



State of
New Mexico
City of Lovington

Annual Financial Report
For the Year Ended June 30, 2017



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STATE OF NEW MEXICO

City of Lovington

Official Roster

June 30, 2017

Name

Title

City Commission Members

Paul Campos	Mayor
David Trujillo	Mayor Pro Tem
Bernard Butcher	Commissioner
Scott Gandy	Commissioner
Arthur Sanchez	Commissioner

Administration

Gary Lee Chapman	Finance Director
James Williams	City Manager
Carol Ann Hogue	City Clerk

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Wayne Johnson
New Mexico State Auditor
The City Commission
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, the General 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 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 General Fund, and the aggregate remaining fund information of the City of Lovington, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 19 and Schedules I and II and the Notes to the Required Supplementary Information on pages 76 through 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and Supporting Schedules III through V required by section 2.2.2 NMAC are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and Supporting Schedules III through V 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, the combining and individual nonmajor fund financial statements and Supporting Schedules III through V required by section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
December 12, 2017

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

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, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements of the City of Lovington and additional information provided.

Financial Highlights

- The assets of the City of Lovington exceeded its liabilities at the close of the most recent fiscal year by \$29,492,782 (*net position*). However with a negative unrestricted net position of (\$1,186,025 or a negative 4%), the City does not have the ability to encumber additional liabilities outside of its ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$3,145,742. The decrease can be attributed primarily to local economic factors that led to the elimination of prior year assets and the reduction of anticipated state funding.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,488,382, a decrease of \$2,521,207 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,482,220 or 39.68% of total general fund expenditures.
- The City's total debt decreased by \$1,017,483 (10.26%) during the current fiscal year due to payments on the outstanding principal balance.

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

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

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

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

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

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found 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 of Lovington uses enterprise funds to account for its ambulance, solid waste, and water and sewer utility funds.

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

The basic proprietary fund financial statements can be found 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 43-74 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 88-107 of this report.

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lovington, assets exceeded liabilities by \$29,492,782 at the close of the most recent fiscal year.

The largest portion of the City of Lovington's net position (\$27,086,569 or 92%) reflect its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, furniture, vehicles, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2017 and June 30, 2016.

**CITY OF LOVINGTON'S
NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current Assets	\$ 8,617,517	\$ 10,469,788	\$ 2,903,935	\$ 4,807,687	\$ 11,521,452	\$ 15,277,475
Noncurrent assets other than capital assets	-	-	478,033	440,544	478,033	440,544
Capital assets, net	21,691,174	22,002,723	13,291,970	12,371,028	34,983,144	34,373,751
Total Assets	30,308,691	32,472,511	16,673,938	17,619,259	46,982,629	50,091,770
Deferred outflows of resources	3,136,590	1,064,568	668,981	250,684	3,805,571	1,315,252
Total Assets and Deferred outflows	33,445,281	33,537,079	17,342,919	17,869,943	50,788,200	51,407,022
Current liabilities	822,742	1,247,854	1,220,546	1,314,686	2,043,288	2,562,540
Noncurrent liabilities	11,926,670	8,904,485	7,096,710	6,899,047	19,023,380	15,803,532
Total liabilities	12,749,412	10,152,339	8,317,256	8,213,733	21,066,668	18,366,072
Deferred inflows of resources	207,487	375,151	21,263	27,275	228,750	402,426
Total Assets and Deferred outflows	12,956,899	10,527,490	8,338,519	8,241,008	21,295,418	18,768,498
Net investment in capital assets	20,378,364	22,492,798	6,708,205	5,369,780	27,086,569	27,862,578
Restricted	3,592,238	4,354,797	-	-	3,592,238	4,354,797
Unrestricted	(3,482,220)	(1,838,006)	2,296,195	4,259,155	(1,186,025)	2,421,149
Total net position	\$ 20,488,382	\$ 23,009,589	\$ 9,004,400	\$ 9,628,935	\$ 29,492,782	\$ 32,638,524

An additional portion of the City of Lovington's net position of \$3,592,238 (18%) represents resources that are subject to external restrictions on how they may be used. With a negative *unrestricted net position* of (\$1,186,025 or a negative 4%), the City does not have additional resources available to meet the City's ongoing obligations to citizens and creditors.

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

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

Governmental Activities. Governmental activities decreased the City of Lovington's net position by \$2,952 (in thousands). Key elements of this increase are as follows:

- Revenues were down by \$1,192 (in thousands), with \$1,302 (in thousands) of this decrease due to reductions in gross receipts taxes.
- Intergovernmental revenues were up by \$601 (in thousands) of which \$218 (in thousands) were received from State Grants.

Business-Type Activities. Business-type activities decreased the City's net position by \$1,522 (in thousands). Key elements of this decrease are as follows:

- Revenues increased by \$147 (in thousands), yet expenditures decrease even more by \$908 (in thousands).

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Taxes	\$ 7,391	\$ 8,640	\$ -	\$ -	\$ 7,391	\$ 8,640
Intergovernmental	1,362	761	11	93	1,373	854
Charges for services	577	645	6,038	5,801	6,615	6,446
Other	387	863	1	9	388	872
Total Revenues	9,717	10,909	6,050	5,903	15,767	16,812
Expenses						
General Government	2,647	3,873	-	-	2,647	3,873
Public Safety	5,878	5,058	-	-	5,878	5,058
Public works	1,662	1,525	-	-	1,662	1,525
Culture and recreation	2,110	2,052	-	-	2,110	2,052
Conservation and development	254	624	-	-	254	624
Interest on long-term debt	99	92	-	-	99	92
Water, Sewer, Solid Waste and Ambulance	-	-	6,675	5,768	6,675	5,768
Total expenses	12,650	13,225	6,675	5,768	19,326	18,993
Transfers	(19)	764	-	(755)	(19)	9
Changes in net position	\$ (2,952)	\$ (1,552)	\$ (625)	\$ (620)	\$ (3,577)	\$ (2,172)

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

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$8,163,537 a decrease of \$1,793,162 in comparison with the prior year. Approximately 10% of the total amount, \$853,256 is *restricted for subsequent year's* expenditures, which have externally enforceable limitations imposed on the spendable fund balance. However, the City has a negative *unrestricted net position* of approximately (\$3,482,382 negative 17%), as such, the City does not have unrestricted resources available to meet the City's ongoing obligations to citizens and creditors.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance totaled \$4,865,737 of which \$3,742,482 was unassigned. This represents 43% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$1,411,397 during the current fiscal year due to economic conditions.

Proprietary Funds. The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the three proprietary funds at the end of the year amounted to \$9,004,400 a decrease of \$624,535 from the prior fiscal year.

General Fund Budgetary Highlights

There were amendments to the City of Lovington's fiscal year 2017 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 \$2,531,625 in the general fund revenues. The primary impact, an unfavorable variance of \$1,970,424 in Gross Receipt Taxes, charges for services had an unfavorable variance of \$22,776, fines and forfeitures had an unfavorable impact of \$38,675, and State grants had an unfavorable variance of \$236,000 and the rest in miscellaneous revenues.

The net favorable variance of \$1,616,572 in general fund expenditures was due primarily to all our departments efforts not expending all the funds budgeted. \$513,534 was not expended in the general government function, and \$5,605 not expended in the capital outlay function, \$806,245 was not expended in the public safety function, \$136,530 was not expended in the public works function, and \$154,658 was expended over budget in the Culture and recreation function.

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

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, 2017 amounts to \$34,983 (in thousands, net of accumulated depreciation). This investment in capital assets includes land, land-right of ways, land improvements, library collection, historical treasures, buildings and improvements, computers, machinery and equipment, furniture and fixtures, vehicles, and infrastructure.

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

- \$ 203,304 Fire Station Design
- \$ 157,576 Phase 1 17th Street Reconstruction
- \$ 208,339 Washington Street Reconstruction
- \$1,070,625 Water Meter Replacement Project
- \$ 176,495 CAT Wheel Loader
- \$ 232,296 New Ambulance
- \$ 90,425 Fencing at Convenience Station

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

- \$ 71,282 Four Police Cars
- \$ 32,988 Library Shelving
- \$ 114,850 Street Sweeper
- \$ 41,529 Pay loader
- \$ 11,000 Elevating Scraper

**CITY OF LOVINGTON
CAPITAL ASSETS**

	Governmental Activites		Business-type Activites		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 152,981	\$ 152,981	\$ 323,082	\$ 323,082	\$ 476,063	\$ 476,063
Construction in progress	591,561	118,187	26,017	21,152	617,578	139,339
Infrastructure	19,066,514	20,413,266	1,714,315	1,714,315	20,780,829	22,127,581
Buildings and improvements	16,816,491	15,064,685	19,542,845	19,439,722	36,359,336	34,504,407
Library collection	1,630,836	1,630,836	-	-	1,630,836	1,630,836
Machinery and equipment	4,547,940	3,835,077	5,034,035	3,288,538	9,581,975	7,123,615
Vehicles	2,956,421	3,264,600	1,236,602	1,372,057	4,193,023	4,636,657
Total Capital Assets	<u>45,762,744</u>	<u>44,479,632</u>	<u>27,876,896</u>	<u>26,158,866</u>	<u>73,639,640</u>	<u>70,638,498</u>
Less: Accumulated Depreciation	<u>(24,071,570)</u>	<u>(22,476,909)</u>	<u>(14,584,926)</u>	<u>(13,788,158)</u>	<u>(38,656,496)</u>	<u>(36,265,067)</u>
Capital Assets, net	<u>\$ 21,691,174</u>	<u>\$ 22,002,723</u>	<u>\$ 13,291,970</u>	<u>\$ 12,370,708</u>	<u>\$ 34,983,144</u>	<u>\$ 34,373,431</u>

Additional information on the City of Lovington's capital assets can be found in Notes 1 and 6 on pages 50 and 61-62 of this report.

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

Debt Administration. At the end of the current fiscal year, the City of Lovington had total debt from outstanding loans of \$8,898,765, which is secured by Water and Wastewater operating revenues and Gross Receipt Taxes.

**CITY OF LOVINGTON
LONG-TERM DEBT**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Loans	\$ 2,315,000	\$ 2,915,000	\$ 6,583,765	\$ 7,001,248	\$ 8,898,765	\$ 9,916,248
Compensated absences	772,970	633,715	200,190	138,105	973,160	771,820
Total debt outstanding	<u>\$ 2,315,000</u>	<u>\$ 2,915,000</u>	<u>\$ 6,583,765</u>	<u>\$ 7,001,248</u>	<u>\$ 8,898,765</u>	<u>\$ 9,916,248</u>

State statutes currently limit the amount of general obligation debt the City may issue up to 4.00% of its total assessed valuation for general purposes. Additional information on the City of Lovington's debt can be found in Note 7 on pages 63-64 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 within Lea County was at 11.2% at the beginning of this fiscal year and decreased to 8.0% at year end. The decrease in petroleum exploration, production, and its associated services created the greatest impact to the unemployment rate and directly resulted in the decrease in revenue. By utilizing data from previous years of the "boom and bust" cycle of the petroleum industry as well as government finance experience, City staff were able to provide the City Commission with conservative numbers in regards to anticipated revenues in addition to reduce expenditure by all means possible while at the same time maintaining our workforce.

City staff have been diligently working to resolve prior year(s) audit findings so that accurate reporting of the City's financial position can be a possible and in compliance with GAAP. Efforts to reach this goal have included implementation of policies, procedures, additional training of staff, use of technology, and the hiring of an experienced government finance officer. To preserve the City's financial resources, management has also made it a priority to ensure that an equipment replacement program is implemented so that higher quality and more efficient equipment is purchased to replace antiquated items. Implementation of our financial management software was ongoing throughout the fiscal year, with its "go live" date occurring in our next fiscal year. A combination of all of these strategies will enable the City to be more compliance with GAAP in addition to the preservation and responsible stewardship of taxpayer assets and funds.

Although our economy did experience a decline in this fiscal year, the economic forecast at the local level is giving the appearance of a recovery. Given this information, management is remains dedicated to conservative budgeting. In next year's budget, City efforts will be focused on infrastructure and capital improvement projects, realignment of staff for increased efficiency, new business recruitment through joint efforts with our economic development partners, and quality of life enhancements.

