 190)

Economic Development – Accounts for the collections of gross receipts tax designated for economic development. (City Ordinance 496)

TIF Downtown Improvements – Accounts for the collections of gross receipts tax designated for economic development in our downtown district. (City Ordinance 498)

Lea Theater – Accounts for the operations of the Lea Theater.

CAPITAL PROJECTS FUNDS LISTING

C.D.B.G – To account for Community Development Block Grant funds. (City Commission)

DEBT SERVICE FUNDS

Revenue Bond – Accounts for the repayment of governmental debt interest and principal. Financing is provided by a Hold Harmless gross receipts tax. (Section 7-19D-18 NMSA 1978)

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

INTERNAL SERVICE FUNDS

Unemployment Compensation – Accounts for the accumulation of all financial resources and the allocation of costs associated with the City’s self-insured unemployment compensation plan. (City Commission)

Pension – Accounts for a 401 (K) plan that the City handles for its employees, matching up to 7.00% of the employee’s contributions. This fund collects the money that the employees put into the plan, and

**STATE OF NEW MEXICO
CITY OF LOVINGTON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2018**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Debt Service Funds</u>	<u>Total</u>
Assets and deferred inflows of resources:				
Assets:				
Cash and cash equivalents	\$ 1,396,260	34,940	206	1,431,406
Investments	17,953	-	-	17,953
Receivables				
Taxes receivable	78,879	-	-	78,879
Inventories	1,491	-	-	1,491
Total assets	<u>1,494,583</u>	<u>34,940</u>	<u>206</u>	<u>1,529,729</u>
Deferred Outflows of Resources:				
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 1,494,583</u>	<u>34,940</u>	<u>206</u>	<u>1,529,729</u>
Liabilities, deferred inflows of resources and fund balances:				
Liabilities:				
Accounts payable	\$ 30,651	-	-	30,651
Accrued payroll liabilities	12,879	-	-	12,879
Due to other funds	-	-	-	-
Other liabilities	3,052	-	-	3,052
Total liabilities	<u>46,582</u>	<u>-</u>	<u>-</u>	<u>46,582</u>
Deferred Inflows of Resources:				
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable	1,491	-	-	1,491
Restricted	1,469,929	34,940	206	1,505,075
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(23,419)	-	-	(23,419)
Total fund balances	<u>1,448,001</u>	<u>34,940</u>	<u>206</u>	<u>1,483,147</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 1,494,583</u>	<u>34,940</u>	<u>206</u>	<u>1,529,729</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Totals
Revenues:				
Taxes				
Gross receipts/State shared	\$ 322,256	-	-	322,256
Other	214,254	-	-	214,254
Charges for services	6,483	-	-	6,483
Fines and forfeitures	37,944	-	-	37,944
Intergovernmental revenue				
Federal grants	14,377	-	-	14,377
State grants	254,687	4,460	-	259,147
Interest income	6,842	-	-	6,842
Miscellaneous income	112,103	-	-	112,103
Total revenues	<u>968,946</u>	<u>4,460</u>	<u>-</u>	<u>973,406</u>
Expenditures:				
Current:				
General government	275,779	-	-	275,779
Public safety	93,856	-	-	93,856
Public works	-	-	-	-
Culture and recreation	685,519	-	-	685,519
Health and welfare	-	-	-	-
Capital outlay	61,616	19,776	-	81,392
Debt service				
Principal	-	-	150,000	150,000
Interest	-	-	69,244	69,244
Total expenditures	<u>1,116,770</u>	<u>19,776</u>	<u>219,244</u>	<u>1,355,790</u>
Excess (deficiency) of revenues over (under) expenditures	(147,824)	(15,316)	(219,244)	(382,384)
Other financing sources (uses):				
Transfers in	472,607	50,256	219,450	742,313
Transfers out	(33,409)	-	-	(33,409)
Total other financing sources (uses):	<u>439,198</u>	<u>50,256</u>	<u>219,450</u>	<u>708,904</u>
Net change in fund balances	291,374	34,940	206	326,520
Beginning fund balance	<u>1,156,627</u>	<u>-</u>	<u>-</u>	<u>1,156,627</u>
Ending fund balance	<u>\$ 1,448,001</u>	<u>34,940</u>	<u>206</u>	<u>1,483,147</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2018**

