

**STATE OF NEW MEXICO
CITY OF LOVINGTON**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019



INTRODUCTORY SECTION

**STATE OF NEW MEXICO
CITY OF LOVINGTON
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2019**

	Page
INTRODUCTORY SECTION	
Table of contents	i-ii
Official roster	iii
 FINANCIAL SECTION	
Independent auditors' report	1-3
Management's Discussion and Analysis	4-11
Basic financial statements	
Government-wide financial statements:	
Statement of net position	12
Statement of activities	13
Fund financial statements:	
Balance sheet – Governmental funds	14
Reconciliation of the balance sheet – governmental funds to the statement of net position	15
Statement of revenues, expenditures, and changes in fund balances – Governmental funds	16
Reconciliation of the statement of revenues, expenditures and changes in fund balances of the governmental funds to the statement of activities	17
Statement of revenues, expenditures, and changes in fund balance – budget (non-GAAP budgetary basis) and actual – General fund	18
Statement of revenues, expenditures, and changes in fund balance – budget (non-GAAP budgetary basis) and actual – Gas tax fund	19
Statement of net position – Proprietary funds	20
Statement of revenues, expenditures, and changes in fund net position – Proprietary funds	21
Statement of cash flows – Proprietary funds	22
Statement of Fiduciary Assets and Liabilities - Agency Funds	23
Notes to the financial statements	24-53
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of proportionate share of the net pension liability of PERA fund division municipal general - City Public employees retirement association (PERA) plan	54
Schedule of proportionate share of the net pension liability of PERA fund division municipal police Public employees retirement association (PERA) plan	55
Schedule of proportionate share of the net pension liability of PERA fund division municipal fire Public employees retirement association (PERA) plan	56

**STATE OF NEW MEXICO
CITY OF LOVINGTON
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2019**

	Page
Schedule of Contributions	
Public employees retirement association (PERA) plan	
PERA municipal general division - City	57
Schedule of Contributions	
Public employees retirement association (PERA) plan	
PERA municipal police division	58
Schedule of Contributions	
Public employees retirement association (PERA) plan	
PERA municipal fire division	59
Notes to Required Supplementary Information	60
 SUPPLEMENTAL INFORMATION	
Combining and individual fund statements and schedules:	
Nonmajor governmental fund descriptions	61-62
Combining balance sheet – non-major governmental funds	63
Combining statement of revenues, expenditures, and changes	
in fund balance – non-major governmental funds	64
Combining balance sheet – Nonmajor funds	65-68
Combining statement of revenues, expenditures, and changes	
in fund balance – Nonmajor funds	69-72
Combining Statement of Net Position – Internal Service Funds	73
Combining statements of revenues, expendses and	
changes in net position – Internal Service funds	74
Combining statements of cash flows – Internal Service funds	75
Schedule of changes in fiduciary assets and liabilities - Agency funds	76
 OTHER SUPPLEMENTAL INFORMATION	
Schedule of fund balances	77
Schedule of depositories	78
Schedule of pledged collateral by depository	79
 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	
<i>Government Auditing Standards</i>	80-81
Schedule of Findings and Responses	82-88
 OTHER DISCLOSURES	
	89

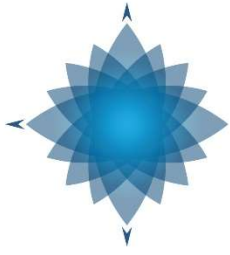
**STATE OF NEW MEXICO
CITY OF LOVINGTON
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2019**

City of Lovington

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

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

FINANCIAL SECTION



Independent Auditor's Report

Brian S. Colón
New Mexico State Auditor
The City Commission
City of Lovington
Lovington, New Mexico

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the City of Lovington, New Mexico, as of and for the year-ended June 30, 2019, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and Schedule of proportionate share of the net pension liability and the schedule of contributions and notes to the Required Supplementary Information on pages 54-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the City's financial statements, the combining and individual fund financial statements, and the schedule of changes in assets and liabilities – agency funds. The schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules required by 2.2.2 NMAC are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 12, 2019

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. 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 \$25,006,163 (net position). However, with a negative unrestricted net position of (\$1,772,301 or a negative 7.65%), 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 \$1,859,986. The decrease can be attributed primarily to the City using cash reserves to invest in a new Fire Station.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,265,664, an increase of \$260,551 in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,611,611 or 21.79% of total general fund expenditures.

The City's total debt increased by \$4,433,017, or (46.06%) during the current fiscal year due to funding needs for a second Fire Station and a Ladder Truck.

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

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

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

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 – 53 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements can be found on pages 63 – 75 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lovington, assets exceeded liabilities by \$25,006,163 at the close of the most recent fiscal year.

The largest portion of the City of Lovington's net position (\$24,866,262 or 99.44%) reflect its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, furniture, vehicles, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The following table presents a summary of the City's net position for the fiscal years ended June 30, 2019 and June 30, 2018.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

CITY OF LOVINGTON NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 7,790,144	8,344,621	2,401,279	2,332,601	10,191,423	10,677,222
Noncurrent assets other than capital assets	101,233	-	306,934	300,000	408,167	300,000
Capital assets, net	25,551,351	22,049,750	12,287,240	13,057,130	37,838,591	35,106,880
Total assets	33,442,728	30,394,371	14,995,453	15,689,731	48,438,181	46,084,102
Deferred outflows of resources	2,164,970	1,930,047	483,807	479,664	2,648,777	2,409,711
Total assets and deferred outflows	35,607,698	32,324,418	15,479,260	16,169,395	51,086,958	48,493,813
Current liabilities	1,441,458	1,646,329	1,159,434	1,631,215	2,600,892	3,277,544
Noncurrent liabilities	15,662,229	9,592,297	6,845,424	7,327,765	22,507,653	16,920,062
Total liabilities	17,103,687	11,238,626	8,004,858	8,958,980	25,108,545	20,197,606
Deferred inflows of resources	887,079	1,250,985	85,170	179,072	972,249	1,430,057
Total liabilities and deferred outflow	17,990,766	12,489,611	8,090,028	9,138,052	26,080,794	21,627,663
Net investment in capital assets	18,408,378	19,884,780	6,457,884	6,776,116	24,866,262	26,660,896
Restricted	1,912,203	1,912,203	-	-	1,912,203	1,912,203
Unrestricted	(2,703,649)	(1,962,176)	931,348	255,227	(1,772,301)	(1,706,949)
Total net position	\$ 17,616,932	19,834,807	7,389,232	7,031,343	25,006,164	26,866,150

An additional portion of the City of Lovington's net position of \$1,912,203 (7.62%) represents resources that are subject to external restrictions on how they may be used. With a negative unrestricted net position of (\$1,772,301 or a negative 7.09%), 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 additional demands on resources. In the prior fiscal year, the negative balance was due to economic factors in the local Oil Industry.

Governmental Activities. Governmental activities decreased the City of Lovington's net position by \$2,216 (in thousands). Key elements of this decrease are as follows:

General Government and Public Works Expenses Increased by \$727 (in thousands), Public Safety increased by \$427 (in thousands), Culture and recreation increased by \$522 (in thousands), Health and Welfare increased by \$18 (in thousands) and interest on Long-Term Debt increased by \$136 (in thousands). Lastly, Transfers to business type activities increased by \$850 (in thousands).

Business-Type Activities. Business-type activities increased the City's net position by \$358 (in thousands). Key elements of this increase are as follows:

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Revenues increase by \$1,329 (in thousands), while expenditures decreased by \$152 (in thousands).

CHANGES IN CITY OF LOVINGTON NET POSITION

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues	\$					
Taxes	10,077	9,703	-	-	10,077	9,703
Intergovernmental	803	638	11	76	814	714
Charges for services	348	269	6,163	4,786	6,511	5,055
Other	1,664	1,164	117	100	1,781	1,264
Total Revenues	<u>12,892</u>	<u>11,774</u>	<u>6,291</u>	<u>4,962</u>	<u>19,183</u>	<u>16,736</u>
Expenses						
General Government	3,886	2,122	-	-	3,886	2,122
Public Safety	4,881	4,454	-	-	4,881	4,454
Public Works	773	1,810	-	-	773	1,810
Culture and recreation	4,500	3,978	-	-	4,500	3,978
Conservation and development	18	-	-	-	18	-
Interest on long-term debt	190	54	-	-	190	54
Water, Sewer, Solid Waste and Ambulance	-	-	6,793	6,945	6,793	6,945
Total expenses	<u>14,248</u>	<u>12,418</u>	<u>6,793</u>	<u>6,945</u>	<u>21,041</u>	<u>19,363</u>
Transfers	(860)	(10)	860	10	-	-
Changes in net position	<u>(2,216)</u>	<u>(654)</u>	<u>358</u>	<u>(1,973)</u>	<u>(1,858)</u>	<u>(2,627)</u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$7,265,664 an increase of \$260,551 in comparison with the prior year. Approximately 27.30% of the total amount, \$1,912,203 is restricted for subsequent year's expenditures, which have externally enforceable limitations imposed on the spendable fund balance. However, the City has a positive unassigned net position of approximately \$2,611,611, as such, the City has unrestricted resources available to meet the City's ongoing obligations to citizens and creditors.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance totaled \$3,656,896 of which \$2,611,611 was unassigned. This represents 21.79% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$2,411,418 during the current fiscal year due to unanticipated expenditure.

Proprietary Funds. The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the three proprietary funds at the end of the year amounted to \$7,389,230 an increase of \$357,887 from the prior fiscal year.

General Fund Budgetary Highlights

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

There was an unfavorable variance of \$326,764 in the general fund revenues. The variances were as follows, an unfavorable variance of \$11,555 in property taxes, an unfavorable variance of \$77,791 in Gross Receipt Taxes, licenses and permits had an unfavorable variance of \$155, charges for services had an unfavorable variance of \$11,107, fines and forfeitures had an unfavorable impact of \$2,710, and State grants had an unfavorable variance of \$35,456, interest income had an unfavorable variance of \$12,838 and the rest in miscellaneous revenues.

The net favorable variance of \$1,060,113 in general fund expenditures was due primarily to all our departments efforts not expending all the funds budgeted. \$255,973 was not expended in the general government function, and \$316,107 was not expended in the public safety function, \$109,029 was not expended in the public works function, and \$319,693 was not expended in the Culture and recreation function and the rest in capital outlay.