Request for Information

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

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

City of Lovington

Statement of Net Position

June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 6,370,807	\$ 1,027,117	\$ 7,397,924
Investments	399,846	129,654	529,500
Receivables:			
Taxes	1,226,841	-	1,226,841
Intergovernmental	168,337	177,820	346,157
Other	181,737	1,400,594	1,582,331
Inventory	269,999	168,700	438,699
Internal balances	(50)	50	-
<i>Total current assets</i>	<u>8,617,517</u>	<u>2,903,935</u>	<u>11,521,452</u>
Noncurrent assets			
Restricted cash	-	478,033	478,033
Capital assets	45,762,744	27,876,896	73,639,640
Less: accumulated depreciation	(24,071,570)	(14,584,926)	(38,656,496)
<i>Total noncurrent assets</i>	<u>21,691,174</u>	<u>13,770,003</u>	<u>35,461,177</u>
<i>Total assets</i>	<u>30,308,691</u>	<u>16,673,938</u>	<u>46,982,629</u>
Deferred outflows of resources			
Changes of assumptions	497,549	80,451	578,000
Changes in proportion	894,812	152,461	1,047,273
Difference between expected and actual experience	459,189	75,678	534,867
Employer contributions subsequent to the measurement date	391,791	55,981	447,772
Net difference between projected and actual investment earnings	893,249	304,410	1,197,659
<i>Total deferred outflows of resources</i>	<u>3,136,590</u>	<u>668,981</u>	<u>3,805,571</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 33,445,281</u>	<u>\$ 17,342,919</u>	<u>\$ 50,788,200</u>

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 243,770	\$ 189,436	\$ 433,206
Accrued payroll	138,028	-	138,028
Current portion of accrued compensated absences	264,794	66,618	331,412
Deposits held in trust	-	478,033	478,033
Accrued interest	26,150	61,093	87,243
Current portion of bonds payable	150,000	-	150,000
Current portion of loans payable	-	425,366	425,366
<i>Total current liabilities</i>	<u>822,742</u>	<u>1,220,546</u>	<u>2,043,288</u>
Noncurrent liabilities			
Accrued compensated absences	508,176	133,574	641,750
Bonds payable	2,165,000	-	2,165,000
Loans payable	-	6,158,399	6,158,399
Net pension liability	9,253,494	804,737	10,058,231
<i>Total noncurrent liabilities</i>	<u>11,926,670</u>	<u>7,096,710</u>	<u>19,023,380</u>
<i>Total liabilities</i>	<u>12,749,412</u>	<u>8,317,256</u>	<u>21,066,668</u>
Deferred inflows of resources			
Changes of assumptions	48,510	-	48,510
Changes in proportion	144,617	19,189	163,806
Differences between expected and actual experience	14,360	2,074	16,434
<i>Total deferred inflows of resources</i>	<u>207,487</u>	<u>21,263</u>	<u>228,750</u>
Net position			
Net investment in capital assets	20,378,364	6,708,205	27,086,569
Restricted for:			
Special revenue	2,454,393	-	2,454,393
Debt service	588,425	-	588,425
Capital projects	549,420	-	549,420
Unrestricted	<u>(3,482,220)</u>	<u>2,296,195</u>	<u>(1,186,025)</u>
<i>Total net position</i>	<u>20,488,382</u>	<u>9,004,400</u>	<u>29,492,782</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 33,445,281</u>	<u>\$ 17,342,919</u>	<u>\$ 50,788,200</u>

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

STATE OF NEW MEXICO
City of Lovington
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities:				
General government	\$ 2,647,126	\$ 500,010	\$ 525,929	\$ 239,539
Public safety	5,877,759	44,459	270,957	101,257
Public works	1,662,436	-	1,857	25,071
Culture and recreation	2,109,583	32,650	197,296	-
Conservation and development	254,447	-	-	-
Interest on long-term debt	99,022	-	-	-
<i>Total governmental activities</i>	<u>12,650,373</u>	<u>577,119</u>	<u>996,039</u>	<u>365,867</u>
Business-type activities:				
Solid waste	1,925,002	2,102,980	-	11,101
Water and wastewater	3,915,792	3,012,835	-	-
Ambulance	834,508	922,323	-	-
<i>Total business-type activities</i>	<u>6,675,302</u>	<u>6,038,138</u>	<u>-</u>	<u>11,101</u>
<i>Total primary government</i>	<u>\$ 19,325,675</u>	<u>\$ 6,615,257</u>	<u>\$ 996,039</u>	<u>\$ 376,968</u>

General revenues and transfers

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 to agency funds

Total general revenues

Change in net position

Net position - beginning of year

Restatement (Note 20)

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		
Governmental Activities	Business-Type Activities	Total
\$ (1,381,648)	\$ -	\$ (1,381,648)
(5,461,086)	-	(5,461,086)
(1,635,508)	-	(1,635,508)
(1,879,637)	-	(1,879,637)
(254,447)	-	(254,447)
(99,022)	-	(99,022)
<u>(10,711,348)</u>	<u>-</u>	<u>(10,711,348)</u>
-	189,079	189,079
-	(902,957)	(902,957)
-	87,815	87,815
<u>-</u>	<u>(626,063)</u>	<u>(626,063)</u>
<u>(10,711,348)</u>	<u>(626,063)</u>	<u>(11,337,411)</u>
416,325	-	416,325
6,375,360	-	6,375,360
243,410	-	243,410
355,933	-	355,933
8,424	622	9,046
109,627	-	109,627
269,277	111	269,388
(18,536)	-	(18,536)
<u>7,759,820</u>	<u>733</u>	<u>7,760,553</u>
(2,951,528)	(625,330)	(3,576,858)
23,009,589	9,628,935	32,638,524
430,321	795	431,116
<u>23,439,910</u>	<u>9,629,730</u>	<u>33,069,640</u>
<u>\$ 20,488,382</u>	<u>\$ 9,004,400</u>	<u>\$ 29,492,782</u>

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

STATE OF NEW MEXICO
City of Lovington
Governmental Funds
Balance Sheet
June 30, 2017

Exhibit B-1
Page 1 of 2

	General Fund	Other Governmental Funds	Total
Assets			
Cash and cash equivalents	\$ 3,179,297	\$ 3,110,943	\$ 6,290,240
Investments	369,455	30,391	399,846
Receivables:			
Taxes	1,019,472	207,369	1,226,841
Intergovernmental	137,413	30,924	168,337
Other	149,409	32,328	181,737
Inventory	269,999	-	269,999
Due from other funds	609	-	609
	<u>\$ 5,125,654</u>	<u>\$ 3,411,955</u>	<u>\$ 8,537,609</u>
<i>Total assets</i>			
Liabilities			
Accounts payable	\$ 127,018	\$ 113,546	\$ 240,564
Accrued payroll	114,550	-	114,550
Due to other funds	50	609	659
	<u>241,618</u>	<u>114,155</u>	<u>355,773</u>
<i>Total liabilities</i>			
Deferred inflows of resources			
Unavailable revenue - property taxes	18,299	-	18,299
	<u>18,299</u>	<u>-</u>	<u>18,299</u>
<i>Total deferred inflows of resources</i>			
Fund balances			
Nonspendable:			
Inventory	269,999	-	269,999
Spendable:			
Restricted:			
Public safety	-	142,663	142,663
Tourism	-	23,481	23,481
Public works	-	1,043,661	1,043,661
Health and welfare	-	18,499	18,499
Culture and recreation	-	11,732	11,732
General government	-	17,338	17,338
Economic development	-	825,934	825,934
Capital improvements	-	1,097,512	1,097,512
Committed:			
Culture and recreation	-	116,980	116,980
Subsequent year's expenditures	853,256	-	853,256
Unassigned	3,742,482	-	3,742,482
	<u>4,865,737</u>	<u>3,297,800</u>	<u>8,163,537</u>
<i>Total fund balances</i>			
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 5,125,654</u>	<u>\$ 3,411,955</u>	<u>\$ 8,537,609</u>

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

STATE OF NEW MEXICO

City of Lovington

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2017

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$ 8,163,537
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. The net effect of this consolidation is an increase to net position.</p>	
	53,883
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	21,691,174
<p>Deferred outflows and inflows of resources related to pension are applicable to future periods and, therefore, are not reported in the funds:</p>	
Changes of assumptions	497,549
Changes in proportion	894,812
Difference between expected and actual experience	459,189
Employer contributions subsequent to the measurement date	391,791
Net difference between projected and actual investment earnings	893,249
Changes of assumptions	(48,510)
Changes in proportion	(144,617)
Difference between expected and actual experience	(14,360)
<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>	18,299
<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 interest payable	(26,150)
Accrued compensated absences not due and payable at year end	(772,970)
Bonds payable	(2,315,000)
Net pension liability	(9,253,494)
	(12,367,614)
<i>Total net position of governmental activities</i>	\$ 20,488,382

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

STATE OF NEW MEXICO

City of Lovington

Governmental Funds

Statement of Revenues, Expenditures, and Change in Fund Balances
For the Year Ended June 30, 2017

Exhibit B-2

Page 1 of 2

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Revenues</i>			
Taxes:			
Property	\$ 415,984	\$ -	\$ 415,984
Gross receipts	5,475,120	900,240	6,375,360
Gasoline and motor vehicle taxes	30,509	212,901	243,410
Other	215,954	139,978	355,932
Intergovernmental income:			
Federal operating grants	33,801	32,880	66,681
Federal capital grants	14,624	-	14,624
State operating grants	503,585	425,773	929,358
State capital grants	276,469	74,774	351,243
Charges for services	298,023	65,337	363,360
Investment income	6,701	1,722	8,423
Fines and forfeitures	109,627	-	109,627
Miscellaneous	222,845	46,432	269,277
<i>Total revenues</i>	<u>7,603,242</u>	<u>1,900,037</u>	<u>9,503,279</u>
<i>Expenditures</i>			
Current:			
General government	2,162,261	145,151	2,307,412
Public safety	4,411,605	123,164	4,534,769
Public works	628,084	34,558	662,642
Culture and recreation	1,145,707	529,058	1,674,765
Conservation and development	2,235	252,212	254,447
Capital outlay	425,332	708,202	1,133,534
Debt service:			
Principal	-	600,000	600,000
Interest	-	87,447	87,447
<i>Total expenditures</i>	<u>8,775,224</u>	<u>2,479,792</u>	<u>11,255,016</u>
Excess (deficiency) of revenues over expenditures	<u>(1,171,982)</u>	<u>(579,755)</u>	<u>(1,751,737)</u>
Other financing sources (uses)			
Operating transfers in	39,819	908,846	948,665
Operating transfers (out)	<u>(279,234)</u>	<u>(710,856)</u>	<u>(990,090)</u>
<i>Total other financing sources (uses)</i>	<u>(239,415)</u>	<u>197,990</u>	<u>(41,425)</u>
Net change in fund balances	(1,411,397)	(381,765)	(1,793,162)
Fund balances - beginning of year	<u>6,277,134</u>	<u>3,679,565</u>	<u>9,956,699</u>
<i>Fund balance - end of year</i>	<u>\$ 4,865,737</u>	<u>\$ 3,297,800</u>	<u>\$ 8,163,537</u>

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, 2017

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	\$ (1,793,162)
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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	1,133,534
Depreciation expense	(1,859,493)
Book value of disposed capital assets	(15,911)

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	447,772
Pension expense	(1,317,450)

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

Change in unavailable revenue related to property taxes receivable	4,012
--	-------

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:

Increase in accrued compensated absences	(139,255)
Increase in accrued interest	(11,575)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial
resources to governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net position. Also, governmental funds
report the effect premiums, discounts, and similar items when debt is first issued,
whereas these amounts are deferred and amortized in the Statement of Activities:

Principal payments on bonds payable	<u>600,000</u>
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<i>Change in net position of governmental activities</i>	<u><u>\$ (2,951,528)</u></u>
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The accompanying notes are an integral part of these financial statements.