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforce- ment Fund</u>	<u>Lodgers' Tax</u>	<u>Rec- reation Fund</u>
Assets and deferred inflows of resources:						
Assets:						
Cash and cash equivalents	\$ 160,957	18,499	18,197	3,408	79,272	(14,395)
Receivables						
Taxes receivable	-	-	-	-	17,037	-
Total assets	<u>160,957</u>	<u>18,499</u>	<u>18,197</u>	<u>3,408</u>	<u>96,309</u>	<u>3,558</u>
Deferred Outflows of Resources:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 160,957</u>	<u>18,499</u>	<u>18,197</u>	<u>3,408</u>	<u>96,309</u>	<u>3,558</u>
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ -	-	601	-	-	26,977
Due to other funds	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>601</u>	<u>-</u>	<u>-</u>	<u>26,977</u>
Deferred Inflows of Resources:						
Total deferred inflows of resources	-	-	-	-	-	-
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	160,957	18,499	17,596	3,408	96,309	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(23,419)
Total fund balances	<u>160,957</u>	<u>18,499</u>	<u>17,596</u>	<u>3,408</u>	<u>96,309</u>	<u>(23,419)</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 160,957</u>	<u>18,499</u>	<u>18,197</u>	<u>3,408</u>	<u>96,309</u>	<u>3,558</u>

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2018

	Senior Citizens	Designated Franchise	Economic Develop- ment	TIF Downtown Improv	Lea Theater	Total
Assets and deferred inflows of resources:						
Assets:						
Cash and cash equivalents	\$ 87,429	33,647	1,003,548	4,388	1,310	1,396,260
Investments	-	-	-	-	-	17,953
Receivables						
Taxes receivable	-	-	61,842	-	-	78,879
Inventories	-	-	-	-	1,491	1,491
Total assets	<u>87,429</u>	<u>33,647</u>	<u>1,065,390</u>	<u>4,388</u>	<u>2,801</u>	<u>1,494,583</u>
Deferred Outflows of Resources:						
Total deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 87,429</u>	<u>33,647</u>	<u>1,065,390</u>	<u>4,388</u>	<u>2,801</u>	<u>1,494,583</u>
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ 2,365	605	-	-	103	30,651
Accrued payroll liabilities	6,962	5,027	-	-	890	12,879
Due to other funds	-	-	-	-	-	-
Other liabilities	2,767	-	-	-	285	3,052
Total liabilities	<u>12,094</u>	<u>5,632</u>	<u>-</u>	<u>-</u>	<u>1,278</u>	<u>46,582</u>
Deferred Inflows of Resources:						
"Unavailable" revenues	-	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-	-
Fund balances:						
Nonspendable	-	-	-	-	1,491	1,491
Restricted	75,335	28,015	1,065,390	4,388	32	1,469,929
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(23,419)
Total fund balances	<u>75,335</u>	<u>28,015</u>	<u>1,065,390</u>	<u>4,388</u>	<u>1,523</u>	<u>1,448,001</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 87,429</u>	<u>33,647</u>	<u>1,065,390</u>	<u>4,388</u>	<u>2,801</u>	<u>1,494,583</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
As of June 30, 2018**

	CDBG Funds	Totals
Assets and deferred inflows of resources:		
Assets:		
Cash and cash equivalents	\$ 34,940	34,940
Total assets	34,940	34,940
Deferred Outflows of Resources:		
Total deferred outflows of resources	-	-
Total assests and deferred outflows of resources	\$ 34,940	34,940
Liabilities, deferred inflows of resources and fund balances:		
Liabilities:		
Accounts payable	\$ -	-
Total liabilities	-	-
Deferred Inflows of Resources:		
Total deferred inflows of resources	-	-
Fund balances:		
Nonspendable	-	-
Restricted	34,940	34,940
Committed	-	-
Assigned	-	-
Unassigned	-	-
Total fund balances	34,940	34,940
Total liabilities, deferred inflows of resources and fund balances:	\$ 34,940	34,940

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

**STATE OF NEW MEXICO
CITY OF LORDSBURG
NON-MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2018**

	<u>Revenue Bond</u>	<u>Totals</u>
Assets and deferred inflows of resources:		
Assets:		
Cash and cash equivalents	\$ 206	206
Total assets	<u>206</u>	<u>206</u>
Deferred Outflows of Resources:		
Total deferred outflows of resources	<u>-</u>	<u>-</u>
Total assests and deferred outflows of resources	\$ <u>206</u>	<u>206</u>
Liabilities, deferred inflows of resources and fund balances:		
Liabilities:		
Accounts payable	\$ -	-
Total liabilities	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:		
Total deferred inflows of resources	<u>-</u>	<u>-</u>
Fund balances:		
Nonspendable	-	-
Restricted	206	206
Committed	-	-
Assigned	-	-
Unassigned	-	-
Total fund balances	<u>206</u>	<u>206</u>
Total liabilities, deferred inflows of resources and fund balances:	\$ <u>206</u>	<u>206</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018**