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, 2019 amounts to \$37,838,589 (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:

- \$1,626,066 – Construction in Progress for 17th Street Fire Station
- \$1,268,568 – Ladder Truck
- \$ 600,580 - Property – Magistrate Courts
- \$ 347,320 - Property – Veterans Memorial Park
- \$130,855 – Harold Runnels Irrigation

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

- \$30,400 – Harold Runnels Fence
- \$48,797 – Construction in progress City Entry Signs
- \$44,704 – Police Firing Range – Fence
- \$72,709 – Police Evidence Facility
- \$114,000 – (3) Police Vehicles

CITY OF LOVINGTON CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	1,093,490	152,981	323,082	323,082	1,416,572	476,063
Construction in progress	2,841,685	1,326,140	15,405	15,405	2,857,090	1,341,545
Infrastructure	22,523,460	20,121,580	1,793,023	1,793,023	24,316,483	21,914,603
Buildings and improvements	17,470,722	17,037,632	19,651,949	19,564,449	37,122,671	36,602,081
Library collection	1,630,836	1,630,836	-	-	1,630,836	1,630,836
Machinery and equipment	4,818,882	4,656,502	5,378,383	5,236,185	10,197,265	9,892,687
Vehicles	3,366,404	3,169,412	1,599,552	1,468,252	4,965,956	4,637,664
Total Capital Assets	<u>53,745,479</u>	<u>48,095,083</u>	<u>28,761,394</u>	<u>28,400,396</u>	<u>82,506,873</u>	<u>76,495,479</u>
Less Accumulated depreciation	<u>(28,194,128)</u>	<u>(26,045,332)</u>	<u>(16,474,156)</u>	<u>(15,343,266)</u>	<u>(44,668,284)</u>	<u>(41,388,598)</u>
Capital Assets, net	<u>25,551,351</u>	<u>22,049,751</u>	<u>12,287,238</u>	<u>13,057,130</u>	<u>37,838,589</u>	<u>35,106,881</u>

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

Debt Administration. At the end of the current fiscal year, the City of Lovington had total debt from outstanding loans of \$14,058,197, 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	
	2019	2018	2019	2018	2019	2018
Revenue bonds	5,770,000	2,165,000	5,724,991	-	11,494,991	2,165,000
Notes payable	1,372,973	-	-	6,158,399	1,372,973	6,158,399
Capital lease	-	-	122,615	122,615	122,615	122,615
Compensated absences	954,149	958,012	221,154	221,154	1,175,303	1,179,166
Total debt outstanding	<u>8,097,122</u>	<u>3,123,012</u>	<u>6,068,760</u>	<u>6,502,168</u>	<u>14,165,882</u>	<u>9,625,180</u>

State statutes currently limit the amount of general obligation debt the City may issue up to 4.00% of its total assessed valuation for general purposes. Additional information on the City of Lovington's debt can be found in Note 6 on pages 41 – 44 of this report.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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). The inherent nature of the "boom and bust" cycle is evident with the unemployment rates found within Lea County as well as the rise and fall of the revenues our municipality experiences. At the beginning of the fiscal year, the unemployment rate was at 4.6%. By the end of the fiscal year, the unemployment rate in Lea County was below 4.76%. This is directly attributed to the price of oil and natural gas. In visiting with operators in the petroleum industry, the average 12-month price of West Texas Intermediate Crude (\$60.87) experienced in the fiscal year allows them to operate and sustain profitable operations. The low unemployment rate creates discretionary income that residents and visitors utilize to purchase goods and services. Utilizing historical data, City staff continue to provide our Commission with conservative numbers and estimates that allowed us to continue to provide services to the citizens, restore previously frozen positions, and make infrastructure improvements within the community. Although it is common for the City to restore previously depleted reserves, Commission authorized capital expenditures have reduced our ability to do this routine action. Although the majority of the capital expenditures will be reimbursed, this is a slow process and is having an effect on our cash balances.

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

Request for Information

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
As of June 30, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ 5,078,615	690,051	5,768,666
Investments	327,138	14,961	342,099
Receivables			
Accounts receivable	315,425	1,202,582	1,518,007
Taxes receivable	1,635,040	-	1,635,040
Other receivables	98,034	6,723	104,757
Inventories	231,762	486,962	718,724
Total current assets	<u>7,790,144</u>	<u>2,401,279</u>	<u>10,191,423</u>
Non-current assets:			
Investments	101,233	306,934	408,167
Capital assets	53,745,479	28,761,387	82,506,866
Less: Accumulated depreciation	<u>(28,194,128)</u>	<u>(16,474,147)</u>	<u>(44,668,275)</u>
Total non-current assets	<u>25,652,584</u>	<u>12,594,174</u>	<u>38,246,758</u>
Total assets	<u>33,442,728</u>	<u>14,995,453</u>	<u>48,438,181</u>
Deferred Outflows of Resources:			
Employer contributions subsequent to the measure	429,421	76,630	506,051
Actuarial experience	223,862	33,313	257,175
Investment experience	424,171	81,964	506,135
Change in assumptions	652,986	108,688	761,674
Change in proportion	434,530	183,212	617,742
Total deferred outflows of resources	<u>2,164,970</u>	<u>483,807</u>	<u>2,648,777</u>
Total assets and deferred outflows of resources	<u>\$ 35,607,698</u>	<u>15,479,260</u>	<u>51,086,958</u>
Liabilities, deferred inflows of resources and net position:			
Liabilities:			
Accounts payable	\$ 442,134	252,312	694,446
Accrued payroll liabilities	154,117	16,969	171,086
Accrued interest	34,050	55,189	89,239
Due to other government	-	18,558	18,558
Customer deposits	3,037	294,915	297,952
Current portion of compensated absences	397,145	60,811	457,956
Current portion of long-term debt	410,975	460,680	871,655
Total current liabilities	<u>1,441,458</u>	<u>1,159,434</u>	<u>2,600,892</u>
Non-current liabilities			
Compensated absences	557,004	70,908	627,912
Net pension liability	8,373,227	1,405,840	9,779,067
Notes payable	6,731,998	5,368,676	12,100,674
Total non-current liabilities	<u>15,662,229</u>	<u>6,845,424</u>	<u>22,507,653</u>
Total liabilities	<u>17,103,687</u>	<u>8,004,858</u>	<u>25,108,545</u>
Deferred inflows of resources:			
Actuarial experience	596,434	63,532	659,966
Change in assumptions	38,967	6,887	45,854
Change in proportion	251,678	14,751	266,429
Total deferred inflows of resources	<u>887,079</u>	<u>85,170</u>	<u>972,249</u>
Net position			
Net Investment in Capital Assets	18,408,378	6,457,884	24,866,262
Restricted Net Position	1,912,203	-	1,912,203
Unrestricted Net Position	<u>(2,703,649)</u>	<u>931,348</u>	<u>(1,772,301)</u>
Total net position	<u>17,616,932</u>	<u>7,389,232</u>	<u>25,006,164</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 35,607,698</u>	<u>15,479,260</u>	<u>51,086,958</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, 2019**

<u>Functions/programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes In Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities							
General government	\$ 3,885,920	342,446	627,835	-	(2,915,639)	-	(2,915,639)
Public safety	4,881,411	-	174,844	-	(4,706,567)	-	(4,706,567)
Public works	773,305	-	-	-	(773,305)	-	(773,305)
Culture and recreation	4,500,491	5,854	-	-	(4,494,637)	-	(4,494,637)
Health and welfare	18,465	-	-	-	(18,465)	-	(18,465)
Interest expense	190,196	-	-	-	(190,196)	-	(190,196)
Total governmental activities	<u>14,249,788</u>	<u>348,300</u>	<u>802,679</u>	<u>-</u>	<u>(13,098,809)</u>	<u>-</u>	<u>(13,098,809)</u>
Business-type activities:							
Solid waste	2,125,783	1,990,443	-	-	-	(135,340)	(135,340)
Water and wastewater	3,981,169	2,959,850	-	10,800	-	(1,010,519)	(1,010,519)
Ambulance	685,720	1,212,582	-	-	-	526,862	526,862
Total business-type activities	<u>6,792,672</u>	<u>6,162,875</u>	<u>-</u>	<u>10,800</u>	<u>-</u>	<u>(618,997)</u>	<u>(618,997)</u>
Total primary government	<u>21,042,460</u>	<u>6,511,175</u>	<u>802,679</u>	<u>10,800</u>	<u>(13,098,809)</u>	<u>(618,997)</u>	<u>(13,717,806)</u>
General revenues:							
Taxes							
Property taxes levied for general purposes					\$ 447,136	-	447,136
Gross receipts taxes					9,055,577	-	9,055,577
Other taxes and fees					574,590	-	574,590
Licenses and permits					27,063	-	27,063
Fines, forfeitures, and penalties					167,905	-	167,905
Interest income					133,516	7,228	140,744
Miscellaneous income					1,335,383	109,422	1,444,805
Transfers					(860,236)	860,236	-
Total general revenue and transfers					<u>10,880,934</u>	<u>976,886</u>	<u>11,857,820</u>
Changes in net position					(2,217,875)	357,889	(1,859,986)
Beginning net position					19,834,807	7,031,343	26,866,150
Net position, end of year					<u>\$ 17,616,932</u>	<u>7,389,232</u>	<u>25,006,164</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2019**

	<u>Major Funds</u>			<u>Total Non-Major Funds</u>	<u>Total Funds</u>
	<u>General Fund</u>	<u>Spec Revenue Economic Development</u>	<u>Capital Projects Capital Improvements</u>		
Assets and deferred inflows of resources:					
Assets:					
Cash and cash equivalents	\$ 1,293,617	590,046	2,179,105	1,015,847	5,078,615
Investments	309,185	101,233	-	17,953	428,371
Receivables					
Accounts receivable	315,425	-	-	-	315,425
Taxes receivable	1,389,405	54,664	125,950	65,022	1,635,041
Other receivables	74,644	-	11,142	12,249	98,035
Due from other funds	-	500,000	-	-	500,000
Inventories	229,916	-	-	1,846	231,762
Total assets	<u>3,656,896</u>	<u>1,245,943</u>	<u>2,340,023</u>	<u>1,148,517</u>	<u>8,391,379</u>
Deferred Outflows of Resources:					
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 3,656,896</u>	<u>1,245,943</u>	<u>2,340,023</u>	<u>1,148,517</u>	<u>8,391,379</u>
Liabilities, deferred inflows of resources and fund balances:					
Liabilities:					
Accounts payable	\$ 236,204	36,646	20,845	148,440	442,135
Accrued payroll liabilities	152,639	-	-	1,478	154,117
Due to other funds	400,100	-	-	99,900	500,000
Other liabilities	-	-	-	3,037	3,037
Total liabilities	<u>788,943</u>	<u>36,646</u>	<u>20,845</u>	<u>252,855</u>	<u>1,099,289</u>
Deferred Inflows of Resources:					
"Unavailable" revenues	26,426	-	-	-	26,426
Total deferred inflows of resources	<u>26,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,426</u>
Fund balances:					
Nonspendable	229,916	-	-	1,846	231,762
Restricted	-	1,209,297	2,319,178	991,400	4,519,875
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	2,611,611	-	-	(97,584)	2,514,027
Total fund balances	<u>2,841,527</u>	<u>1,209,297</u>	<u>2,319,178</u>	<u>895,662</u>	<u>7,265,664</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 3,656,896</u>	<u>1,245,943</u>	<u>2,340,023</u>	<u>1,148,517</u>	<u>8,391,379</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
As of June 30, 2019**

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

Total fund balance - Governmental funds	\$	7,265,664
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The City uses internal service funds to charge the costs of certain activities, such as self-insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. The net effect of this consolidation is an increase to net position

-

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.