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STATE OF NEW MEXICO

Exhibit C-1

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, 2017

	Budgeted Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues</i>				
Taxes:				
Property taxes	\$ 458,569	\$ 458,569	\$ 411,221	\$ (47,348)
Gross receipts	7,378,602	7,378,602	5,408,178	(1,970,424)
Gasoline and motor vehicle	30,289	30,289	30,289	-
Other	240,000	240,000	197,680	(42,320)
Intergovernmental income:				
Federal operating grants	-	20,701	20,701	-
Federal capital grants	-	14,624	14,624	-
State operating grants	515,000	547,457	311,457	(236,000)
State capital grants	35,711	115,023	114,446	(577)
Charges for services	314,250	317,242	294,466	(22,776)
Investment income	10,000	10,000	4,229	(5,771)
Fines and forfeitures	145,800	146,250	107,575	(38,675)
Miscellaneous income	499,699	688,740	521,006	(167,734)
<i>Total revenues</i>	<u>9,627,920</u>	<u>9,967,497</u>	<u>7,435,872</u>	<u>(2,531,625)</u>
<i>Expenditures</i>				
Current:				
General government	2,638,062	2,778,662	2,265,128	513,534
Public safety	5,230,968	5,385,185	4,578,940	806,245
Public works	717,361	801,262	664,732	136,530
Culture and recreation	1,309,925	1,454,706	1,300,048	154,658
Conservation and development	-	1,816	1,816	-
Capital outlay	9,000	109,000	103,395	5,605
<i>Total expenditures</i>	<u>9,905,316</u>	<u>10,530,631</u>	<u>8,914,059</u>	<u>1,616,572</u>
Excess (deficiency) of revenues over expenditures	<u>(277,396)</u>	<u>(563,134)</u>	<u>(1,478,187)</u>	<u>(915,053)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	530,905	750,729	-	(750,729)
Operating transfers in	36,000	39,820	39,819	(1)
Operating transfers (out)	<u>(289,509)</u>	<u>(227,415)</u>	<u>(279,234)</u>	<u>(51,819)</u>
<i>Total other financing sources (uses)</i>	<u>277,396</u>	<u>563,134</u>	<u>(239,415)</u>	<u>(802,549)</u>
Net change in fund balance	-	-	(1,717,602)	(1,717,602)
Fund balances - beginning of year	-	-	5,231,086	5,231,086
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,513,484</u>	<u>\$ 3,513,484</u>
Net change in fund balance (non-GAAP budgetary basis)				\$ (1,717,602)
Adjustments to revenues for taxes and other receivables				167,370
Adjustments to expenditures for professional services, utilities, supplies and accrued payroll				138,835
<i>Net change in fund balance (GAAP basis)</i>				<u>\$ (1,411,397)</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, 2017

	Business-Type Activities - Enterprise Funds	
	Solid Waste	Water and Wastewater
Assets		
Current assets		
Cash and cash equivalents	\$ 77,265	\$ 557,782
Investments	59,698	69,956
Receivables:		
Charges for services	695,593	704,992
Intergovernmental	-	-
Inventory	-	158,056
Due from other funds	-	-
<i>Total current assets</i>	832,556	1,490,786
Noncurrent assets		
Restricted cash	-	478,033
Capital assets	527,526	26,416,959
Less: accumulated depreciation	(181,733)	(14,155,112)
<i>Total noncurrent assets</i>	345,793	12,739,880
<i>Total assets</i>	1,178,349	14,230,666
Deferred outflows of resources		
Changes assumptions	-	40,636
Changes in proportion	-	75,091
Difference between expected and actual experience	-	36,964
Employer contributions subsequent to the measurement date	-	26,277
Net difference between projected and actual earnings	-	149,561
<i>Total deferred outflows of resources</i>	-	328,529
<i>Total assets and deferred outflows of resources</i>	\$ 1,178,349	\$ 14,559,195

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

Business-Type Activities - Enterprise Funds		Governmental Activities
Ambulance Fund	Total	Internal Service Funds
\$ 392,070	\$ 1,027,117	\$ 80,567
-	129,654	-
9	1,400,594	-
177,820	177,820	-
10,644	168,700	-
50	50	-
<u>580,593</u>	<u>2,903,935</u>	<u>80,567</u>
-	478,033	-
932,411	27,876,896	-
(248,081)	(14,584,926)	-
<u>684,330</u>	<u>13,770,003</u>	<u>-</u>
<u>1,264,923</u>	<u>16,673,938</u>	<u>80,567</u>
39,815	80,451	-
77,370	152,461	-
38,714	75,678	-
29,704	55,981	-
154,849	304,410	-
<u>340,452</u>	<u>668,981</u>	<u>-</u>
<u>\$ 1,605,375</u>	<u>\$ 17,342,919</u>	<u>\$ 80,567</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, 2017

	Business-Type Activities - Enterprise Funds	
	Solid Waste	Water and Wastewater
Liabilities		
Current liabilities		
Accounts payable	\$ 141,579	\$ 39,433
Accrued payroll	-	-
Current portion of accrued compensated absences	3,469	50,852
Deposits held in trust	-	478,033
Accrued interest	-	61,093
Current portion of loans payable	-	425,366
<i>Total current liabilities</i>	145,048	1,054,777
Noncurrent liabilities		
Accrued compensated absences	-	97,381
Loans payable	-	6,158,399
Net pension liability	-	398,294
<i>Total noncurrent liabilities</i>	-	6,654,074
<i>Total liabilities</i>	145,048	7,708,851
Deferred inflows of resources		
Change of assumptions	-	-
Changes in proportion	-	8,792
Difference between expected and actual experience	-	976
<i>Total deferred inflows of resources</i>	-	9,768
Net position		
Net investment in capital assets	345,793	5,678,082
Unrestricted	687,508	1,162,494
<i>Total net position</i>	1,033,301	6,840,576
<i>Total liabilities and net position</i>	\$ 1,178,349	\$ 14,559,195

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

Business-Type Activities - Enterprise Funds		Governmental Activities
Ambulance Fund	Total	Internal Service Funds
\$ 8,424	\$ 189,436	\$ 3,206
-	-	23,478
12,297	66,618	-
-	478,033	-
-	61,093	-
-	425,366	-
<u>20,721</u>	<u>1,220,546</u>	<u>26,684</u>
36,193	133,574	-
-	6,158,399	-
<u>406,443</u>	<u>804,737</u>	<u>-</u>
<u>442,636</u>	<u>7,096,710</u>	<u>-</u>
<u>463,357</u>	<u>8,317,256</u>	<u>26,684</u>
-	-	-
10,397	19,189	-
<u>1,098</u>	<u>2,074</u>	<u>-</u>
<u>11,495</u>	<u>21,263</u>	<u>-</u>
684,330	6,708,205	-
<u>446,193</u>	<u>2,296,195</u>	<u>53,883</u>
<u>1,130,523</u>	<u>9,004,400</u>	<u>53,883</u>
<u>\$ 1,605,375</u>	<u>\$ 17,342,919</u>	<u>\$ 80,567</u>

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

STATE OF NEW MEXICO
City of Lovington
Statement of Revenues, Expenses, and Change in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds	
	Solid Waste	Water and Wastewater
<i>Operating revenues</i>		
Charges for services	\$ 2,102,980	\$ 3,012,835
<i>Total operating revenues</i>	<u>2,102,980</u>	<u>3,012,835</u>
<i>Operating expenses</i>		
Personnel services	180,329	1,451,930
Contractual services	1,665,420	123,341
Supplies	7,966	551,365
Maintenance and materials	31,396	81,287
Utilities	4,197	324,503
Depreciation	8,002	852,081
Other operating expenses	27,692	421,763
<i>Total operating expenses</i>	<u>1,925,002</u>	<u>3,806,270</u>
Operating income (loss)	<u>177,978</u>	<u>(793,435)</u>
<i>Nonoperating revenues (expenses)</i>		
Investment income	-	392
Book value of disposed capital assets	-	-
Miscellaneous income	29	76
Interest expense	-	(109,522)
<i>Total nonoperating revenues (expenses)</i>	<u>29</u>	<u>(109,054)</u>
Income (loss) before contributions and transfers	<u>178,007</u>	<u>(902,489)</u>
<i>Capital grants and net transfers</i>		
Capital grants and contributions	11,101	-
Operating transfers in	-	-
<i>Total capital grants and net transfers</i>	<u>11,101</u>	<u>-</u>
Change in net position	189,108	(902,489)
Net position - beginning of year	844,193	7,742,270
Restatement (Note 20)	-	795
Net position- beginning of year, restated	<u>844,193</u>	<u>7,743,065</u>
<i>Net position - end of year</i>	<u>\$ 1,033,301</u>	<u>\$ 6,840,576</u>

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

Business-Type Activities - Enterprise Funds		Governmental Activities
Ambulance Fund	Total	Internal Service Funds
\$ 922,323	\$ 6,038,138	\$ 213,759
922,323	6,038,138	213,759
494,528	2,126,787	-
49,366	1,838,127	-
86,702	646,033	-
15,858	128,541	-
40,084	368,784	-
52,427	912,510	-
75,830	525,285	236,774
814,795	6,546,067	236,774
107,528	(507,929)	(23,015)
230	622	-
(19,713)	(19,713)	-
6	111	-
-	(109,522)	-
(19,477)	(128,502)	-
88,051	(636,431)	(23,015)
-	11,101	-
-	-	22,889
-	11,101	22,889
88,051	(625,330)	(126)
1,042,472	9,628,935	54,009
-	795	-
1,042,472	9,629,730	54,009
\$ 1,130,523	\$ 9,004,400	\$ 53,883

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

STATE OF NEW MEXICO
City of Lovington
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds	
	Solid Waste	Water and Wastewater
<i>Cash flows from operating activities</i>		
Cash received from user charges	\$ 1,831,244	\$ 3,040,990
Cash payments to employees for services	(1,422,664)	(1,560,224)
Cash payments to suppliers for goods and services	(499,473)	(1,553,206)
<i>Net cash provided (used) by operating activities</i>	<u>(90,893)</u>	<u>(72,440)</u>
<i>Cash flows from investing activities</i>		
Interest on investments	-	392
<i>Net cash provided by investing activities</i>	<u>-</u>	<u>392</u>
<i>Cash flows from noncapital financing activities</i>		
Miscellaneous income	29	76
Net cash transfers	-	-
<i>Net cash provided by noncapital financing activities</i>	<u>29</u>	<u>76</u>
<i>Cash flows from capital and related financing activities</i>		
Capital grants and contributions	11,101	-
Interest paid	-	(113,530)
Principal payments on long-term debt	-	(417,483)
Acquisition of capital assets	(90,425)	(1,529,649)
<i>Net cash (used) by capital and related financing activities</i>	<u>(79,324)</u>	<u>(2,060,662)</u>
Net (decrease) in cash and cash equivalents	(170,188)	(2,132,634)
Cash and cash equivalents - beginning of year	247,453	3,168,449
<i>Cash and cash equivalents - end of year</i>	<u>\$ 77,265</u>	<u>\$ 1,035,815</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 177,978	\$ (793,435)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	8,002	852,081
Noncash pension expense	-	207,361
Changes in assets, deferred outflows and liabilities		
Receivables	(271,736)	(179,206)
Inventory	-	22,151
Employer contributions subsequent to the measurement date	-	(124,174)
Accounts payable	(4,210)	(110,587)
Accrued payroll	(3,998)	1,911
Current portion of accrued compensated absences	3,071	13,969
Deposits held in trust	-	37,489
<i>Net cash provided (used) by operating activities</i>	<u>\$ (90,893)</u>	<u>\$ (72,440)</u>

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

Business-Type Activities - Enterprise Funds		Governmental Activities
Ambulance Fund	Total	Internal Service Funds
\$ 1,067,278	\$ 5,939,512	\$ -
(562,876)	(3,545,764)	213,759
(296,276)	(2,348,955)	(250,588)
208,126	44,793	(36,829)
-	392	-
-	392	-
236	341	-
(50)	(50)	22,889
186	291	22,889
-	11,101	-
-	(113,530)	-
-	(417,483)	-
(232,296)	(1,852,370)	-
(232,296)	(2,372,282)	-
(23,984)	(2,326,806)	(13,940)
448,164	3,864,066	94,507
\$ 424,180	\$ 1,537,260	\$ 80,567
\$ 138,525	\$ (476,932)	\$ (23,015)
52,427	912,510	-
208,767	416,128	-
(92,495)	(543,437)	-
28,683	50,834	-
(126,018)	(250,192)	-
(28,436)	(143,233)	3,206
15,523	13,436	(17,020)
11,150	28,190	-
-	37,489	-
\$ 208,126	\$ 44,793	\$ (36,829)

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

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STATE OF NEW MEXICO
City of Lovington
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Exhibit E-1

Assets

Cash	\$ 49,083
Accounts receivable	<u>2,743</u>
<i>Total assets</i>	<u><u>\$ 51,826</u></u>

Liabilities

Deposits held in trust	<u>\$ 51,826</u>
<i>Total liabilities</i>	<u><u>\$ 51,826</u></u>

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

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STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

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 Commission-Mayor form of government and provides the following services as authorized by its charter: public safety (police, ambulance, and fire), streets, sanitation, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

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

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the 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, 2017, the City adopted GASB Statements *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 (partial), No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, No. 77, Tax Abatement Disclosures, No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14 and No. 82, Pension Issues-an amendment of GASB Statements No. 67, NO. 68, and No. 73.* These six Statements are required to be implemented as of June 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the City, as its pension plan is within the scope of Statement 68.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the City's financial statements directly the City's retirement plan is a defined contribution plan and therefore, is not under the scope of this statement.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

The City was not affected by any tax abatements. Implementation of this standard is June 30, 2017.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The City's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

GASB Statement No. 82 clarified and adjusted several items from GASB Statement Nos. 67 and 68, including the definition of covered payroll, the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

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, GASB Statement No. 61 and GASB Statement No. 80. 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

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 no component units, and it not a component unit of another governmental agency.