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforce- ment Fund</u>	<u>Lodgers' Tax</u>	<u>Rec- reation Fund</u>
Revenues:						
Taxes						
Other	\$ -	-	-	-	154,262	-
Charges for services	-	-	-	-	-	6,483
Fines and forfeitures	37,944	-	-	-	-	-
Intergovernmental revenue						
State grants	-	14,871	87,605	36,898	-	-
Interest income	805	-	41	-	12	150
Miscellaneous income	-	-	-	-	-	31,790
Total revenues	<u>38,749</u>	<u>14,871</u>	<u>87,646</u>	<u>36,898</u>	<u>154,274</u>	<u>38,423</u>
Expenditures:						
Current:						
General government	-	-	-	-	-	-
Public safety	19,028	-	69,477	5,351	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	81,446	119,383
Health and welfare	-	-	-	-	-	-
Capital outlay	-	14,871	2,000	28,139	-	7,691
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>19,028</u>	<u>14,871</u>	<u>71,477</u>	<u>33,490</u>	<u>81,446</u>	<u>127,074</u>
Excess (deficiency) of revenues over (under) expenditures	19,721	-	16,169	3,408	72,828	(88,651)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	53,500
Transfers out	-	-	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,500</u>
Net change in fund balances	19,721	-	16,169	3,408	72,828	(35,151)
Beginning fund balance	<u>141,236</u>	<u>18,499</u>	<u>1,427</u>	<u>-</u>	<u>23,481</u>	<u>11,732</u>
Ending fund balance	<u>\$ 160,957</u>	<u>18,499</u>	<u>17,596</u>	<u>3,408</u>	<u>96,309</u>	<u>(23,419)</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018**

	<u>Senior Citizens</u>	<u>Designated Franchise</u>	<u>Economic Develop- ment</u>	<u>TIF Downtown Improv</u>	<u>Lea Theater</u>	<u>Total</u>
Revenues:						
Taxes						
Gross receipts/State shared	\$ -	-	322,256	-	-	322,256
Other	-	58,711	-	1,281	-	214,254
Charges for services	-	-	-	-	-	6,483
Fines and forfeitures	-	-	-	-	-	37,944
Intergovernmental revenue						
Federal grants	14,377	-	-	-	-	14,377
State grants	115,313	-	-	-	-	254,687
Interest income	469	58	5,290	17	-	6,842
Miscellaneous income	36,015	-	-	-	44,298	112,103
Total revenues	<u>166,174</u>	<u>58,769</u>	<u>327,546</u>	<u>1,298</u>	<u>44,298</u>	<u>968,946</u>
Expenditures:						
Current:						
General government	-	190,779	85,000	-	-	275,779
Public safety	-	-	-	-	-	93,856
Public works	-	-	-	-	-	-
Culture and recreation	429,806	-	-	-	54,884	685,519
Health and welfare	-	-	-	-	-	-
Capital outlay	24	-	-	-	8,891	61,616
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>429,830</u>	<u>190,779</u>	<u>85,000</u>	<u>-</u>	<u>63,775</u>	<u>1,116,770</u>
Excess (deficiency) of revenues over (under) expenditures	(263,656)	(132,010)	242,546	1,298	(19,477)	(147,824)
Other financing sources (uses):						
Transfers in	255,420	142,687	-	-	21,000	472,607
Transfers out	(33,409)	-	-	-	-	(33,409)
Total other financing sources (uses):	<u>222,011</u>	<u>142,687</u>	<u>-</u>	<u>-</u>	<u>21,000</u>	<u>439,198</u>
Net change in fund balances	(41,645)	10,677	242,546	1,298	1,523	291,374
Beginning fund balance	<u>116,980</u>	<u>17,338</u>	<u>822,844</u>	<u>3,090</u>	<u>-</u>	<u>1,156,627</u>
Ending fund balance	<u>\$ 75,335</u>	<u>28,015</u>	<u>1,065,390</u>	<u>4,388</u>	<u>1,523</u>	<u>1,448,001</u>

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

STATE OF NEW MEXICO
CITY OF LORDSBURG
NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
FINANCIAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2018

	CDBG Funds	Totals
Revenues:		
Intergovernmental revenue		
State grants	\$ 4,460	4,460
Total revenues	4,460	4,460
Expenditures:		
Current:		
General government	-	-
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Health and welfare	-	-
Capital outlay	19,776	19,776
Debt service		
Principal	-	-
Interest	-	-
Total expenditures	19,776	19,776
Excess (deficiency) of revenues over (under) expenditures	(15,316)	(15,316)
Other financing sources (uses):		
Transfers in	50,256	50,256
Transfers out	-	-
Total other financing sources (uses):	50,256	50,256
Net change in fund balances	34,940	34,940
Beginning fund balance	-	-
Ending fund balance	\$ 34,940	34,940