25,551,351

Delinquent property tax not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the statement of activities.

26,426

Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in the funds:

Deferred outflows of resources related to:

Employer contribution subsequent to the measurement date		429,421
Actuarial experience		223,862
Investment experience		424,171
Change in assumptions		652,986
Change in proportion		434,530

Deferred inflows of resources related to:

Actuarial experience		(596,434)
Investment experience		-
Change in assumptions		(38,967)
Change in proportion		(251,678)

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

Net pension liability	\$	(8,373,227)	
Accrued interest payable		(34,050)	
Current compensated absences		(397,145)	
Noncurrent compensated absences		(557,004)	
Current notes payable		(410,975)	
Noncurrent notes payable	\$	<u>(6,731,998)</u>	
			(16,504,399)

Rounding

(1)

Net position for governmental activities

\$ 17,616,932

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019**

	<u>Major Funds</u>			<u>Total Non-Major Funds</u>	<u>Total Funds</u>
	<u>General Fund</u>	<u>Spec Revenue Economic Development</u>	<u>Capital Projects Capital Improvements</u>		
Revenues:					
Taxes					
Property	\$ 458,070	-	-	-	458,070
Gross receipts/State shared	7,540,484	340,403	982,029	192,660	9,055,576
Other	308,690	-	-	265,901	574,591
Licenses and permits	27,063	-	-	-	27,063
Charges for services	342,446	-	-	5,854	348,300
Fines and forfeitures	120,823	-	-	47,082	167,905
Intergovernmental revenue					
Federal grants	-	-	-	19,458	19,458
State grants	139,292	93,997	58,439	491,493	783,221
Interest income	56,146	1,233	67,668	8,469	133,516
Miscellaneous income	<u>1,103,492</u>	<u>-</u>	<u>-</u>	<u>231,890</u>	<u>1,335,382</u>
Total revenues	<u>10,096,506</u>	<u>435,633</u>	<u>1,108,136</u>	<u>1,262,807</u>	<u>12,903,082</u>
Expenditures:					
Current:					
General government	2,102,165	-	35,139	191,097	2,328,401
Public safety	5,096,755	-	-	102,948	5,199,703
Public works	787,332	128,857	-	-	916,189
Culture and recreation	1,449,396	-	-	916,478	2,365,874
Health and welfare	-	-	-	18,465	18,465
Capital outlay	2,550,978	162,869	2,297,405	833,954	5,845,206
Debt service					
Principal	-	-	-	357,626	357,626
Interest	-	-	-	163,455	163,455
Total expenditures	<u>11,986,626</u>	<u>291,726</u>	<u>2,332,544</u>	<u>2,584,023</u>	<u>17,194,919</u>
Excess (deficiency) of revenues over (under) expenditures	(1,890,120)	143,907	(1,224,408)	(1,321,216)	(4,291,837)
Other financing sources (uses):					
Proceeds from debt issuance	1,385,599	-	3,950,000	-	5,335,599
Transfers in	3,486,592	-	1,669,887	2,998,047	8,154,526
Transfers out	<u>(5,393,489)</u>	<u>-</u>	<u>(2,483,429)</u>	<u>(1,060,819)</u>	<u>(8,937,737)</u>
Total other financing sources (uses):	<u>(521,298)</u>	<u>-</u>	<u>3,136,458</u>	<u>1,937,228</u>	<u>4,552,388</u>
Net change in fund balances	(2,411,418)	143,907	1,912,050	616,012	260,551
Beginning fund balance	<u>5,252,945</u>	<u>1,065,390</u>	<u>407,128</u>	<u>279,650</u>	<u>7,005,113</u>
Ending fund balance	<u>\$ 2,841,527</u>	<u>1,209,297</u>	<u>2,319,178</u>	<u>895,662</u>	<u>7,265,664</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 CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
As of June 30, 2019**

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

Total net change in fund balances-governmental funds	\$	260,551
Change in net position of the internal service funds, which are presented in the Statement of Activities as governmental activities but are not presented with the governmental fund financial statements.		(78,890)
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimates useful lives and reported as depreciation expense.		
Capital expenditures recorded as capital outlay or other expenses		5,650,395
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as an expenditure in the governmental funds.		(2,148,793)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows of resources related to property taxes receivable		(10,934)
The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
(Increase)/decrease in compensated absences		3,863
(Increase)/decrease in accrued interest		(23,225)
Principal payments on long-term debt		357,626
Expenditures in the statement of activities that do not provide current financial resources are not reported as expenditures in the funds		
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:		
Employer contributions subsequent to the measurement date		429,421
Pension expense		(1,322,288)
Rounding		<u>(2)</u>
Change in net position of governmental activities	\$	<u><u>(2,217,875)</u></u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes				
Property	\$ 440,442	473,461	461,906	(11,555)
Gross receipts	7,736,106	7,770,333	7,693,042	(77,291)
Other	208,000	254,460	254,460	-
Licenses and permits	18,755	25,913	25,758	(155)
Charges for services	264,300	356,491	345,384	(11,107)
Fines and forfeitures	100,165	128,686	125,976	(2,710)
Intergovernmental revenue				
State grants	115,305	128,684	93,228	(35,456)
Interest income	50,000	50,412	37,574	(12,838)
Miscellaneous income	851,930	2,651,984	2,476,332	(175,652)
Total revenues	<u>9,785,003</u>	<u>11,840,424</u>	<u>11,513,660</u>	<u>(326,764)</u>
Expenditures:				
Current:				
General government	1,732,593	2,150,248	1,894,275	255,973
Public safety	5,233,001	5,414,533	5,098,426	316,107
Public works	849,268	912,101	803,072	109,029
Culture and recreation	1,522,202	1,771,368	1,451,675	319,693
Capital outlay	191,000	2,623,414	2,564,103	59,311
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>9,528,064</u>	<u>12,871,664</u>	<u>11,811,551</u>	<u>1,060,113</u>
Excess (deficiency) of revenues over (under) expenditures	256,939	(1,031,240)	(297,891)	(1,386,877)
Other financing sources (uses):				
Transfers in	59,773	3,299,856	3,314,973	15,117
Transfers out	(366,505)	(5,518,610)	(5,518,851)	(241)
Total other financing sources (uses):	<u>(306,732)</u>	<u>(2,218,754)</u>	<u>(2,203,878)</u>	<u>14,876</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(49,793)	(3,249,994)	(2,501,769)	<u>(1,372,001)</u>
Budgeted cash carryover	<u>49,793</u>	<u>3,249,994</u>	<u>2,501,769</u>	
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ (2,501,769)	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			140,064	
Adjustments to expenditures for accrued wages and expenditures			(49,713)	
Net change in fund balance (GAAP)			<u>\$ (2,411,418)</u>	

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
ECONOMIC DEVELOPMENT FUND - SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes				
Gross receipts	\$ 313,273	347,581	347,581	-
Intergovernmental revenue				
State grants	-	93,997	93,997	-
Interest income	9,069	9,069	-	(9,069)
Total revenues	<u>322,342</u>	<u>450,647</u>	<u>441,578</u>	<u>(9,069)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	55,000	99,839	92,211	7,628
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	200,000	270,770	162,869	107,901
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>255,000</u>	<u>370,609</u>	<u>255,080</u>	<u>115,529</u>
Excess (deficiency) of revenues over (under) expenditures	67,342	80,038	186,498	(124,598)
Other financing sources (uses):				
Transfers in	-	511,777	511,777	-
Transfers out	-	(511,778)	(511,777)	(1)
Total other financing sources (uses):	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	67,342	80,037	186,498	<u>(124,599)</u>
Budgeted cash carryover	<u>-</u>	<u>-</u>	<u>-</u>	
Net change in fund balance	<u>\$ 67,342</u>	<u>80,037</u>	<u>186,498</u>	
Reconciliation From Budget/Actual to GAAP				
Net change in fund balance (Non-GAAP budgetary basis)			\$ 186,498	
Adjustments to revenue for tax accruals and other miscellaneous revenue accruals			(5,945)	
Adjustments to expenditures for accrued wages and expenditures			(36,646)	
Net change in fund balance (GAAP)			<u>\$ 143,907</u>	