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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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.

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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 fund:

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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

State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Government, and the State 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% collectible.

Property taxes are levied on November 1st based on the assessed value of property as listed on the previous January 1st and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent, and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the City.

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 III government for purposes of implementing GASB Statement No. 34, and therefore, was not required to include the historical cost of infrastructure assets retroactive to 1980. Information technology equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9C(5). Donated capital assets are recorded at estimated fair market value at the date of donation. There were no assets donated to the City for the year ended June 30, 2017.

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, 2017, along with the applicable Public Employees Retirement Association (PERA) and other benefits and taxes costs.

Deferred outflows of resources: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City has five types of items that qualify for reporting in this category: changes of assumptions in the amount of \$578,000, changes in proportion in the amount of \$1,047,273, difference between expected and actual experience in the amount of \$534,867, employer contributions subsequent to the measurement date in the amount of \$447,772 and net difference between projected and actual investment earnings in the amount of \$1,197,659. These amounts are reported in the Statement of Net Position and will be recognized as outflows of resources in future periods.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position or Equity (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 (measureable 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 \$18,299 related to property taxes considered "unavailable". In addition, the City has three types of items presented on the Statement of Net Position which arise due to the implementation of GASB Statement No. 68 and the related net pension liability. Accordingly, the items, changes of assumptions in the amount of \$48,510, changes in proportion in the amount of \$163,806 and, differences between expected and actual experience in the amount of \$16,434, are reported on the Statement of Net Position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

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

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

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

Long-term obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or proprietary activity. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums and discounts are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source, net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Net position or fund balance classification policies and procedures:

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

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

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Nonspendable Fund Balance: At June 30, 2017, the nonspendable fund balance on the governmental balance sheet is \$269,999.

Restricted Fund Balance: At June 30, 2017, the restricted fund balance on the governmental funds balance sheet is made up of \$3,180,820 for the restricted purposes as defined by each fund.

Committed Fund Balance: At June 30, 2017, the committed fund balance on the governmental funds balance sheet is made up of \$970,236 for the committed purposes as defined by each fund.

Minimum Fund Balance Policy: The City's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the City holds cash reserves (as approved in the subsequent year's preliminary budget) of 1/12th of the General Fund budgetary basis expenditures of \$8,940,422 and the City's self-imposed reserve of \$745,035 for the year ended June 30, 2017. As these amounts are an accumulation of resources and not a true restriction or commitment of expenditures, they are reflected within the unassigned fund balance of the general fund.

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

- a. *Net investment in capital assets:*
This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets. The City had \$1,002,190 in unspent bond proceeds as of June 30, 2017.
- b. *Restricted net position:*
Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for "special revenue, debt service, and capital projects" are described on pages 48 and 86-87.
- c. *Unrestricted net position:*
All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

E. Estimates

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

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

The budgetary information presented in these financial statements has been properly amended by the City Commission 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	\$ (277,396)	\$ (563,134)
Nonmajor governmental funds	(759,072)	(1,074,719)

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

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

Budgetary Information (continued)

	Change in Net Position	
	Original Budget	Final Budget
Proprietary funds		
Solid Waste Fund	\$ (128,860)	\$ (249,430)
Water and Wastewater Fund	(821,414)	(1,588,944)
Ambulance Fund	(177,214)	(93,223)
Internal Service Funds	(17,600)	(41,077)

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.

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, 2017 is presented. Reconciliations between the non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on 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. All invested funds of the City properly followed State investment requirements as of June 30, 2017.

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

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

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

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposit and Investments (continued)

Custodial Credit Risk- Deposits Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2017 \$7,789,990 of the City's bank balances of \$8,789,990 was exposed to custodial credit risk. \$2,750,000 was uninsured and collateralized by securities held by the pledging bank's trust department, but not in the City's name, and \$5,799,544 was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy related to investments is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

	<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	\$ 8,595,269	\$ 7,370	\$ 80,845	\$ 106,506	\$ 8,789,990
FDIC coverage	<u>(5,845,269)</u>	<u>(7,370)</u>	<u>(80,845)</u>	<u>(106,506)</u>	<u>(6,039,990)</u>
Total uninsured public funds Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	2,750,000	-	-	-	2,750,000
	<u>2,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,750,000</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50%)	<u>\$ 1,375,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,375,000</u>
Pledged collateral	<u>6,149,474</u>	<u>-</u>	<u>540,289</u>	<u>-</u>	<u>6,689,763</u>
Over (under) collateralized	<u>\$ 4,774,474</u>	<u>\$ -</u>	<u>\$ 540,289</u>	<u>\$ -</u>	<u>\$ 5,314,763</u>

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposit and Investments (continued)

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	\$	7,397,924
Restricted cash and cash equivalents per Exhibit A-1		478,033
Investments per Exhibit A-1		529,500
Fiduciary cash per Exhibit E-1		<u>49,083</u>
 Total cash, cash equivalents, and investments		 <u>8,454,540</u>
 Less: <i>New MexiGROW- LGIP</i>		 342,149
Add: outstanding items		686,091
Less: deposits in transit		4,917
Less: petty cash		<u>3,575</u>
 Bank balance of deposits	 \$	 <u>8,789,990</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.

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, 2017 are as follows:

Investment	Rating	Fair Value	Weighted Average Maturity
<i>New MexiGROW</i> LGIP	AAAm	\$ 342,149	58 day WAM(R); 106 day WAM(F)
		<u>\$ 342,149</u>	

The City has presented certificates of deposits of \$187,351 in the Statement of Net Position. However, they are classified as deposits for disclosure purposes.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 3. Deposit and Investments (continued)

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

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

The City maintained a balance of \$342,149 in investments at June 30, 2017 which required fair value disclosure. The following table sets forth by level within the fair value hierarchy of the City's assets at fair value as of June 30, 2017:

<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>\$ 342,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,149</u>

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 4. Receivables

At June 30, 2017, receivables consisted of the following:

Governmental activities

	General	Other Governmental Funds	Total
Taxes:			
Property taxes	\$ 35,957	\$ -	\$ 35,957
Gross receipts taxes	930,897	160,706	1,091,603
Franchise taxes	50,404	-	50,404
Gasoline and oil taxes	2,214	38,239	40,453
Lodger's taxes	-	8,424	8,424
Intergovernmental:			
Federal	80,124	22,090	102,214
State	57,289	8,834	66,123
Other:			
Charges for services	90,937	5,031	95,968
Fines and forfeitures	38,294	-	38,294
Miscellaneous	20,178	27,297	47,475
Total governmental funds	<u>\$ 1,306,294</u>	<u>\$ 270,621</u>	<u>\$ 1,576,915</u>

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

Business-type activities

	Solid Waste	Water and Wastewater	Ambulance	Total
Charges for services	\$ 695,593	\$ 704,992	\$ 9	\$ 1,400,594
Intergovernmental	-	-	177,820	177,820
Total business type activities	<u>\$ 695,593</u>	<u>\$ 704,992</u>	<u>\$ 177,829</u>	<u>\$ 1,578,414</u>

Receivables for business-type activities are considered to be 100% collectible.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 5. Transfers and Interfund Receivables

Net operating transfers, made to close out funds and to supplement other funding sources in the normal course of operations for the year ended June 30, 2017 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Primary Government		
Capital improvement	General fund	\$ 23,409
General fund	Senior Citizens	206,399
General fund	Unemployment compensation	22,889
General fund	Recreation	15,000
Capital Improvements	Debt Service	<u>687,447</u>
	Total	<u>\$ 955,144</u>

In addition, the City made transfers from the General fund to fiduciary activities for the year ended June 30, 2017 as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General fund	Fiduciary activities	\$ 16,411
Fiduciary activities	General fund	<u>34,946</u>
		<u>\$ 51,357</u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2017 is as follows;

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 659	\$ -
Water & Waste Water	-	50
Designated Franchise	<u>-</u>	<u>609</u>
	<u>\$ 659</u>	<u>\$ 659</u>

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

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 6. Capital Assets

The following is a summary of capital assets and changes occurring during the year ended June 30, 2017. Land and construction in progress are not subject to depreciation.

	Balance June 30, 2016	Restatement	Restated Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities						
Capital assets not being depreciated						
Land	\$ 152,981	\$ -	\$ 152,981	\$ -	\$ -	\$ 152,981
Construction in progress	118,187	473,374	591,561	-	-	591,561
Total capital assets not being depreciated	<u>271,168</u>	<u>473,374</u>	<u>744,542</u>	<u>-</u>	<u>-</u>	<u>744,542</u>
Capital assets being depreciated						
Buildings and improvements	15,064,685	804,558	15,869,243	947,248	-	16,816,491
Infrastructure	20,413,266	(1,346,752)	19,066,514	-	-	19,066,514
Library collection	1,630,836	-	1,630,836	-	-	1,630,836
Machinery and equipment	3,835,077	618,966	4,454,043	186,286	92,389	4,547,940
Vehicles	3,264,600	(122,047)	3,142,553	-	186,132	2,956,421
Total capital assets being depreciated	<u>44,208,464</u>	<u>(45,275)</u>	<u>44,163,189</u>	<u>1,133,534</u>	<u>278,521</u>	<u>45,018,202</u>
Less accumulated depreciation						
Buildings and improvements	6,455,329	1,487	6,456,816	458,012	-	6,914,828
Infrastructure	11,257,324	(3,710)	11,253,614	882,413	-	12,136,027
Library collection	1,185,667	1	1,185,668	108,722	-	1,294,390
Machinery and equipment	1,793,381	-	1,793,381	246,126	92,389	1,947,118
Vehicles	1,785,208	-	1,785,208	164,220	170,221	1,779,207
Total accumulated depreciation	<u>22,476,909</u>	<u>(2,222)</u>	<u>22,474,687</u>	<u>1,859,493</u>	<u>262,610</u>	<u>24,071,570</u>
Total capital assets, net of depreciation	<u>\$ 22,002,723</u>	<u>\$ 430,321</u>	<u>\$ 22,433,044</u>	<u>\$ (725,959)</u>	<u>\$ 15,911</u>	<u>\$ 21,691,174</u>

Depreciation expense for the year ended June 30, 2017 was charged to governmental activities as follows:

General government	\$ 148,776
Public safety	252,978
Public works	993,682
Culture & recreation	<u>464,057</u>
	<u>\$ 1,859,493</u>

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 6. Capital Assets (continued)

