

State of New Mexico
City of Lovington
Annual Financial Report
June 30, 2015



INTRODUCTORY SECTION

STATE OF NEW MEXICO

City of Lovington

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STATE OF NEW MEXICO

City of Lovington

Official Roster

June 30, 2015

| <u>Name</u> | | <u>Title</u> |
|------------------|-----------------------|------------------------|
| | City Council | |
| Scotty Gandy | | Mayor |
| Ava Benge | | Mayor Pro Tem |
| Bernard Butcher | | Commissioner |
| Paul Campos | | Commissioner |
| David Trujillo | | Commissioner |
| | Administration | |
| Gary Lee Chapman | | Finance Director |
| James Williams | | City Manager |
| Jared Cobb | | Assistant City Manager |

FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy Keller
New Mexico State Auditor
The City Council
City of Lovington
Lovington, New Mexico

Report on 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 comparison for the general fund of the City of Lovington (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental funds and the budgetary comparisons for all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Lovington Housing Authority (the "Authority"), which represent 0.90%, 1.19%, and 1.32%, respectively, of the assets, net position, and revenues of the City. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Authority, is based solely on the report of the other auditors. 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 auditors' 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 City'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 City'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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the City as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparisons for all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 17 and Schedules I and II and the Notes to the Required Supplementary Information on pages 64 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the City's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. Schedules III through VII required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting Schedules III through VI required by Section 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, Schedules III through VI required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 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 the City's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 11, 2015

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements of the City and additional information provided.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$34,671,346 (net position). Of this amount, \$7,244,660 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$4,924,997. The decrease can be attributed to the elimination of prior year assets and the reduction of anticipated state funding in addition to the implementation of GASB Statement No. 68 in the current year.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,665,265, an increase of \$1,302,170 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,298,998 or 72.46% of total general fund expenditures.
- The City's total debt decreased by \$402,171 (5.15%) 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'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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 is improving or deteriorating.

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

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

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

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

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

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2015

financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Change in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balances for the general fund, which is considered to be the major governmental fund. Data from the other thirteen (13) 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 adopts an annual appropriated budget for its general fund and all other governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. In addition, the individual financial statements of the nonmajor governmental fund types include budgetary comparison data.

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

Proprietary Funds. The City of Lovington maintains 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 uses enterprise funds to account for its solid waste, water and wastewater, and ambulance funds.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-61 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental and proprietary funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 76-102 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, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$34,671,345 (net position) at the close of the most recent fiscal year.

The largest portion of the City's net position (\$25,645,574 or 73.97%) 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.

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The following table presents a summary of the City's net position for the fiscal years ended June 30, 2015 and June 30, 2014.

City of Lovington's Net Position
As of June 30, 2015 and 2014
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Current assets | \$ 9,906 | \$ 8,988 | \$ 4,843 | \$ 5,449 | \$ 14,749 | \$ 14,437 |
| Noncurrent assets other than capital assets | - | - | 1,021 | 449 | 1,021 | 449 |
| Capital assets, net | 20,558 | 19,751 | 12,499 | 15,556 | 33,057 | 35,307 |
| Total assets | 30,464 | 28,739 | 18,363 | 21,454 | 48,827 | 50,193 |
| Deferred outflows of resources | 488 | - | 13 | - | 501 | - |
| Total deferred outflows of resources | 488 | - | 13 | - | 501 | - |
| Total assets and deferred outflows of resources | \$ 30,952 | \$ 28,739 | \$ 18,376 | \$ 21,454 | \$ 49,328 | \$ 50,193 |
| Current liabilities | \$ 501 | \$ 876 | \$ 1,152 | \$ 1,456 | \$ 1,653 | \$ 2,332 |
| Noncurrent liabilities | 4,919 | 334 | 7,078 | 7,931 | 11,997 | 8,265 |
| Total liabilities | 5,420 | 1,210 | 8,230 | 9,387 | 13,650 | 10,597 |
| Deferred inflows of resources | 1,006 | - | - | - | 1,006 | - |
| Total deferred inflows of resources | 1,006 | - | - | - | 1,006 | - |
| Net investment in capital assets | 20,558 | 19,752 | 5,088 | 7,744 | 25,646 | 27,496 |
| Restricted | 1,781 | 2,001 | - | - | 1,781 | 2,001 |
| Unrestricted | 2,187 | 5,776 | 5,058 | 4,323 | 7,245 | 10,099 |
| Total net position | 24,526 | 27,529 | 10,146 | 12,067 | 34,672 | 39,596 |
| Total liabilities, deferred inflows of resources, and net position | \$ 30,952 | \$ 28,739 | \$ 18,376 | \$ 21,454 | \$ 49,328 | \$ 50,193 |

An additional portion of the City's net position of \$1,781,112 (5.13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$7,244,659 or 20.90%) may be used to meet the City's ongoing obligations to citizens and creditors.

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

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Management's Discussion and Analysis
For the Year Ended June 30, 2015

Governmental Activities. Governmental activities increased the City's net position by \$1,950,564. Key elements of this increase are as follows:

- Revenues were up \$1,698,602 with \$1,434,191 of this increase due to increases in gross receipts taxes.

Business-type Activities. Business-type activities increased the City's net position by \$502,195. Key elements of this increase are as follows:

- Although revenues decreased by \$934,429, expenditures decreased even more by \$1,868,510.

Changes in the City of Lovington's Net Position
For the Year Ended June 30, 2015 and 2014
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|-------------------------------|-------------------------|---------------|--------------------------|-----------------|-----------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | | | |
| Taxes | \$ 11,230 | \$ 9,809 | \$ - | \$ - | \$ 11,230 | \$ 9,809 |
| Intergovernmental income | 803 | 846 | - | 27 | 803 | 873 |
| Charges for services | 341 | 320 | 4,711 | 5,289 | 5,052 | 5,609 |
| Other | 507 | 945 | 387 | 4 | 894 | 949 |
| Total revenues | 12,881 | 11,920 | 5,098 | 5,320 | 17,979 | 17,240 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 3,420 | 3,435 | - | - | 3,420 | 3,435 |
| Public safety | 4,092 | 3,930 | - | - | 4,092 | 3,930 |
| Public works | 1,631 | 1,560 | - | - | 1,631 | 1,560 |
| Health and welfare | - | 45 | - | - | - | 45 |
| Culture and recreation | 1,918 | 2,232 | - | - | 1,918 | 2,232 |
| Conservation and development | 161 | 197 | - | - | 161 | 197 |
| Proprietary funds | - | - | 4,304 | 6,171 | 4,304 | 6,171 |
| Total expenditures | 11,222 | 11,399 | 4,304 | 6,171 | 15,526 | 17,570 |
| Transfers | 292 | (446) | (292) | 446 | - | - |
| Change in net position | \$ 1,951 | \$ 75 | \$ 502 | \$ (405) | \$ 2,453 | \$ (330) |

Financial Analysis of the Government's Funds

As noted earlier, the City 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 \$9,665,265 an increase of \$1,302,171 in comparison with the prior year. Approximately 75.52% of this total amount, \$7,298,998, constitutes unassigned fund balance, which is available for spending at the City's discretion. Approximately 24.34% of the total amount, \$2,352,187 is restricted for subsequent year's expenditures, which have externally enforceable limitations imposed on the spendable fund balance. The remaining \$14,080 or approximately 0.15% is committed fund balance.

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The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance totaled \$7,298,998 of which \$7,298,998 was unassigned. This represents 100.00% of total general fund expenditures.

The fund balance of the City's general fund increased by \$824,321 during the current fiscal year.

Proprietary Funds. The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the three (3) proprietary funds at the end of the year amounted to \$10,145,617, a decrease of \$1,921,241 from the prior fiscal year.

General Fund Budgetary Highlights

There were amendments to the City's fiscal year 2015 operating and capital budget. A statement reporting the original and final budget amount compared to the City's actual financial activity for the general fund is provided in this report at Exhibit C-1.

There was an unfavorable variance of \$232,600 in the general fund revenues. This was primarily due to an unfavorable variance of \$233,018 in other taxes, \$523 in charges for services, and \$1,824 in fines and forfeitures. There was a favorable variance of \$2,765 in miscellaneous income.

The net favorable variance of \$222,756 in general fund expenditures was primarily due to not expending all the funds budgeted. An amount of \$212,176 was not expended in the general government function and \$176,346 was not expended in the capital outlay function, while \$27,679 was over budget in the public safety function, \$76,466 was over budget in the public works function, and \$61,621 was over budget in the public works 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, 2015 amounts to \$33,056,573. This investment in capital assets includes land, land-right of ways, land improvements, construction in progress, 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:

- \$509,360 Central Plaza phase I
- 106,366 City Hall roof repair
- 451,616 Chaparral Park irrigation system
- 101,637 museum roof repair
- 223,546 four (4) police cars
- 127,397 equipment for four (4) police cars
- 230,348 new ambulance
- 410,606 9th Street reconstruction

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

- \$4,288,811 old wastewater treatment plant
- 59,544 WWTP project 2001-0018
- 70,835 lift station and additions
- 60,888 lift station

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Management's Discussion and Analysis
For the Year Ended June 30, 2015

City of Lovington's Capital Assets
For the Year Ended June 30, 2015 and 2014
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | \$ 139 | \$ 139 | \$ - | \$ - | \$ 139 | \$ 139 |
| Construction in progress | 586 | 310 | 6 | - | 592 | 310 |
| Buildings and improvements | 14,777 | 13,454 | 19,359 | 23,925 | 34,136 | 37,379 |
| Infrastructure | 18,857 | 18,426 | 1,671 | 1,610 | 20,528 | 20,036 |
| Library collection | 1,631 | 1,630 | - | - | 1,631 | 1,630 |
| Machinery and equipment | 2,515 | 2,456 | 3,106 | 3,172 | 5,621 | 5,628 |
| Vehicles | 2,956 | 2,616 | 1,166 | 936 | 4,122 | 3,552 |
| Total capital assets | 41,461 | 39,031 | 25,308 | 29,643 | 66,769 | 68,674 |
| Less: accumulated depreciation | 20,903 | 19,281 | 12,809 | 14,086 | 33,712 | 33,367 |
| Total capital assets, net of depreciation | \$ 20,558 | \$ 19,750 | \$ 12,499 | \$ 15,557 | \$ 33,057 | \$ 35,307 |

Additional information on the City's capital assets can be found in Notes 1 and 6 on pages 42 and 50-51 of this report.

Debt Administration. At the end of the current fiscal year, the City of Lovington had total debt from outstanding loans of \$7,410,999, which is secured by water and wastewater operating revenues.

City of Lovington's Long-term Debt
For the Year Ended June 30, 2015 and 2014
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------|-------------------------|------|--------------------------|----------|----------|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Loans payable | \$ - | \$ - | \$ 7,411 | \$ 7,813 | \$ 7,411 | \$ 7,813 |

State statutes currently limit the amount of general obligation debt the City may issue up to 4.00% of its total assessed valuation for general purposes. Additional information on the City of Lovington's debt can be found in Note 7 on page 52 of this report.

Economic Factors and Next Year's Budget

The City of Lovington is located in Lea County, New Mexico. Our municipality, which serves as the county seat is located in the southeastern corner of the State of New Mexico. With our economy based predominately upon the revenues generated by the petroleum industry, the entire area is on the forefront of production of energy from other natural resources (wind, nuclear, solar, and biological). Unemployment, when compared with state and national rates, is considerably lower (4.00%) which is actually considered to be full employment. The increase in petroleum exploration, production, and its associated services has been relatively stable the past several years and has contributed to consistent revenue growth.

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

STATE OF NEW MEXICO
City of Lovington
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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

Request for Information

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

Component Unit

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

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

City of Lovington

Statement of Net Position

June 30, 2015

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | Housing Authority |
| Assets and Deferred Outflows of Resources | | | | |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 7,453,564 | \$ 3,615,564 | \$ 11,069,128 | \$ 182,911 |
| Investments | 397,374 | 129,654 | 527,028 | 36,647 |
| Receivables | | | | |
| Taxes | 1,739,801 | - | 1,739,801 | - |
| Other | 138,619 | 881,825 | 1,020,444 | 2,015 |
| Inventory | 176,844 | 216,079 | 392,923 | - |
| Total current assets | <u>9,906,202</u> | <u>4,843,122</u> | <u>14,749,324</u> | <u>221,573</u> |
| Noncurrent assets | | | | |
| Restricted cash | - | 1,021,938 | 1,021,938 | 10,490 |
| Capital assets | 41,461,137 | 25,308,198 | 66,769,335 | 462,153 |
| Less: accumulated depreciation | <u>(20,903,175)</u> | <u>(12,809,587)</u> | <u>(33,712,762)</u> | <u>(244,841)</u> |
| Total noncurrent assets | <u>20,557,962</u> | <u>13,520,549</u> | <u>34,078,511</u> | <u>227,802</u> |
| Total assets | <u>30,464,164</u> | <u>18,363,671</u> | <u>48,827,835</u> | <u>449,375</u> |
| Deferred outflows of resources | | | | |
| Change in assumptions | 120,252 | - | 120,252 | - |
| Employer contributions subsequent to the measurement date | <u>367,413</u> | <u>12,804</u> | <u>380,217</u> | <u>-</u> |
| Total deferred outflows of resources | <u>487,665</u> | <u>12,804</u> | <u>500,469</u> | <u>-</u> |
| Total assets and deferred outflows of resources | <u>\$ 30,951,829</u> | <u>\$ 18,376,475</u> | <u>\$ 49,328,304</u> | <u>\$ 449,375</u> |

The accompanying notes are an integral part of these financial statements

| | Primary Government | | | Component Unit |
|--|-------------------------|--------------------------|----------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | Housing Authority |
| Liabilities, Deferred Inflows of Resources, and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 59,390 | \$ 168,440 | \$ 227,830 | \$ 19,827 |
| Accrued payroll | 153,927 | 15,962 | 169,889 | 2,074 |
| Tenant deposits | - | - | - | 10,490 |
| Current portion of accrued compensated absences | 287,800 | 60,638 | 348,438 | - |
| Deposits held in trust | - | 428,896 | 428,896 | - |
| Accrued interest | - | 69,030 | 69,030 | - |
| Current portion of loans payable | - | 409,751 | 409,751 | - |
| Total current liabilities | <u>501,117</u> | <u>1,152,717</u> | <u>1,653,834</u> | <u>32,391</u> |
| Noncurrent liabilities | | | | |
| Accrued compensated absences | 294,873 | 76,893 | 371,766 | - |
| Loans payable | - | 7,001,248 | 7,001,248 | - |
| Net pension liability | 4,624,518 | - | 4,624,518 | - |
| Total noncurrent liabilities | <u>4,919,391</u> | <u>7,078,141</u> | <u>11,997,532</u> | <u>-</u> |
| Total liabilities | <u>5,420,508</u> | <u>8,230,858</u> | <u>13,651,366</u> | <u>32,391</u> |
| Deferred inflows of resources | | | | |
| Change in assumptions | 94,274 | - | 94,274 | - |
| Net difference between projected and actual investment earnings | 911,319 | - | 911,319 | - |
| Total deferred inflows of resources | <u>1,005,593</u> | <u>-</u> | <u>1,005,593</u> | <u>-</u> |
| Net position | | | | |
| Net investment in capital assets | 20,557,962 | 5,087,612 | 25,645,574 | 217,312 |
| Restricted for | | | | |
| Tenant deposits | - | - | - | 10,490 |
| Special revenue | 1,147,993 | - | 1,147,993 | - |
| Capital projects | 633,119 | - | 633,119 | - |
| Unrestricted | 2,186,654 | 5,058,005 | 7,244,659 | 189,182 |
| Total net position | <u>24,525,728</u> | <u>10,145,617</u> | <u>34,671,345</u> | <u>416,984</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 30,951,829</u> | <u>\$ 18,376,475</u> | <u>\$ 49,328,304</u> | <u>\$ 449,375</u> |

STATE OF NEW MEXICO
City of Lovington
Statement of Activities
For the Year Ended June 30, 2015

| Functions/Programs | Program Revenues | | | |
|--------------------------------|------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government | \$ 3,419,940 | \$ 338,617 | \$ 195,651 | \$ 50,000 |
| Public safety | 4,092,235 | 393 | 77,876 | 40,000 |
| Public works | 1,630,828 | - | - | - |
| Culture and recreation | 1,918,368 | 1,619 | 191,785 | - |
| Conservation and development | 160,577 | - | 100,000 | 148,053 |
| | 11,221,948 | 340,629 | 565,312 | 238,053 |
| Total governmental activities | | | | |
| Business-type activities | | | | |
| Solid Waste | 1,695,231 | 1,904,841 | - | - |
| Water and Wastewater | 2,147,552 | 2,414,357 | - | - |
| Ambulance | 460,899 | 441,024 | - | - |
| | 4,303,682 | 4,760,222 | - | - |
| Total business-type activities | | | | |
| | \$ 15,525,630 | \$ 5,100,851 | \$ 565,312 | \$ 238,053 |
| Total primary government | | | | |
| Component Unit | | | | |
| Housing Authority | \$ 253,401 | \$ 147,281 | \$ 91,550 | \$ - |

General revenues
Taxes
 Property taxes, levied for general purposes
 Gross receipts taxes
 Gasoline and motor vehicle taxes
 Other taxes
Investment income
Fines and forfeitures
Miscellaneous income
Transfers
Loss on disposal of capital assets

Total general revenues

Change in net position

Net position- beginning of year
Restatement (Note 9)