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2019**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Assets and deferred inflows of resources:					
Assets:					
Cash and cash equivalents	\$ 69,992	463,679	156,380	690,051	-
Investments	14,961	-	-	14,961	-
Receivables					
Accounts receivable, net	361,856	448,703	392,023	1,202,582	-
Other receivables	6,000	723	-	6,723	-
Inventories	-	476,318	10,644	486,962	-
Total current assets	<u>452,809</u>	<u>1,389,423</u>	<u>559,047</u>	<u>2,401,279</u>	<u>-</u>
Non-current assets:					
Restricted cash:					
Long-term Investments	-	306,934	-	306,934	-
Capital assets, net	<u>323,523</u>	<u>11,099,303</u>	<u>864,412</u>	<u>12,287,238</u>	<u>-</u>
Total non-current assets	<u>323,523</u>	<u>11,406,237</u>	<u>864,412</u>	<u>12,594,172</u>	<u>-</u>
Total assets	<u>776,332</u>	<u>12,795,660</u>	<u>1,423,459</u>	<u>14,995,451</u>	<u>-</u>
Deferred Outflows of Resources:					
Employer contributions subsequent to the measurement date	6,626	39,076	30,928	76,630	-
Actuarial experience	3,014	17,771	12,528	33,313	-
Investment experience	7,733	45,602	28,629	81,964	-
Change in assumptions	9,453	55,747	43,488	108,688	-
Change in proportion	<u>21,115</u>	<u>124,518</u>	<u>37,579</u>	<u>183,212</u>	<u>-</u>
Total deferred outflows of resources	<u>47,941</u>	<u>282,714</u>	<u>153,152</u>	<u>483,807</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 824,273</u>	<u>13,078,374</u>	<u>1,576,611</u>	<u>15,479,258</u>	<u>-</u>
Liabilities, deferred inflows of resources and net position:					
Liabilities:					
Accounts payable	\$ 154,081	87,229	11,002	252,312	-
Accrued payroll liabilities	1,385	11,171	4,413	16,969	-
Accrued interest	-	52,836	2,353	55,189	-
Due to other government	-	18,558	-	18,558	-
Customer deposits	-	294,915	-	294,915	-
Current portion of compensated absences	2,929	48,539	9,343	60,811	-
Current portion of long-term debt	-	441,607	19,073	460,680	-
Total current liabilities	<u>158,395</u>	<u>954,855</u>	<u>46,184</u>	<u>1,159,434</u>	<u>-</u>
Non-current liabilities					
Compensated absences	-	61,609	9,299	70,908	-
Total pension liability	104,266	614,871	686,703	1,405,840	-
Notes payable	<u>-</u>	<u>5,283,384</u>	<u>85,292</u>	<u>5,368,676</u>	<u>-</u>
Total non-current liabilities	<u>104,266</u>	<u>5,959,864</u>	<u>781,294</u>	<u>6,845,424</u>	<u>-</u>
Total liabilities	<u>262,661</u>	<u>6,914,719</u>	<u>827,478</u>	<u>8,004,858</u>	<u>-</u>
Deferred inflows of resources:					
Actuarial experience	2,737	16,143	44,652	63,532	-
Change in assumptions	600	3,535	2,752	6,887	-
Change in proportion	<u>-</u>	<u>-</u>	<u>14,751</u>	<u>14,751</u>	<u>-</u>
Total deferred inflows of resources	<u>3,337</u>	<u>19,678</u>	<u>62,155</u>	<u>85,170</u>	<u>-</u>
Net position					
Net Investment in Capital Assets	323,523	5,374,312	760,047	6,457,882	-
Unrestricted Net Position	<u>234,752</u>	<u>769,665</u>	<u>(73,069)</u>	<u>931,348</u>	<u>-</u>
Total net position	<u>558,275</u>	<u>6,143,977</u>	<u>686,978</u>	<u>7,389,230</u>	<u>-</u>
Total liabilities, deferred inflows of resources and net position:	<u>\$ 824,273</u>	<u>13,078,374</u>	<u>1,576,611</u>	<u>15,479,258</u>	<u>-</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2019**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Operating revenues:					
Charges for services	\$ 1,990,443	2,959,850	1,212,582	6,162,875	-
Federal grants - operating	-	-	-	-	-
Total operating revenues	<u>1,990,443</u>	<u>2,959,850</u>	<u>1,212,582</u>	<u>6,162,875</u>	<u>-</u>
Operating expenses:					
Personnel services	179,914	1,350,963	164,833	1,695,710	-
Operating expenses	1,933,365	1,546,495	373,546	3,853,406	-
Depreciation and amortization	<u>12,504</u>	<u>971,039</u>	<u>147,346</u>	<u>1,130,889</u>	<u>-</u>
Total operating expenses	2,125,783	3,868,497	685,725	6,680,005	-
Operating income (loss)	(135,340)	(908,647)	526,857	(517,130)	-
Non-operating revenues (expenses):					
Gain/(loss) on disposal of capital assets	-	-	-	-	-
Federal grants - capital	-	-	-	-	-
State grants - capital	-	10,800	-	10,800	-
Other grant revenues	-	-	-	-	-
Gross receipts and other taxes	-	-	-	-	-
Miscellaneous	29,546	76,562	3,315	109,423	-
Interest income	-	7,228	-	7,228	-
Interest expense	<u>-</u>	<u>(112,670)</u>	<u>-</u>	<u>(112,670)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>29,546</u>	<u>(18,080)</u>	<u>3,315</u>	<u>14,781</u>	<u>-</u>
Income (loss) before transfers	(105,794)	(926,727)	530,172	(502,349)	-
Other financing sources/(uses)					
Transfers in	540,379	837,063	935	1,378,377	-
Transfers out	<u>-</u>	<u>(198,420)</u>	<u>(319,721)</u>	<u>(518,141)</u>	<u>(78,890)</u>
Total other financing sources/(uses)	540,379	638,643	(318,786)	860,236	(78,890)
Change in net position	434,585	(288,084)	211,386	357,887	(78,890)
Net position, beginning of year	<u>123,690</u>	<u>6,432,061</u>	<u>475,592</u>	<u>7,031,343</u>	<u>78,890</u>
Net position, end of year	<u>\$ 558,275</u>	<u>6,143,977</u>	<u>686,978</u>	<u>7,389,230</u>	<u>-</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2019**

	<u>Solid Waste Fund</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:					
Receipts from customers and users	\$ 1,988,862	3,097,594	965,382	6,051,838	-
Payments to suppliers	(2,195,714)	(1,690,848)	(373,339)	(4,259,901)	(23,478)
Payments to employees	(162,515)	(1,271,231)	(408,032)	(1,841,778)	-
Net cash provided (used) for operating activities	<u>(369,367)</u>	<u>135,515</u>	<u>184,011</u>	<u>(49,841)</u>	<u>(23,478)</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	540,379	837,063	935	1,378,377	-
Transfers to other funds	-	(198,420)	(319,721)	(518,141)	(78,890)
Miscellaneous income	29,546	76,562	3,315	109,423	-
Net cash provided (used) for noncapital financing activities	<u>569,925</u>	<u>715,205</u>	<u>(315,471)</u>	<u>969,659</u>	<u>(78,890)</u>
Cash flows from capital and related financing activities:					
Intergovernmental receipts-capital	-	10,800	-	10,800	-
Acquisition and construction of capital assets	-	(331,287)	(29,712)	(360,999)	-
Principal paid on long-term debt	-	(433,409)	(18,250)	(451,659)	-
Interest paid on long-term debt	-	(112,670)	-	(112,670)	-
Interfund loans and repayments	-	501	(935)	(434)	-
Net cash provided (used) for capital and related financing activities.	<u>-</u>	<u>(866,065)</u>	<u>(48,897)</u>	<u>(914,962)</u>	<u>-</u>
Cash flows from investing activities:					
Purchase of investments	-	(6,934)	-	(6,934)	-
Interest and dividends	-	7,228	-	7,228	-
Net cash provided (used) for investing activities.	<u>-</u>	<u>294</u>	<u>-</u>	<u>294</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	200,558	(15,051)	(180,357)	5,150	(102,368)
Cash and cash equivalents – beginning of year	<u>(130,566)</u>	<u>478,730</u>	<u>336,737</u>	<u>684,901</u>	<u>102,368</u>
Cash and cash equivalents – end of year	<u>\$ 69,992</u>	<u>463,679</u>	<u>156,380</u>	<u>690,051</u>	<u>-</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (135,340)	(908,647)	526,857	(517,130)	-
Adjustments					
Depreciation and amortization	12,504	971,039	147,346	1,130,889	-
Noncash pension expense/change in deferrals	17,462	137,980	(194,571)	(39,129)	-
Changes in assets and liabilities:					
Receivables	(1,581)	137,744	(247,200)	(111,037)	-
Inventories	-	47,943	-	47,943	-
Accounts payable	(262,349)	25,004	207	(237,138)	-
Accrued expenses and other liabilities	(2,264)	(11,496)	(3,744)	(17,504)	(23,478)
Deposits	-	(217,300)	-	(217,300)	-
Compensated absences	2,201	(46,752)	(44,884)	(89,435)	-
Net cash provided by operating activities	<u>\$ (369,367)</u>	<u>135,515</u>	<u>184,011</u>	<u>(49,841)</u>	<u>(23,478)</u>

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
As of June 30, 2019

		2019
Assets:	\$	
Cash		56,325
Accounts receivable		<u>3,528</u>
Total assets	\$	<u><u>59,853</u></u>
Liabilities:		
Accounts payable	\$	<u>59,853</u>
Total liabilities	\$	<u><u>59,853</u></u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Financial Reporting Entity

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance, part of the government's operation. Each discreetly presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

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

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

Based upon the application of these criteria, the City does not have any component units. Additionally, the City is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2019.

B. Government-Wide Financial Statements

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

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

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

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

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

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

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

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

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

The City reports the following major governmental funds:

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019, there were none.

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

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

Capital assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are defined by the City as assets with an initial,

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City of Lovington was a Phase III government for purposes of implementing GASB Statement No. 34, and therefore, was not required to include the historical cost of infrastructure assets retroactive to 1980. Information technology equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. There were no assets donated to the City for the year ended June 30, 2019.

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:

<u>Asset Type</u>	<u>Years</u>
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, 2019, 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 \$761,674, changes in proportion in the amount of \$617,742, difference between expected and actual experience in the amount of \$257,175, employer contributions subsequent to the measurement date in the amount of \$506,050 and net difference between projected and actual investment earnings in the amount of \$506,135. These amounts are reported in the Statement of Net Position and will be recognized as outflows of resources in future periods.