	Balance June 30, 2016	Restatement	Restated Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Business-type activities						
Capital assets not being depreciated						
Land	\$ 323,082	\$ -	\$ 323,082	\$ -	\$ -	\$ 323,082
Construction in progress	21,152	1,115	22,267	3,750	-	26,017
Total capital assets not being depreciated	<u>344,234</u>	<u>1,115</u>	<u>345,349</u>	<u>3,750</u>	<u>-</u>	<u>349,099</u>
Capital assets being depreciated						
Buildings and improvements	19,417,338	22,384	19,439,722	103,123	-	19,542,845
Infrastructure	1,714,315	-	1,714,315	-	-	1,714,315
Machinery and equipment	3,311,242	(22,704)	3,288,538	1,745,497	-	5,034,035
Vehicles	1,372,057	-	1,372,057	-	135,455	1,236,602
Total capital assets being depreciated	<u>25,814,952</u>	<u>(320)</u>	<u>25,814,632</u>	<u>1,848,620</u>	<u>135,455</u>	<u>27,527,797</u>
Less accumulated depreciation						
Buildings and improvements	10,646,627	-	10,646,627	532,837	-	11,179,464
Infrastructure	719,121	-	719,121	79,407	-	798,528
Machinery and equipment	1,795,321	-	1,795,321	237,421	-	2,032,742
Vehicles	627,089	-	627,089	62,845	115,742	574,192
Total accumulated depreciation	<u>13,788,158</u>	<u>-</u>	<u>13,788,158</u>	<u>912,510</u>	<u>115,742</u>	<u>14,584,926</u>
Total capital assets, net of depreciation	<u>\$ 12,371,028</u>	<u>\$ 795</u>	<u>\$ 12,371,823</u>	<u>\$ 939,860</u>	<u>\$ 19,713</u>	<u>\$ 13,291,970</u>

Depreciation expense for the year ended June 30, 2017 was charged to business-type activities as follows:

Solid Waste Fund	\$ 8,002
Water and Wastewater Fund	852,081
Ambulance Fund	<u>52,427</u>
	<u>\$ 912,510</u>

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 7. Long-term Liabilities

Long-term liabilities for the year ended June 30, 2017 are summarized as follows:

Governmental activities

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Hold Harmless GRT Revenue Bond	\$ 2,915,000	\$ -	\$ 600,000	\$ 2,315,000	\$ 150,000
Compensated absences	633,715	404,049	264,794	772,970	264,794
Total long-term debt	<u>\$ 3,548,715</u>	<u>\$ 404,049</u>	<u>\$ 864,794</u>	<u>\$ 3,087,970</u>	<u>\$ 414,794</u>

Business-type activities

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Loans payable	\$ 7,001,248	\$ -	\$ 417,483	\$ 6,583,765	\$ 150,504
Compensated absences	138,105	132,164	70,077	200,192	66,618
Total long-term debt	<u>\$ 7,139,353</u>	<u>\$ 132,164</u>	<u>\$ 487,560</u>	<u>\$ 6,783,957</u>	<u>\$ 217,122</u>

Compensated Absences- Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2017, government-wide compensated absences increased \$139,255 from the prior year accrual, while business-type activities increased by \$62,087. Compensated absences are liquidated by the respective funds in which they are accrued.

On August 4, 2015, the City entered into a bond purchase agreement with the New Mexico Finance Department to borrow an amount of \$3,500,000 for the purpose of constructing, purchasing, furnishing, equipping, rehabilitating, making additions to, or making improvements to capital items. The loan is financed over a period of fifteen (15) years in amounts of \$585,000 to \$210,000 at a 3.00% interest rate.

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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 7. Long-term Liabilities (continued)

Debt service requirements on long-term debt for business-type activities at June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2018	\$ 150,000	\$ 69,450	\$ 219,450
2019	155,000	64,950	219,950
2020	160,000	60,300	220,300
2021	160,000	55,500	215,500
2022	165,000	50,700	215,700
2023-2027	910,000	176,100	1,086,100
2028-2030	615,000	37,200	652,200
	<u>\$ 2,315,000</u>	<u>\$ 514,200</u>	<u>\$ 2,829,200</u>

Debt service requirements on long-term debt for business-type activities at June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2018	\$ 425,366	\$ 124,454	\$ 549,820
2019	433,406	116,419	549,825
2020	441,607	108,226	549,833
2021	449,970	99,869	549,839
2022	458,499	91,346	549,845
2023-2027	2,426,496	322,838	2,749,334
2028-2030	1,948,421	89,979	2,038,400
	<u>\$ 6,583,765</u>	<u>\$ 953,131</u>	<u>\$ 7,536,896</u>

NOTE 8. Restricted Net Position

The government-wide statement of net position reports \$3,590,874 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 48 and 86-87.

NOTE 9. 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).

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 9. Pension Plan- Public Employee Retirement Association (continued)

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.

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, 2016 available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.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 2017 for the various PERA coverage options, for both Tier 1 and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA 2015 annual audit report at http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2016.pdf.

The PERA coverage options that apply to the City are Municipal Police and Municipal Fire for the year ended June 30, 2016. The PERA coverage options that apply to the City for the year ended June 30, 2017 are Municipal General, Municipal Police, and Municipal Fire. Statutorily required contributions to the pension plan from the City were \$418,068, and there were no employer paid member benefits that were “picked up” by the employer were for the year ended June 30, 2017.

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, 2015. The total PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted accounting principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2016.

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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to fiscal year 2016 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.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 9. Pension Plan- Public Employee Retirement Association (continued)

For PERA Fund Division Municipal General, at June 30, 2017, the City reported a liability of \$1,683,937 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 0.1054 percent, which was an increase of 0.0366 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division Municipal General pension expense of \$301,478. At June 30, 2017, 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
Change of assumptions	\$ 98,743	\$ 280
Changes in proportion	683,012	-
Differences between expected and actual experience	84,137	16,434
Net difference between projected and actual earnings on pension plan investments	309,841	-
Employer contributions subsequent to the measurement date	252,755	-
Total	\$ 1,428,488	\$ 16,714

For PERA Fund Division Municipal General, \$252,755 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. No other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense.

General Fund Municipal General
Year ended June 30,

2018	\$	(373,987)
2019		(373,987)
2020		(324,226)
2021		(86,819)
Thereafter		-

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 9. Pension Plan- Public Employee Retirement Association (continued)

For PERA Fund Division Municipal Police, at June 30, 2017, the City reported a liability of \$2,541,823 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 0.0575 percent, which was a decrease of 0.2757 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division Municipal Police pension expense of \$359,406. At June 30, 2017, 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
Change of assumptions	\$ 168,356	\$ 45,841
Changes in proportion	39,995	56,937
Differences between expected and actual experience	186,607	-
Net difference between projected and actual earnings on pension plan investments	402,004	-
Employer contributions subsequent to the measurement date	131,397	-
Total	\$ 928,359	\$ 102,778

For PERA Fund Division Municipal Police, \$131,397 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

General Fund Municipal Police
Year ended June 30,

2018	\$	(157,156)
2019		(157,156)
2020		(275,859)
2021		(104,013)
Thereafter		-

For PERA Fund Division Municipal Fire, at June 30, 2017, the City reported a liability of \$5,832,470 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 0.8743 percent, which was an increase of 0.0884 percent from its proportion measured as of June 30, 2015.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 9. Pension Plan- Public Employee Retirement Association (continued)

For the year ended June 30, 2017, the City recognized PERA Fund Division Municipal Fire pension expense of \$821,262. At June 30, 2017, 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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 308,515	\$ -
Changes in proportion	324,266	106,869
Differences between expected and actual experience	264,123	-
Net difference between projected and actual earnings on pension plan investments	485,814	-
Employer contributions subsequent to the measurement date	63,620	-
Total	\$ 1,446,338	\$ 106,869

For PERA Fund Division Municipal Fire, \$63,620 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**General Fund Municipal Fire
Year ended June 30,**

2018	\$ (881,329)
2019	(881,329)
2020	(1,040,291)
2021	1,527,100
Thereafter	-

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015 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, 2017 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2017 actuarial valuation.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 9. Pension Plan- Public Employee Retirement Association (continued)

These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for the first 10 years, then 3.25% all other years
Projected salary increases	2.75% to 14.25% annual rate
Includes inflation at	2.25% annual rate first 10 years, 2.75% all other years
Mortality assumptions	RP-200 mortality tables (combined table for healthy post-retirements, Employee table for active members, and disabled table for disabled retirees before retirement age) with projections to 2018 using scale AA.
Experience study date	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 20, 2015 (economic)

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:

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50	1.79
Credit Oriented Fixed Income	15.00	5.77
Real Assets	20.00	7.35
Total	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.48 percent. 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 7.48% 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, 2017

NOTE 9. 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

General Fund Municipal General

	1.00% Decrease (6.48%)	Current Discount Rate (7.48%)	1.00% Increase (8.48%)
Proportionate share of the net pension liability	\$ 2,510,601	\$ 1,683,937	\$ 998,261

General Fund Municipal Police

	1.00% Decrease (6.48%)	Current Discount Rate (7.48%)	1.00% Increase (8.48%)
Proportionate share of the net pension liability	\$ 3,739,653	\$ 2,541,823	\$ 1,562,139

General Fund Municipal Fire

	1.00% Decrease (6.48%)	Current Discount Rate (7.48%)	1.00% Increase (8.48%)
Proportionate share of the net pension liability	\$ 7,628,841	\$ 5,832,470	\$ 4,356,939

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued fiscal year 2016 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 \$5,536 as of June 30, 2017 for legally required contributions to the pension plan.

NOTE 10. 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, 2017.

NOTE 11. 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, 2017

NOTE 12. 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, 2017, 2016, and 2015 were \$220,217, \$210,264, and \$238,907, respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 13. 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 14. 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 aware of one material pending litigation against the City of which \$25,000 is not covered by the City's insurance.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 15. Federal and State Grants

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

NOTE 16. Commitments

The City entered into agreements with contractors and architects for various construction projects. As of June 30, 2017, the City had an obligation of \$2,023,630 for these contracts.

<u>Contract</u>	<u>Year Ending</u>	<u>Amount</u>
North Commercial Street Construction	2018	\$ 1,190,912
Street Yard Fence Construction	2018	75,000
Police Department Evidence Facility Design	2018	6,393
Police Department Evidence Facility Construction	2018	117,562
Fire Station Design	2018	211,309
Water Well Design	2018	47,933
17th Street Phase I Design	2018	67,587
Central Plaza Phase II Design	2018	84,669
Multi Use Trail Design	2018	118,953
Polk Street Drainage Design	2018	23,314
CDBG Improvements Design	2018	79,998
		<u>\$ 2,023,630</u>

NOTE 17. 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 18. Subsequent Events

The City has evaluated events subsequent to June 30, 2017 that would possibly require adjustment or disclosure in these financial statements, through December 12, 2017, the date that these financial statements were available to be issued.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 19. 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, 2017.
- B. Excess of expenditures over budgeted amounts. The City had no funds that exceeded approved budgetary authority for the year ended June 30, 2017.
- C. Designated cash appropriations exceeding prior year available balances. The City had no funds that exceeded approved budgetary authority for the year ended June 30, 2017.

NOTE 20. Restatement

Net position was restated to correctly present the City's capital assets in the amounts of \$430,201 and \$795 for Governmental Activities and for the Water and Wastewater proprietary funds, respectively.

NOTE 21. Subsequent Pronouncements

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The City does not expect this pronouncement to affect the City's financial statements.

In March 2016, GASB Statement No. 81 *Irrevocable Split-Interest Agreements* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83 *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84, *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85, *Omnibus 2017*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The City is still evaluating how this pronouncement will affect the financial statements.

STATE OF NEW MEXICO
City of Lovington
Notes to the Financial Statements
June 30, 2017

NOTE 21. Subsequent Pronouncements (continued)

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to in-substance defeasance of debt using only existing resources. The City does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87, *Leases*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

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*

	2017 Measurement Date (As of and for the Year Ended June 30, 2016)	2016 Measurement Date (As of and for the Year Ended June 30, 2015)	2015 Measurement Date (As of and for the Year Ended June 30, 2014)
Proportion of the net pension liability (asset)	0.1054%	0.0688%	0.0000%
Proportionate share of the net pension liability (asset)	\$ 1,683,938	\$ 701,476	\$ -
Covered payroll	\$ 1,165,346	\$ 692,679	-
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	144.50%	101.27%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	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.