Net position- beginning of year, restated

Net position- end of year

The accompanying notes are an integral part of these financial statements

| Net (Expense) Revenue and Change in Net Position | | | |
|--|--------------------------|----------------------|-------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-Type Activities | Total | Housing Authority |
| \$ (2,835,672) | \$ - | \$ (2,835,672) | \$ - |
| (3,973,966) | - | (3,973,966) | - |
| (1,630,828) | - | (1,630,828) | - |
| (1,724,964) | - | (1,724,964) | - |
| 87,476 | - | 87,476 | - |
| <u>(10,077,954)</u> | <u>-</u> | <u>(10,077,954)</u> | <u>-</u> |
| - | 209,610 | 209,610 | - |
| - | 266,805 | 266,805 | - |
| - | <u>(19,875)</u> | <u>(19,875)</u> | - |
| - | 456,540 | 456,540 | - |
| <u>(10,077,954)</u> | <u>456,540</u> | <u>(9,621,414)</u> | <u>-</u> |
| - | - | - | (14,570) |
| 347,745 | - | 347,745 | - |
| 10,333,568 | - | 10,333,568 | - |
| 223,715 | - | 223,715 | - |
| 324,919 | - | 324,919 | - |
| 1,964 | 3,718 | 5,682 | 181 |
| 112,202 | - | 112,202 | - |
| 398,308 | 342,130 | 740,438 | 1,370 |
| 291,570 | (291,570) | - | - |
| <u>(5,473)</u> | <u>(8,623)</u> | <u>-</u> | <u>-</u> |
| <u>12,028,518</u> | <u>45,655</u> | <u>12,074,173</u> | <u>1,551</u> |
| <u>1,950,564</u> | <u>502,195</u> | <u>2,452,759</u> | <u>(13,019)</u> |
| 27,529,484 | 12,066,858 | 39,596,342 | 1,145,680 |
| <u>(4,954,320)</u> | <u>(2,423,436)</u> | <u>(7,377,756)</u> | <u>(715,677)</u> |
| <u>22,575,164</u> | <u>9,643,422</u> | <u>32,218,586</u> | <u>430,003</u> |
| <u>\$ 24,525,728</u> | <u>\$ 10,145,617</u> | <u>\$ 34,671,345</u> | <u>\$ 416,984</u> |

STATE OF NEW MEXICO

City of Lovington
Balance Sheet
Governmental Funds
June 30, 2015Exhibit B-1
Page 1 of 2

| | General Fund | Other Governmental Funds | Total |
|--|---------------------|--------------------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 5,295,055 | \$ 2,060,378 | \$ 7,355,433 |
| Investments | 366,983 | 30,391 | 397,374 |
| Receivables | | | |
| Taxes | 1,473,391 | 266,410 | 1,739,801 |
| Other | 124,984 | 13,635 | 138,619 |
| Inventory | 176,844 | - | 176,844 |
| Total assets | \$ 7,437,257 | \$ 2,370,814 | \$ 9,808,071 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 54,843 | \$ 4,547 | \$ 59,390 |
| Accrued payroll | 76,232 | - | 76,232 |
| Total liabilities | 131,075 | 4,547 | 135,622 |
| Deferred inflows of resources | | | |
| Property taxes | 7,184 | - | 7,184 |
| Total deferred inflows of resources | 7,184 | - | 7,184 |
| Fund balances | | | |
| Spendable | | | |
| Restricted | - | 2,352,187 | 2,352,187 |
| Committed | - | 14,080 | 14,080 |
| Unassigned | 7,298,998 | - | 7,298,998 |
| Total fund balances | 7,298,998 | 2,366,267 | 9,665,265 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 7,437,257 | \$ 2,370,814 | \$ 9,808,071 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2015

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|---|----|-------------|
| Fund balances- total governmental funds | \$ | 9,665,265 |
| <p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. The net effect of this consolidation is to increase (decrease) net position.</p> | | |
| | | 20,436 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 20,557,962 |
| <p>Deferred outflows and inflows or resources related to pension are applicable to future periods and, therefore, are not reported in the funds</p> | | |
| Employer contributions subsequent to the measurement date | | 367,413 |
| Change in assumptions | | 25,978 |
| Net difference between projected and actual investment earnings | | (911,319) |
| <p>Delinquent property taxes 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</p> | | |
| | | 7,184 |
| <p>Certain liabilities, including loans payable, net pension liability, and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds</p> | | |
| Accrued compensated absences not due and payable at year end | | (582,673) |
| Net pension liability | | (4,624,518) |
| | | (5,207,191) |
| Total net position of governmental activities | \$ | 24,525,728 |

STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit B-2
Page 1 of 2

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---|---------------------|---|---------------------|
| Revenues | | | |
| Taxes | | | |
| Property | \$ 354,438 | \$ - | \$ 354,438 |
| Gross receipts | 9,295,283 | 1,038,285 | 10,333,568 |
| Gasoline and motor vehicle taxes | 23,124 | 200,591 | 223,715 |
| Other | 204,529 | 120,390 | 324,919 |
| Intergovernmental income | | | |
| Federal operating grants | 20,858 | 36,128 | 56,986 |
| State operating grants | 178,683 | 329,643 | 508,326 |
| State capital grants | 50,000 | 188,053 | 238,053 |
| Charges for services | 293,616 | 47,013 | 340,629 |
| Investment income | 1,944 | 22 | 1,966 |
| Fines and forfeitures | 112,202 | - | 112,202 |
| Miscellaneous | 318,496 | 79,812 | 398,308 |
| Total revenues | 10,853,173 | 2,039,937 | 12,893,110 |
| Expenditures | | | |
| Current | | | |
| General government | 3,342,818 | 35,500 | 3,378,318 |
| Public safety | 3,638,208 | 147,108 | 3,785,316 |
| Public works | 664,338 | - | 664,338 |
| Culture and recreation | 1,006,362 | 513,960 | 1,520,322 |
| Conservation and development | 12,905 | 147,672 | 160,577 |
| Capital outlay | 1,408,732 | 1,007,898 | 2,416,630 |
| Total expenditures | 10,073,363 | 1,852,138 | 11,925,501 |
| Excess (deficiency) of revenues over expenditures | 779,810 | 187,799 | 967,609 |
| Other Financing Sources (Uses) | | | |
| Operating transfers in | 364,564 | 363,044 | 727,608 |
| Operating transfers (out) | (363,044) | (72,994) | (436,038) |
| Total other financing sources (uses) | 1,520 | 290,050 | 291,570 |
| Net change in fund balances | 781,330 | 477,849 | 1,259,179 |
| Fund balances- beginning of year | 6,474,677 | 1,888,418 | 8,363,095 |
| Restatement (Note 9) | 42,991 | - | 42,991 |
| Fund balances- beginning of year, restated | 6,517,668 | 1,888,418 | 8,406,086 |
| Fund balance- end of year | \$ 7,298,998 | \$ 2,366,267 | \$ 9,665,265 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Lovington

Reconciliation of the Statement of Revenues, Expenditures, and Change
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Exhibit B-2

Page 2 of 2

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

| | |
|---|--------------|
| Net change in fund balances- total governmental funds | \$ 1,259,179 |
|---|--------------|

| | |
|---|---------|
| The City uses internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position. | (1,809) |
|---|---------|

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

| | |
|------------------------------------|-------------|
| Capital outlay | 2,416,630 |
| Depreciation expense | (1,733,474) |
| Loss on disposal of capital assets | (5,473) |

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 | 367,413 |
| Pension expense | (383,914) |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds:

| | |
|-------------------------------------|---------|
| Decrease in deferred property taxes | (6,695) |
|-------------------------------------|---------|

Expenditures in the Statement of Activities that do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

| | |
|--|--------|
| Decrease in accrued compensated absences | 38,707 |
|--|--------|

| | |
|---|--------------|
| Change in net position of governmental activities | \$ 1,950,564 |
|---|--------------|

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STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended June 30, 2015

Exhibit C-1

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|--|-------------------|-------------------|---------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ 358,391 | \$ 354,879 | \$ 354,879 | \$ - |
| Gross receipts | 8,483,584 | 9,312,655 | 9,312,655 | - |
| Gasoline and motor vehicle | 20,988 | 22,804 | 22,804 | - |
| Other | 246,672 | 466,036 | 233,018 | (233,018) |
| Intergovernmental income | | | | |
| Federal operating grants | 17,000 | 13,647 | 13,647 | - |
| State operating grants | 359,000 | 303,890 | 303,890 | - |
| Charges for services | 71,754 | 71,126 | 70,603 | (523) |
| Investment income | 2,187 | 1,972 | 1,972 | - |
| Fines and forfeitures | 107,230 | 136,898 | 135,074 | (1,824) |
| Miscellaneous income | 663,961 | 627,386 | 630,151 | 2,765 |
| Total revenues | 10,375,767 | 11,311,293 | 11,078,693 | (232,600) |
| Expenditures | | | | |
| Current | | | | |
| General government | 3,724,058 | 3,686,861 | 3,474,685 | 212,176 |
| Public safety | 3,878,727 | 3,772,156 | 3,799,835 | (27,679) |
| Public works | 735,167 | 608,022 | 684,488 | (76,466) |
| Culture and recreation | 1,460,558 | 1,195,811 | 1,257,432 | (61,621) |
| Conservation and development | 8,100 | 7,731 | 7,731 | - |
| Capital outlay | 848,788 | 1,585,078 | 1,408,732 | 176,346 |
| Total expenditures | 10,655,398 | 10,855,659 | 10,632,903 | 222,756 |
| Excess (deficiency) of revenues over expenditures | (279,631) | 455,634 | 445,790 | (9,844) |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | (150,196) | (1,085,709) | - | 1,085,709 |
| Operating transfers in | 429,827 | 630,075 | 364,564 | (265,511) |
| Operating transfers (out) | - | - | (363,044) | (363,044) |
| Total other financing sources (uses) | 279,631 | (455,634) | 1,520 | 457,154 |
| Net change in fund balance | - | - | 447,310 | 447,310 |
| Fund balances- beginning of year | - | - | 5,214,728 | 5,214,728 |
| Fund balances- end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,662,038</u> | <u>\$ 5,662,038</u> |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 447,310 |
| Adjustments to revenues for taxes and other receivables | | | | (225,520) |
| Adjustments to expenditures for accounts payable and accrued payroll | | | | 559,540 |
| Net change in fund balance (GAAP basis) | | | | <u>\$ 781,330</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
June 30, 2015

| | <u>Solid Waste</u> | <u>Water and Wastewater</u> |
|---|--------------------|---------------------------------|
| Assets and Deferred Outflows of Resources | | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 189,989 | \$ 3,112,436 |
| Investments | 59,698 | 69,956 |
| Receivables | | |
| Other | 327,851 | 546,196 |
| Inventory | <u>-</u> | <u>188,316</u> |
| Total current assets | <u>577,538</u> | <u>3,916,904</u> |
| Noncurrent assets | | |
| Restricted cash | - | 1,021,938 |
| Capital assets | 419,884 | 24,221,678 |
| Less: accumulated depreciation | <u>(164,766)</u> | <u>(12,375,526)</u> |
| Total noncurrent assets | <u>255,118</u> | <u>12,868,090</u> |
| Total assets | <u>832,656</u> | <u>16,784,994</u> |
| Deferred outflows of resources | | |
| Employer contributions subsequent to the measurement date | <u>-</u> | <u>12,804</u> |
| Total deferred outflows of resources | <u>-</u> | <u>12,804</u> |
| Total assets and deferred outflows of resources | <u>\$ 832,656</u> | <u>\$ 16,797,798</u> |
| Liabilities and Net Position | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 11,534 | \$ 156,906 |
| Accrued payroll | - | 15,962 |
| Current portion of accrued compensated absences | 753 | 39,914 |
| Deposits held in trust | - | 428,896 |
| Accrued interest | - | 69,030 |
| Current portion of loans payable | <u>-</u> | <u>409,751</u> |
| Total current liabilities | <u>12,287</u> | <u>1,120,459</u> |
| Noncurrent liabilities | | |
| Accrued compensated absences | 394 | 61,836 |
| Loans payable | <u>-</u> | <u>7,001,248</u> |
| Total noncurrent liabilities | <u>394</u> | <u>7,063,084</u> |
| Total liabilities | <u>12,681</u> | <u>8,183,543</u> |
| Net position | | |
| Net investment in capital assets | 255,118 | 4,435,153 |
| Unrestricted | <u>564,857</u> | <u>4,179,102</u> |
| Total net position | <u>819,975</u> | <u>8,614,255</u> |
| Total liabilities and net position | <u>\$ 832,656</u> | <u>\$ 16,797,798</u> |

The accompanying notes are an integral part of these financial statements

| Other Proprietary Funds | Total | Internal Service Funds |
|----------------------------|---------------|---------------------------|
| \$ 313,139 | \$ 3,615,564 | \$ 98,131 |
| - | 129,654 | - |
| 7,778 | 881,825 | - |
| 27,763 | 216,079 | - |
| 348,680 | 4,843,122 | 98,131 |
| - | 1,021,938 | - |
| 666,636 | 25,308,198 | - |
| (269,295) | (12,809,587) | - |
| 397,341 | 13,520,549 | - |
| 746,021 | 18,363,671 | 98,131 |
| - | 12,804 | - |
| - | 12,804 | - |
| \$ 746,021 | \$ 18,376,475 | \$ 98,131 |
| \$ - | \$ 168,440 | \$ - |
| - | 15,962 | 77,695 |
| 19,971 | 60,638 | - |
| - | 428,896 | - |
| - | 69,030 | - |
| - | 409,751 | - |
| 19,971 | 1,152,717 | 77,695 |
| 14,663 | 76,893 | - |
| - | 7,001,248 | - |
| 14,663 | 7,078,141 | - |
| 34,634 | 8,230,858 | 77,695 |
| 397,341 | 5,087,612 | - |
| 314,046 | 5,058,005 | 20,436 |
| 711,387 | 10,145,617 | 20,436 |
| \$ 746,021 | \$ 18,376,475 | \$ 98,131 |

STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenses, and Change in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

| | Solid Waste | Water and Wastewater |
|--|--------------|-------------------------|
| Operating Revenues | | |
| Charges for services | \$ 1,904,841 | \$ 2,414,357 |
| Total operating revenues | 1,904,841 | 2,414,357 |
| Operating Expenses | | |
| Personnel services | 63,469 | 238,552 |
| Contractual services | 1,589,491 | 77,765 |
| Supplies | 6,180 | 257,444 |
| Maintenance and materials | 24,152 | 224,801 |
| Utilities | (266) | 186,098 |
| Depreciation | 10,286 | 834,667 |
| Other operating expenses | 1,919 | 184,447 |
| Total operating expenses | 1,695,231 | 2,003,774 |
| Operating income (loss) | 209,610 | 410,583 |
| Nonoperating Revenues (Expenses) | | |
| Investment income | - | 3,718 |
| Loss on disposal of capital assets | - | (8,623) |
| Miscellaneous income | - | 342,095 |
| Interest expense | - | (143,778) |
| Total nonoperating revenues (expenses) | - | 193,412 |
| Income (loss) before contributions and transfers | 209,610 | 603,995 |
| Capital Grants and Net Transfers | | |
| Operating transfers in | 10,286 | 253,051 |
| Operating transfers (out) | (10,286) | (564,621) |
| Capital grants and net transfers | - | (311,570) |
| Change in net position | 209,610 | 292,425 |
| Net position- beginning of year | 610,365 | 10,745,266 |
| Restatement (Note 9) | - | (2,423,436) |
| Net position- beginning of year, restated | 610,365 | 8,321,830 |
| Net position- end of year | \$ 819,975 | \$ 8,614,255 |

The accompanying notes are an integral part of these financial statements

| Other Proprietary Funds | Total | Internal Service Funds |
|----------------------------|----------------------|---------------------------|
| \$ 441,024 | \$ 4,760,222 | \$ - |
| <u>441,024</u> | <u>4,760,222</u> | <u>-</u> |
| 211,016 | 513,037 | - |
| 33,752 | 1,701,008 | - |
| 70,119 | 333,743 | - |
| 21,405 | 270,358 | - |
| - | 185,832 | - |
| 52,737 | 897,690 | - |
| <u>71,870</u> | <u>258,236</u> | <u>1,809</u> |
| <u>460,899</u> | <u>4,159,904</u> | <u>1,809</u> |
| <u>(19,875)</u> | <u>600,318</u> | <u>(1,809)</u> |
| - | 3,718 | - |
| - | (8,623) | - |
| 35 | 342,130 | - |
| <u>-</u> | <u>(143,778)</u> | <u>-</u> |
| <u>35</u> | <u>193,447</u> | <u>-</u> |
| <u>(19,840)</u> | <u>793,765</u> | <u>(1,809)</u> |
| 273,051 | 536,388 | - |
| <u>(253,051)</u> | <u>(827,958)</u> | <u>-</u> |
| <u>20,000</u> | <u>(291,570)</u> | <u>-</u> |
| <u>160</u> | <u>502,195</u> | <u>(1,809)</u> |
| 711,227 | 12,066,858 | 22,245 |
| <u>-</u> | <u>(2,423,436)</u> | <u>-</u> |
| <u>711,227</u> | <u>9,643,422</u> | <u>22,245</u> |
| <u>\$ 711,387</u> | <u>\$ 10,145,617</u> | <u>\$ 20,436</u> |