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

**STATE OF NEW MEXICO
CITY OF LORDSBURG
NON-MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
RECONCILING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2018**

	Debt Service Fund	Totals
Revenues:		
Miscellaneous income	\$ -	-
Total revenues	-	-
Expenditures:		
Current:		
General government	-	-
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Health and welfare	-	-
Capital outlay	-	-
Debt service		
Principal	150,000	150,000
Interest	69,244	69,244
Total expenditures	219,244	219,244
Excess (deficiency) of revenues over (under) expenditures	(219,244)	(219,244)
Other financing sources (uses):		
Proceeds from debt issuance	-	-
Transfers in	219,450	219,450
Transfers out	-	-
Total other financing sources (uses):	219,450	219,450
Net change in fund balances	206	206
Beginning fund balance	-	-
Ending fund balance	\$ 206	206

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
As of June 30, 2018**

	Unemployment Compensation	Pension	Total
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ 33,058	69,310	102,368
Total current assets	33,058	69,310	102,368
Non-current assets:			
Total non-current assets	-	-	-
Total assets	33,058	69,310	102,368
Deferred Outflows of Resources:			
Total deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	\$ 33,058	69,310	102,368
Liabilities, deferred inflows of resources and net position:			
Liabilities:			
Accounts payable	\$ -	-	-
Accrued payroll liabilities	-	23,478	23,478
Total current liabilities	-	23,478	23,478
Non-current liabilities			
Total non-current liabilities	-	-	-
Total liabilities	-	23,478	23,478
Deferred inflows of resources:			
Total deferred inflows of resources	-	-	-
Net position			
Net Investment in Capital Assets	-	-	-
Unrestricted Net Position	33,058	45,832	78,890
Total net position	33,058	45,832	78,890
Total liabilities, deferred inflows of resources and net position:	\$ 33,058	69,310	102,368

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2018**

	<u>Unemployment Compensation</u>	<u>Pension</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ -	-	-
Total operating revenues	<u>-</u>	<u>-</u>	<u>-</u>
Operating expenses:			
Personnel services	-	-	-
Operating expenses	-	-	-
Depreciation and amortization	-	-	-
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Operating income (loss)	-	-	-
Non-operating revenues (expenses):			
Gain/(loss) on disposal of capital assets	-	-	-
Federal grants - capital	-	-	-
State grants - capital	-	-	-
Other grant revenues	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	-	-	-
Interest income	7	-	7
Interest expense	-	-	-
Total non-operating revenues (expenses)	<u>7</u>	<u>-</u>	<u>7</u>
Income (loss) before transfers	7	-	7
Other financing sources/(uses)			
Transfers in	25,000	-	25,000
Transfers out	-	-	-
Total other financing sources/(uses)	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Change in net position	25,007	-	25,007
Net position, beginning of year	<u>8,051</u>	<u>45,832</u>	<u>53,883</u>
Net position, end of year	<u>\$ 33,058</u>	<u>45,832</u>	<u>78,890</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2018**

	Unemploye nt Compensatio n	Pension	Total
Cash flows from operating activities:			
Payments to suppliers	\$ (3,206)	-	(3,206)
Net cash provided (used) for operating activities	(3,206)	-	(3,206)
Cash flows from noncapital financing activities:			
Transfers from other funds	25,000	-	25,000
Net cash provided (used) for noncapital financing activities	25,000	-	25,000
Cash flows from capital and related financing activities:			
Net cash provided (used) for capital and related financing activities.	-	-	-
Interest and dividends	7	-	7
Net cash provided (used) for investing activities.	7	-	7
Net increase (decrease) in cash and cash equivalents	21,801	-	21,801
Cash and cash equivalents – beginning of year	11,257	69,310	80,567
Cash and cash equivalents – end of year	\$ 33,058	69,310	102,368
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ -	-	-
Changes in assets and liabilities:			
Accounts payable	(3,206)	-	(3,206)
Net cash provided by operating activities	\$ (3,206)	-	(3,206)