See independent auditors' report.
See notes to 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 Police Division
Last 10 Fiscal Years*

	2017	2016	2015
	Measurement	Measurement	Measurement
	Date (As of and	Date (As of and	Date (As of and
	for the Year	for the Year	for the Year
	Ended June 30,	Ended June 30,	Ended June 30,
	2016)	2015)	2014)
Proportion of the net pension liability (asset)	0.3445%	0.3332%	0.3560%
Proportionate share of the net pension liability (asset)	\$ 2,541,823	\$ 1,602,212	\$ 1,160,521
Covered payroll	\$ 1,245,268	\$ 1,127,000	\$ 1,277,370
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	204.12%	142.17%	90.85%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	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.

See independent auditors' report.
See notes to 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 Fire Division
Last 10 Fiscal Years*

	2017	2016	2015
	Measurement	Measurement	Measurement
	Date (As of and	Date (As of and	Date (As of and
	for the Year	for the Year	for the Year
	Ended June 30,	Ended June 30,	Ended June 30,
	2016)	2015)	2014)
Proportion of the net pension liability (asset)	0.8743%	0.7859%	0.8299%
Proportionate share of the net pension liability (asset)	\$ 5,832,470	\$ 4,056,173	\$ 3,463,997
Covered payroll	\$ 1,019,135	\$ 978,200	\$ 1,014,763
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	572.30%	414.66%	341.36%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	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.

See independent auditors' report.
See notes to required supplementary information.

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*

	<u>As of and for the Year Ended June 30, 2017</u>	<u>As of and for the Year Ended June 30, 2016</u>	<u>As of and for the Year Ended June 30, 2015</u>
Contractually required contribution	\$ 99,620	\$ 86,234	\$ 51,259
Contributions in relation to the contractually required contribution	<u>99,632</u>	<u>86,234</u>	<u>51,259</u>
Contribution deficiency (excess)	<u>\$ (12)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,346,000	\$ 1,165,346	\$ 692,679
Contributions as a percentage of covered employee payroll	7.40%	7.40%	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.

See independent auditors' report.
See notes to required supplementary information.

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 June 30, 2017	As of and for the Year Ended June 30, 2016	As of and for the Year Ended June 30, 2015
Contractually required contribution	\$ 131,397	\$ 129,508	\$ 117,165
Contributions in relation to the contractually required contribution	<u>131,397</u>	<u>129,508</u>	<u>117,165</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,264,000	\$ 1,245,268	\$ 1,127,000
Contributions as a percentage of covered employee payroll	10.40%	10.40%	10.40%

* 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.

See independent auditors' report.
See notes to required supplementary information.

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*

	<u>As of and for the Year Ended June 30, 2017</u>	<u>As of and for the Year Ended June 30, 2016</u>	<u>As of and for the Year Ended June 30, 2016</u>
Contractually required contribution	\$ 216,755	\$ 220,643	\$ 211,793
Contributions in relation to the contractually required contribution	<u>216,755</u>	<u>220,643</u>	<u>211,793</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,001,000	\$ 1,019,135	\$ 978,200
Contributions as a percentage of covered employee payroll	21.65%	21.65%	21.65%

* 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.

See independent auditors' report.
See notes to required supplementary information.

STATE OF NEW MEXICO
City of Lovington
Notes to Required Supplementary Information
June 30, 2017

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY15 audit available at http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at <http://s3.amazonaws.com/boardaudio/Final-Version-2016-PERA-GASB-68-Report.pdf>. See the notes to the financial statements on the CAFR pages 74-76 which summarizes actuarial assumptions and methods effective with the June 30, 2016 valuation.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

STATE OF NEW MEXICO
City of Lovington
Nonmajor Governmental Fund Descriptions
June 30, 2017

Special Revenue Funds

Corrections

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

EMS Grant

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

Fire Protection

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

Law Enforcement Protection

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

Lodgers' Tax

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

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

Designated Franchise

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

Economic Development

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

TIF Downtown Improvements

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

STATE OF NEW MEXICO
City of Lovington
Nonmajor Governmental Fund Descriptions
June 30, 2017

Capital Projects Funds

C.D.B.G

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

Capital Improvement Fund

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

Debt Service Funds

Revenue Bond

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

Internal Service Funds

Unemployment Compensation

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

Pension

Accounts for a 401 (K) plan that the City handles for its employees, matching up to 7.00% of the employee's contributions. This fund collects the money that the employees put into the plan, and the City will send it to the UNIFI retirement company for them. (3-18-28, NMSA 1978)

STATE OF NEW MEXICO
City of Lovington
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue			
	Corrections	EMS Grant	Fire Protection	Law Enforcement Protection
Assets				
Cash and cash equivalents	\$ 136,205	\$ 18,499	\$ 1,654	\$ -
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Intergovernmental	-	-	-	-
Other	5,031	-	-	-
<i>Total assets</i>	<u>\$ 141,236</u>	<u>\$ 18,499</u>	<u>\$ 1,654</u>	<u>\$ -</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 227	\$ -
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>227</u>	<u>-</u>
Fund balances				
Spendable:				
Restricted:				
Public safety	141,236	-	1,427	-
Tourism	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	18,499	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Economic development	-	-	-	-
Capital improvements	-	-	-	-
Committed:				
Culture and recreation	-	-	-	-
<i>Total fund balances</i>	<u>141,236</u>	<u>18,499</u>	<u>1,427</u>	<u>-</u>
<i>Total liabilities and fund balances</i>	<u>\$ 141,236</u>	<u>\$ 18,499</u>	<u>\$ 1,654</u>	<u>\$ -</u>

See independent auditors' report.

Special Revenue

Lodgers' Tax	Gasoline Tax	Recreation	Senior Citizens	Designated Franchise
\$ 28,398	\$ 1,028,308	\$ 4,178	\$ 93,231	\$ -
-	-	12,444	-	17,947
8,424	38,239	-	-	-
-	8,834	-	-	-
-	-	-	27,297	-
<u>\$ 36,822</u>	<u>\$ 1,075,381</u>	<u>\$ 16,622</u>	<u>\$ 120,528</u>	<u>\$ 17,947</u>
\$ 13,341	\$ 31,720	\$ 4,890	\$ 3,548	\$ -
-	-	-	-	609
<u>13,341</u>	<u>31,720</u>	<u>4,890</u>	<u>3,548</u>	<u>609</u>
-	-	-	-	-
23,481	-	-	-	-
-	1,043,661	-	-	-
-	-	-	-	-
-	-	11,732	-	-
-	-	-	-	17,338
-	-	-	-	-
-	-	-	-	-
-	-	-	116,980	-
<u>23,481</u>	<u>1,043,661</u>	<u>11,732</u>	<u>116,980</u>	<u>17,338</u>
<u>\$ 36,822</u>	<u>\$ 1,075,381</u>	<u>\$ 16,622</u>	<u>\$ 120,528</u>	<u>\$ 17,947</u>

See independent auditors' report.

STATE OF NEW MEXICO
City of Lovington
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue		Capital Projects	
	Economic Development	TIF Downtown Improvements	C.D.B.G.	Capital Improvement
Assets				
Cash and cash equivalents	\$ 795,185	\$ 3,090	\$ 5	\$ 1,002,190
Investments	-	-	-	-
Receivables:				
Taxes	40,159	-	-	120,547
Intergovernmental	-	-	1,364	20,726
Other	-	-	-	-
<i>Total assets</i>	\$ 835,344	\$ 3,090	\$ 1,369	\$ 1,143,463
Liabilities				
Accounts payable	\$ 12,500	\$ -	\$ 1,369	\$ 45,951
Due to other funds	-	-	-	-
<i>Total liabilities</i>	12,500	-	1,369	45,951
Fund balances				
Spendable:				
Restricted:				
Public safety	-	-	-	-
Tourism	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Economic development	822,844	3,090	-	-
Capital improvements	-	-	-	1,097,512
Committed:				
Culture and recreation	-	-	-	-
<i>Total fund balances</i>	822,844	3,090	-	1,097,512
<i>Total liabilities and fund balances</i>	\$ 835,344	\$ 3,090	\$ 1,369	\$ 1,143,463

See independent auditors' report.

<u>Debt Service</u>		
<u>Revenue Bond</u>		<u>Total Nonmajor Governmental Funds</u>
\$ -		\$ 3,110,943
-		30,391
-		207,369
-		30,924
-		32,328
<u>\$ -</u>		<u>\$ 3,411,955</u>
\$ -		\$ 113,546
-		609
<u>-</u>		<u>114,155</u>
-		142,663
-		23,481
-		1,043,661
-		18,499
-		11,732
-		17,338
-		825,934
-		1,097,512
-		116,980
<u>-</u>		<u>3,297,800</u>
<u>\$ -</u>		<u>\$ 3,411,955</u>

See independent auditors' report.

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, 2017

	Special Revenue			
	Corrections	EMS Grant	Fire Protection	Law Enforcement Protection
<i>Revenues</i>				
Taxes:				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
State operating grants	-	18,499	83,633	34,400
State capital grants	-	-	-	-
Charges for services	44,459	-	-	-
Investment income	56	-	6	-
Miscellaneous	-	-	-	-
Total revenues	44,515	18,499	83,639	34,400
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	19,486	-	69,278	34,400
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Conservation and development	-	-	-	-
Capital outlay	-	-	13,131	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	19,486	-	82,409	34,400
Excess (deficiency) of revenues over expenditures	25,029	18,499	1,230	-
<i>Other financing sources (uses)</i>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	25,029	18,499	1,230	-
Fund balances - beginning of year	116,207	-	197	-
Fund balances - end of year	\$ 141,236	\$ 18,499	\$ 1,427	\$ -

See independent auditors' report.

Special Revenue

Lodgers' Tax	Gasoline Tax	Recreation	Senior Citizens	Designated Franchise
\$ -	\$ -	\$ -	\$ -	\$ -
-	212,901	-	-	-
84,584	-	-	-	55,394
-	-	-	32,880	-
-	1,857	-	156,683	-
-	25,071	-	-	-
-	-	20,878	-	-
1	492	10	33	87
-	-	17,489	27,951	37
<u>84,585</u>	<u>240,321</u>	<u>38,377</u>	<u>217,547</u>	<u>55,518</u>
-	-	-	-	143,782
-	-	-	-	-
-	34,558	-	-	-
73,085	-	73,311	382,662	-
-	-	-	-	-
-	224,344	-	16,624	-
-	-	-	-	-
-	-	-	-	-
<u>73,085</u>	<u>258,902</u>	<u>73,311</u>	<u>399,286</u>	<u>143,782</u>
<u>11,500</u>	<u>(18,581)</u>	<u>(34,934)</u>	<u>(181,739)</u>	<u>(88,264)</u>
-	-	15,000	206,399	-
-	-	-	-	-
-	-	15,000	206,399	-
11,500	(18,581)	(19,934)	24,660	(88,264)
11,981	1,062,242	31,666	92,320	105,602
<u>\$ 23,481</u>	<u>\$ 1,043,661</u>	<u>\$ 11,732</u>	<u>\$ 116,980</u>	<u>\$ 17,338</u>

See independent auditors' report.

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, 2017

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Economic Development</u>	<u>TIF Downtown Improvements</u>	<u>C.D.B.G.</u>	<u>Capital Improvement</u>
<i>Revenues</i>				
Taxes:				
Gross receipts	\$ 235,301	\$ -	\$ -	\$ 664,939
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
State operating grants	-	-	-	130,701
State capital grants	-	-	1,364	48,339
Charges for services	-	-	-	-
Investment income	368	-	-	669
Miscellaneous	-	955	-	-
<i>Total revenues</i>	<u>235,669</u>	<u>955</u>	<u>1,364</u>	<u>844,648</u>
<i>Expenditures</i>				
Current:				
General government	-	-	1,369	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Conservation and development	252,212	-	-	-
Capital outlay	-	-	-	454,103
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>252,212</u>	<u>-</u>	<u>1,369</u>	<u>454,103</u>
Excess (deficiency) of revenues over expenditures	<u>(16,543)</u>	<u>955</u>	<u>(5)</u>	<u>390,545</u>
<i>Other financing sources (uses)</i>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	(710,856)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(710,856)</u>
Net change in fund balances	(16,543)	955	(5)	(320,311)
Fund balances - beginning of year	<u>839,387</u>	<u>2,135</u>	<u>5</u>	<u>1,417,823</u>
<i>Fund balances - end of year</i>	<u>\$ 822,844</u>	<u>\$ 3,090</u>	<u>\$ -</u>	<u>\$ 1,097,512</u>

See independent auditors' report.