STATE OF NEW MEXICO
City of Lovington
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2015

| | Solid Waste | Water and Wastewater |
|---|--------------|-------------------------|
| Cash Flows From Operating Activities | | |
| Cash received from user charges | \$ 1,975,239 | \$ 2,384,576 |
| Cash payments to employees for services | (62,412) | (269,927) |
| Cash payments to suppliers for goods and services | (1,792,846) | (1,290,616) |
| Net cash provided (used) by operating activities | 119,981 | 824,033 |
| Cash Flows From Investing Activities | | |
| Interest on investments | - | 3,718 |
| Net cash provided (used) by investing activities | - | 3,718 |
| Cash Flows From Noncapital Financing Activities | | |
| Miscellaneous income | - | 391,498 |
| Net transfers | - | (311,570) |
| Net cash provided (used) by noncapital financing activities | - | 79,928 |
| Cash Flows From Capital and Related Financing Activities | | |
| Interest paid | - | (147,631) |
| Loss on disposal of capital assets | - | (8,623) |
| Principal payments on long-term debt | - | (402,171) |
| Acquisition of capital assets | - | (379,654) |
| Net cash provided (used) by capital and related financing activities | - | (938,079) |
| Net increase (decrease) in cash and cash equivalents | 119,981 | (30,400) |
| Cash and cash equivalents- beginning of year | 70,008 | 4,164,774 |
| Cash and cash equivalents- end of year | \$ 189,989 | \$ 4,134,374 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | |
| Operating income (loss) | \$ 209,610 | \$ 361,180 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 10,286 | 834,667 |
| Employer contributions subsequent to the measurement date | - | (12,804) |
| Changes in assets and liabilities | | |
| Receivables | 24,193 | 19,622 |
| Inventory | - | (107,417) |
| Accounts payable | (125,165) | (232,676) |
| Accrued payroll | 304 | (17,912) |
| Current portion of accrued compensated absences | 753 | (659) |
| Deposits held in trust | - | (19,968) |
| Net cash provided (used) by operating activities | \$ 119,981 | \$ 824,033 |

The accompanying notes are an integral part of these financial statements

| Other Proprietary Funds | Total | Internal Service Funds |
|----------------------------|---------------------|---------------------------|
| \$ 493,580 | \$ 4,853,395 | \$ - |
| (193,604) | (525,943) | 72,271 |
| (200,229) | (3,283,691) | (1,809) |
| <u>99,747</u> | <u>1,043,761</u> | <u>70,462</u> |
| - | 3,718 | - |
| - | 3,718 | - |
| 35 | 391,533 | - |
| <u>20,000</u> | <u>(291,570)</u> | <u>-</u> |
| <u>20,035</u> | <u>99,963</u> | <u>-</u> |
| - | (147,631) | - |
| - | (8,623) | - |
| - | (402,171) | - |
| <u>(253,051)</u> | <u>(632,705)</u> | <u>-</u> |
| <u>(253,051)</u> | <u>(1,191,130)</u> | <u>-</u> |
| (133,269) | (43,688) | 70,462 |
| <u>446,408</u> | <u>4,681,190</u> | <u>27,669</u> |
| <u>\$ 313,139</u> | <u>\$ 4,637,502</u> | <u>\$ 98,131</u> |
| \$ (19,875) | \$ 550,915 | \$ (1,809) |
| 52,737 | 897,690 | - |
| - | (12,804) | - |
| 52,556 | 96,371 | - |
| - | (107,417) | - |
| (3,083) | (360,924) | - |
| 7,349 | (10,259) | 72,271 |
| 10,063 | 10,157 | - |
| - | (19,968) | - |
| <u>\$ 99,747</u> | <u>\$ 1,043,761</u> | <u>\$ 70,462</u> |

STATE OF NEW MEXICO
City of Lovington
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2015

Exhibit E-1

| | | |
|------------------------|--|----------------------------------|
| Assets | | |
| Cash | | <u>\$ 48,047</u> |
| Total assets | | <u><u>\$ 48,047</u></u> |
| Liabilities | | |
| Deposits held in trust | | <u>\$ 48,047</u> |
| Total liabilities | | <u><u>\$ 48,047</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
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies

The City of Lovington (the “City”) was incorporated in 1918 under the laws of the State of New Mexico. The City operates under a Council-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 laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City’s financial statements. The financial statements and notes are the representation of 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.

During the year ended June 30, 2015, the City adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27* (“GASB 68”), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68* (“GASB 71”). These two Statements are required to be implemented at the same time. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments through pension plans that are administered through trusts that have the following characteristics:

1. Contributions from employers and nonemployer contributing entities to the pension plan, and earnings on those contributions are irrevocable.
2. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets are also legally protected from creditors of the plan members.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the implementation of GASB 68, the government recognized a net pension liability (“NPL”) measured as of a date no later than the end of its prior fiscal year. If the government employer makes a contribution to the pension plan subsequent to the measurement date but prior to the end of the current fiscal year, GASB 68 requires the government to recognize that contribution as a deferred outflow of resources. In addition, GASB 68 requires the recognition of deferred outflows of resources and deferred inflows of resources for changes in the NPL that arise from other types of events, but does not require the government to recognize beginning deferred outflows of

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

resources or deferred inflows of resources if the amounts are not practical to estimate. At transition to Statement 68, Statement 71 requires the employer or nonemployer contributing entity to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year, thus avoiding possible understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation. This pronouncement has materially impacted the financial statements and additional disclosures are included in the notes to the financial statements to highlight the effects.

During the year ended June 30, 2015, the City also adopted GASB Statements No. 69 and 70. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69") establishes accounting and financial reporting standards related to government combinations (including mergers, acquisitions, and transfers of operations), and disposals of government operations. GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70") improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Neither of these pronouncements have materially impacted the City's financial statements.

A. Financial Reporting Entity

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

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

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

Based upon the application of these criteria, the City has one component unit required to be reported under GASB Statements No. 14, No. 39, or No. 61.

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the 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.

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 flows. 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 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
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which 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 characteristics 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.

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)

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)

Internal Service Funds account for worker's compensation and unemployment insurance services provided to other departments of the government. Services are provided on a cost reimbursement basis. (City Ordinance)

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

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 statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

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

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 Treasurer'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 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 100.00% 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Fund Balance (continued)

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, 2015, 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 inventory 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 (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 II 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 2.20.1.9C(5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

| | |
|----------------------------|-------|
| 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, 2015, along with the applicable Public Employees Retirement Association (PERA) and other pension 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, deferred outflows of resources, 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 two types of item that qualifies for reporting in this category: employer contributions subsequent to the measurement date in the amount of \$380,217 and change in assumptions in the amount of \$120,252. This amount is reported in the Statement of Net Position. This amount is deferred and recognized as an outflow of resources in the next period and will reduce the net pension liability in the next period.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Fund Balance (continued)

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 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 \$7,184 related to property taxes considered "unavailable". In addition, the City has two 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, change in assumptions in the amount of \$94,274 and net difference between projected and actual investment earnings in the amount of \$911,319, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow 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 Council.

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 Council.

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 Council.

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 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Fund Balance (continued)

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 Council of the City of Lovington.

For assigned fund balances, the City includes amounts that are intended to be spent for specific purposes, but are not restricted or committed.

Regarding the City's spending policies, in all cases, restricted, then committed, and then assigned fund balances are to be expended, in that order, prior to 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 Council permit general unassigned funds be spent to meet a specific fund's objectives.

Restricted Fund Balance: At June 30, 2015, the restricted fund balance on the governmental funds balance sheet is made up of \$2,352,187 for the restricted purposes as defined by each fund.

Committed Fund Balance: At June 30, 2015, the committed fund balance on the governmental funds balance sheet is made up of \$14,080 for the committed purposes as defined by each 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.
- c. *Unrestricted net position:*
All other net position that do 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Budgetary Information

Budgets are prepared annually by City personnel and include a proposed operating budget of estimated revenues and expenditures for the ensuing fiscal year. The budget and subsequent revisions are presented to the City's Council and the Department of Finance and Administration for approval. A separate budget is prepared for each fund. Line items within each budget may be over expended; however, it is not legally permissible to over expend any budget in total by fund.

The governmental fund budgets are prepared on a non-GAAP basis while business-type fund budgets are prepared on a GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been properly amended by the City Council in accordance with the above procedures. These amendments resulted in the following changes:

| | Excess (deficiency) of revenues over expenditures | |
|-----------------------------|--|-----------------|
| | Original Budget | Final Budget |
| Budgeted Funds | | |
| Governmental funds | | |
| General Fund | \$ (279,631) | \$ 455,634 |
| Nonmajor governmental funds | (83,671) | (87,569) |
| | | |
| | Change in Net Position | |
| | Original Budget | Final Budget |
| Proprietary funds | | |
| Solid Waste Fund | \$ 595,280 | \$ 189,967 |
| Water and Wastewater Fund | (1,259,954) | 160,472 |
| Nonmajor Proprietary Funds | (107,015) | (133,847) |
| Internal Service Funds | (14,067) | (1,809) |

The accompanying Statements of Revenues, Expenditures, and Change in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual and Statement of Revenues, Expenses, and Change in Net Position Budget (GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 2. Stewardship, Compliance, and Accountability (continued)

Budgetary Information (continued)

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 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, 2015 is presented. Reconciliations between the non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on the budgetary statements.

NOTE 3. Deposit and Investments

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The City is not aware of any investments that did not meet the State investment requirements as of June 30, 2015.

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 50.00% 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 100.00% 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.

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

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, 2015 \$11,971,230 of the City's bank balances of \$12,906,109 was exposed to custodial credit risk. \$8,904,278 was uninsured and collateralized by securities held by the pledging bank's trust department, but not in the City's name, and \$3,066,952 was uninsured and uncollateralized.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 3. Deposit and Investments (continued)

| | <u>Lea County State Bank</u> | <u>Wells Fargo Bank</u> | <u>Western Commerce</u> | <u>Estacado Credit Union</u> | <u>Total</u> |
|---|----------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------|
| Amount of deposits | \$ 7,824,540 | \$ 1,172,450 | \$ 3,804,437 | \$ 104,682 | \$ 12,906,109 |
| FDIC coverage | <u>(250,000)</u> | <u>(250,000)</u> | <u>(330,197)</u> | <u>(104,682)</u> | <u>(934,879)</u> |
| Total uninsured public funds | 7,574,540 | 922,450 | 3,474,240 | - | 11,971,230 |
| Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name | <u>6,560,224</u> | <u>465,248</u> | <u>1,878,806</u> | <u>-</u> | <u>8,904,278</u> |
| Uninsured and uncollateralized | <u>\$ 1,014,316</u> | <u>\$ 457,202</u> | <u>\$ 1,595,434</u> | <u>\$ -</u> | <u>\$ 3,066,952</u> |
| Collateral requirement (50.00% of uninsured funds) | \$ 3,280,112 | \$ 232,624 | \$ 939,403 | \$ - | \$ 4,452,139 |
| Pledged collateral | <u>6,560,224</u> | <u>465,248</u> | <u>1,878,806</u> | <u>-</u> | <u>8,904,278</u> |
| Over (under) collateralized | <u>\$ 3,280,112</u> | <u>\$ 232,624</u> | <u>\$ 939,403</u> | <u>\$ -</u> | <u>\$ 4,452,139</u> |

The collateral pledged is listed on Schedule IV of this report. The types of collateral allowed are limited to direct obligations of the United States government and all bonds issued by any agency, district, or political subdivision of the State of New Mexico.

Reconciliation to the Statement of Net Position

| | |
|--|----------------------|
| Cash and cash equivalents per Exhibit A-1 | \$ 11,069,128 |
| Restricted cash and cash equivalents per Exhibit A-1 | 1,021,938 |
| Investments per Exhibit A-1 | 527,028 |
| Agency funds per Exhibit E-1 | <u>48,047</u> |
| Total cash, cash equivalents, and investments | <u>12,666,141</u> |
| Less: <i>New MexiGROW- LGIP</i> | 342,149 |
| Add: outstanding items | 592,922 |
| Less: deposits in transit | 7,530 |
| Less: petty cash | <u>3,275</u> |
| Bank balance of deposits | <u>\$ 12,906,109</u> |

Investments

The City invests excess cash in the *New MexiGROW* Local Government Investment Pool (LGIP). The LGIP investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 3. Deposit and Investments (continued)

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.

The City's investments as of June 30, 2015 are as follows:

| Investment | Rating | Fair Value | Weighted Average Maturity |
|--------------------------|--------|-------------------|-----------------------------------|
| <i>New MexiGROW</i> LGIP | AAAm | \$ 309,185 | 54.6 day WAM(R); 77.77 day WAM(F) |
| <i>New MexiGROW</i> LGIP | AAAm | 17,953 | 54.6 day WAM(R); 77.77 day WAM(F) |
| <i>New MexiGROW</i> LGIP | AAAm | 14,961 | 54.6 day WAM(R); 77.77 day WAM(F) |
| <i>New MexiGROW</i> LGIP | AAAm | <u>50</u> | 54.6 day WAM(R); 77.77 day WAM(F) |
| | | <u>\$ 342,149</u> | |

The City has presented certificates of deposits of \$184,879 in the Statement of Net Position. However, they are classified as deposits for disclosure purposes.

NOTE 4. Receivables

At June 30, 2015, receivables consisted of the following:

Governmental Activities

| | General | Other Governmental Funds | Total |
|----------------------------|---------------------|--------------------------------|---------------------|
| Taxes | | | |
| Property | \$ 26,025 | \$ - | \$ 26,025 |
| Gross receipts | 1,447,366 | 245,022 | 1,692,388 |
| Gasoline and motor vehicle | - | 21,388 | 21,388 |
| Other | - | - | - |
| Intergovernmental | | | |
| State capital grants | - | - | - |
| Local operating grants | - | - | - |
| Charges for services | - | - | - |
| Miscellaneous | <u>124,984</u> | <u>13,635</u> | <u>138,619</u> |
| Totals by category | <u>\$ 1,598,375</u> | <u>\$ 280,045</u> | <u>\$ 1,878,420</u> |

Receivables for governmental activities are considered to be 100.00% collectible.

Business-type Activities

| | Solid Waste | Water and Wastewater | Other Proprietary Funds | Total |
|--------------------|-------------------|-------------------------|-------------------------------|-------------------|
| Totals by category | <u>\$ 327,851</u> | <u>\$ 546,196</u> | <u>\$ 7,778</u> | <u>\$ 881,825</u> |

Receivables for business-type activities are considered to be 100.00% collectible.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 5. Interfund Transfers

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, 2015 were as follows:

| Transfers Out | Transfers In | Amount |
|---------------------------|--------------------------|---------------------|
| Primary Government | | |
| General fund | Capital improvement fund | \$ 1,021 |
| General fund | Water and wastewater | 311,570 |
| General fund | Senior citizens | 51,973 |
| Recreation | General fund | 85,140 |
| Senior citizens | General fund | 192,962 |
| Capital improvement fund | General fund | 84,942 |
| Solid waste | Ambulance | 10,286 |
| Water and wastewater | Ambulance | 253,051 |
| Ambulance | EMS grant fund | 20,000 |
| Ambulance | Water and wastewater | 253,051 |
| | Total | <u>\$ 1,263,996</u> |

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 6. Capital Assets

The following is a summary of capital assets and changes occurring during the year ended June 30, 2015. Land and construction in progress are not subject to depreciation.

| | Balance June 30, 2014 | Restatement | Restated Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|--------------------------|-------------------|--------------------------------------|-------------------|-----------------|--------------------------|
| Governmental Activities | | | | | | |
| Capital assets not being depreciated | | | | | | |
| Land | \$ 138,719 | \$ - | \$ 138,719 | \$ - | \$ - | \$ 138,719 |
| Construction in progress | 310,458 | (310,458) | - | 585,779 | - | 585,779 |
| Total capital assets not being depreciated | 449,177 | (310,458) | 138,719 | 585,779 | - | 724,498 |
| Capital assets being depreciated | | | | | | |
| Buildings and improvements | 13,454,299 | 297,329 | 13,751,628 | 1,025,168 | - | 14,776,796 |
| Infrastructure | 18,426,282 | 14,365 | 18,440,647 | 416,606 | - | 18,857,253 |
| Library collection | 1,630,836 | - | 1,630,836 | - | - | 1,630,836 |
| Machinery and equipment | 2,456,096 | (23,759) | 2,432,337 | 165,531 | 82,567 | 2,515,301 |
| Vehicles | 2,616,153 | 127,398 | 2,743,551 | 223,546 | 10,644 | 2,956,453 |
| Total capital assets being depreciated | 38,583,666 | 415,333 | 38,998,999 | 1,830,851 | 93,211 | 40,736,639 |
| Less accumulated depreciation | | | | | | |
| Buildings and improvements | 5,625,982 | - | 5,625,982 | 418,510 | - | 6,044,492 |
| Infrastructure | 9,490,620 | - | 9,490,620 | 880,581 | - | 10,371,201 |
| Library collection | 968,223 | - | 968,223 | 108,722 | - | 1,076,945 |
| Machinery and equipment | 1,620,471 | (23,759) | 1,596,712 | 143,862 | 82,567 | 1,658,007 |
| Vehicles | 1,575,902 | - | 1,575,902 | 181,799 | 5,171 | 1,752,530 |
| Total accumulated depreciation | 19,281,198 | (23,759) | 19,257,439 | 1,733,474 | 87,738 | 20,903,175 |
| Total capital assets, net of depreciation | \$19,751,645 | \$ 128,634 | \$19,880,279 | \$ 683,156 | \$ 5,473 | \$20,557,962 |

Depreciation expense for the year ended June 30, 2015 was charged to governmental activities as follows:

| | |
|----------------------|---------------------|
| General government | \$ 140,421 |
| Public safety | 225,608 |
| Public works | 975,848 |
| Culture & recreation | 391,597 |
| | <u>\$ 1,733,474</u> |