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2018</u>
Court Automation Fees Fund				
Assets:				
Cash	\$ -	16,743	(16,743)	-
Accounts receivable	2,297	-	(2,297)	-
Total assets	<u>\$ 2,297</u>	<u>16,743</u>	<u>(19,040)</u>	<u>-</u>
Liabilities:				
Accounts payable	\$ 2,297	16,743	(19,040)	-
Total liabilities	<u>\$ 2,297</u>	<u>16,743</u>	<u>(19,040)</u>	<u>-</u>
Motor Vehicle Fund				
Assets:				
Cash	\$ 20,386	1,525,913	(1,529,994)	16,305
Accounts receivable	381	526	(11)	896
Total assets	<u>\$ 20,767</u>	<u>1,526,439</u>	<u>(1,530,005)</u>	<u>17,201</u>
Liabilities:				
Accounts payable	\$ 20,767	1,526,439	(1,530,005)	17,201
Total liabilities	<u>\$ 20,767</u>	<u>1,526,439</u>	<u>(1,530,005)</u>	<u>17,201</u>
Lovington Fire Department Fund				
Assets:				
Cash	\$ 7,816	21,142	(7,881)	21,077
Accounts receivable	65	-	-	65
Total assets	<u>\$ 7,881</u>	<u>21,142</u>	<u>(7,881)</u>	<u>21,142</u>
Liabilities:				
Accounts payable	\$ 7,881	21,142	(7,881)	21,142
Total liabilities	<u>\$ 7,881</u>	<u>21,142</u>	<u>(7,881)</u>	<u>21,142</u>
Municipal Court Fund				
Assets:				
Cash	\$ 20,881	19,123	(17,800)	22,204
Total assets	<u>\$ 20,881</u>	<u>19,123</u>	<u>(17,800)</u>	<u>22,204</u>
Liabilities:				
Accounts payable	20,881	19,123	(17,800)	22,204
Total liabilities	<u>\$ 20,881</u>	<u>19,123</u>	<u>(17,800)</u>	<u>22,204</u>
Total Agency Funds				
Assets:				
Cash	\$ 49,083	1,582,921	(1,572,418)	59,586
Accounts receivable	2,743	526	(2,308)	961
Total assets	<u>\$ 51,826</u>	<u>1,583,447</u>	<u>(1,574,726)</u>	<u>60,547</u>
Liabilities:				
Accounts payable	51,826	1,583,447	(1,574,726)	60,547
Total liabilities	<u>\$ 51,826</u>	<u>1,583,447</u>	<u>(1,574,726)</u>	<u>60,547</u>

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

**STATE OF NEW MEXICO
CITY OF LORDSBURG
SCHEDULE OF FUND BALANCES
As of June 30, 2018**

	<u>Major Funds</u>				<u>Total Funds</u>	
	<u>General Fund</u>	<u>Spec Revenue</u>		<u>Water Project Fund</u>		<u>Total Non-Major Funds</u>
		<u>Gasoline tax</u>				
Fund Balances:						
Nonspendable:						
Inventory	268,003	-	-	1,491	269,494	
Subtotal nonspendable funds	\$ 268,003	-	-	1,491	269,494	
Restricted for:						
Tourism	-	-	-	96,309	96,309	
Economic development efforts	-	-	-	1,097,793	1,097,793	
Various capital project efforts	-	-	407,128	34,940	442,068	
Debt service requirements	-	-	-	206	206	
Senior center programs/improvements	-	-	-	75,335	75,335	
Fire fighting efforts/equipment	-	-	-	17,596	17,596	
Public safety and law enforcement efforts	-	-	-	182,864	182,864	
Subtotal restricted funds	-	-	407,128	1,505,075	1,912,203	
Committed to:						
Subtotal committed funds	-	-	-	-	-	
Assigned to:						
Subtotal assigned funds	-	-	-	-	-	
Unassigned	4,984,942	(138,107)	-	(23,419)	4,823,416	
	\$ 5,252,945	(138,107)	407,128	1,483,147	7,005,113	

See independent auditor's report.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF DEPOSITORIES
As of June 30, 2018**

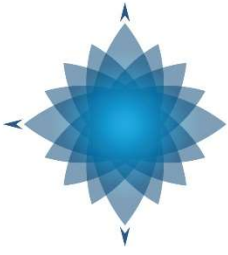
<u>Account name</u>	<u>Type</u>	<u>Lea County State Bank</u>	<u>Wells Fargo</u>	<u>Plus Deposit in Transit</u>	<u>Less O/S Checks</u>	<u>Balance Per Books</u>
General	CK	3,000,000		11,240	(103,632)	2,907,608
Payroll	CK	12,187		-	(7,014)	5,173
General Operating Account	CK*	3,699,864		122,600	(141,131)	3,681,333
Motor Vehicle Department	CK	16,278		-	-	16,278
Municipal Court	CK	20,665				20,665
Municipal Court	CK	2,274				2,274
Lovington fire department	CK		196			196
Petty cash				-	-	4,075
Total cash and equivalents		<u>6,751,268</u>	<u>196</u>	<u>133,840</u>	<u>(251,777)</u>	<u>6,637,602</u>
Total amount on deposit		6,751,268	196	<u>133,840</u>	<u>(251,777)</u>	<u>6,637,602</u>
FDIC coverage		<u>(3,005,268)</u>	<u>(196)</u>			
Total uninsured public funds		3,746,000	-			
50% collateral requirement (Section 6-10-17 NMSA-1978)		1,873,000	-			
Pledge security		<u>5,607,385</u>				
See NMFA audited financials			-			
Amount (over)/under collateralized		<u>(3,734,385)</u>	-			