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

for deferred inflows of resources. The City has one item which arises under the modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item, property taxes, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The City has recorded \$- related to property taxes considered "unavailable". In addition, the City has three types of items presented on the Statement of Net Position which arise due to the implementation of GASB Statement No. 68 and the related net pension liability. Accordingly, the items, changes of assumptions in the amount of \$45,853, changes in proportion in the amount of \$266,429 and, differences between expected and actual experience in the amount of \$659,966, are reported on the Statement of Net Position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

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

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

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

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

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the New Mexico PERA and additions to/deductions from PERA's fiduciary

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Net position or fund balance classification policies and procedures:

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

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

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

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

- **Nonspendable Fund Balance:** At June 30, 2019, the nonspendable fund balance on the governmental balance sheet is \$268,003.
- **Restricted Fund Balance:** At June 30, 2019, the restricted fund balance on the governmental funds balance sheet is made up of \$4,519,875 for the restricted purposes as defined by each fund.

Minimum Fund Balance Policy: The City's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 \$11,809,933 and the City's self-imposed reserve of \$984,161 for the year ended June 30, 2019. As these amounts are an accumulation of resources and not a true restriction or commitment of expenditures, they are reflected within the unassigned fund balance of the general fund.

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

a. Net investment in capital assets:

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

b. Restricted net position:

Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for "special revenue, debt service, and capital projects" are described on page 78.

c. Unrestricted net position:

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

E. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City's financial statements include the depreciation on capital assets, the net pension liability and related items, and the current portion of compensated absences.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

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

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2019 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

NOTE 3 – DEPOSITS AND INVESTMENTS

The following is a summary of the City’s cash and cash equivalents balances by fund type as of June 30, 2019:

Fund Type	Amount
Primary government	
Governmental funds	\$ 5,078,615
Business-type activities	690,051
Fiduciary funds	56,325
Total cash and cash equivalents - primary government	\$ 5,824,991

The City’s cash and cash equivalents are listed in more detail on page 79 of this report.

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the City properly followed State investment requirements as of June 30, 2019.

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.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

As of June 30, 2019, the City's bank balances of \$6,305,047 were exposed to custodial credit risk as follows:

Insured through federal depository insurance	\$	3,555,047
Uninsured, collateralized with securities held by pledging financial institution's trust department or agent in the City's name.		2,750,000
Uninsured and uncollateralized		-
Total cash per bank statements	\$	<u><u>6,305,047</u></u>

The City's Schedule of Collateral is presented on page 80 of this report.

Investments

A summary of the City's investments by fund type as of June 30, 2019 is as follows:

Fund Type	Amount
Primary government	
Governmental funds	\$ 428,371
Business-type activities	<u>321,894</u>
Total investments - primary government	\$ <u><u>750,265</u></u>

The City's investments as of June 30, 2019 are as follows:

Investment	Market Value	Credit Risk- Rating	Weighted Average Maturity
New MexiGROW LGIP	\$ 342,098	AAAm	35 day WAM(R); 112 day WAM(F)
Estacado FCU - CD's	306,934		5 year maturity - 6/26/2023
Lea County State Bank CD	<u>101,233</u>		5 year maturity - 11/01/2023
	\$ <u><u>750,265</u></u>		

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

The pool does not have unit shares. Per Sections 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

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

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

Fair Value Measurements

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

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

The City maintained a balance of \$342,098 in investments at June 30, 2019 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, 2019:

	Level 1	Level 2	Level 3	Total
\$	342,098	-	-	342,098

NOTE 4 – RECEIVABLES

At June 30, 2019, receivables consisted of the following:

Governmental activities:

	General Fund	Economic Dev Fund	Capital Improve- ments Fund	Other Governmental Funds	Total Receivables
Taxes:	\$				
Property	43,469	-	-	-	43,469
Gross receipts taxes	1,241,622	54,664	125,950	165,349	1,587,585
Franchise taxes	99,154	-	-	-	99,154
Gasoline and oil taxes	5,160	-	-	-	5,160
Lodger's taxes	-	-	-	25,622	25,622
Intergovernmental:					
Federal	-	-	23,826	-	23,826
State	44,704	-	-	59,426	104,130
Charges for services	315,425	-	-	-	315,425
Miscellaneous	74,644	-	11,142	23,390	109,176
Subtotal	1,824,178	54,664	160,918	273,787	2,313,547
Less: Allowance for uncollectibles	-	-	-	-	-
Net Receivables	\$ 1,824,178	54,664	160,918	273,787	2,313,547

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Business-type activities:

	<u>Solid Waste</u>	<u>Water and Wastewater</u>	<u>Ambulance</u>	<u>Total</u>
Charges for services	\$ 361,856	448,703	1,409,169	2,219,728
Other	6,000	723	-	6,723
Total business activities	367,856	449,426	1,409,169	2,226,451
Less: Allowance for uncollectibles	-	-	(1,017,146)	(1,017,146)
Net Receivables	<u>\$ 367,856</u>	<u>449,426</u>	<u>392,023</u>	<u>1,209,305</u>

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

NOTE 5 – TRANSFERS AND INTEFUND RECEIVABLES

Net operating transfers, made to close out funds and to supplement other funding sources in the normal course of operations for the year ended June 30, 2019 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Primary Government		
General fund	Economic Development	\$ 511,777
General fund	Capital Improvements	1,669,887
General fund	Solid waste	408,622
General fund	Water/Wastewater fund	837,063
General fund	Ambulance	33,888
General fund	Non-major governmental funds	1,991,421
Economic Development	General fund	511,777
Capital Improvements	General fund	1,475,485
Capital Improvements	Non-major governmental funds	1,007,945
Non-major governmental funds	General fund	919,763
Non-major governmental funds	Water/Wastewater fund	18,343
Solid waste	General fund	35,600
Water/Wastewater fund	General fund	36,035
Water/Wastewater fund	Non-major governmental funds	46,323
Water/Wastewater fund	Solid waste	167,356
Water/Wastewater fund	Ambulance	501
Ambulance	General fund	319,721
Ambulance	Water/Wastewater fund	33,453
Internal Service Funds	General fund	102,368
		<u>\$ 10,127,328</u>

In addition, the City made transfers from the General fund to fiduciary activities for the year ended June 30, 2019, as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Fiduciary activities	General fund	\$ 5,530
		<u>\$ 5,530</u>

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2019 is as follows:

Due To Fund	Due From Fund	Amount
Economic Development	General Fund	\$ 400,100
Economic Development	Gas Tax Fund	99,900
		\$ 500,000

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

NOTE 6 – CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2019. Land and construction in progress are not subject to depreciation.

GOVERNMENTAL ACTIVITIES	Balance 06/30/18	Additions	Deletions	Balance 06/30/19
Non-depreciable capital assets:				
Land	\$ 152,981	940,509	-	1,093,490
Construction in progress	1,326,140	4,005,829	(2,490,284)	2,841,685
Total non-depreciable capital assets	1,479,121	4,946,338	(2,490,284)	3,935,175
Capital assets being depreciated:				
Buildings and improvements	17,037,632	433,090	-	17,470,722
Infrastructure	20,121,580	2,401,880	-	22,523,460
Library collection	1,630,836	-	-	1,630,836
Machinery and equipment	4,656,502	162,380	-	4,818,882
Vehicles	3,169,412	196,992	-	3,366,404
Total capital assets being depreciated	46,615,962	3,194,342	-	49,810,304
Less accumulated depreciation for:				
Buildings and improvements	(7,363,630)	(473,357)	-	(7,836,987)
Infrastructure	(13,024,279)	(975,487)	-	(13,999,766)
Library collection	(1,403,112)	(108,722)	-	(1,511,834)
Machinery and equipment	(2,268,195)	(360,498)	-	(2,628,693)
Vehicles	(1,986,116)	(230,732)	-	(2,216,848)
Total accumulated depreciation	(26,045,332)	(2,148,796)	-	(28,194,128)
Total capital assets being depreciated	20,570,630	1,045,546	-	21,616,176
Total capital assets, net of depreciation	\$ 22,049,751	5,991,884	(2,490,284)	25,551,351

Depreciation expense for the year ended June 30, 2019 was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 174,927
Public safety	304,829
Public works	1,075,456
Culture and recreation	593,584
Total governmental activities	\$ 2,148,796

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>Balance 06/30/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/19</u>
Non-depreciable capital assets:				
Land	323,082	-	-	323,082
Construction in progress	\$ 15,405	-	-	15,405
Total non-depreciable capital assets	<u>338,487</u>	<u>-</u>	<u>-</u>	<u>338,487</u>
Capital assets being depreciated:				
Buildings and improvements	19,564,449	87,500	-	19,651,949
Infrastructure	1,793,023	-	-	1,793,023
Machinery and equipment	5,236,185	142,198	-	5,378,383
Vehicles	1,468,252	131,300	-	1,599,552
Total capital assets being depreciated	<u>28,061,909</u>	<u>360,998</u>	<u>-</u>	<u>28,422,907</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,541,009)	(638,293)	-	(12,179,302)
Infrastructure	(878,783)	(95,439)	-	(974,222)
Machinery and equipment	(2,292,123)	(255,433)	-	(2,547,556)
Vehicles	(631,351)	(141,725)	-	(773,076)
Total accumulated depreciation	<u>(15,343,266)</u>	<u>(1,130,890)</u>	<u>-</u>	<u>(16,474,156)</u>
Total capital assets being depreciated	<u>12,718,643</u>	<u>(769,892)</u>	<u>-</u>	<u>11,948,751</u>
Total capital assets, net of depreciation	\$ <u>13,057,130</u>	<u>(769,892)</u>	<u>-</u>	<u>12,287,238</u>

Depreciation expense for the year ended June 30, 2019 was charged to business-type activities as follows:

Business type activities	
Solid Waste Fund	\$ 12,504
Water and Wastewater Fund	971,040
Ambulance Fund	147,346
Total governmental activities	\$ <u>1,130,890</u>

NOTE 7 – LONG TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2019 are summarized as follows:

	<u>Balance June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Amount due within one year</u>
Governmental funds debt					
Revenue Bonds	\$ 2,165,000	3,950,000	(345,000)	5,770,000	325,000
Notes payable	-	1,385,599	(12,626)	1,372,973	85,975
Compensated absences	958,012	393,282	(397,145)	954,149	397,145
Total governmental activities	\$ <u>3,123,012</u>	<u>5,728,881</u>	<u>(754,771)</u>	<u>8,097,122</u>	<u>808,120</u>
Business-type funds debt					
Notes payable	\$ 6,158,399		(433,408)	5,724,991	441,607
Capital lease	122,615	-	(18,250)	104,365	19,073
Compensated absences	221,154	79,371	(168,806)	131,719	60,811
Total business-type activities	\$ <u>6,502,168</u>	<u>79,371</u>	<u>(620,464)</u>	<u>5,961,075</u>	<u>521,491</u>

Compensated Absences: Employees of the City can accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2019, government-wide compensated

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

absences decreased \$3,863 from the prior year accrual, while business-type activities decreased by \$89,435. Compensated absences are liquidated by the respective funds in which they are accrued.