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 6. Capital Assets (continued)

| | Balance June 30, 2014 | Restatement | Restated Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|--|--------------------------|-----------------------|--------------------------------------|---------------------|-----------------|--------------------------|
| Business-type Activities | | | | | | |
| Capital assets not being depreciated | | | | | | |
| Construction in progress | \$ - | \$ - | \$ - | \$ 6,101 | \$ - | \$ 6,101 |
| Total capital assets not being depreciated | - | - | - | 6,101 | - | 6,101 |
| Capital assets being depreciated | | | | | | |
| Buildings and improvements | 23,924,747 | (4,610,180) | 19,314,567 | 48,371 | 3,836 | 19,359,102 |
| Infrastructure | 1,609,795 | (6,492) | 1,603,303 | 72,131 | 4,518 | 1,670,916 |
| Machinery and equipment | 3,172,094 | (59,655) | 3,112,439 | 22,703 | 29,230 | 3,105,912 |
| Vehicles | 935,819 | - | 935,819 | 230,348 | - | 1,166,167 |
| Total capital assets being depreciated | 29,642,455 | (4,676,327) | 24,966,128 | 373,553 | 37,584 | 25,302,097 |
| Less accumulated depreciation | | | | | | |
| Buildings and improvements | 11,668,351 | (2,083,518) | 9,584,833 | 532,782 | 3,836 | 10,113,779 |
| Infrastructure | 562,551 | (6,492) | 556,059 | 83,329 | 2,189 | 637,199 |
| Machinery and equipment | 1,407,278 | (54,881) | 1,352,397 | 189,785 | 22,936 | 1,519,246 |
| Vehicles | 447,569 | - | 447,569 | 91,794 | - | 539,363 |
| Total accumulated depreciation | 14,085,749 | (2,144,891) | 11,940,858 | 897,690 | 28,961 | 12,809,587 |
| Total capital assets, net of depreciation | <u>\$15,556,706</u> | <u>\$ (2,531,436)</u> | <u>\$13,025,270</u> | <u>\$ (518,036)</u> | <u>\$ 8,623</u> | <u>\$12,498,611</u> |

Depreciation expense for the year ended June 30, 2015 was charged to business-type activities as follows:

| | |
|---------------------------|-------------------|
| Solid Waste Fund | \$ 10,286 |
| Water and Wastewater Fund | 834,667 |
| Ambulance Fund | <u>52,737</u> |
| | <u>\$ 897,690</u> |

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 7. Long-term Liabilities

Long-term liabilities for the year ended June 30, 2015 are summarized as follows:

Governmental Activities

| | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Due Within One Year |
|----------------------|--------------------------|------------|-------------|--------------------------|------------------------|
| Compensated absences | \$ 621,380 | \$ 249,093 | \$ 287,800 | \$ 582,673 | \$ 287,800 |

Business-type Activities

| | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Due Within One Year |
|----------------------|--------------------------|------------------|-------------------|--------------------------|------------------------|
| Loans payable | \$ 7,813,170 | \$ - | \$ 402,171 | \$ 7,410,999 | \$ 409,751 |
| Compensated absences | 122,030 | 76,139 | 60,638 | 137,531 | 60,638 |
| Total long-term debt | <u>\$ 7,935,200</u> | <u>\$ 76,139</u> | <u>\$ 462,809</u> | <u>\$ 7,548,530</u> | <u>\$ 462,809</u> |

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

Debt service requirements on long-term debt for business-type activities at June 30, 2015 are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--------------------------------|---------------------|---------------------|-----------------------|
| 2016 | \$ 409,751 | \$ 140,056 | \$ 549,807 |
| 2017 | 417,483 | 132,332 | 549,815 |
| 2018 | 425,366 | 124,455 | 549,821 |
| 2019 | 433,406 | 116,419 | 549,825 |
| 2020 | 441,607 | 108,226 | 549,833 |
| 2021-2025 | 2,336,858 | 412,407 | 2,749,265 |
| 2026-2030 | 2,567,747 | 192,778 | 2,760,525 |
| 2031-2032 | 378,781 | 9,928 | 388,709 |
| | <u>\$ 7,410,999</u> | <u>\$ 1,226,673</u> | <u>\$ 8,258,891</u> |

NOTE 8. Restricted Net Position

The government-wide statement of net position reports \$1,781,112 of restricted net position, all of which is restricted by enabling legislation or for future debt service payments. For descriptions of the related enabling legislation and future debt service payments for special revenue, debt service, and capital projects funds, see pages 40-41 and 74-75.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 9. Restatements

The City has restated modified accrual and government-wide net position as a result of the following:

Fund Level Restatements

| Fund Name | Fund Balance/Net Position Originally Reported 6/30/14 | Restate Cash | Restate Inventory | Restate Capital Assets | Fund Balance/Net Position Restated 6/30/14 |
|------------------------------|--|-------------------|----------------------|---------------------------|--|
| General Fund | \$ 6,474,677 | \$ - | \$ 42,991 | \$ - | \$ 6,517,668 |
| Water and Wastewater Fund | 10,745,266 | 108,000 | - | (2,531,436) | 8,321,830 |
| | <u>\$ 17,219,943</u> | <u>\$ 108,000</u> | <u>\$ 42,991</u> | <u>\$ (2,531,436)</u> | <u>\$ 14,839,498</u> |

Government-wide Restatements

| Fund Name | Fund Balance/Net Position Originally Reported 6/30/14 | Fund Restatement | Restate Capital Assets | Restate Net Pension Liability | Fund Balance/Net Position Restated 6/30/14 |
|--------------------------|--|-----------------------|---------------------------|-------------------------------------|--|
| Governmental activities | \$ 27,529,484 | \$ 42,991 | \$ 128,634 | \$ (5,125,945) | \$ 22,575,164 |
| Business-type activities | 12,066,858 | (2,423,436) | - | - | 9,643,422 |
| | <u>\$ 39,596,342</u> | <u>\$ (2,380,445)</u> | <u>\$ 128,634</u> | <u>\$ (5,125,945)</u> | <u>\$ 32,218,586</u> |

The City has restated inventory at the fund level for the general fund, cash for the Water and Wastewater fund, and capital assets for the Water and Wastewater fund as a result of incorrect balances reported in the prior year. The City has restated capital assets at the government-wide level for governmental activities as a result of incorrectly reported balances in the prior year. In addition, the City has restated government-wide net position in the amount of \$5,125,945 for the implementation of GASB Statement No. 68 and GASB Statement No. 71. The adjustment on the government-wide level reflects a beginning net pension liability of \$5,449,191 and deferred outflows of resources for employer contributions subsequent to the measurement date of \$380,217.

NOTE 10. Pension Plan- Public Employee Retirement Association

Plan Description. The Public Employees Retirement Fund (PERA) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions; and offers twenty-four (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 PERA 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), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 10. Pension Plan- Public Employee Retirement Association (continued)

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.saonm.org using the Audit Report Search function for agency #366.

Benefits Provided. For a description of the benefits provided and recent changes to the benefits, see Note 1 in the PERA audited financial statements for the fiscal year end June 30, 2014 available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf.

Contributions. The contribution requirements of defined benefit plan members and the City are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution requirements in effect for fiscal year 2014 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA 2014 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf.

The PERA coverage options that apply to the City are Municipal Police and Municipal Fire for the year ended June 30, 2014. The PERA coverage options that apply to the City for the year ended June 30, 2015 are Municipal General, Municipal Police, and Municipal Fire. Statutorily required contributions to the pension plan from the City were \$380,217, and there were no employer paid member benefits that were “picked up” by the employer were for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The PERA pension liability, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted accounting principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members, and legislative members) for whom separate contribution rates are determined each year pursuant to Chapter 10, Article 11, NMSA 1978. Therefore, the calculations of the net pension liability, pension expense, and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members, municipal police members, municipal fire members, state general members, state police members, and legislative members. The City’s proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to fiscal year 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal General, at June 30, 2015, the City reported a liability of \$0 for its proportionate share of the net pension liability. At June 30, 2014, the City’s proportion was 0.00% as the City did not participate in this plan until 2015.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 10. Pension Plan- Public Employee Retirement Association (continued)

For the year ended June 30, 2015, the City recognized PERA Fund Division Municipal General pension expense of \$0. At June 30, 2015, the City reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERA Fund Municipal General

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes of assumptions | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| Employer contributions subsequent to the measurement date | 51,259 | - |
| Total | \$ 51,259 | \$ - |

For PERA Fund Division Municipal General, \$51,259 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. No other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense.

For PERA Fund Division Municipal Police, at June 30, 2015, the City reported a liability of \$1,160,521 for its proportionate share of the net pension liability. At June 30, 2014, the City's proportion was 0.3560%, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference.

For the year ended June 30, 2015, the City recognized PERA Fund Division Municipal Police pension expense of \$77,935. At June 30, 2015, the City reported PERA Fund Division Municipal Police deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERA Fund Municipal Police

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes of assumptions | \$ - | \$ 94,274 |
| Net difference between projected and actual earnings on pension plan investments | - | 431,533 |
| Employer contributions subsequent to the measurement date | 117,165 | - |
| Total | \$ 117,165 | \$ 525,807 |

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 10. Pension Plan- Public Employee Retirement Association (continued)

For PERA Fund Division Municipal Police, \$117,165 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> | | |
|----------------------------|----|-----------|
| 2016 | \$ | (131,334) |
| 2017 | | (131,334) |
| 2018 | | (131,334) |
| 2019 | | (131,334) |
| 2020 | | (471) |
| Thereafter | | - |

For PERA Fund Division Municipal Fire, at June 30, 2015, the City reported a liability of \$3,463,997 for its proportionate share of the net pension liability. At June 30, 2014, the City's proportion was 0.8299%, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference.

For the year ended June 30, 2015, the City recognized PERA Fund Division Municipal Fire pension expense of \$305,979. At June 30, 2015, the City reported PERA Fund Division Municipal Fire deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERA Fund Municipal Fire

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Changes of assumptions | \$ 120,252 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 479,786 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Employer contributions subsequent to the measurement date | 211,793 | - |
| Total | <u>\$ 332,045</u> | <u>\$ 479,786</u> |

For PERA Fund Division Municipal Fire, \$211,793 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> | | |
|----------------------------|----|----------|
| 2016 | \$ | (90,033) |
| 2017 | | (90,033) |
| 2018 | | (90,033) |
| 2019 | | (90,033) |
| 2020 | | 598 |
| Thereafter | | - |

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 10. Pension Plan- Public Employee Retirement Association (continued)

Actuarial Assumptions. As described above, the PERA fund member group pension liabilities and net pension liabilities are based on an actuarial valuation performed as of June 30, 2013 for each of the membership groups. Then, each PERA fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefits provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014.

These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation:

| | |
|----------------------------|--|
| Actuarial valuation date | June 30, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of pay |
| Asset valuation method | Fair value |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% annual rate, net of investment expense |
| Payroll growth | 3.50% annual rate |
| Projected salary increases | 3.50% to 14.25% annual rate |
| Includes inflation at | 3.00% annual rate |

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| U.S. Equity | 21.10% | 5.00% |
| International Equity | 24.80% | 5.20% |
| Private Equity | 7.00% | 8.20% |
| Core and Global Fixed Income | 26.10% | 1.85% |
| Fixed Income Plus Sectors | 5.00% | 4.80% |
| Real Estate | 5.00% | 5.30% |
| Real Assets | 7.00% | 5.70% |
| Absolute Return | 4.00% | 4.15% |
| Total | <u>100.00%</u> | |

Discount Rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 10. Pension Plan- Public Employee Retirement Association (continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the City’s net pension liability in each PERA Fund Division that the City participates in, under the current single rate assumption, as of it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

General Fund Municipal Police

| | 1.00% Decrease (6.75%) | Current Discount Rate (7.75%) | 1.00% Increase (8.75%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Proportionate share of the net pension liability | \$ 2,213,116 | \$ 1,160,521 | \$ 374,563 |

General Fund Municipal Fire

| | 1.00% Decrease (6.75%) | Current Discount Rate (7.75%) | 1.00% Increase (8.75%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Proportionate share of the net pension liability | \$ 4,894,369 | \$ 3,463,997 | \$ 2,409,043 |

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued fiscal year 2014 restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables to the Pension Plan. The City had an outstanding balance of \$32,259 as of June 30, 2015 for legally required contributions to the pension plan.

NOTE 11. Participation in PERA Plans

The City of Lovington participated in the Municipal Police and Municipal Fire PERA plans for the year ended June 30, 2014. During the year ended June 30, 2015, the City began participating in the Municipal General plan with participation from employees in governmental activities and business-type activities. As the Municipal General plan was not added until the 2015 fiscal year, the 2014 net pension liability and related items were allocated 100% to governmental activities. With employer contributions subsequent to the measurement date, a portion of the contributions have been allocated to the governmental activities and the remainder to business-type activities for those that participated in the Municipal General plan in 2015.

NOTE 12. 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, 2015.

NOTE 13. Deferred Compensation Plan

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 14. 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, 2015, 2014, and 2013 were \$238,907, \$236,911, and \$178,152, respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 15. 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 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 16. Contingent Liabilities

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

NOTE 17. 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 18. Commitments

The City entered into agreements with contractors and architects for various construction projects. As of June 30, 2015, the City had an obligation of \$415,000 for these contracts.

| <u>Contract</u> | <u>Year Ending</u> | <u>Amount</u> |
|----------------------------------|--------------------|-------------------|
| Water system at Chaparral Park | 2016 | \$ 384,000 |
| West Ave. C storm repairs | 2016 | 18,000 |
| Commercial/Madison storm repairs | 2016 | 6,200 |
| West Ave. J storm repairs | 2016 | <u>6,800</u> |
| | | <u>\$ 415,000</u> |

NOTE 19. 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 20. Subsequent Events

The City has evaluated events subsequent to June 30, 2015 that would possibly require adjustment or disclosure in these financial statements, through December 11, 2015, the date that these financial statements were available to be issued.

One event occurring subsequent to June 30, 2015 is for Eastern Regional Housing Authority (ERHA) to take over operations of the City of Lovington Housing Authority. This change is expected to take place as of December 31, 2015.

NOTE 21. 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 balances as of June 30, 2015.
- B. Excess of expenditures over budgeted amounts. The City had not funds that exceeded approved budgetary authority for the year ended June 30, 2015:
- C. Designated cash appropriations exceeding prior year available balances. The following fund exceeded approved budgetary authority for the year ended June 30, 2015:

Governmental Funds

| | |
|---|------------------|
| Capital Improvement Capital Projects Fund | <u>\$ 84,942</u> |
|---|------------------|

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2015

NOTE 22. Subsequent Pronouncements

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016 with earlier application being encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 with earlier application being encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
City of Lovington
Schedule of the City's Proportionate Share of the
Net Pension Liability of PERA Fund
Public Employees Retirement Association (PERA) Plan
Municipal General Division
Last 10 Fiscal Years*

| | 2015 Measurement Date (as of and for the year ended June 30, 2014) |
|---|---|
| Proportion of the net pension liability (asset) | 0.0000% |
| Proportionate share of the net pension liability (asset) | \$ - |
| Covered employee payroll | - |
| Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll | 0.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 81.29% |

* The amounts presented were determined as of June 30th. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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's Proportionate Share of the
Net Pension Liability of PERA Fund
Public Employees Retirement Association (PERA) Plan
Municipal Police Division
Last 10 Fiscal Years*

| | 2015 Measurement Date (as of and for the year ended June 30, 2014) |
|---|---|
| Proportion of the net pension liability (asset) | 0.3560% |
| Proportionate share of the net pension liability (asset) | \$ 1,160,521 |
| Covered employee payroll | 1,277,370 |
| Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll | 90.85% |
| Plan fiduciary net position as a percentage of the total pension liability | 81.29% |

* The amounts presented were determined as of June 30th. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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's Proportionate Share of the
Net Pension Liability of PERA Fund
Public Employees Retirement Association (PERA) Plan
Municipal Fire Division
Last 10 Fiscal Years*

| | 2015 Measurement Date (as of and for the year ended June 30, 2014) |
|---|---|
| Proportion of the net pension liability (asset) | 0.8299% |
| Proportionate share of the net pension liability (asset) | \$ 3,463,997 |
| Covered employee payroll | 1,014,763 |
| Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll | 341.36% |
| Plan fiduciary net position as a percentage of the total pension liability | 81.29% |

* The amounts presented were determined as of June 30th. This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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's Contributions
 Public Employees Retirement Association (PERA) Plan
 Municipal General Division
 Last 10 Fiscal Years*

| | As of and for the year ended June 30, 2015 |
|--|--|
| Contractually required contribution | \$ 51,259 |
| Contributions in relation to the contractually required contribution | <u>51,259</u> |
| Contribution deficiency (excess) | - |
| Covered employee payroll | <u>692,679</u> |
| Contributions as a percentage of covered employee payroll | 7.40% |

* This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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's Contributions
 Public Employees Retirement Association (PERA) Plan
 Municipal Police Division
 Last 10 Fiscal Years*

| | As of and for the year ended <u>June 30, 2015</u> |
|--|---|
| Contractually required contribution | \$ 117,165 |
| Contributions in relation to the contractually required contribution | <u>117,165</u> |
| Contribution deficiency (excess) | - |
| Covered employee payroll | <u>1,128,530</u> |
| Contributions as a percentage of covered employee payroll | 10.38% |

* This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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's Contributions
 Public Employees Retirement Association (PERA) Plan
 Municipal Fire Division
 Last 10 Fiscal Years*

| | As of and for the year ended <u>June 30, 2015</u> |
|--|---|
| Contractually required contribution | \$ 211,793 |
| Contributions in relation to the contractually required contribution | <u>211,793</u> |
| Contribution deficiency (excess) | - |
| Covered employee payroll | <u>978,974</u> |
| Contributions as a percentage of covered employee payroll | 21.63% |

* This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (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
Notes to Required Supplementary Information
June 30, 2015

Changes of Benefit Terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA fiscal year 2014 audit available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf.