* denotes interest bearing account

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF PLEDGED COLLATERAL BY DEPOSITORY
As of June 30, 2018**

Cusip ID	Description/ Maturity	Coupon	S&P Rating	Pledged Percent	Pledged	
					Par	Market Value
Lea County State Bank						
<i>Safekeeping Location - Lea County State Bank, Hobbs New Mexico</i>						
013595LH4	ALBUQUERQUE NM 8/1/2021	5.00	AA	100%	\$ 900,000	933,570
387766CF3	GRANT COUNTY NM 9/1/2023	4.00	N/A	100%	395,000	426,572
433866GA2	HOBBS NM SD 9/15/2023	3.50	N/A	100%	300,000	319,065
470143AG3	JAL NM PSD 10/1/2022	3.00		100%	300,000	312,726
778550JX2	ROSWELL NM ISD 8/1/2024	4.00		100%	470,000	514,608
801889NT9	SANTA FE CNTY NM 7/1/2021	5.00	N/A	100%	2,000,000	2,181,680
843789EE4	SO SANDOVAL NM 8/1/2018	3.63	N/A	100%	375,000	375,773
876014FD8	TAOS NM MSD 9/1/2018	5.00	N/A	100%	540,000	543,391
					\$ 5,280,000	5,607,385

See independent auditor's report.



**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**

Independent Auditor's Report

Wayne Johnson
New Mexico State Auditor
The City Commission
City of Lovington
Lovington, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the General Fund, the aggregate remaining fund information, and the budgetary comparison of the General Fund of the City of Lovington (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2018.

Internal Control over Financial Reporting

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

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

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

timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-004, 2015-007, and 2017-001 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-003.

We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying Schedule of Section 12-6-5 NMSA 1978 Findings as item 2018-002.

The City's Response to Findings

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

Purpose of this Report

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

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 13, 2018

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND REPOSSES
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 1. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | Yes |
| d. Other Matters? | Yes |

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II FINDINGS – FINANCIAL STATEMENTS

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>	<u>Financial Statement Finding</u>
Prior Year Findings		
2009-002 - DFA Cash Report Does Not Reconcile to the City's Cash	Resolved	Yes
2015-002 - Cash Internal Control Deficiencies	Resolved	Yes
2015-004 - Preparation of Accounts Receivable	Repeat and Modified	Yes
2015-007 - Preparation of Accounts Payable	Repeat and Modified	Yes
2017-001 - Deficiency in Internal Controls over Proprietary and Governmental Revenues Transaction Cycle	Repeat and Modified	Yes
2017-002 - Deficiency in Internal Controls over Disbursement Transaction Cycle	Resolved	Yes
2017-003 - Deficiency in Internal Controls over Payroll Transaction Cycle	Resolved	Yes
2017-004 - Design of Internal Controls over IT	Resolved	Yes
2017-001 - Reimbursements of Non-City Personnel Expenditure	Resolved	Yes
Current Year Findings		
2018-001 - Deficiency in Internal Controls over Ambulance charges	Current	Yes
2018-002 - Capital Lease	Current	Yes
2018-003 - Budgetary Compliance	Current	Yes

FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINDINGS

2015-004 Preparation of Accounts Receivable (Material Weakness) - Repeat and Modified

Condition: During the course of the audit, increases totaling \$1,448,510 were necessary to properly report the City's receivable balances as of June 30, 2018. This finding was unable to be resolved during the current year as the City was unable to correctly identify all accounts receivable items in the current year.

Criteria: Generally Accepted Accounting Principles (GAAP) require revenue recognition in the period in which the revenue is earned.

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

Cause: Management did not correctly identify August 2017 property and gas tax distributions as accounts receivable at fiscal year ended June 30, 2017.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Auditors' Recommendations: The City should review receipts after the balance sheet date for a period of time to determine which fiscal year they should be reported in. The City should keep a subledger tracking receivable items near the balance sheet date as well as after year end to ensure all accruals are captured for the current year.