<u>Debt Service</u>			
<u>Revenue Bond</u>		<u>Total Nonmajor Governmental Funds</u>	
\$ -		\$ 900,240	
-		212,901	
-		139,978	
-		32,880	
-		425,773	
-		74,774	
-		65,337	
-		1,722	
-		46,432	
-		<u>1,900,037</u>	
-		145,151	
-		123,164	
-		34,558	
-		529,058	
-		252,212	
-		708,202	
600,000		600,000	
87,447		87,447	
<u>687,447</u>		<u>2,479,792</u>	
<u>(687,447)</u>		<u>(579,755)</u>	
687,447		908,846	
-		<u>(710,856)</u>	
<u>687,447</u>		<u>197,990</u>	
-		(381,765)	
-		<u>3,679,565</u>	
<u>\$ -</u>		<u>\$ 3,297,800</u>	

See independent auditors' report.

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INTERNAL SERVICE FUNDS

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Net Position
Internal Service Funds
June 30, 2017

Statement B-1

	Unemployment Compensation	Pension	Total Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 11,257	\$ 69,310	\$ 80,567
<i>Total current assets</i>	11,257	69,310	80,567
<i>Total assets</i>	\$ 11,257	\$ 69,310	\$ 80,567
Liabilities			
Current liabilities			
Accounts payable	\$ 3,206	\$ -	\$ 3,206
Accrued payroll	-	23,478	23,478
<i>Total current liabilities</i>	3,206	23,478	26,684
<i>Total liabilities</i>	3,206	23,478	26,684
Net position			
Unrestricted	8,051	45,832	53,883
<i>Total net position</i>	8,051	45,832	53,883
<i>Total liabilities and net position</i>	\$ 11,257	\$ 69,310	\$ 80,567

See independent auditors' report.

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Revenues, Expenses, and Change in Net Position
Internal Service Funds
For the Year Ended June 30, 2017

Statement B-2

	<u>Unemployment Compensation</u>	<u>Pension</u>	<u>Total Internal Service Funds</u>
<i>Operating revenues</i>			
Charges for services	\$ -	\$ 213,759	\$ 213,759
<i>Total operating revenues</i>	<u>-</u>	<u>213,759</u>	<u>213,759</u>
<i>Operating expenses</i>			
Other operating expenses	16,557	220,217	236,774
<i>Total operating expenses</i>	<u>16,557</u>	<u>220,217</u>	<u>236,774</u>
Operating income (loss)	<u>(16,557)</u>	<u>(6,458)</u>	<u>(23,015)</u>
Income (loss) before contributions and transfers	<u>(16,557)</u>	<u>(6,458)</u>	<u>(23,015)</u>
<i>Net transfers</i>			
Operating transfers in	22,889	-	22,889
<i>Net transfers</i>	<u>22,889</u>	<u>-</u>	<u>22,889</u>
Change in net position	6,332	(6,458)	(126)
Net position - beginning of year	<u>1,719</u>	<u>52,290</u>	<u>54,009</u>
<i>Net position - end of year</i>	<u>\$ 8,051</u>	<u>\$ 45,832</u>	<u>\$ 53,883</u>

See independent auditors' report.

STATE OF NEW MEXICO
City of Lovington
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017

Statement B-3

	Unemployment Compensation	Pension	Total Internal Service Funds
<i>Cash flows from operating activities</i>			
Cash payments for services	\$ -	\$ 213,759	\$ 213,759
Cash payments to suppliers for goods and services	(13,351)	(237,237)	(250,588)
<i>Net cash provided (used) by operating activities</i>	<u>(13,351)</u>	<u>(23,478)</u>	<u>(36,829)</u>
<i>Cash received from transfers</i>			
Net transfers	22,889	-	22,889
<i>Net cash provided (used) by noncapital financing activities</i>	<u>22,889</u>	<u>-</u>	<u>22,889</u>
Net increase (decrease) in cash and cash equivalents	9,538	(23,478)	(13,940)
Cash and cash equivalents - beginning of year	1,719	92,788	94,507
<i>Cash and cash equivalents - end of year</i>	<u>\$ 11,257</u>	<u>\$ 69,310</u>	<u>\$ 80,567</u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</i>			
Operating income (loss)	\$ (16,557)	\$ (6,458)	\$ (23,015)
Accounts payable	3,206	-	3,206
Accrued payroll	-	(17,020)	(17,020)
<i>Net cash provided (used) by operating activities</i>	<u>\$ (13,351)</u>	<u>\$ (23,478)</u>	<u>\$ (36,829)</u>

See independent auditors' report.

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
City of Lovington
Schedule of Deposit and Investment Accounts
June 30, 2017

<u>Account Name</u>	<u>Account Type</u>	<u>Estacado Credit Union</u>	<u>Lea County State Bank</u>
General	Checking-interest bearing	\$ -	\$ 3,000,000
Payroll	Checking-non interest bearing	-	3,152
Municipal court	Checking-non interest bearing	-	17,441
Municipal court	Checking-non interest bearing	-	4,248
General Operating Account	Sweep-interest bearing	-	5,549,554
Motor vehicle department	Checking-non interest bearing	-	20,874
Lovington fire department	Checking-non interest bearing	-	-
Certificate of deposit	Certificate of deposit**	106,506	-
Certificate of deposit	Certificate of deposit**	-	-
Bank balance		106,506	8,595,269
Outstanding items		-	(686,006)
Deposits in transit		-	4,917
<i>Book balance</i>		<u>\$ 106,506</u>	<u>\$ 7,914,180</u>
Investments			
<i>New MexiGROW- LGIP</i>		\$ -	\$ -
<i>New MexiGROW- LGIP</i>		-	-
<i>New MexiGROW- LGIP</i>		-	-
<i>New MexiGROW- LGIP</i>		-	-
<i>Total investments</i>		<u>\$ -</u>	<u>\$ -</u>

** Each account is a Certificate of Deposit from a separate institution is under \$250,000, and is invested with Lea County State Bank

See independent auditors' report.

<u>Wells Fargo Bank</u>	<u>Western Commerce Bank</u>	<u>Local Government Investment Pool</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 3,000,000
-	-	-	3,152
-	-	-	17,441
-	-	-	4,248
-	-	-	5,549,554
-	-	-	20,874
7,370	-	-	7,370
-	-	-	106,506
-	80,845	-	80,845
7,370	80,845	-	8,789,990
(85)	-	-	(686,091)
-	-	-	4,917
<u>\$ 7,285</u>	<u>\$ 80,845</u>	<u>\$ -</u>	<u>8,108,816</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>
Petty cash			<u>3,575</u>
<i>Total Deposits and investments</i>			<u>\$ 8,454,540</u>
Cash and cash equivalents per Exhibit A-1			\$ 7,397,924
Restricted cash per Exhibit A-1			478,033
Investments per Exhibit A-1			529,500
Agency funds per Exhibit E-1			<u>49,083</u>
<i>Cash, cash equivalents, and investments per Exhibit A-1</i>			<u>\$ 8,454,540</u>

See independent auditors' report.

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STATE OF NEW MEXICO
City of Lovington
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2017

Schedule IV

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value at June 30, 2017</u>	<u>Name and Location of Safekeeper</u>
Lea County State Bank					
	SO SANDOVAL NM	8/1/2018	843789EE4	\$ 385,163	Independent Bankers Bank Dallas, TX
	TAOS NM MSD	9/1/2018	876014FD8	565,693	Independent Bankers Bank Dallas, TX
	SANTA FE CNTY NM	7/1/2021	801889NT9	2,286,040	Independent Bankers Bank Dallas, TX
	RUIDOSO NM MSD	8/1/2021	781338HC5	300,855	Independent Bankers Bank Dallas, TX
	ALBUQUERQUE NM	8/1/2021	013595LH4	973,161	Independent Bankers Bank Dallas, TX
	JAL NM PSD	10/1/2022	470143AG3	324,453	Independent Bankers Bank Dallas, TX
	GRANT CNTY NM	9/1/2023	387766CF3	444,853	Independent Bankers Bank Dallas, TX
	HOBBS NM SD	9/15/2023	433866GA2	330,213	Independent Bankers Bank Dallas, TX
	ROSWELL NM MSD	8/1/2024	778550JX2	539,043	Independent Bankers Bank Dallas, TX
	Total Lea County State Bank			<u>6,149,474</u>	
Western Commerce Bank					
	SBAP SERIES 2009/ 20D CLASS1	4/1/2029	83162CSL8	384,195	Federal Home Loan Bank Dallas, TX
	FNMA #725946	11/1/2034	31402DP79	156,094	Federal Home Loan Bank Dallas, TX
	Total Western Commerce Bank			<u>540,289</u>	
	<i>Total pledged collateral</i>			<u><u>\$ 6,689,763</u></u>	

See independent auditors' report.

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

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Court Automation Fees Fund				
Assets				
Cash	\$ 6	\$ 17,323	\$ 17,329	\$ -
Accounts receivable	1,945	2,297	1,945	2,297
<i>Total assets</i>	<u>\$ 1,951</u>	<u>\$ 19,620</u>	<u>\$ 19,274</u>	<u>\$ 2,297</u>
Liabilities				
Accounts payable	\$ 1,951	\$ 19,620	\$ 19,274	\$ 2,297
<i>Total liabilities</i>	<u>\$ 1,951</u>	<u>\$ 19,620</u>	<u>\$ 19,274</u>	<u>\$ 2,297</u>
Motor Vehicle Fund				
Assets				
Cash	\$ -	\$ 20,917	\$ 531	\$ 20,386
Accounts receivable	-	515	134	381
<i>Total assets</i>	<u>\$ -</u>	<u>\$ 21,432</u>	<u>\$ 665</u>	<u>\$ 20,767</u>
Liabilities				
Accounts payable	\$ -	\$ 21,432	\$ 665	\$ 20,767
<i>Total liabilities</i>	<u>\$ -</u>	<u>\$ 21,432</u>	<u>\$ 665</u>	<u>\$ 20,767</u>
Economic Development Fund				
Assets				
Cash	\$ -	\$ 7,449	\$ 7,449	\$ -
<i>Total assets</i>	<u>\$ -</u>	<u>\$ 7,449</u>	<u>\$ 7,449</u>	<u>\$ -</u>
Liabilities				
Accounts payable	\$ -	\$ 7,449	\$ 7,449	\$ -
<i>Total liabilities</i>	<u>\$ -</u>	<u>\$ 7,449</u>	<u>\$ 7,449</u>	<u>\$ -</u>
Lovington Fire Department Fund				
Assets				
Cash	\$ 7,625	\$ 191	\$ -	7,816
Accounts receivable	-	65	-	65
<i>Total assets</i>	<u>\$ 7,625</u>	<u>\$ 256</u>	<u>\$ -</u>	<u>\$ 7,881</u>
Liabilities				
Accounts payable	\$ 7,625	\$ 256	\$ -	\$ 7,881
<i>Total liabilities</i>	<u>\$ 7,625</u>	<u>\$ 256</u>	<u>\$ -</u>	<u>\$ 7,881</u>

See independent auditors' report.