Changes of Assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf. The summary of key findings for the PERA Fund (on page two (2) of the report) states, “based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page sixty (60) of the report.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

STATE OF NEW MEXICO
City of Lovington
Nonmajor Governmental Funds Descriptions
June 30, 2015

Special Revenue Funds

Corrections

Accounts for the collection of fines which are used to supplement the cost of prisoner housing. (29-13-1 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. (59S-53-1 NMSA, 1978)

Law Enforcement Protection

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

Lodger's Tax

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

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)

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 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)

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)

Economic Development

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

TIF Downtown Improvements

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

Capital Projects Funds

C.D.B.G

To account for Community Development Block Grant funds. (City Ordinance)

Capital Improvement

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

Proprietary Funds

Ambulance

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. (City Ordinance)

STATE OF NEW MEXICO
City of Lovington
Nonmajor Governmental Funds Descriptions
June 30, 2015

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 Ordinance)

Pension

Accounts for a 401 (K) plan that the City handles for its employees, matching up to 7.00% of the employee's contributions. It collects the money that the employees put into the plan, and the City will send it to the UNIFI retirement company for them. (City Ordinance)

STATE OF NEW MEXICO
City of Lovington
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

| | Special Revenue | | | | | |
|--|-------------------|--------------|--------------------|----------------------------------|-----------------|-------------------|
| | Corrections | EMS Grant | Fire Protection | Law Enforcement Protection | Lodger's Tax | Gasoline Tax |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 106,187 | \$ - | \$ - | \$ 141 | \$ 1,663 | \$ 908,934 |
| Investments | - | - | - | - | - | - |
| Receivables | | | | | | |
| Taxes | - | - | - | - | - | 21,388 |
| Other | - | - | - | - | - | - |
| Total assets | \$ 106,187 | \$ - | \$ - | \$ 141 | \$ 1,663 | \$ 930,322 |
| Liabilities and fund balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 1,932 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total liabilities | 1,932 | - | - | - | - | - |
| Fund balances | | | | | | |
| Spendable | | | | | | |
| Restricted | 104,255 | - | - | 141 | 1,663 | 930,322 |
| Committed | - | - | - | - | - | - |
| Total fund balances | 104,255 | - | - | 141 | 1,663 | 930,322 |
| Total liabilities and fund balances | \$ 106,187 | \$ - | \$ - | \$ 141 | \$ 1,663 | \$ 930,322 |

The accompanying notes are an integral part of these financial statements

| Special Revenue | | | | | Capital Projects | | Total Nonmajor Governmental Funds |
|------------------|--------------------|-------------------------|-------------------------|------------------------------|------------------|------------------------|---|
| Recreation | Senior Citizens | Designated Franchise | Economic Development | TIF Downtown Improvements | C.D.B.G | Capital Improvement | |
| \$ 2,911 | \$ 20,520 | \$ 123,124 | \$ 896,141 | \$ 752 | \$ 5 | \$ - | \$ 2,060,378 |
| 12,444 | - | 17,947 | - | - | - | - | 30,391 |
| - | - | - | 65,660 | - | - | 179,362 | 266,410 |
| - | 13,635 | - | - | - | - | - | 13,635 |
| <u>\$ 15,355</u> | <u>\$ 34,155</u> | <u>\$ 141,071</u> | <u>\$ 961,801</u> | <u>\$ 752</u> | <u>\$ 5</u> | <u>\$ 179,362</u> | <u>\$ 2,370,814</u> |
| \$ 1,275 | \$ 1,340 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,547 |
| 1,275 | 1,340 | - | - | - | - | - | 4,547 |
| - | 32,815 | 141,071 | 961,801 | 752 | 5 | 179,362 | 2,352,187 |
| 14,080 | - | - | - | - | - | - | 14,080 |
| 14,080 | 32,815 | 141,071 | 961,801 | 752 | 5 | 179,362 | 2,366,267 |
| <u>\$ 15,355</u> | <u>\$ 34,155</u> | <u>\$ 141,071</u> | <u>\$ 961,801</u> | <u>\$ 752</u> | <u>\$ 5</u> | <u>\$ 179,362</u> | <u>\$ 2,370,814</u> |

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Revenues, Expenditures, and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

| | Special Revenue | | | | | |
|---|-------------------|-----------------|--------------------|----------------------------------|-----------------|-------------------|
| | Corrections | EMS Grant | Fire Protection | Law Enforcement Protection | Lodger's Tax | Gasoline Tax |
| Revenues | | | | | | |
| Taxes | | | | | | |
| Gross receipts | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Gasoline and motor vehicle | - | - | - | - | - | 200,591 |
| Other | - | - | - | - | 62,469 | - |
| Intergovernmental income | | | | | | |
| Federal operating grants | - | - | - | - | - | - |
| State operating grants | - | - | 77,876 | - | - | - |
| State capital grants | - | 40,000 | - | - | - | - |
| Charges for services | 45,394 | - | - | - | - | - |
| Investment income | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - |
| Total revenues | 45,394 | 40,000 | 77,876 | - | 62,469 | 200,591 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | 31,013 | - | 77,876 | 38,219 | - | - |
| Culture and recreation | - | - | - | - | 87,544 | - |
| Conservation and development | - | - | - | - | - | - |
| Capital outlay | - | - | - | 3,035 | - | - |
| Total expenditures | 31,013 | - | 77,876 | 41,254 | 87,544 | - |
| Excess (deficiency) of revenues over expenditures | 14,381 | 40,000 | - | (41,254) | (25,075) | 200,591 |
| Other Financing Sources (Uses) | | | | | | |
| Operating transfers in | - | - | - | - | - | - |
| Operating transfers (out) | - | (20,000) | - | - | - | - |
| Total other financing sources (uses) | - | (20,000) | - | - | - | - |
| Net change in fund balances | 14,381 | 20,000 | - | (41,254) | (25,075) | 200,591 |
| Fund balances- beginning of year | 89,874 | (20,000) | - | 41,395 | 26,738 | 729,731 |
| Fund balances- end of year | \$ 104,255 | \$ - | \$ - | \$ 141 | \$ 1,663 | \$ 930,322 |

The accompanying notes are an integral part of these financial statements

| Special Revenue | | | | | Capital Projects | | Total Nonmajor Governmental Funds |
|-----------------|--------------------|-------------------------|-------------------------|------------------------------|------------------|------------------------|---|
| Recreation | Senior Citizens | Designated Franchise | Economic Development | TIF Downtown Improvements | C.D.B.G | Capital Improvement | |
| \$ - | \$ - | \$ - | \$ 489,092 | \$ - | \$ - | \$ 549,193 | \$ 1,038,285 |
| - | - | - | - | - | - | - | 200,591 |
| - | - | 57,921 | - | - | - | - | 120,390 |
| - | 36,128 | - | - | - | - | - | 36,128 |
| - | 151,767 | - | 100,000 | - | - | - | 329,643 |
| - | - | - | 148,053 | - | - | - | 188,053 |
| 1,619 | - | - | - | - | - | - | 47,013 |
| - | 2 | 20 | - | - | - | - | 22 |
| 53 | 49,002 | - | 30,000 | 752 | 5 | - | 79,812 |
| 1,672 | 236,899 | 57,941 | 767,145 | 752 | 5 | 549,193 | 2,039,937 |
| - | - | 35,500 | - | - | - | - | 35,500 |
| - | - | - | - | - | - | - | 147,108 |
| 72,152 | 354,264 | - | - | - | - | - | 513,960 |
| - | - | - | 147,672 | - | - | - | 147,672 |
| 35,250 | 42,807 | - | 473,054 | - | - | 453,752 | 1,007,898 |
| 107,402 | 397,071 | 35,500 | 620,726 | - | - | 453,752 | 1,852,138 |
| (105,730) | (160,172) | 22,441 | 146,419 | 752 | 5 | 95,441 | 187,799 |
| 85,140 | 192,962 | - | - | - | - | 84,942 | 363,044 |
| - | (51,973) | - | - | - | - | (1,021) | (72,994) |
| 85,140 | 140,989 | - | - | - | - | 83,921 | 290,050 |
| (20,590) | (19,183) | 22,441 | 146,419 | 752 | 5 | 179,362 | 477,849 |
| 34,670 | 51,998 | 118,630 | 815,382 | - | - | - | 1,888,418 |
| \$ 14,080 | \$ 32,815 | \$ 141,071 | \$ 961,801 | \$ 752 | \$ 5 | \$ 179,362 | \$ 2,366,267 |

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STATE OF NEW MEXICO
City of Lovington
Combining Statement of Net Position
Nonmajor Proprietary Fund
June 30, 2015

Statement B-1

| | Ambulance |
|---|------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 313,139 |
| Receivables | |
| Other | 7,778 |
| Inventory | 27,763 |
| Total current assets | 348,680 |
| Noncurrent assets | |
| Capital assets | 666,636 |
| Less: accumulated depreciation | (269,295) |
| Total noncurrent assets | 397,341 |
| Total assets | \$ 746,021 |
| Liabilities and Net Position | |
| Liabilities | |
| Current liabilities | |
| Current portion of accrued compensated absences | \$ 19,971 |
| Total current liabilities | 19,971 |
| Noncurrent liabilities | |
| Accrued compensated absences | 14,663 |
| Total noncurrent liabilities | 14,663 |
| Total liabilities | 34,634 |
| Net position | |
| Net investment in capital assets | 397,341 |
| Unrestricted | 314,046 |
| Total net position | 711,387 |
| Total liabilities and net position | \$ 746,021 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Revenues, Expenses, and Change in Net Position
Nonmajor Proprietary Fund
For the Year Ended June 30, 2015

Statement B-2

| | Ambulance |
|--|------------|
| Operating Revenues | |
| Charges for services | \$ 441,024 |
| Total operating revenues | 441,024 |
| Operating Expenses | |
| Personnel services | 211,016 |
| Contractual services | 33,752 |
| Supplies | 70,119 |
| Maintenance and materials | 21,405 |
| Depreciation | 52,737 |
| Other operating expenses | 71,870 |
| Total operating expenses | 460,899 |
| Operating income (loss) | (19,875) |
| Nonoperating Revenues (Expenses) | |
| Miscellaneous income | 35 |
| Total nonoperating revenues (expenses) | 35 |
| Income (loss) before contributions and transfers | (19,840) |
| Capital Grants and Net Transfers | |
| Operating transfers in | 273,051 |
| Operating transfers (out) | (253,051) |
| Capital grants and net transfers | 20,000 |
| Change in net position | 160 |
| Net position- beginning of year | 711,227 |
| Net position- end of year | \$ 711,387 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Cash Flows
Nonmajor Proprietary Fund
For the Year Ended June 30, 2015

Statement B-3

| | Ambulance |
|--|-------------|
| Cash Flows From Operating Activities | |
| Cash received from user charges | \$ 493,580 |
| Cash payments to employees for services | (193,604) |
| Cash payments to suppliers for goods and services | (200,229) |
| | 99,747 |
| Net cash provided (used) by operating activities | 99,747 |
| Cash Flows From Investing Activities | |
| Interest on investments | - |
| | - |
| Net cash provided (used) by investing activities | - |
| Cash Flows From Noncapital Financing Activities | |
| Miscellaneous income | 35 |
| Net transfers | 20,000 |
| | 20,035 |
| Net cash provided (used) by noncapital financing activities | 20,035 |
| Cash Flows From Capital and Related Financing Activities | |
| Acquisition of capital assets | (253,051) |
| | (253,051) |
| Net cash provided (used) by capital and related financing activities | (253,051) |
| Net increase (decrease) in cash and cash equivalents | (133,269) |
| Cash and cash equivalents- beginning of year | 446,408 |
| | 446,408 |
| Cash and cash equivalents- end of year | \$ 313,139 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | |
| Operating income (loss) | \$ (19,875) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | |
| Depreciation | 52,737 |
| Changes in assets and liabilities | |
| Receivables | 52,556 |
| Accounts payable | (3,083) |
| Accrued payroll | 7,349 |
| Current portion of accrued compensated absences | 10,063 |
| Deposits held in trust | - |
| | 99,747 |
| Net cash provided (used) by operating activities | \$ 99,747 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Net Position
Internal Service Funds
June 30, 2015

Statement C-1

| | Unemployment Compensation | Pension | Total |
|------------------------------------|------------------------------|-----------|-----------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 11,997 | \$ 86,134 | \$ 98,131 |
| Total current assets | 11,997 | 86,134 | 98,131 |
| Total assets | \$ 11,997 | \$ 86,134 | \$ 98,131 |
| Liabilities and Net Position | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Accrued payroll | \$ - | \$ 77,695 | \$ 77,695 |
| Total current liabilities | - | 77,695 | 77,695 |
| Total liabilities | - | 77,695 | 77,695 |
| Net position | | | |
| Unrestricted | 11,997 | 8,439 | 20,436 |
| Total net position | 11,997 | 8,439 | 20,436 |
| Total liabilities and net position | \$ 11,997 | \$ 86,134 | \$ 98,131 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-2

City of Lovington

Combining Statement of Revenues, Expenses, and Change in Net Position

Internal Service Funds

For the Year Ended June 30, 2015

| | Unemployment Compensation | Pension | Total |
|---------------------------------|------------------------------|----------|-----------|
| Operating Revenues | | | |
| Charges for services | \$ - | \$ - | \$ - |
| Total operating revenues | - | - | - |
| Operating Expenses | | | |
| Other operating expenses | 1,809 | - | 1,809 |
| Total operating expenses | 1,809 | - | 1,809 |
| Operating income (loss) | (1,809) | - | (1,809) |
| Change in net position | (1,809) | - | (1,809) |
| Net position- beginning of year | 13,806 | 8,439 | 22,245 |
| Net position- end of year | \$ 11,997 | \$ 8,439 | \$ 20,436 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2015

Statement C-3

| | Unemployment Compensation | Pension | Total |
|--|------------------------------|-----------|------------|
| Cash Flows From Operating Activities | | | |
| Cash payments to employees for services | \$ - | \$ 72,271 | \$ 72,271 |
| Cash payments to suppliers for goods and services | (1,809) | - | (1,809) |
| Net cash provided (used) by operating activities | (1,809) | 72,271 | 70,462 |
| Net increase (decrease) in cash and cash equivalents | (1,809) | 72,271 | 70,462 |
| Cash and cash equivalents- beginning of year | 13,806 | 13,863 | 27,669 |
| Cash and cash equivalents- end of year | \$ 11,997 | \$ 86,134 | \$ 98,131 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | |
| Operating income (loss) | \$ (1,809) | \$ - | \$ (1,809) |
| Changes in assets and liabilities | | | |
| Accrued payroll | - | 72,271 | 72,271 |
| Net cash provided (used) by operating activities | \$ (1,809) | \$ 72,271 | \$ 70,462 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-1

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Corrections Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | 41,064 | 45,394 | 45,394 | - |
| Total revenues | 41,064 | 45,394 | 45,394 | - |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | 22,000 | 34,355 | 34,354 | 1 |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | 22,000 | 34,355 | 34,354 | 1 |
| Excess (deficiency) of revenues over expenditures | 19,064 | 11,039 | 11,040 | 1 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | (19,064) | (11,039) | - | 11,039 |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | (19,064) | (11,039) | - | 11,039 |
| Net change in fund balance | - | - | 11,040 | 11,040 |
| Fund balances- beginning of year | - | - | 95,147 | 95,147 |
| Fund balances- end of year | \$ - | \$ - | \$ 106,187 | \$ 106,187 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 11,040 |
| No adjustments to revenues for other receivables | | | | - |
| Adjustments to expenditures for accounts payable | | | | 3,341 |
| Net change in fund balance (GAAP basis) | | | | \$ 14,381 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-2

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

EMS Grant Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|--------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | 14,700 | 20,000 | 20,000 | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | 14,700 | 20,000 | 20,000 | - |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | 14,700 | 20,000 | - | 20,000 |
| Total expenditures | 14,700 | 20,000 | - | 20,000 |
| Excess (deficiency) of revenues over expenditures | - | - | 20,000 | 20,000 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | (20,000) | (20,000) |
| Total other financing sources (uses) | - | - | (20,000) | (20,000) |
| Net change in fund balance | - | - | - | - |
| Fund balances- beginning of year | - | - | - | - |
| Fund balances- end of year | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ - |
| Adjustments to revenues for other receivables | | | | 20,000 |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 20,000 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-3

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Fire Protection Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|---------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | 78,443 | 77,876 | 77,876 | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | <u>78,443</u> | <u>77,876</u> | <u>77,876</u> | <u>-</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | 83,443 | 77,863 | 77,876 | (13) |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | 13 | - | 13 |
| Total expenditures | <u>83,443</u> | <u>77,876</u> | <u>77,876</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>(5,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | 5,000 | - | - | - |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | - | - | - | - |
| Fund balances- beginning of year | - | - | - | - |
| Fund balances- end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ - |
| No adjustments to revenues for other receivables | | | | - |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-4

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Law Enforcement Protection Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | 36,200 | 36,200 | 36,200 | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | <u>36,200</u> | <u>36,200</u> | <u>36,200</u> | <u>-</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | 38,219 | (38,219) |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | 41,395 | 41,254 | 3,035 | 38,219 |
| Total expenditures | <u>41,395</u> | <u>41,254</u> | <u>41,254</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>(5,195)</u> | <u>(5,054)</u> | <u>(5,054)</u> | <u>-</u> |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | 5,195 | 5,054 | - | (5,054) |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | <u>5,195</u> | <u>5,054</u> | <u>-</u> | <u>(5,054)</u> |
| Net change in fund balance | - | - | (5,054) | (5,054) |
| Fund balances- beginning of year | - | - | 5,195 | 5,195 |
| Fund balances- end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 141</u> | <u>\$ 141</u> |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ (5,054) |
| Adjustments to revenues for other receivables | | | | (36,200) |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | <u>\$ (41,254)</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-5

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Lodger's Tax Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|-----------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | 72,000 | 68,531 | 68,531 | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | <u>72,000</u> | <u>68,531</u> | <u>68,531</u> | <u>-</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | 72,000 | 87,545 | 87,544 | 1 |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>72,000</u> | <u>87,545</u> | <u>87,544</u> | <u>1</u> |
| Excess (deficiency) of revenues over expenditures | <u>-</u> | <u>(19,014)</u> | <u>(19,013)</u> | <u>1</u> |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | - | 19,014 | - | (19,014) |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>19,014</u> | <u>-</u> | <u>(19,014)</u> |
| Net change in fund balance | - | - | (19,013) | (19,013) |
| Fund balances- beginning of year | - | - | 20,676 | 20,676 |
| Fund balances- end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,663</u> | <u>\$ 1,663</u> |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ (19,013) |
| Adjustments to revenues for other receivables | | | | (6,062) |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | <u>\$ (25,075)</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-6