Views of Responsible Officials and Planned Corrective Action:

The City has experienced a turnover in Finance Department staff that has led to the repeat of this finding. In addition, agreements with public and private entities in which we have receivables had not been previously recorded in our financial management system and processed as the amounts due as a reportable receivable. In essence, additional training is required. It is the Finance Directors responsibility to ensure that our Finance Department staff have a clear understanding of their responsibilities in addition to seeking out training for department employees so that this issue is not repeated. Additional "checklist" procedures will be implemented to ensure that any agreements or payments due to the City are treated and recorded as receivables.

2015-007 Preparation of Accounts Payable (Material Weakness) - Repeat and Modified

Condition: During the course of the audit, increases totaling \$1,354,577 were necessary to properly report the City's accounts payable balances as of June 30, 2018. This finding was unable to be resolved during the current year as the City was unable to correctly identify all accounts payable items in the current year.

Criteria: Generally Accepted Accounting Principles (GAAP) require expenditure recognition in the period in which the good or service is incurred.

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

Cause: Management did not correctly identify items that are considered to be accounts payable at year end.

Auditors' Recommendations: The City should review disbursements after the balance sheet date for a period of time to determine which fiscal year they should be reported in. The City should keep a subledger tracking payable items near the balance sheet date as well as after year end to ensure all accruals are captured for the current year.

Views of Responsible Officials and Planned Corrective Action:

The City has identified three root causes for this particular repeat finding. The first issue identified is lack of staff experience due to turnover and training. The second item is unfamiliarity with our new financial management system and how to ensure that purchases for goods and services that are made at the end of the fiscal year are treated as payables that need to be tied to that fiscal year and not carried over into the new fiscal year. The third issue identified is communication and training with Department Heads on the purchase order process and how we close out of a fiscal year. The Finance Director will ensure that proper training and understanding of the system is obtained by finance staff. Additional training on our financial management system will also be obtained. Furthermore, processing steps for purchases have been implemented as well, at the Department Head level, to ensure that purchases are

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

made properly and the payable is processed correctly. The Finance Director is also developing a year end close out policy and process.

2017-001 - Deficiency in Internal Controls over Proprietary and Governmental Revenues Transaction Cycle (Material Weakness) - Repeat and Modified

Condition: The following deficiencies in internal controls over the revenue transaction cycle are present at the City:

- As of June 30, 2018, the City had not begun utilizing the cash registers that were purchases for the City's satellite locations. As a result, there was no mechanism to reconcile the actual collected receipts against the expected cash receipts for offsite locations such as the pool and senior center.

This is a repeat finding from previous years. The City has purchased the cash registers and were in the process of installing them during our fieldwork on September 2018. Locking the cash vault was still on ongoing issue at the time of fieldwork.

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

Effect: The City is susceptible to loss due to under-reported cash receipts from satellite locations.

Cause: Due to delays involving the implementation of the new accounting software, the City had not been able to fully implement the new cash registers.

Auditors' Recommendations: The City should ensure that a comprehensive internal control structure over financial information is designed, documented, and implemented. The cash registers purchases for the satellite locations, should be installed and interfaced with the City's accounting software.

Views of Responsible Officials and Planned Corrective Action:

The current City Hall was built several decades ago and included the current large room vault. In order to access the vault, it is necessary for individuals to use a rotary style combination. The locking mechanism cannot be upgraded or changed out due to its age. The City realizes that there is insufficient means in place to provide an audit trail of users who access the vault. The door remains closed when the vault is not occupied. Additional measures have been taken to secure cash drawers and records. Cash drawers, when not in use, are stored inside the vault in a locked filing cabinet. The keys to the filing cabinets that store these items are issued to the Finance Director and the Deputy City Clerk assigned to the Finance Department. Furthermore, access to the Finance Department is limited to one door which is controlled by an electronic lock. Employees who require access are issued a random 6 digit code that is assigned to them. The locking system tracks all entries. In addition, the Finance Department area has video surveillance. In order to resolve this particular issue, it is the decision of management to keep the vault locked at all times when not occupied.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

2018-001 - Deficiency in Internal Controls over Ambulance charges (Significant Deficiency)

Condition: While conducting audit procedures related to the City's ambulance charges, we identified several weaknesses in controls that could leave the City susceptible to loss:

- The Finance department was not tracking the total ambulance receivable in the City's general ledger. This data was maintained on a separate system at the fire department. As a result, the Finance department was not able to monitor the collection of the funds nor could it properly anticipate the funds that should be collected. The total amount receivable as of June 30, 2018 was \$1,553,982.
- The deposits of fund were received initially at the Fire Station and then taken to the City's finance office for depositing/recording into the general ledger. There was no process in place to ensure that all monies received at the Fire Station were brought to the Finance Department.