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Municipal Court Fund				
Assets				
Cash	\$ 18,519	\$ 2,362	\$ -	\$ 20,881
<i>Total assets</i>	<u>\$ 18,519</u>	<u>\$ 2,362</u>	<u>\$ -</u>	<u>\$ 20,881</u>
Liabilities				
Accounts payable	\$ 18,519	\$ 2,362	\$ -	\$ 20,881
<i>Total liabilities</i>	<u>\$ 18,519</u>	<u>\$ 2,362</u>	<u>\$ -</u>	<u>\$ 20,881</u>
Total Agency Funds				
Assets				
Cash	\$ 26,150	\$ 48,242	\$ 25,309	\$ 49,083
Accounts receivable	1,945	2,877	2,079	2,743
<i>Total assets</i>	<u>\$ 28,095</u>	<u>\$ 51,119</u>	<u>\$ 27,388</u>	<u>\$ 51,826</u>
Liabilities				
Accounts payable	\$ 28,095	\$ 51,119	\$ 27,388	\$ 51,826
<i>Total liabilities</i>	<u>\$ 28,095</u>	<u>\$ 51,119</u>	<u>\$ 27,388</u>	<u>\$ 51,826</u>

See independent auditors' report.

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COMPLIANCE SECTION



**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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the General Fund, the aggregate remaining fund information, and the budgetary comparison of the General Fund of the City of Lovington (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items FS 2015-002, FS 2015-007, FS 2017-001, FS 2017-003, and FS 2017-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items FS 2015-004 and FS 2017-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item FS 2009-002.

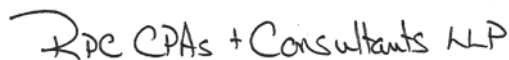
We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying Schedule of Section 12-6-5 NMSA 1978 Findings as item NM 2017-001.

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.



RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
December 12, 2017

STATE OF NEW MEXICO
City of Lovington
Schedule of Findings and Responses
June 30, 2017

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? | Yes |

Section II – Financial Statement Findings

FS 2009-002- DFA Cash Report Does Not Reconcile to the City’s Cash (Material Noncompliance) - Repeat and Modified

Condition: For the year ended June 30, 2017, 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 \$1,001,529. The City was not able to resolve this finding from the prior year that all cash balances reported to DFA for prior year-ends did not reconcile to the trial balance and bank reconciliations. The following funds were shown to be out of balance by the following:

101	General Fund	\$ (158,793)
201	Correction	(394)
209	Fire Protection	(236)
217	Recreation	10,554
219	Senior Citizen	(20,721)
299	Other	(49,760)
300	Capital Projects	(651,549)
500	Solid Waste	(13,094)
500	Water and Wastewater	(143,711)
500	Ambulance	(4,810)
700	Trust and Agency	30,985

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 and due to the repeated nature of the finding the City could potentially lose services with banks.

Cause: The City has been unable to reach an understanding with DFA in regards to what reports are required and how to resolve prior year discrepancies.

Auditors’ Recommendations: The City should 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 and work to resolve the variances between the City’s records and what DFA is reporting. Due to the repeated nature of the finding, the City should consider obtaining external expertise to resolve this matter.

Views of Responsible Officials and Planned Corrective Actions: The Finance department had combined 15 different checking accounts into a single Pooled account and the Finance Director had changed the method used for reporting cash balances without contacting the DFA to report this change. In addition to this no adjustments were made for accruals resulting from Accounts Payables. Recognizing the needs of our staff, the City has contacted the State Department of Finance for help and is contracting with an accounting firm to identify the reporting discrepancies and will ensure staff is properly trained on posting procedures. The City has also migrated to new Financial Software (Incode) that will provide “Cash Basis” reports. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

FS 2015-002 Cash Internal Control Deficiencies (Material Weakness) – Repeat and Modified

Condition: A journal entry of \$180,479 was required to be recorded to cash in order to accurately report cash and fund balances. This finding was unable to be resolved during the current year as the City was unable to resolve the cash entry required to correctly present the City’s cash and fund balance in the current year.

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: Cash and fund balances were misstated when provided to the auditor.

Cause: In previous fiscal years several entries were posted to pooled cash and due to/from’s, and within those entries an error occurred resulting in cash and fund balance not being accurately reflected. This issue has yet to be investigated and resolved.

Auditors’ Recommendations: We recommend the City devote the time and resources necessary to investigate this cash issue and resolve it. We recommend the City ensure that fund balance in their trial balance agrees to the audited financial statement for every fund as part of their year-end closing process.

Views of Responsible Officials and Planned Corrective Action: This was a one-time transaction, which the Finance Director will ensure doesn’t happen again. With our migration to new software, (Incode) and the closing of our 15 separate checking accounts, all cash is now recorded and tracked through a single Pooled Cash account. This has aided in the recording of our utility activities that are now recorded and posted through the Financial Software, which required manual input historically, due to separate software for finance and utility billing. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

FS 2015-004 Preparation of Accounts Receivable (Significant Deficiency) - Repeat and Modified

Condition: The City incorrectly reported/classified two transactions as revenue of the current fiscal year, instead of accounts receivable. These transactions totaled \$22,633. This finding was unable to be resolved during the current year as the City was unable to correctly identify all accounts receivable items in the current year.

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

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

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

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: With the exception of utility billing all our receivables were tracked manually and then the Utility activities required manual journal entries into our Financial Software. Now that we've migrated to our new Financial Software (Incode), and we've centralized our billing processes, we are now able to track and post all our cash collections and receivables in Incode. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

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

Condition: The City incorrectly recorded accounts payable item for two items, one for \$18,451 and another for \$18,490, for a total of \$36,941. In addition, the City incorrectly excluded from accounts payable three items, with a total amount of \$171,789. The net effect was understatement of accounts payable in the amount of \$134,848. This finding was unable to be resolved during the current year as the City was unable to correctly identify all accounts payable items in the current year.

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

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

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

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

Views of Responsible Officials and Planned Corrective Action: Now that we've migrated to our new Financial Software (Incode), it records all our transactions on a cash basis, which will substantially reduce the chances of us missing or adding any payables that belong in each fiscal year. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

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

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

- The City does not have sound, written policies established for receipting procedures
- A rental agreement selected was not notarized according to policy
- All personnel with access to the accounting system, MIP, have access and modify customer master files without the knowledge of management
- Cash drawers are not locked when not in use and are left insecure
- The cash vault remains insecure throughout the day
- The lockbox containing cash receipts is kept unlocked in an unlocked closet

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The City policy requires all rental agreements to be notarized by tenants and owner before utilities can be set up and turned on.

Effect: Because internal control 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 and fraudulent access to computer systems.

Cause: For fiscal year 2017, management did not have documented policy to ensure internal controls were in place and working properly, which resulted in various errors.

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

Views of Responsible Officials and Planned Corrective Action: We are developing new Policies and Procedures for the handling of cash that will include restricted access to cash drawers, our cash vault and lock boxes. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

FS 2017-002 - Deficiency in Internal Controls over Disbursement Transaction Cycle (Significant Deficiency)

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

- For a disbursement over \$10,000, the City was not able to provide documentation that two quotes were obtained, as is required by City policy
- Out of forty checks, two checks did not have two signatures as required by City policy
- Disbursements were incorrectly coded within the general ledger between expense categories
- Check stock is kept inside vault that remains unlocked during the day.

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. City Purchasing Policy "all purchases under \$20,000 shall be made at the best obtainable price by seeking at least two verbal or written quotes. The best obtainable price will be documented and attached to the Purchase Authorization and final Purchase Order."

Effect: Because internal control 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 and fraudulent access to computer systems.

Cause: For fiscal year 2017, management did not have documented policy to ensure internal controls were in place and working properly, which resulted in various errors.

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

Views of Responsible Officials and Planned Corrective Action: With our new software, we are adding additional steps in our purchase approval process that include verification of bids for services/products that will become part of our updated policy and Procedures for procurement. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

FS 2017-003 - Deficiency in Internal Controls over Payroll Transaction Cycle (Material Weakness)

Condition: Employees with access to MIP Abila are able to access and modify employee master files, including pay rates, and there is no review process in place over such master file changes.

Criteria: NMSA 1978 Section 6-6-3, requires a review of employee timesheets, a review of payroll reports, and proper authorization and approval for wages to be maintained in order to have proper and sufficient internal controls to reduce the risk of fraudulent activities.

Effect: Employees could be being paid at a higher or lower rate than was approved, fraudulent adjustments to pay rates could be made, or employees that do not exist could be entered into MIP Abila. Additionally, information used to prepare required reporting documents, such as PERA and RHC, could be inaccurate.

Cause: The City does not have policies or procedures in place to review the entry of new employees into MIP Abila, or to review the modification and update to pay rates to ensure accuracy.

Auditors' Recommendations: The City should develop and implement a process to review changes to the employee master file on periodic basis. Additionally, an annual review of employee pay rates be performed to ensure that pay increases performed by Visions reconcile to the City's approved pay scale and other approved adjustments. The City should also provide training to the payroll and human resources department to educate new employees about existing internal control policies and documentation procedures surrounding the payroll process and maintenance of employee files.

Views of Responsible Officials and Planned Corrective Action: Now that we've migrated to our new software, we are better able to apply restrictions and limited access to payroll processing and employee records for all Incode users. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section II – Financial Statement Findings (continued)

FS 2017-004 – Design of Internal Controls over IT (Material Weakness)

Condition: The following internal control deficiencies are present with the City's IT system:

- The City's accounting system, MIP Abila, does not properly restrict access according to positions
- Servers are maintained in unlocked rooms that are not not properly ventilated
- The City does not have a Disaster Recovery Plan in place.

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 internal control 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 IT assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information and fraudulent access to computer systems.

Cause: The City did not adequately monitor user access or restrictions. In addition, the City did not implement controls related to physical access of the servers or disaster recovery.

Auditors' Recommendation: After the City converts to new accounting system in Fiscal Year 2018, the City should ensure proper restrictions are placed and access levels are regularly monitored. In addition, the City should implement policies related to disaster recovery.

Views of Responsible Officials and Planned Corrective Action: Prior to the migration to our new software, we had relied on our Finance Director to perform daily back-ups of our financial data. He kept an external hard-drive in his office, for this purpose. Now that we've migrated to our new software, which is a hosted application, we no longer have the need for restricted access to our server and we have off-site servers storing our financial data that is secured by our software provider, Tyler Technologies. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section III – Section 12-6-5 NMSA 1978 Findings

NM 2017-001 – Reimbursements of Non-City Personnel Expenditure (Other Noncompliance)

Condition: The City reimbursed an employee for non-employee incurred meal costs totaling \$50.85.

Criteria: Article IX, Section 14, of the Constitution of the State of New Mexico states that the City shall not directly or indirectly lend or pledge its credit or make any donation to or in aid of any person.

Effect: The City has paid for unallowable meal expenses and is not in compliance with the Per Diem and Mileage Act and the Anti-Donation Clause and the Constitution of the State of New Mexico.

Cause: The City reimbursed a travel and per diem request that included meal expenditures of people who do not work at the City.

Auditors' Recommendations: We recommend the City to follow the Per Diem and Mileage Act and the Constitution of the State of New Mexico when paying for reimbursements and review all reimbursements to ensure it is for only personnel who are an employee of the City and whose travel was approved.

Views of Responsible Officials and Planned Corrective Action: This was an incident where City Commissioner's expenses were paid by our City Manager, so it appears that his expenses exceeded daily limits. The Finance Director is responsible for this issue will be resolved by the end of fiscal year 2018.

Section IV – Prior Year Audit Findings

Primary Government

FS 2009-002 DFA Cash Report Does Not Reconcile to the City's Cash	Repeated and Modified
FS 2015-002 Cash Internal Control Deficiencies	Repeated and Modified
FS 2015-003 Accounts Receivable Internal Control Deficiencies	Resolved
FS 2015-004 Preparation of Accounts Receivable	Repeated and Modified
FS 2015-005 Capital Asset	Resolved
FS 2015-007 Preparation of Accounts Payable	Repeated and Modified
FS 2016-001 Journal Entry Internal Controls Deficiencies	Resolved
FS 2016-002 Maintenance of Capital Assets	Resolved

STATE OF NEW MEXICO

City of Lovington

Other Disclosures

June 30, 2017

Exit Conference

An exit conference was held on December 12, 2017. In attendance were the following:

Representing the City of Lovington

Bernard Butcher
Gary Lee Chapman
James Williams

City Commissioner
Finance Director
City Manager

Representing RPC CPAs + Consultants, LLP

Cindy Bryan
Danny Martinez, CPA, CGFM
Lauren Vail

Partner
Partner
Senior Auditor

Auditor Prepared Financial Statements

RPC CPAs + Consultants, 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.