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Gasoline Tax Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|-----------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | 189,092 | 195,283 | 195,283 | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | 189,092 | 195,283 | 195,283 | - |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | 245,000 | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | 245,000 | - | - | - |
| Excess (deficiency) of revenues over expenditures | (55,908) | 195,283 | 195,283 | - |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | 55,908 | (195,283) | - | 195,283 |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | 55,908 | (195,283) | - | 195,283 |
| Net change in fund balance | - | - | 195,283 | 195,283 |
| Fund balances- beginning of year | - | - | 713,651 | 713,651 |
| Fund balances- end of year | \$ - | \$ - | \$ 908,934 | \$ 908,934 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 195,283 |
| Adjustments to revenues for other receivables | | | | 5,308 |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 200,591 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-7

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Recreation Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | 2,000 | 1,619 | 1,619 | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | 2,050 | - | 55 | 55 |
| Total revenues | 4,050 | 1,619 | 1,674 | 55 |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | 47,267 | 71,945 | 71,836 | 109 |
| Conservation and development | - | - | - | - |
| Capital outlay | - | 35,250 | 35,250 | - |
| Total expenditures | 47,267 | 107,195 | 107,086 | 109 |
| Excess (deficiency) of revenues over expenditures | (43,217) | (105,576) | (105,412) | 164 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | 3,217 | 20,436 | - | (20,436) |
| Operating transfers in | 40,000 | 85,140 | 85,140 | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | 43,217 | 105,576 | 85,140 | (20,436) |
| Net change in fund balance | - | - | (20,272) | (20,272) |
| Fund balances- beginning of year | - | - | 35,627 | 35,627 |
| Fund balances- end of year | \$ - | \$ - | \$ 15,355 | \$ 15,355 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ (20,272) |
| Adjustments to revenues for other receivables | | | | (2) |
| Adjustments to expenditures for accounts payable | | | | (316) |
| Net change in fund balance (GAAP basis) | | | | \$ (20,590) |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-8

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Senior Citizens Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|-----------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | 25,843 | 34,572 | 34,572 | - |
| Federal capital grants | - | - | - | - |
| State operating grants | 163,103 | 139,688 | 139,688 | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | 2 | 2 |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | 28,509 | 49,002 | 20,493 |
| Total revenues | 188,946 | 202,769 | 223,264 | 20,495 |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | 373,313 | 352,924 | 352,924 | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | 42,807 | 42,807 | - |
| Total expenditures | 373,313 | 395,731 | 395,731 | - |
| Excess (deficiency) of revenues over expenditures | (184,367) | (192,962) | (172,467) | 20,495 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | (4,579) | (51,973) | - | 51,973 |
| Operating transfers in | - | 192,962 | 192,962 | - |
| Operating transfers (out) | 188,946 | 51,973 | (51,973) | (103,946) |
| Total other financing sources (uses) | 184,367 | 192,962 | 140,989 | (51,973) |
| Net change in fund balance | - | - | (31,478) | (31,478) |
| Fund balances- beginning of year | - | - | 51,998 | 51,998 |
| Fund balances- end of year | \$ - | \$ - | \$ 20,520 | \$ 20,520 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ (31,478) |
| Adjustments to revenues for other receivables | | | | 13,635 |
| Adjustments to expenditures for accounts payable | | | | (1,340) |
| Net change in fund balance (GAAP basis) | | | | \$ (19,183) |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-9

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Designated Franchise Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|-----------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | 68,036 | 67,625 | 63,515 | (4,110) |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | 30 | 20 | 20 | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | <u>68,066</u> | <u>67,645</u> | <u>63,535</u> | <u>(4,110)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 36,275 | 35,500 | 35,500 | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>36,275</u> | <u>35,500</u> | <u>35,500</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>31,791</u> | <u>32,145</u> | <u>28,035</u> | <u>(4,110)</u> |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | (31,791) | (32,145) | - | 32,145 |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | <u>(31,791)</u> | <u>(32,145)</u> | <u>-</u> | <u>32,145</u> |
| Net change in fund balance | - | - | 28,035 | 28,035 |
| Fund balances- beginning of year | - | - | 113,036 | 113,036 |
| Fund balances- end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 141,071</u> | <u>\$ 141,071</u> |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 28,035 |
| Adjustments to revenues for other receivables | | | | (5,594) |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | <u>\$ 22,441</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-10

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Economic Development Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | 360,000 | 423,432 | 423,432 | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | 100,000 | 100,000 | - |
| State capital grants | 262,500 | 148,054 | 148,053 | (1) |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | 165,900 | 30,000 | 30,000 | - |
| Total revenues | 788,400 | 701,486 | 701,485 | (1) |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | 215,900 | 147,672 | 147,672 | - |
| Capital outlay | 413,339 | 473,054 | 473,054 | - |
| Total expenditures | 629,239 | 620,726 | 620,726 | - |
| Excess (deficiency) of revenues over expenditures | 159,161 | 80,760 | 80,759 | (1) |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | (159,161) | (80,760) | - | 80,760 |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | (159,161) | (80,760) | - | 80,760 |
| Net change in fund balance | - | - | 80,759 | 80,759 |
| Fund balances- beginning of year | - | - | 815,382 | 815,382 |
| Fund balances- end of year | \$ - | \$ - | \$ 896,141 | \$ 896,141 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 80,759 |
| Adjustments to revenues for other receivables | | | | 65,660 |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 146,419 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-11

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

TIF Downtown Improvements Special Revenue Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|-------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | 750 | 750 | - |
| Fines and forfeitures | - | 2 | 2 | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | - | 752 | 752 | - |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | - | - | - | - |
| Excess (deficiency) of revenues over expenditures | - | 752 | 752 | - |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | - | (752) | - | 752 |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | - | (752) | - | 752 |
| Net change in fund balance | - | - | 752 | 752 |
| Fund balances- beginning of year | - | - | - | - |
| Fund balances- end of year | \$ - | \$ - | \$ 752 | \$ 752 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 752 |
| No adjustments to revenues for other receivables | | | | - |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 752 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-12

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

C.D.B.G Capital Projects Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) |
|---|------------------|----------|-------------------|---|
| | Original | Final | | Final to Actual |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | 5 | 5 |
| Total revenues | - | - | 5 | 5 |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total expenditures | - | - | - | - |
| Excess (deficiency) of revenues over expenditures | - | - | 5 | 5 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Net change in fund balance | - | - | 5 | 5 |
| Fund balances- beginning of year | - | - | - | - |
| Fund balances- end of year | \$ - | \$ - | \$ 5 | \$ 5 |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ 5 |
| No adjustments to revenues for other receivables | | | | - |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 5 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-13

City of Lovington

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

Capital Improvement Capital Projects Fund

For the Year Ended June 30, 2015

| | Budgeted Amounts | | Actual Amounts | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | 369,831 | 369,831 | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental income | | | | |
| Federal operating grants | - | - | - | - |
| Federal capital grants | - | - | - | - |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Investment income | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous income | - | - | - | - |
| Total revenues | - | 369,831 | 369,831 | - |
| Expenditures | | | | |
| Current | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Health and welfare | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Conservation and development | - | - | - | - |
| Capital outlay | - | 454,773 | 453,752 | 1,021 |
| Total expenditures | - | 454,773 | 453,752 | 1,021 |
| Excess (deficiency) of revenues over expenditures | - | (84,942) | (83,921) | 1,021 |
| Other Financing Sources (Uses) | | | | |
| Designated cash (budgeted increase in cash) | - | 84,942 | - | (84,942) |
| Operating transfers in | - | - | 84,942 | 84,942 |
| Operating transfers (out) | - | - | (1,021) | (1,021) |
| Total other financing sources (uses) | - | 84,942 | 83,921 | (1,021) |
| Net change in fund balance | - | - | - | - |
| Fund balances- beginning of year | - | - | - | - |
| Fund balances- end of year | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balance (non-GAAP budgetary basis) | | | | \$ - |
| Adjustments to revenues for other receivables | | | | 179,362 |
| No adjustments to expenditures for accounts payable | | | | - |
| Net change in fund balance (GAAP basis) | | | | \$ 179,362 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement E-1

City of Lovington

Statement of Revenues, Expenses, and Change in Net Position

Budget (GAAP Budgetary Basis) and Actual

Solid Waste Proprietary Fund

For the Year Ended June 30, 2015

| | Budget Amounts | | Actual | Variances |
|--|----------------|--------------|------------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Operating Revenues | | | | |
| Charges for services | \$ 94,987 | \$ 1,929,033 | \$ 1,904,841 | \$ (24,192) |
| Total operating revenues | 94,987 | 1,929,033 | 1,904,841 | (24,192) |
| Operating Expenses | | | | |
| Personnel services | 92,015 | 62,412 | 63,469 | (1,057) |
| Contractual services | 1,714,245 | 1,643,420 | 1,589,491 | 53,929 |
| Supplies | 3,000 | 6,124 | 6,180 | (56) |
| Maintenance and materials | 2,700 | 24,152 | 24,152 | - |
| Utilities | 1,300 | 1,039 | (266) | 1,305 |
| Other operating expenses | 1,950 | 1,919 | 1,919 | - |
| Total operating expenses | 1,815,210 | 1,739,066 | 1,684,945 | 54,121 |
| Operating income (loss) | (1,720,223) | 189,967 | 219,896 | 29,929 |
| Nonoperating Revenues (Expenses) | | | | |
| Miscellaneous income | - | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - | - |
| Income (loss) before contributions and transfers | (1,720,223) | 189,967 | 219,896 | 29,929 |
| Capital Grants and Net Transfers | | | | |
| Operating transfers in | 1,815,503 | - | 10,286 | 10,286 |
| Operating transfers (out) | 500,000 | - | (10,286) | (10,286) |
| Capital grants and net transfers | 2,315,503 | - | - | - |
| Change in net position | 595,280 | 189,967 | 219,896 | 29,929 |
| Designated cash (budgeted increase in cash) | (595,280) | (189,967) | - | 189,967 |
| Net position- beginning of year | - | - | 732,475 | 732,475 |
| Net position- end of year | \$ - | \$ - | \$ 952,371 | \$ 762,404 |
| Changes in net position above Depreciation | | | \$ 219,896 (10,286) | |
| Change in net position per Exhibit D-2 | | | \$ 209,610 | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement E-2

City of Lovington

Statement of Revenues, Expenses, and Change in Net Position

Budget (GAAP Budgetary Basis) and Actual

Water and Wastewater Proprietary Fund

For the Year Ended June 30, 2015

| | Budget Amounts | | Actual | Variances Favorable (Unfavorable) |
|--|----------------|--------------|---------------|---|
| | Original | Final | | |
| Operating Revenues | | | | |
| Charges for services | \$ 4,326,450 | \$ 2,555,068 | \$ 2,414,357 | \$ (140,711) |
| Total operating revenues | 4,326,450 | 2,555,068 | 2,414,357 | (140,711) |
| Operating Expenses | | | | |
| Personnel services | 1,040,002 | 980,902 | 238,552 | 742,350 |
| Contractual services | 2,810,025 | 85,437 | 77,765 | 7,672 |
| Supplies | 362,000 | 355,894 | 257,444 | 98,450 |
| Maintenance and materials | 474,500 | 361,627 | 224,801 | 136,826 |
| Utilities | 361,379 | 303,300 | 186,098 | 117,202 |
| Other operating expenses | 478,672 | 514,813 | 184,447 | 330,366 |
| Total operating expenses | 5,526,578 | 2,601,973 | 1,169,107 | 1,432,866 |
| Operating income (loss) | (1,200,128) | (46,905) | 1,245,250 | 1,292,155 |
| Nonoperating Revenues (Expenses) | | | | |
| Investment income | 3,309 | 3,718 | 3,718 | - |
| Loss on disposal of capital assets | - | - | (8,623) | (8,623) |
| Miscellaneous income | - | 973 | 342,095 | 341,122 |
| Interest expense | (147,632) | (97,314) | (143,778) | (46,464) |
| Total nonoperating revenues (expenses) | (144,323) | (92,623) | 193,412 | 286,035 |
| Income (loss) before contributions and transfers | (1,344,451) | (139,528) | 1,438,662 | 1,578,190 |
| Capital Grants and Net Transfers | | | | |
| Capital grants and contributions | 100,000 | - | - | - |
| Operating transfers in | 1,150,000 | - | 253,051 | 253,051 |
| Operating transfers (out) | (1,165,503) | 300,000 | (564,621) | (864,621) |
| Capital grants and net transfers | 84,497 | 300,000 | (311,570) | (611,570) |
| Change in net position | (1,259,954) | 160,472 | 1,127,092 | 966,620 |
| Designated cash (budgeted increase in cash) | 1,259,954 | (160,472) | - | 160,472 |
| Net position- beginning of year | - | - | 20,107,176 | 20,107,176 |
| Restatement (Note 9) | - | - | (2,423,436) | (2,423,436) |
| Net position- beginning of year, restated | - | - | 17,683,740 | 17,683,740 |
| Net position- end of year | \$ - | \$ - | \$ 21,234,268 | \$ 21,073,796 |
| Changes in net position above | | | \$ 1,127,092 | |
| Depreciation | | | (834,667) | |
| Change in net position per Exhibit D-2 | | | \$ 292,425 | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement E-3

City of Lovington

Statement of Revenues, Expenses, and Change in Net Position

Budget (GAAP Budgetary Basis) and Actual

Ambulance Proprietary Fund

For the Year Ended June 30, 2015

| | Budget Amounts | | Actual | Variances |
|--|----------------|------------|-----------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Operating Revenues | | | | |
| Charges for services | \$ 584,170 | \$ 493,522 | \$ 441,024 | \$ (52,498) |
| Total operating revenues | 584,170 | 493,522 | 441,024 | (52,498) |
| Operating Expenses | | | | |
| Personnel services | 263,714 | 193,604 | 211,016 | (17,412) |
| Contractual services | 36,990 | 34,132 | 33,752 | 380 |
| Supplies | 50,000 | 70,561 | 70,119 | 442 |
| Maintenance and materials | 262,601 | 257,159 | 21,405 | 235,754 |
| Other operating expenses | 77,950 | 71,948 | 71,870 | 78 |
| Total operating expenses | 691,255 | 627,404 | 408,162 | 219,242 |
| Operating income (loss) | (107,085) | (133,882) | 32,862 | 166,744 |
| Nonoperating Revenues (Expenses) | | | | |
| Miscellaneous income | 70 | 35 | 35 | - |
| Total nonoperating revenues (expenses) | 70 | 35 | 35 | - |
| Income (loss) before contributions and transfers | (107,015) | (133,847) | 32,897 | 166,744 |
| Capital Grants and Net Transfers | | | | |
| Operating transfers in | - | - | 273,051 | 273,051 |
| Operating transfers (out) | - | - | (253,051) | (253,051) |
| Capital grants and net transfers | - | - | 20,000 | 20,000 |
| Change in net position | (107,015) | (133,847) | 52,897 | 186,744 |
| Designated cash (budgeted increase in cash) | 107,015 | 133,847 | - | (133,847) |
| Net position- beginning of year | - | - | 853,142 | 853,142 |
| Net position- end of year | \$ - | \$ - | \$ 906,039 | \$ 1,039,886 |
| Changes in net position above Depreciation | | | \$ 52,897 (52,737) | |
| Change in net position per Exhibit D-2 | | | \$ 160 | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement F-1

City of Lovington

Statement of Revenues, Expenses, and Change in Net Position

Budget (GAAP Budgetary Basis) and Actual

Unemployment Compensation Internal Service Fund

For the Year Ended June 30, 2015

| | Budget Amounts | | Actual | Variances Favorable (Unfavorable) |
|--|----------------|---------|------------|---|
| | Original | Final | | |
| Operating Revenues | | | | |
| Charges for services | \$ - | \$ - | \$ - | \$ - |
| Total operating revenues | - | - | - | - |
| Operating Expenses | | | | |
| Other operating expenses | 14,067 | 1,809 | 1,809 | - |
| Total operating expenses | 14,067 | 1,809 | 1,809 | - |
| Operating income (loss) | (14,067) | (1,809) | (1,809) | - |
| Nonoperating Revenues (Expenses) | | | | |
| Miscellaneous income | - | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - | - |
| Income (loss) before contributions and transfers | (14,067) | (1,809) | (1,809) | - |
| Capital Grants and Net Transfers | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Capital grants and net transfers | - | - | - | - |
| Change in net position | (14,067) | (1,809) | (1,809) | - |
| Designated cash (budgeted increase in cash) | 14,067 | 1,809 | - | (1,809) |
| Net position- beginning of year | - | - | 13,806 | 13,806 |
| Net position- end of year | \$ - | \$ - | \$ 11,997 | \$ 13,806 |
| Changes in net position above | | | \$ (1,809) | |
| Depreciation | | | - | |
| Change in net position per Exhibit D-2 | | | \$ (1,809) | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement F-2