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

Effect: The City's ambulance receivables were materially understated, and it is susceptible to loss related to under deposited funds.

Cause: The City felt the controls systems in place regarding ambulance charges was adequate.

Auditors' Recommendations: The City should ensure that a comprehensive internal control structure over financial information is designed, documented, and implemented related to ambulance charges. A formal process for collecting on outstanding amounts should be considered to ensure the City is collecting all funds that are due to it.

Views of Responsible Officials and Planned Corrective Action:

Ambulance receivables are tracked in specialized medical billing software at the fire department. The City financial management system does not offer a module of this type. The type of software utilized for ambulance billing is specialized and is tied electronically to Medicare, Medicaid, and private insurance. Deposits are taken for the payment of ambulance bills at the fire station as it has to be recorded in the billing software for insurance and State compliance requirements. In regards to the collection percentage, this is an issue that is specifically tied to maximum Medicare and Medicaid reimbursements and the contractual allowances we are required to agree to in order to be an eligible provider who receives reimbursement. The only way that contractual allowances will be reduced is thru State and Federal legislative efforts. The City does collect the maximum amount allowable, as well as working with customers to ensure that their cash portions of the bill are paid for. When local collection efforts are exhausted, the City utilizes a collection agency. The Finance Director will develop a means to ensure that deposits of funds are conducted daily and are tied to receivables reported in the billing software. In addition, the Finance Director will ensure that the rates charged by the ambulance service are correct by comparing them to the Statewide Ambulance Tariff that dictates the amount we are allowed to bill for services.

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FOR THE YEAR ENDED JUNE 30, 2018**

2018-002 - Capital Lease (Other Matter)

Condition: While conducting audit procedures related to the City’s outstanding leases, it came to our attention that the City had a capital lease in place that was not recorded properly in the City’s accounting software. Entries to capital assets and debt totaling \$140,078 were made to ensure the lease was reported.

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

Effect: The City under reported its capital assets and debt obligations.

Cause: The Finance Department did not identify the lease as a capital lease.

Auditors’ Recommendations: The City should review all lease agreement when they are signed to ensure any necessary reporting requirements are met.

Views of Responsible Officials and Planned Corrective Action:

The Finance Director will ensure that any lease agreements and reporting requirements are met in the future. This action is in place as of December 13, 2018.

2018-003 - Budgetary Compliance (Non-compliance)

Condition: The City’s actual expenditures exceeded approved budgeted expenditures within several funds. There did not appear to be an effective process in place to monitor budgetary activity and make adjustments, as necessary.

The following funds exceeded approved budgeted expenditures.

<u>Fund</u>	<u>Category</u>	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Over Expended</u>
Gasoline Tax Fund	Major fund	1,172,820	1,301,369	128,549
Corrections Fund	Non-major fund	-	17,914	17,914
Fire Protection Fund	Non-major fund	84,053	89,299	5,246
LEPF	Non-major fund	36,800	36,899	99
Lodgers Tax Fund	Non-major fund	86,750	94,786	8,036
Designated Franchise	Non-major fund	158,463	187,061	28,598
Solid waste fund	Prop fund	1,904,935	2,036,702	131,767

Criteria: New Mexico State Statutes Section 6-6-6 NMSA 1978 restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits

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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

any payments in excess of the approved budget. City officials and governing authorities have the obligation to follow applicable state statutes.

Effect: The City was in violation of State Statute and could be subject to fines or other restrictions.

Cause: The Finance Department did not identify the budget overruns in a timely manner due to focusing on lingering fund balance issues.

Auditors' Recommendations: It is recommended the City implement a process for routine monitoring of its budgetary compliance. Further, it is recommended that the City review its budgetary performance mid- year and at year end to determine if budget adjustments are needed to ensure adequate budget level are maintained.

Views of Responsible Officials and Planned Corrective Action:

Due to our software conversion, staff needed some training on how to account for all expenses that belonged in the current fiscal year. The Finance Director will ensure that budgetary compliance is monitored and adjustments are prepared as necessary in the future. This action is in place as of December 13, 2018.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2018**

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Presentation: 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 Integrity Accounting & Consulting to the City in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for the City of Lovington were discussed on December 13, 2018. The following individuals were in attendance.

City of Lovington Officials

David Trujillo	Mayor
Arthur Sanchez	City Commissioner
Gary Lee Chapman	Finance Director
James Williams	City Manager

Integrity Accounting & Consulting

Erick Robinson, CPA, CFE	Partner
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