Governmental Activities:

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

On June 29, 2018, the City entered into a bond purchase agreement with the New Mexico Finance Department to borrow an amount of \$3,950,000 for the purpose of constructing, purchasing, furnishing, equipping, rehabilitating, making additions to, or making improvements to capital items. The loan is financed over a period of twenty (20) years in amounts of \$375,000 to \$70,000 at a 3.19% interest rate. The bonds are secured with pledged revenues from the three-eighths of one percent (0.375%) Municipal Hold Harmless Gross Receipts Tax.

The revenues pledged totaled \$7,677,115 at June 30, 2019, and equal 41.1% of future municipal hold harmless gross receipts taxes at their current rate. During the year ended June 30, 2019, the City collected \$982,029 in pledged revenues, and retired \$507,366 in principal and interest on the aforementioned note.

Debt service requirements related to the City's revenue bonds at June 30, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 325,000	173,248	498,248
2021	320,000	165,297	485,297
2022	315,000	157,265	472,265
2023	240,000	149,165	389,165
2024	245,000	142,504	387,504
2025-2029	1,345,000	603,420	1,948,420
2030-2034	1,550,000	392,615	1,942,615
2035-2039	<u>1,430,000</u>	<u>123,601</u>	<u>1,553,601</u>
Total	<u>\$ 5,770,000</u>	<u>1,907,115</u>	<u>7,677,115</u>

Notes Payable: On March 8, 2019, the City entered into a loan agreement with the New Mexico Finance Authority to borrow an amount of \$1,385,599 for the purpose of financing the costs of a fire engine. The loan matures on May 1, 2033 and carries a blended interest rate of 2.46% per annum. The payments of principal and interest are paid from pledged governmental gross receipts tax revenues. The revenues pledged totaled \$1,638,421 at June 30, 2019, and equal 3.3% of future municipal environmental services gross receipts taxes at their current rate. During the year ended June 30, 2019, the City collected \$3,527,819 in pledged revenues, and retired \$17,230 in principal and interest on the aforementioned note.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

The future payments required on the note payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 85,975	31,055	117,030
2021	87,480	29,550	117,030
2022	89,037	27,993	117,030
2023	90,658	26,373	117,031
2024	92,371	24,659	117,030
2024-2028	490,917	94,233	585,150
2029-2033	<u>436,535</u>	<u>31,585</u>	<u>468,120</u>
Total	<u>\$ 1,372,973</u>	<u>265,448</u>	<u>1,638,421</u>

Business type activities:

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

On June 29, 2007, the City entered into a loan agreement with the New Mexico Finance Authority 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 1.75% interest rate.

Debt service requirements on long-term debt for business-type activities at June 30, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 441,607	108,226	549,833
2021	449,970	99,869	549,839
2022	458,499	91,346	549,845
2023	467,199	82,653	549,852
2024	476,071	82,653	558,724
2024-2028	2,519,733	229,676	2,749,409
2029-2033	<u>911,914</u>	<u>26,699</u>	<u>938,613</u>
Total	<u>\$ 5,724,993</u>	<u>721,122</u>	<u>6,446,115</u>

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

The following schedule presents future minimum lease payments as of June 30, 2019:

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Future Minimum Lease Payments	Amount
2020	\$ 23,780
2021	23,780
2022	23,780
2023	23,780
2024	23,780
Net minimum lease payments	118,900
Less: Interest	(14,536)
Present value of minimum lease payments	\$ 104,364

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2019, include the following:

Machinery and equipment	\$ 140,078
Less: Accumulated depreciation	(35,019)
Total	\$ 105,059

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

NOTE 8 – PENSION PLAN-PUBLIC EMPLOYEE RETIREMENT ASSOCIATION

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

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

TIER II – The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member’s age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

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

PERA Contribution Rates and Pension Factors as of July 1, 2018						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

For PERA Fund Division Municipal Plan: At June 30, 2019, the City reported a liability of \$2,335,752 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 0.1465%, which was an increase of 0.0279% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$677,932. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 67,508	61,324
Changes of assumptions	211,769	13,430
Net difference between projected and actual earnings on pension plan investments	173,231	-
Changes in proportion and differences between City contributions and proportionate share of contributions	473,013	-
City contributions subsequent to the measurement date	148,439	-
	<u>\$ 1,073,960</u>	<u>74,754</u>

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

\$148,439 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	506,969
2021		225,985
2022		108,268
2023		9,545
2024		-
Thereafter	\$	-

For PERA Fund Division Municipal Police Plan: At June 30, 2019, the City reported a liability of \$2,130,154 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 0.3122%, which was a decrease of 0.0245% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$176,851. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 104,283	211,154
Changes of assumptions	243,053	13,022
Net difference between projected and actual earnings on pension plan investments	146,585	-
Changes in proportion and differences between City contributions and proportionate share of contributions	14,107	129,025
City contributions subsequent to the measurement date	138,377	-
	\$ 646,405	353,201

\$138,377 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	135,711
2021		(3,628)
2022		15,424
2023		7,320
2024		-
Thereafter	\$	-

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

For PERA Fund Division Municipal Fire Plan: At June 30, 2019, the City reported a liability of \$5,313,161 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 0.8301%, which was an increase of 0.0037% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the County recognized pension expense of \$505,006. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 85,384	387,488
Changes of assumptions	306,852	19,401
Net difference between projected and actual earnings on pension plan investments	186,319	-
Changes in proportion and differences between City contributions and proportionate share of contributions	130,622	137,404
City contributions subsequent to the measurement date	<u>219,234</u>	<u> </u>
	<u>\$ 928,411</u>	<u>544,293</u>

\$219,234 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 183,234
2021	(73,482)
2022	45,707
2023	9,425
2024	-
Thereafter	\$ -

Actuarial assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.25% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	3.00%
Projected salary increases	3.25% to 13.50% annual rate
Includes inflation at	2.50%
	2.75% rate all other years
Mortality Assumption	The mortality assumptions are based on the RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.
Experience Study Dates	July 1, 2008 to June 30, 2017 (demographic) and July 1, 2010 through June 30, 2018 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

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

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	43.50%	7.48%
Risk Reduciton & Mitigation	21.50%	2.37%
Credit Oriented Fixed Income	15.00%	5.47%
Real Assets	20.00%	6.48%
Total	<u>100.00%</u>	

Discount rate. A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate.

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

PERA Fund Division - Municipal General	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability	\$ 3,599,237	2,335,752	1,291,279
 PERA Fund Division - Municipal Police	 1% Decrease (6.25%)	 Current Discount Rate (7.25%)	 1% Increase (8.25%)
City's proportionate share of the net pension liability	\$ 3,275,303	2,130,154	1,196,587
 PERA Fund Division - Municipal Fire	 1% Decrease (6.25%)	 Current Discount Rate (7.25%)	 1% Increase (8.25%)
City Housing Authority proportionate share of the net pension liability	\$ 7,092,666	5,313,161	3,855,375

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

NOTE 9 – 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, 2019.

NOTE 10 – 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
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 11 – 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, 2019, 2018, and 2017 were \$146,475, \$195,857, and \$220,217, respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 12 – 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 13 – CONTINGENT LIABILITIES

The City is party to various legal proceedings, which are the unavoidable results of governmental operations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

the City's legal counsel that resolution of these matters will not have a material effect on the financial condition of the City.

NOTE 14 – 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 15 – COMMITMENTS

The City entered into agreements with contractors and architects for various construction projects. As of June 30, 2019, the City had an obligation of \$1,457,601 for these contracts.

NOTE 16 – 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 17 – 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 the following deficit fund balances as of June 30, 2019.

<u>Fund</u>	<u>Fund Type</u>	<u>Amount</u>
Fire protection fund	Special revenue fund	\$ (135)
Designated franchise fund	Special revenue fund	(1,202)
CDBG Fund	Capital project fund	\$ (96,247)

- B. Excess of expenditures over budgeted amounts.

The City did not have any funds that exceeded budget at the fund level as of June 30, 2019.

- 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, 2019.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 18 – GASBS 77 TAX ABATEMENT DISCLOSURES

The City was not part of any tax abatement agreements subject to *GASBS 77 Tax Abatement Disclosures* during the year ended June 30, 2019. As a result, they make no such disclosures related to GASBS 77.

NOTE 19 – SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2019 that would possibly require adjustment or disclosure in these financial statements, through December 12, 2019, the date that these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.1465%	0.1186%	0.1054%	0.0688%	0.0000%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 2,335,752	\$ 1,629,664	\$ 1,683,938	\$ 701,476	\$ -
City of Lovington's covered-employee payroll	\$ 3,142,610	\$ 2,103,901	\$ 1,165,346	\$ 692,679	\$ -
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	74.33%	77.46%	144.50%	101.27%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	71.13%	73.74%	69.18%	76.99%	81.29%

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.3122%	0.3367%	0.3445%	0.3332%	0.3560%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 2,130,154	\$ 1,870,590	\$ 2,541,823	\$ 1,602,212	\$ 1,160,521
City of Lovington's covered-employee payroll	\$ 1,773,744	\$ 1,602,017	\$ 1,245,268	\$ 1,127,000	\$ 1,277,370
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	120.09%	116.76%	204.12%	142.17%	90.85%
Plan fiduciary net position as a percentage of the total pension liability	71.13%	73.74%	69.18%	76.99%	81.29%

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lovington's proportion of the net pension liability (asset)	0.8301%	0.8264%	0.8743%	0.7859%	0.8299%
City of Lovington's proportionate share of the net pension liability (asset)	\$ 5,313,161	\$ 4,728,202	\$ 5,832,470	\$ 4,056,173	\$ 3,463,997
City of Lovington's covered-employee payroll	\$ 1,217,036	\$ 1,416,893	\$ 1,019,135	\$ 978,200	\$ 1,014,763
City of Lovington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	436.57%	333.70%	572.30%	414.66%	341.36%
Plan fiduciary net position as a percentage of the total pension liability	71.13%	73.74%	69.18%	76.99%	81.29%