City of Lovington

Statement of Revenues, Expenses, and Change in Net Position

Budget (GAAP Budgetary Basis) and Actual

Pension Internal Service Fund

For the Year Ended June 30, 2015

| | Budget Amounts | | Actual | Variances Favorable (Unfavorable) |
|--|----------------|-------|----------|---|
| | Original | Final | | |
| Operating Revenues | | | | |
| Charges for services | \$ - | \$ - | \$ - | \$ - |
| Total operating revenues | - | - | - | - |
| Operating Expenses | | | | |
| Other operating expenses | - | - | - | - |
| Total operating expenses | - | - | - | - |
| Operating income (loss) | - | - | - | - |
| Nonoperating Revenues (Expenses) | | | | |
| Miscellaneous income | - | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - | - |
| Income (loss) before contributions and transfers | - | - | - | - |
| Capital Grants and Net Transfers | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | - | - | - | - |
| Capital grants and net transfers | - | - | - | - |
| Change in net position | - | - | - | - |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Net position- beginning of year | - | - | 8,439 | 8,439 |
| Net position- end of year | \$ - | \$ - | \$ 8,439 | \$ 8,439 |
| Changes in net position above | | | \$ - | |
| Depreciation | | | - | |
| Change in net position per Exhibit D-2 | | | \$ - | |

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
City of Lovington
Schedule of Deposit and Investment Accounts
June 30, 2015

| Account Name | Account Type | Lea County State Bank | Wells Fargo Bank |
|---|-------------------------------|--------------------------|-------------------|
| Deposits | | | |
| General | Checking-interest bearing | \$ 7,789,125 | \$ - |
| Payroll | Checking-non interest bearing | 956 | - |
| Economic development revolving loan | Checking-interest bearing | 7,897 | - |
| Municipal court | Checking-non interest bearing | 20,593 | - |
| Municipal court | Checking-non interest bearing | 5,969 | - |
| Payroll | Checking-non interest bearing | - | 20,523 |
| Senior citizen's supply fund | Checking-non interest bearing | - | 20,495 |
| Employee pension | Checking-non interest bearing | - | 86,134 |
| Motor vehicle department | Checking-non interest bearing | - | 1,335 |
| Multipurpose senior center | Checking-non interest bearing | - | 25 |
| Unemployment compensation | Checking-non interest bearing | - | 11,996 |
| Special youth (designated franchise) | Checking-non interest bearing | - | 126,971 |
| Lovington fire department | Checking-non interest bearing | - | 11,924 |
| Wastewater treatment pant | Checking-non interest bearing | - | 893,042 |
| C.D.B.G. housing rehab project | Checking-non interest bearing | - | 5 |
| Water and wastewater | Checking-non interest bearing | - | - |
| Wastewater treatment plant | Checking-non interest bearing | - | - |
| Certificate of deposit | Certificate of deposit | - | - |
| Certificate of deposit | Certificate of deposit | - | - |
| Certificate of deposit | Certificate of deposit | - | - |
| Certificate of deposit | Certificate of deposit | - | - |
| Certificate of deposit | Certificate of deposit | - | - |
| Bank balance | | 7,824,540 | 1,172,450 |
| Outstanding items | | (253,451) | (321,875) |
| Deposits in transit | | 1,535 | - |
| Book balance | | \$ 7,572,624 | \$ 850,575 |
| Investments | | | |
| <i>New MexiGROW- LGIP</i> | | \$ - | \$ - |
| <i>New MexiGROW- LGIP</i> | | - | - |
| <i>New MexiGROW- LGIP</i> | | - | - |
| <i>New MexiGROW- LGIP</i> | | - | - |
| Total investments | | \$ - | \$ - |
| Petty cash | | | |
| Deposits and investments per Schedule III | | | |
| Cash and cash equivalents per Exhibit A-1 | | | |
| Restricted cash per Exhibit A-1 | | | |
| Investments per Exhibit A-1 | | | |
| Agency funds per Exhibit E-1 | | | |
| Cash, cash equivalents, and investments per Exhibit A-1 | | | |

See independent auditors' report

| Western Commerce Bank | Estacado Credit Union | Local Government Investment Pool | Total |
|--------------------------|--------------------------|-------------------------------------|----------------------|
| \$ - | \$ - | \$ - | \$ 7,789,125 |
| - | - | - | 956 |
| - | - | - | 7,897 |
| - | - | - | 20,593 |
| - | - | - | 5,969 |
| - | - | - | 20,523 |
| - | - | - | 20,495 |
| - | - | - | 86,134 |
| - | - | - | 1,335 |
| - | - | - | 25 |
| - | - | - | 11,996 |
| - | - | - | 126,971 |
| - | - | - | 11,924 |
| - | - | - | 893,042 |
| - | - | - | 5 |
| 3,619,268 | - | - | 3,619,268 |
| 104,972 | - | - | 104,972 |
| 16,042 | - | - | 16,042 |
| 39,102 | - | - | 39,102 |
| 25,053 | - | - | 25,053 |
| - | 12,315 | - | 12,315 |
| - | 92,367 | - | 92,367 |
| 3,804,437 | 104,682 | - | 12,906,109 |
| (17,596) | - | - | (592,922) |
| 5,995 | - | - | 7,530 |
| <u>\$ 3,792,836</u> | <u>\$ 104,682</u> | <u>\$ -</u> | <u>12,320,717</u> |
| \$ - | \$ - | \$ 309,185 | \$ 309,185 |
| - | - | 17,953 | 17,953 |
| - | - | 14,961 | 14,961 |
| - | - | 50 | 50 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 342,149</u> | <u>342,149</u> |
| | | | <u>3,275</u> |
| | | | <u>\$ 12,666,141</u> |
| | | | \$ 11,069,128 |
| | | | 1,021,938 |
| | | | 527,028 |
| | | | <u>48,047</u> |
| | | | <u>\$ 12,666,141</u> |

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STATE OF NEW MEXICO

Schedule IV

City of Lovington

Schedule of Collateral Pledged by Depository for Public Funds

June 30, 2015

| Name of Depository | Description of Pledged Collateral | Maturity | CUSIP Number | Fair Market Value at June 30, 2015 | Name and Location of Safekeeper |
|-----------------------|-----------------------------------|------------|--------------|------------------------------------|--------------------------------------|
| Lea County State Bank | | | | | |
| | ESPANOLA, NM PSD | 7/1/2016 | 827513ET5 | \$ 576,397 | Independent Bankers Bank Dallas, TX |
| | ARTESIA WTR/SWR | 6/1/2022 | 04310LAN0 | 709,046 | Independent Bankers Bank Dallas, TX |
| | ALAMOGORDO JT/TWR | 6/1/2023 | 011500GC3 | 200,474 | Independent Bankers Bank Dallas, TX |
| | LOVING NM ISD | 7/15/2020 | 547413CU6 | 559,725 | Independent Bankers Bank Dallas, TX |
| | BERNALILLO NM MSD | 8/1/2020 | 085279PY7 | 371,459 | Independent Bankers Bank Dallas, TX |
| | RUIDOSO NM MSD | 8/1/2021 | 781338HC5 | 318,606 | Independent Bankers Bank Dallas, TX |
| | ALBUQUERQUE NM | 8/1/2018 | 013595LH4 | 1,525,205 | Independent Bankers Bank Dallas, TX |
| | RIO RANCHO NM | 6/1/2022 | 767169DL6 | 1,798,642 | Independent Bankers Bank Dallas, TX |
| | BERNALILLO NM SD | 8/1/2015 | 085279RF6 | 500,670 | Independent Bankers Bank Dallas, TX |
| | Total Lea County State Bank | | | <u>6,560,224</u> | |
| Wells Fargo Bank | | | | | |
| | FMAC FMAR 2.482% | 11/1/2041 | 3128UHH73 | 13,225 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.500% | 12/1/2041 | 3138E0RA9 | 17,029 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.500% | 2/1/2042 | 3138E67L4 | 8,488 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.500% | 12/1/2042 | 3138MRBY6 | 50,925 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.000% | 1/1/2043 | 3138MRLD1 | 28,812 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.000% | 1/1/2043 | 3138MRX30 | 10,932 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.000% | 6/1/2043 | 3138WTXU5 | 25,955 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 4.000% | 8/1/2043 | 3138X3E24 | 99,432 | Bank of New York Mellon New York, NY |
| | FNMA FNRM 2.500% | 6/25/2021 | 31397UYH6 | 72,318 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 6.000% | 7/1/2038 | 31410KZW7 | 5,884 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 6.000% | 11/1/2037 | 31413KXV8 | 9,236 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.000% | 10/1/2042 | 31417DGG2 | 60,167 | Bank of New York Mellon New York, NY |
| | FNMA FNMS 3.50% | 7/1/2043 | 31418AVT2 | 2,165 | Bank of New York Mellon New York, NY |
| | FNMS 04.00 CL 4.000% | 7/1/2040 | 31419BCT0 | 60,680 | Bank of New York Mellon New York, NY |
| | Total Wells Fargo Bank | | | <u>465,248</u> | |
| Western Commerce Bank | | | | | |
| | GNMA #004597 | 12/20/2039 | 36202FDA1 | 471,287 | Federal Home Loan Bank Dallas, TX |
| | FHLMC #G08473 | 1/1/2042 | 3128MJQ37 | 575,122 | Federal Home Loan Bank Dallas, TX |
| | FNMA #725946 | 11/1/2034 | 31402DP79 | 259,614 | Federal Home Loan Bank Dallas, TX |
| | SBAP SERIES 2009/20D CLASS1 | 4/1/2029 | 83162CSL8 | 572,783 | Federal Home Loan Bank Dallas, TX |
| | Total Western Commerce Bank | | | <u>1,878,806</u> | |
| | Total pledged collateral | | | <u>\$ 8,904,278</u> | |

See independent auditors' report

STATE OF NEW MEXICO
City of Lovington
Schedule of Change in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2015

| | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---------------------------------------|--------------------------|------------------|------------------|--------------------------|
| Senior Citizens Supply Fund | | | | |
| Assets | | | | |
| Cash | \$ 18,860 | \$ 20,495 | \$ 39,355 | \$ - |
| Total assets | <u>\$ 18,860</u> | <u>\$ 20,495</u> | <u>\$ 39,355</u> | <u>\$ -</u> |
| Liabilities | | | | |
| Accounts payable | \$ 18,860 | \$ 20,495 | \$ 39,355 | \$ - |
| Total liabilities | <u>\$ 18,860</u> | <u>\$ 20,495</u> | <u>\$ 39,355</u> | <u>\$ -</u> |
| Motor Vehicle Fund | | | | |
| Assets | | | | |
| Cash | \$ 1,460 | \$ 18,652 | \$ 18,776 | 1,336 |
| Total assets | <u>\$ 1,460</u> | <u>\$ 18,652</u> | <u>\$ 18,776</u> | <u>\$ 1,336</u> |
| Liabilities | | | | |
| Accounts payable | \$ 1,460 | \$ 18,652 | \$ 18,776 | \$ 1,336 |
| Total liabilities | <u>\$ 1,460</u> | <u>\$ 18,652</u> | <u>\$ 18,776</u> | <u>\$ 1,336</u> |
| Economic Development Fund | | | | |
| Assets | | | | |
| Cash | \$ 8,019 | \$ 2 | \$ 125 | \$ 7,896 |
| Total assets | <u>\$ 8,019</u> | <u>\$ 2</u> | <u>\$ 125</u> | <u>\$ 7,896</u> |
| Liabilities | | | | |
| Accounts payable | \$ 8,019 | \$ 2 | \$ 125 | \$ 7,896 |
| Total liabilities | <u>\$ 8,019</u> | <u>\$ 2</u> | <u>\$ 125</u> | <u>\$ 7,896</u> |
| Lovington Fire Department Fund | | | | |
| Assets | | | | |
| Cash | \$ 12,653 | \$ - | \$ 729 | 11,924 |
| Total assets | <u>\$ 12,653</u> | <u>\$ -</u> | <u>\$ 729</u> | <u>\$ 11,924</u> |
| Liabilities | | | | |
| Accounts payable | \$ 12,653 | \$ - | \$ 729 | \$ 11,924 |
| Total liabilities | <u>\$ 12,653</u> | <u>\$ -</u> | <u>\$ 729</u> | <u>\$ 11,924</u> |

See independent auditors' report

| | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|-----------------------------|--------------------------|------------------|------------------|--------------------------|
| Municipal Court Fund | | | | |
| Assets | | | | |
| Cash | \$ - | \$ 26,891 | \$ - | \$ 26,891 |
| Total assets | <u>\$ -</u> | <u>\$ 26,891</u> | <u>\$ -</u> | <u>\$ 26,891</u> |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ 26,891 | \$ - | \$ 26,891 |
| Total liabilities | <u>\$ -</u> | <u>\$ 26,891</u> | <u>\$ -</u> | <u>\$ 26,891</u> |
| Total Agency Funds | | | | |
| Assets | | | | |
| Cash | \$ 40,992 | \$ 66,040 | \$ 58,985 | \$ 48,047 |
| Total assets | <u>\$ 40,992</u> | <u>\$ 66,040</u> | <u>\$ 58,985</u> | <u>\$ 48,047</u> |
| Liabilities | | | | |
| Accounts payable | \$ 40,992 | \$ 66,040 | \$ 58,985 | \$ 48,047 |
| Total liabilities | <u>\$ 40,992</u> | <u>\$ 66,040</u> | <u>\$ 58,985</u> | <u>\$ 48,047</u> |

STATE OF NEW MEXICO
City of Lovington
Schedule of Memorandums of Understanding
June 30, 2015

| Participants | Responsible Party | Description |
|---|-------------------|--|
| Memorandums of Understanding | | |
| City of Lovington and Lovington Municipal Schools | Both | To establish a relationship in order to foster an efficient and cohesive program that will build a positive relationship between law enforcement and the school district with the goal of reducing crime committed by juveniles and young adults |
| City of Lovington and Lea County Sheriff's Office | City of Lovington | To allow the certified municipal law enforcement personnel to effectively and efficiently provide proper law enforcement investigations, assistance, or service to Lea County residents |
| City of Lovington and Lea County | Both | To conduct a study and develop a plan for the proposed walking trail from Chaparral Park to the Lea County Courthouse |
| City of Lovington and Lea County | Both | To construct a radio tower for emergency communications and improve radio communications in the northern part of Lea County and in the City of Lovington |

| <u>Begin Date</u> | <u>End Date</u> | <u>Estimated Amount of Project</u> | <u>Amount Contributed in Fiscal Year</u> | <u>Audit Responsibility</u> | <u>Fiscal Agent</u> | <u>Name of Govt. Agency Report Rev. & Exp.</u> |
|-------------------|-----------------|------------------------------------|--|-----------------------------|---------------------|--|
| 11/1/2014 | 10/31/2019 | \$ 197,805 | \$ 30,173 | Both | None | Both |
| 2/23/2015 | Indefinitely | Unknown | Unknown | City of Lovington | City of Lovington | City of Lovington |
| 4/27/2015 | Indefinitely | 927,000 | Unknown | Both | None | Both |
| 4/27/2015 | Indefinitely | Unknown | Unknown | Both | None | Both |

STATE OF NEW MEXICO
City of Lovington
Schedule of Vendor Information for Purchases
Exceeding \$60,000 (Excluding GRT)
June 30, 2015

Prepared by Agency Staff Name: James Williams (City Manager) on November 10, 2015

| <u>RFB#/ RFP#</u> | <u>Type of Procurement</u> | <u>Awarded Vendor</u> | <u>Amount of Awarded Contract</u> | <u>Amount of Amended Contract</u> |
|-------------------|----------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| 11215 | Request for bid | Accent Landscape Contractors, Inc. | \$ 745,181 | N/A |
| 30215 | Request for Proposal | Tyler Technologies, Inc. | 123,346 | N/A |
| 31015 | Request for bid | Sonic Equipment | 113,063 | N/A |
| 2100540 | Request for bid | Abraham's Construction | 413,339 | N/A |
| 14-0429 | Request for bid | Constructor's, Inc. | 273,010 | N/A |

| Name and Physical Address of <u>ALL</u> Vendor(s) That Responded | In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition) | Was the Vendor In-State and Chose Veteran's Preference (Y or N) | Description of Work |
|--|--|--|---|
| Accent Landscape Contractors, Inc. 3525 Girard Ave. NE Albuquerque, NM 87107 Turfmaster Irrigation and Landscaping, Inc. | Y | N | Chaparral Park irrigation system |
| 11410 Trafalgar Ave. Lubbock, TX 7942 Lone Mountain Contracting, Inc. | N | N | |
| 125 Bosque Farms Blvd. Bosque Farms, NM 87068 Sequoia Landscaping, Inc. | Y | N | |
| 810 Rankin Rd. NE Albuquerque, NM 87107 Green Guys Landscaping, Inc. | Y | N | |
| 5638 Lassiter Rd. Las Cruces, NM 88001 Iron J. Services, Inc. | Y | N | |
| 311 S. Fox Tatum, NM 88267 | Y | N | |
| Tyler Technologies, Inc. 5519 53rd St. Lubbock, TX 79414 Caselle | N | Y | Purchase of a new financial management software and for implementation services |
| 1656 SE Bay Blvd. Ste. 100 Provo. UT 84606 AccuFund | N | N | |
| P.O. Box 452 Sandia Park, NM 87047 | Y | N | |
| Sonic Equipment 900 W. Miller Rd. Iola, KS 66749 | N | N | Lea Theater digital conversion |
| Abraham's Construction 7605 Morrow Ave. NE Albuquerque, NM 87110 | Y | N | Central Plaza streetscape project |
| Constructor's, Inc. 3003 S. Boyd Dr. Carlsbad, NM 88220 Ramirez and Son's | Y | N | North 9th street construction |
| 3404 N. Enterprise Dr. Hobbs, NM 88240 | Y | N | |

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COMPLIANCE SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

**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 AUDITORS' REPORT**

Timothy Keller
New Mexico State Auditor
The City Council
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 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, each major fund, the aggregate remaining fund information, the budgetary comparison of the general fund of the City of Lovington (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and the combining and individual funds and related budgetary comparisons of the City, presented as supplementary information, and have issued our report thereon dated December 11, 2015. Our report includes a reference to other auditors who audited the financial statements of the City of Lovington Housing Authority (the "Authority"), as described in our report on the City of Lovington, New Mexico's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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, 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 FS 2009-002, FS 2015-002, FS 2015-004, FS 2015-005, FS 2015-007, and HAFS 2012-001 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 deficiency described in the accompanying Schedule of Findings and Responses as item FS 2016-006 to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items FS 2015-001, FS 2015-003, FS 2015-008, HAFS 2014-002, and HAFS 2014-003.

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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
December 11, 2015

OTHER DISCLOSURES

Section I- Summary of Auditors' Results

Financial Statements:

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

Section II- Prior Year Audit Findings

Primary Government

- | | |
|---|----------------------|
| FS 2008-001 Deficiencies in Internal Control Structure, Operation, and Oversight | Resolved |
| FS 2009-002 DFA Cash Report Does Not Reconcile to the City's Cash | Revised and Repeated |
| FS 2010-003 Cash Activity Not Recorded | Resolved |
| FS 2011-006 Procurement Code- Bids | Resolved |
| FS 2012-002 Stale Dated Transactions Not Cancelled | Resolved |
| FS 2013-003 Pledged Collateral | Resolved |
| FS 2013-003 Internal Controls Over Consumable Inventory | Resolved |
| FS 2014-001 Bank Reconciliation Preparation | Resolved |
| FS 2014-002 Unable to Provide Evidence of Sanitization of Disposed Software or Electronic Media | Resolved |
| FS 2014-003 Travel and Per Diem | Resolved |
| FS 2014-004 PERA Reconciliation | Resolved |
| FS 2014-005 Untimely Deposit | Resolved |
| FS 2014-006 Restatement | Resolved |

Component Unit

- | | |
|---|----------------------|
| HAFS 2008-001 Deficiencies in Internal Control Structure Design, Operation, and Oversight | Resolved |
| HAFS 2012-001 Deficiencies in Accounting for Capital Assets | Revised and Repeated |
| HAFS 2013-001 Deficiencies in Internal Control Over Journal Entries | Resolved |
| HAFS 2013-002 Voided and Stale Dated Checks | Resolved |
| HAFS 2013-003 Inconsistency in Allowance for Tenant Receivables | Resolved |
| HAFS 2013-004 Capital Asset Certification | Resolved |
| HAFS 2014-001 Inaccurate Accounting Receivable Listing | Resolved |
| HAFS 2014-002 Late IPA Recommendation | Revised and Repeated |
| HAFS 2014-003 Expenditures in Excess of Budget | Revised and Repeated |

Section III- Financial Statement Findings

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

Condition: For the year ended June 30, 2015, the City's cash did not tie to the report submitted to the Department of Finance and Administration. The City's cash differed from the DFA report by \$403,815. The City was not able to resolve this finding from the prior year due to not ensuring that all cash balances reported to DFA at year end tied to the trial balance. The following funds were shown to be out of balance by the following:

| | |
|--------------------------|-----------|
| 101 General Fund | \$272,600 |
| 214 Lodger's Tax | (1) |
| 216 Municipal Street | 1 |
| 217 Recreation | 164 |
| 219 Senior Citizen | 20,495 |
| 299 Other | 278,494 |
| 300 Capital Projects | (811,194) |
| 500 Solid Waste | (69,985) |
| 500 Water and Wastewater | 557,989 |
| 500 Ambulance | 576 |
| 600 Internal Services | 86,135 |
| 700 Trust and Agency | 68,541 |

Criteria: Per Section 6-6-3 NMSA 1978, every local public body shall:

- Keep all the books, records and accounts in their respective offices in the form prescribed by the local government division
- Make all reports as may be required by the local government division, and
- Conform to the rules and regulations adopted by the local government division.

Effect: The information that is reported to DFA is incomplete and could lead to inappropriate funding of the City.

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

Auditors' Recommendations: We recommend the City communicate with DFA regarding what the requirements are for reporting cash balances and report what is required by the DFA and ensure that cash balances reported to DFA tie to the trial balance.

Views of Responsible Officials and Planned Corrective Actions: Current staff require training to better understand how the City's current software works and change posting procedures. The City is currently migrating to new accounting software. The new software will also help to ensure that reconciliations are accurate due to its enhanced capabilities. The training and posting procedures is occurring at present with the Finance Director as the responsible individual, and this issue will be corrected by the end of the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

FS 2015-001 Budget Exceeding Approved Balances (Finding That Does Not Rise to Significant Deficiency)

Condition: The City had cash appropriations in excess of available balances for the following fund:

Governmental Funds

| | |
|---|------------------|
| Capital Improvement Capital Projects Fund | <u>\$ 84,942</u> |
|---|------------------|

Criteria: Section 2.2.2.10(O)(1) of the New Mexico Administrative Code states that if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, that fact must be reported in a finding and disclosed in the notes to the financial statements. It also states that if budgeted expenditures exceed budgeted revenues after prior year cash balances and applicable receivables required to balance the budget, that fact must also be reported as a finding.

Effect: Any expenditure in excess of the approved budget or budgeted decrease in cash in excess of appropriated amounts indicates a lack of controls in the purchasing process which leads to unauthorized purchases being made with City money or the possibility of creating a negative fund balance.

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

Auditors' Recommendations: We recommend the City establish policies and procedures governing the budgetary process and monitoring of the budget in order to properly prepare and adjust the budget in order to properly authorize all expenditures and not exceed prior year available balances.

Views of Responsible Officials and Planned Corrective Action: The City did not budget for revenues to equal expenditures at the end of the current year due to leaving out the transfer in that was done in order to keep cash at \$0. The Finance Director is the individual responsible and will visit with DFA to determine how this can be avoided in the future. The City expects this finding to be resolved by the end of the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

FS 2015-002 Cash Internal Control Deficiencies (Material Weakness)

Condition: The City does not have a comprehensive documented internal control structure. We noted the following areas in which the City does not have sufficient key internal controls in place.

- Material journal entries in the amount of \$104,153 were required for cash.
- Petty cash is not being reconciled each month nor are there good controls over petty cash to ensure that funds are safeguarded.
- The City maintains fifteen (15) manual check registers for the various funds. Five (5) of these check registers are not being used. One (1) of these registers is for an old check register for the Senior Citizen Supply Fund that has been kept but is no longer in use. The other four (4) are for the bank accounts not currently in use.

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

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2015 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly.

Auditors' Recommendations: The City should ensure that all cash is correctly recorded at year end, petty cash is reconciled at least monthly, and to destroy all manual check registers in place of check stock.

Views of Responsible Officials and Planned Corrective Action: The City currently uses a separate utility billing software that requires the use of journal entries to record the activity. Also, due to the fifteen (15) checking accounts, the City sometimes needs to make unplanned transfers of cash. Lastly, the current accounting software system, due to how it was initially set up, requires correcting journal entries. The City is currently in the process of migrating to a new accounting software, which will help to resolve this issue as well as consolidating all checking accounts by the end of the 2016 fiscal year. For petty cash, a new policy to track and safeguard the City's petty cash is being developed. This policy will be reviewed and approved by the City Commission by the end of the 2016 fiscal year. The Finance Director is the individual responsible for resolving this finding.

Section III- Financial Statement Findings (continued)

FS 2015-003 Accounts Receivable Internal Control Deficiencies (Finding That Does Not Rise to Significant Deficiency)

Condition: It was noted in receipt internal control testwork in five samples out of five totaling \$453.34 that the deposit slip did not contain the signature or initials of the employee who prepared the deposit.

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: When an employee does not provide a signature on a deposit slip, management is unaware of the individual responsible should there be any issues with the deposit. This could lead to a greater risk for misappropriation of assets.

Cause: Management does not currently have a policy in place that requires the initials or signature of whoever prepares the deposit and who subsequently takes it to the bank.

Auditors' Recommendations: The City should create a policy to ensure all signatures are included on deposit slips.

Views of Responsible Officials and Planned Corrective Action: Staff are being reminded to sign the deposit slip when it is made out and the importance of internal controls. This will become policy once the new internal controls policy is reviewed and approved by the City Commission. The Finance Director is the individual responsible for resolving this finding, and it is expected that it will be resolved by the end of the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

FS 2015-004 Improper Accrual of Accounts Receivable (Material Weakness)

Condition: During the testwork for subsequent receipts, it was noted that seven (7) out of thirty (30) transactions were not classified correctly as accounts receivable. These transactions totaled \$111,039.85.

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

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

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

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 existing accounting software does not have the accounts receivable module set up. The Finance Director will ensure that the City has this corrected by the end of the 2016 fiscal year as it is part of the new accounting software being migrated to.

Section III- Financial Statement Findings (continued)

FS 2015-005 Capital Assets (Material Weakness)

Condition: During testwork for capital assets, the following issues were noted:

- An inaccurate capital asset listing was provided in the current year and restatements of \$2,402,802 were required to correct the balances from the prior year.
- During repairs and maintenance testwork, it was noted that four (4) assets totaling \$28,504 were incorrectly recorded in repairs and maintenance and excluded from the capital asset listing.

Criteria: NMAC 2.20.1 states that each agency shall establish controls over its fixed assets for the primary purposes of safeguarding them and establishing accountability for their custody and use. It further goes on to describe that fixed assets acquired through purchase shall be recorded at cost, which includes monetary value exchanged and associated costs to prepare the asset for its intended use. These associated costs include freight or shipping taxes, site preparation and installation, testing, reconditioning, direct labor, materials, and equipment use. Repairs and maintenance on fixed assets, which are routine and necessary for continued safe and productive operation, should be charged to maintenance expense in the period in which they occur.

Effect: Assets are more susceptible to being misclassified and materially misstating financial information.

Cause: The City was unable to correctly identify assets in the current year and create an accurate capital assets listing.

Auditors' Recommendations: We recommend that a capital asset inventory over all assets is prepared each year and certified by the City Commission as well as performing a rollforward of the capital asset listing each year. This rollforward should reconcile the prior year ending balances to the current year ending balances. Calculations on depreciation should be done each year to ensure that assets are depreciating appropriately including those that have been disposed. In addition, the listing of assets given to the Commission for certification should all be physically accounted for by the City and its departments prior to presenting the list to the Commission.

Views of Responsible Officials and Planned Corrective Action: An inaccurate capital asset listing requires restatements. The City's process of cleaning up the capital asset list has taken a couple of years. One item missed in the prior year was the old wastewater treatment facility, which was replaced in 2007 but never removed from the asset list. In addition with other items being identified as disposed in prior years, a total restatement of \$2,402,802 was necessary during the current year audit. There are no old or unaccounted for assets remaining on the capital asset list at this time. Therefore, this finding has been resolved as of October of 2015. The Finance Director will continue to ensure the accuracy of the capital asset list that is certified by the City Commission annually. For the repairs and maintenance, the Finance Director is developing new procedures to review postings and ensure they are correct. This issue will be resolved by the end of the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

FS 2015-006 Accounts Payable Internal Controls Deficiencies (Significant Deficiency)

Condition: It was noted in disbursement internal control testwork in five (5) samples out of five (5) totaling \$2,008.67 that the purchase requisition date and purchase order dates were all after the invoice date. Date differences varied between four (4) and forty-two (42) days after the date of the invoice.

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 Approvals for purchase requisitions and purchase orders being obtained after the invoice date could result in overspending of the budget and purchase of unnecessary items.

Cause: Management does not have a policy in place to ensure that purchase requisitions are being approved prior to the purchase of items, and the purchase requisitions reflect the written approval.

Auditors' Recommendations: The City should implement a policy to ensure that the proper written approvals are obtained for purchase requisitions and purchase orders prior to buying the items.

Views of Responsible Officials and Planned Corrective Action: Remedial training is being provided by the Finance Director to department heads regarding the purchasing policy. In addition, the policy is being reviewed to ensure that safeguards are in place to ensure accountability and compliance with accounting standards. This has been corrected as of December of 2015.

Section III- Financial Statement Findings (continued)

FS 2015-007 Improper accrual of Accounts Payable (Material Weakness)

Condition: During the testwork for subsequent disbursements, it was noted that thirty-eight (38) out of fifty-two (52) transactions were not classified correctly as accounts receivable. These transactions totaled \$188,530.51.

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

Effect: Because the 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 receivable 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 Finance Director is working on new procedures for tracking accounts payable at year end, which will need modification with the new software being implemented. The City should have this resolved by the end of the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

FS 2015-008 Personal Use of Vehicles (Finding That Does Not Rise to Significant Deficiency)

Condition: During inquiry about the City's personal use of vehicle policy it was found that the City has not been adding three dollars (\$3) per day to employee W-2's for those that use City vehicles, other than the exempt vehicles described below, for commuting or other personal purposes.

Criteria: According to the New Mexico State Audit Rule, Section 2.2.10 H(2)(a), "personal use of a governmental agency vehicle is always taxable income to the employee unless the vehicle is a qualified nonpersonal use vehicle [Rev. 1.274-5T(k)(3)] provided to the employee as a "working condition fringe benefit." Qualified nonpersonal use vehicles are defined in the New Mexico State Audit Rule, Section 2.2.10 H(2)(a)(i) as "clearly marked police and fire vehicles, unmarked law enforcement vehicles (officer must be authorized to carry a firearm and have arrest authority), ambulance or hearse, vehicle with gross weight over 14,000 lbs., twenty (20) passenger bus and school bus, tractor and other farm equipment, and delivery truck with driver seating only."

Effect: By not adding the fringe benefit to employee W-2's, the City is not in compliance with the New Mexico State Audit Rule and IRS regulations.

Cause: The payroll department at the City was not aware that this requirement existed.

Auditors' Recommendations: The auditor recommends that if nonexempted vehicles are used for personal reasons, the appropriate three dollars (\$3) per day fringe benefit be added to the appropriate employees' taxable wages.

Views of Responsible Officials and Planned Corrective Action: A new policy has been implemented to track personal vehicle use, and the Payroll Clerk is responsible for ensuring that the three dollars (\$3) per day is included in each employee's W-2 wages. This issue has been corrected as of December of 2015.

Section III- Financial Statement Findings (continued)

HAFS 2012-001 Deficiencies in Accounting for Capital Assets (Material Weakness)

Condition: The capital asset inventory system was not being reconciled. Also, the Authority is not properly recording the capital asset additions to the capital asset inventory. As a result, adjustments totaling \$714,322 for business-type activities were required to properly reconcile the Authority's assets. The Authority is working to capitalize the capital fund program monies correctly to ensure this issue is resolved in subsequent years.

Criteria: Per state statute 12-6-10, NMSA 1978 and regulation 2.20.1.15 NMAC, the Authority should establish controls over its fixed assets for the primary purpose of safeguarding them and establishing accountability for their custody and use. Assets must be properly capitalized, classified, valued, and depreciated.

Effect: The failure to maintain adequate capital asset records results in the inability of the Authority to maintain control over the capital assets and also results in the Authority being noncompliance with state requirements.

Cause: The Authority has not kept a complete inventory of their capital assets.

Auditors' Recommendations: We recommend that the Authority complete an inventory of all their capital assets and update it annually for any additions or dispositions of assets. Also, those capital assets must be depreciated according to state requirements.

Views of Responsible Officials and Planned Corrective Action: The City of Lovington Housing Authority would capitalize the capital fund program monies. Eastern Regional Housing Authority (ERHA) does not capitalize the capital fund program as we only capitalize \$5,000 and over. The ERHA Finance Director is responsible for resolving this finding and will complete it during the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

HAFS 2014-002 Late IPA Recommendation (Finding That Does Not Rise to Significant Deficiency)

Condition: The Authority did not submit its completed and signed IPA Recommendation Form and audit contract to the State Auditor by the required deadline. The contract was prepared on June 29, 2015 and approved by the State Auditor's Office on July 6, 2015. The Authority is in a professional service agreement with Eastern Regional Housing Authority (ERHA) and is working with this issue to ensure that this is resolved in subsequent years.

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

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

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

Auditors' Recommendations: We recommend that the Authority ensure all reports are filed timely with the State Auditor to be in compliance with all New Mexico state statutes.

Views of Responsible Officials and Planned Corrective Action: ERHA will ensure to procure the IPA for the 2016 fiscal year timely and submit the recommendation to the Office of the State Auditor by the deadline. The Chief Procurement Officer is responsible for resolving this finding and is expected to complete it during the 2016 fiscal year.

Section III- Financial Statement Findings (continued)

HAFS 2014-003 Expenditures in Excess of Budget (Finding That Does Not Rise to Significant Deficiency)

Condition: The Authority overexpended its budget in the Low Rent Public Housing Fund by \$6,466. The Authority did make progress in resolving this finding, and the Authority is working with Eastern Regional Housing Authority for submitting budget changes to the Board of Commissioners to ensure this issue is resolved in subsequent years.

Criteria: Budgetary controls, which include the timely adoption of budget adjustments, should prevent any expenditure in excess of the approved budget (6-6-6(I), NMSA 1978).

Effect: Any expenditure in excess of the approved budget indicates a lack of controls in the purchasing process, which leads to unauthorized purchases being made with Authority money.

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

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

Views of Responsible Officials and Planned Corrective Action: ERHA will review budgets in December of 2015, March of 2016, and June of 2016 and will submit changes to the Board of Commissioners for approval. The ERHA Executive Director, Finance Director, and Deputy Director are responsible for resolving this finding and expect to complete it by June of 2016.

STATE OF NEW MEXICO

City of Lovington

Other Disclosures

June 30, 2015

Exit Conference

An exit conference was held on December 11, 2015. In attendance were the following:

Representing the City of Lovington

Scotty Gandy

Ava Bengé

Gary Lee Chapman

James Williams

Carol Ann Hogue

Mayor

City Commissioner

Finance Director

City Manager

City Clerk

Representing Accounting & Consulting Group, LLP

Jessica Huff, CPA

In-charge Senior Auditor

Auditor Prepared Financial Statements

Accounting & Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes for the City of Lovington from the original books and records provided to them by the management of the City. The responsibility for the financial statements remains with the City.