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 148,439	125,021	99,620	86,234	51,259
Contributions in relation to the contractually required contribution	<u>148,439</u>	<u>125,021</u>	<u>99,620</u>	<u>86,234</u>	<u>51,259</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	3,142,610	2,103,901	1,165,346	692,679	-
Contributions as a percentage of covered-employee payroll	4.72%	5.94%	8.55%	12.45%	0.00%

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

See independent auditors' report
See notes to required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 138,377	124,652	131,397	129,508	117,165
Contributions in relation to the contractually required contribution	<u>138,377</u>	<u>124,652</u>	<u>131,397</u>	<u>129,508</u>	<u>117,165</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	1,773,744	1,602,017	1,245,268	1,127,000	1,277,370
Contributions as a percentage of covered-employee payroll	7.80%	7.78%	10.55%	11.49%	9.17%

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

See independent auditors' report
See notes to required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 219,234	221,409	216,755	220,643	211,793
Contributions in relation to the contractually required contribution	<u>219,234</u>	<u>221,409</u>	<u>216,755</u>	<u>220,643</u>	<u>211,793</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	1,217,036	1,416,893	1,019,135	978,200	1,014,763
Contributions as a percentage of covered-employee payroll	18.01%	15.63%	21.27%	22.56%	20.87%

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

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

Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2018 report is available at <http://www.nmpera.org/>

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

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)

NSIP fund – Accounts for the receipt and expenditures of federal and state grant funds related to the Nutrition Services Incentive Program from New Mexico Area Agency on Aging. (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)

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

Lea Theater – Accounts for the operations of the Lea Theater. (City Commission)

CAPITAL PROJECTS FUNDS LISTING

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

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)

NMFA Intercepts – 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.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2019**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Debt Service Funds</u>	<u>Total</u>
Assets and deferred inflows of resources:				
Assets:				
Cash and cash equivalents	\$ 382,071	24,721	609,055	1,015,847
Investments	17,953	-	-	17,953
Receivables				
Taxes receivable	65,022	-	-	65,022
Other receivables	12,249	-	-	12,249
Inventories	1,846	-	-	1,846
Total assets	<u>514,741</u>	<u>24,721</u>	<u>609,055</u>	<u>1,148,517</u>
Deferred Outflows of Resources:				
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 514,741</u>	<u>24,721</u>	<u>609,055</u>	<u>1,148,517</u>
Liabilities, deferred inflows of resources and fund balances:				
Liabilities:				
Accounts payable	\$ 27,472	120,968	-	148,440
Accrued payroll liabilities	1,478	-	-	1,478
Due to other funds	99,900	-	-	99,900
Other liabilities	3,037	-	-	3,037
Total liabilities	<u>131,887</u>	<u>120,968</u>	<u>-</u>	<u>252,855</u>
Deferred Inflows of Resources:				
"Unavailable" revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable	1,846	-	-	1,846
Restricted	382,345	-	609,055	991,400
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(1,337)	(96,247)	-	(97,584)
Total fund balances	<u>382,854</u>	<u>(96,247)</u>	<u>609,055</u>	<u>895,662</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 514,741</u>	<u>24,721</u>	<u>609,055</u>	<u>1,148,517</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Totals
Revenues:				
Taxes				
Gross receipts/State shared	\$ 192,660	-	-	192,660
Other	265,901	-	-	265,901
Charges for services	5,854	-	-	5,854
Fines and forfeitures	47,082	-	-	47,082
Intergovernmental revenue				
Federal grants	14,605	4,853	-	19,458
State grants	491,493	-	-	491,493
Interest income	-	-	8,469	8,469
Miscellaneous income	231,890	-	-	231,890
Total revenues	<u>1,249,485</u>	<u>4,853</u>	<u>8,469</u>	<u>1,262,807</u>
Expenditures:				
Current:				
General government	187,582	-	3,515	191,097
Public safety	102,948	-	-	102,948
Public works	-	-	-	-
Culture and recreation	916,478	-	-	916,478
Health and welfare	18,465	-	-	18,465
Capital outlay	698,170	135,784	-	833,954
Debt service				
Principal	-	-	357,626	357,626
Interest	-	-	163,455	163,455
Total expenditures	<u>1,923,643</u>	<u>135,784</u>	<u>524,596</u>	<u>2,584,023</u>
Excess (deficiency) of revenues over (under) expenditures	(674,158)	(130,931)	(516,127)	(1,321,216)
Other financing sources (uses):				
Transfers in	1,873,071	-	1,124,976	2,998,047
Transfers out	(1,060,563)	(256)	-	(1,060,819)
Total other financing sources (uses):	<u>812,508</u>	<u>(256)</u>	<u>1,124,976</u>	<u>1,937,228</u>
Net change in fund balances	138,350	(131,187)	608,849	616,012
Beginning fund balance	<u>244,504</u>	<u>34,940</u>	<u>206</u>	<u>279,650</u>
Ending fund balance	<u>\$ 382,854</u>	<u>(96,247)</u>	<u>609,055</u>	<u>895,662</u>

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2019

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforce- ment Fund</u>	<u>Lodgers' Tax</u>	<u>Gasoline Tax</u>
Assets and deferred inflows of resources:						
Assets:						
Cash and cash equivalents	\$ 107,015	-	-	-	60,297	158,714
Receivables						
Taxes receivable	-	-	-	-	25,622	39,400
Other receivables	2,626	-	-	-	-	-
Total assets	<u>109,641</u>	<u>-</u>	<u>-</u>	<u>35,600</u>	<u>85,919</u>	<u>198,114</u>
Deferred Outflows of Resources:						
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 109,641</u>	<u>-</u>	<u>-</u>	<u>35,600</u>	<u>85,919</u>	<u>198,114</u>
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ 1,754	-	135	-	83	8,580
Accrued payroll liabilities	-	-	-	-	-	(5,525)
Due to other funds	-	-	-	-	-	99,900
Total liabilities	<u>1,754</u>	<u>-</u>	<u>135</u>	<u>-</u>	<u>83</u>	<u>102,955</u>
Deferred Inflows of Resources:						
"Unavailable" revenues	-	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	107,887	-	-	35,600	85,836	95,159
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	(135)	-	-	-
Total fund balances	<u>107,887</u>	<u>-</u>	<u>(135)</u>	<u>35,600</u>	<u>85,836</u>	<u>95,159</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 109,641</u>	<u>-</u>	<u>-</u>	<u>35,600</u>	<u>85,919</u>	<u>198,114</u>

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2019

	Rec- reation Fund	Senior Citizens	NSIP Fund	Designated Franchise	TIF Downtown Improv	Lea Theater	Total
Assets and deferred inflows of resources:							
Assets:							
Cash and cash equivalents	\$ 174	40,809	7,157	-	4,775	3,130	382,071
Investments	17,953	-	-	-	-	-	17,953
Receivables							
Taxes receivable	-	-	-	-	-	-	65,022
Other receivables	5,459	-	4,164	-	-	-	12,249
Inventories	-	-	-	-	-	1,846	1,846
Total assets	<u>23,586</u>	<u>40,809</u>	<u>11,321</u>	<u>-</u>	<u>4,775</u>	<u>4,976</u>	<u>514,741</u>
Deferred Outflows of Resources:							
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 23,586</u>	<u>40,809</u>	<u>11,321</u>	<u>-</u>	<u>4,775</u>	<u>4,976</u>	<u>514,741</u>
Liabilities, deferred inflows of resources and fund balances:							
Liabilities:							
Accounts payable	\$ 3,630	10,861	-	2,116	-	313	27,472
Accrued payroll liabilities	3,720	3,162	-	(914)	-	1,035	1,478
Due to other funds	-	-	-	-	-	-	99,900
Other liabilities	-	3,037	-	-	-	-	3,037
Total liabilities	<u>7,350</u>	<u>17,060</u>	<u>-</u>	<u>1,202</u>	<u>-</u>	<u>1,348</u>	<u>131,887</u>
Deferred Inflows of Resources:							
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:							
Nonspendable	-	-	-	-	-	1,846	1,846
Restricted	16,236	23,749	11,321	-	4,775	1,782	382,345
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	(1,202)	-	-	(1,337)
Total fund balances	<u>16,236</u>	<u>23,749</u>	<u>11,321</u>	<u>(1,202)</u>	<u>4,775</u>	<u>3,628</u>	<u>382,854</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 23,586</u>	<u>40,809</u>	<u>11,321</u>	<u>-</u>	<u>4,775</u>	<u>4,976</u>	<u>514,741</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
As of June 30, 2019**

	<u>CDBG Funds</u>	<u>Totals</u>
Assets and deferred inflows of resources:		
Assets:		
Cash and cash equivalents	\$ 24,721	24,721
Receivables		
Due from other governments	-	-
Total assets	<u>24,721</u>	<u>24,721</u>
Deferred Outflows of Resources:		
Total deferred outflows of resources	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 24,721</u>	<u>24,721</u>
Liabilities, deferred inflows of resources and fund balances:		
Liabilities:		
Accounts payable	\$ 120,968	120,968
Total liabilities	<u>120,968</u>	<u>120,968</u>
Deferred Inflows of Resources:		
Total deferred inflows of resources	<u>-</u>	<u>-</u>
Fund balances:		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	<u>(96,247)</u>	<u>(96,247)</u>
Total fund balances	<u>(96,247)</u>	<u>(96,247)</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 24,721</u>	<u>24,721</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
As of June 30, 2019**

	<u>Debt Service- Revenue Bond</u>	<u>Debt Service- NMFA Intercepts</u>	<u>Totals</u>
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ 32,272	576,783	609,055
Total assets	<u>32,272</u>	<u>576,783</u>	<u>609,055</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 32,272</u>	<u>576,783</u>	<u>609,055</u>
Liabilities, deferred inflows of resources and fund balances:			
Liabilities:			
Accounts payable	\$ -	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable	-	-	-
Restricted	32,272	576,783	609,055
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	<u>32,272</u>	<u>576,783</u>	<u>609,055</u>
Total liabilities, deferred inflows of resources and fund balances:	<u>\$ 32,272</u>	<u>576,783</u>	<u>609,055</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2019**

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforce- ment Fund</u>	<u>Lodgers' Tax</u>	<u>Gasoline Tax</u>
Revenues:						
Taxes						
Gross receipts/State shared	-	-	-	-	-	192,660
Other	\$ -	-	-	-	190,280	-
Fines and forfeitures	47,082	-	-	-	-	-
Intergovernmental revenue						
State grants	-	15,413	89,431	70,000	-	142,494
Miscellaneous income	-	-	-	-	25,000	-
Total revenues	<u>47,082</u>	<u>15,413</u>	<u>89,431</u>	<u>70,000</u>	<u>215,280</u>	<u>335,154</u>
Expenditures:						
Current:						
General government	-	-	-	-	-	-
Public safety	22,321	102	74,897	5,628	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	161,298	44,667
Health and welfare	-	-	-	-	-	-
Capital outlay	-	-	3,800	28,772	63,334	550,239
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>22,321</u>	<u>102</u>	<u>78,697</u>	<u>34,400</u>	<u>224,632</u>	<u>594,906</u>
Excess (deficiency) of revenues over (under) expenditures	24,761	15,311	10,734	35,600	(9,352)	(259,752)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	1,262,254
Transfers out	<u>(77,831)</u>	<u>(33,810)</u>	<u>(28,465)</u>	<u>(3,408)</u>	<u>(1,121)</u>	<u>(769,236)</u>
Total other financing sources (uses):	<u>(77,831)</u>	<u>(33,810)</u>	<u>(28,465)</u>	<u>(3,408)</u>	<u>(1,121)</u>	<u>493,018</u>
Net change in fund balances	(53,070)	(18,499)	(17,731)	32,192	(10,473)	233,266
Beginning fund balance	<u>160,957</u>	<u>18,499</u>	<u>17,596</u>	<u>3,408</u>	<u>96,309</u>	<u>(138,107)</u>
Ending fund balance	<u>\$ 107,887</u>	<u>-</u>	<u>(135)</u>	<u>35,600</u>	<u>85,836</u>	<u>95,159</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2019**

	Rec- reation Fund	Senior Citizens	NSIP Fund	Designated Franchise	TIF Downtown Improv	Lea Theater	Total
Revenues:							
Taxes							
Gross receipts/State shared	\$ -	-	-	-	-	-	192,660
Other	5,459	-	-	68,095	2,067	-	265,901
Charges for services	5,569	-	-	-	-	285	5,854
Fines and forfeitures	-	-	-	-	-	-	47,082
Intergovernmental revenue							
Federal grants	-	14,605	-	-	-	-	14,605
State grants	-	174,155	-	-	-	-	491,493
Miscellaneous income	64,004	33,059	15,558	-	-	94,269	231,890
Total revenues	<u>75,032</u>	<u>221,819</u>	<u>15,558</u>	<u>68,095</u>	<u>2,067</u>	<u>94,554</u>	<u>1,249,485</u>
Expenditures:							
Current:							
General government	-	-	-	187,582	-	-	187,582
Public safety	-	-	-	-	-	-	102,948
Public works	-	-	-	-	-	-	-
Culture and recreation	157,340	435,701	-	-	-	117,472	916,478
Health and welfare	-	-	18,465	-	-	-	18,465
Capital outlay	6,405	45,620	-	-	-	-	698,170
Debt service							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	<u>163,745</u>	<u>481,321</u>	<u>18,465</u>	<u>187,582</u>	<u>-</u>	<u>117,472</u>	<u>1,923,643</u>
Excess (deficiency) of revenues over (under) expenditures	(88,713)	(259,502)	(2,907)	(119,487)	2,067	(22,918)	(674,158)
Other financing sources (uses):							
Transfers in	144,026	253,270	14,228	153,270	-	46,023	1,873,071
Transfers out	(15,658)	(45,354)	-	(63,000)	(1,680)	(21,000)	(1,060,563)
Total other financing sources (uses):	<u>128,368</u>	<u>207,916</u>	<u>14,228</u>	<u>90,270</u>	<u>(1,680)</u>	<u>25,023</u>	<u>812,508</u>
Net change in fund balances	39,655	(51,586)	11,321	(29,217)	387	2,105	138,350
Beginning fund balance	(23,419)	75,335	-	28,015	4,388	1,523	244,504
Ending fund balance	<u>\$ 16,236</u>	<u>23,749</u>	<u>11,321</u>	<u>(1,202)</u>	<u>4,775</u>	<u>3,628</u>	<u>382,854</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
FINANCIAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2019**

	<u>CDBG Fund</u>	<u>Totals</u>
Revenues:		
Intergovernmental revenue		
Federal grants	\$ 4,853	4,853
Total revenues	<u>4,853</u>	<u>4,853</u>
Expenditures:		
Current:		
General government	-	-
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Health and welfare	-	-
Capital outlay	135,784	135,784
Debt service		
Principal	-	-
Interest	-	-
Total expenditures	<u>135,784</u>	<u>135,784</u>
Excess (deficiency) of revenues over (under) expenditures	(130,931)	(130,931)
Other financing sources (uses):		
Transfers in	-	-
Transfers out	<u>(256)</u>	<u>(256)</u>
Total other financing sources (uses):	<u>(256)</u>	<u>(256)</u>
Net change in fund balances	(131,187)	(131,187)
Beginning fund balance	<u>34,940</u>	<u>34,940</u>
Ending fund balance	<u>\$ (96,247)</u>	<u>(96,247)</u>

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
NON-MAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2019**

	<u>Debt Service- Revenue Bond</u>	<u>Debt Service- NMFA Intercepts</u>	<u>Totals</u>
Revenues:			
Interest income	\$ -	8,469	8,469
Total revenues	<u>-</u>	<u>8,469</u>	<u>8,469</u>
Expenditures:			
Current:			
General government	-	3,515	3,515
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	155,000	202,626	357,626
Interest	<u>64,794</u>	<u>98,661</u>	<u>163,455</u>
Total expenditures	<u>219,794</u>	<u>304,802</u>	<u>524,596</u>
Excess (deficiency) of revenues over (under) expenditures	(219,794)	(296,333)	(516,127)
Other financing sources (uses):			
Transfers in	251,860	873,116	1,124,976
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses):	<u>251,860</u>	<u>873,116</u>	<u>1,124,976</u>
Net change in fund balances	32,066	576,783	608,849
Beginning fund balance	<u>206</u>	<u>-</u>	<u>206</u>
Ending fund balance	<u>\$ 32,272</u>	<u>576,783</u>	<u>609,055</u>

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
As of June 30, 2019

	Unemployment Compensation	Pension	Total
Assets and deferred inflows of resources:			
Assets:			
Cash and cash equivalents	\$ -	-	-
Total current assets	-	-	-
Non-current assets:			
Total non-current assets	-	-	-
Total assets	-	-	-
Deferred Outflows of Resources:			
Total deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	\$ -	-	-
Liabilities, deferred inflows of resources and net position:			
Liabilities:			
Accounts payable	\$ -	-	-
Accrued payroll liabilities	-	-	-
Total current liabilities	-	-	-
Non-current liabilities			
Total non-current liabilities	-	-	-
Total liabilities	-	-	-
Deferred inflows of resources:			
Total deferred inflows of resources	-	-	-
Net position			
Net Investment in Capital Assets	-	-	-
Unrestricted Net Position	-	-	-
Total net position	-	-	-
Total liabilities, deferred inflows of resources and net position:	\$ -	-	-

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2019**

	Unemployment Compensation	Pension	Total
Operating revenues:			
Charges for services	\$ -	-	-
Total operating revenues	-	-	-
Operating expenses:			
Total operating expenses	-	-	-
Operating income (loss)	-	-	-
Non-operating revenues (expenses):			
Total non-operating revenues (expenses)	-	-	-
Income (loss) before transfers	-	-	-
Other financing sources/(uses)			
Transfers in	-	-	-
Transfers out	(33,058)	(45,832)	(78,890)
Total other financing sources/(uses)	(33,058)	(45,832)	(78,890)
Change in net position	(33,058)	(45,832)	(78,890)
Net position, beginning of year	33,058	45,832	78,890
Net position, end of year	\$ -	-	-

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2019**

	<u>Unemployment Compensation</u>	<u>Pension</u>	<u>Total</u>
Cash flows from operating activities:			
Payments to suppliers	\$ -	(23,478)	(23,478)
Net cash provided (used) for operating activities	-	(23,478)	(23,478)
Cash flows from noncapital financing activities:			
Transfers to other funds	(33,058)	(45,832)	(78,890)
Net cash provided (used) for noncapital financing activities	(33,058)	(45,832)	(78,890)
Cash flows from capital and related financing activities:			
Net cash provided (used) for capital and related financing activities.	-	-	-
Cash flows from investing activities:			
Net cash provided (used) for investing activities.	-	-	-
Net increase (decrease) in cash and cash equivalents	(33,058)	(69,310)	(102,368)
Cash and cash equivalents – beginning of year	33,058	69,310	102,368
Cash and cash equivalents – end of year	\$ -	-	-
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ -	-	-
Changes in assets and liabilities:			
Accrued expenses and other liabilities	-	(23,478)	(23,478)
Net cash provided by operating activities	\$ -	(23,478)	(23,478)

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

STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2019

	Balance June 30, 2018	Receipts	Disbursements	Balance June 30, 2019
Court Automation Fees Fund				
Assets:				
Cash	\$ -	24,845	(24,192)	653
Accounts receivable	-	1,161	-	1,161
Total assets	\$ -	26,006	(24,192)	1,814
Liabilities:				
Accounts payable	\$ -	26,006	(24,192)	1,814
Total liabilities	\$ -	26,006	(24,192)	1,814
Motor Vehicle Fund				
Assets:				
Cash	\$ 16,305	1,728,579	(1,735,856)	9,028
Accounts receivable	896	1,871	(400)	2,367
Total assets	\$ 17,201	1,730,450	(1,736,256)	11,395
Liabilities:				
Accounts payable	\$ 17,201	1,730,450	(1,736,256)	11,395
Total liabilities	\$ 17,201	1,730,450	(1,736,256)	11,395
Lovington Fire Department Fund				
Assets:				
Cash	\$ 21,077	17,716	(6,858)	31,935
Accounts receivable	65	-	(65)	-
Total assets	\$ 21,142	17,716	(6,923)	31,935
Liabilities:				
Accounts payable	\$ 21,142	17,716	(6,923)	31,935
Total liabilities	\$ 21,142	17,716	(6,923)	31,935
Municipal Court Fund				
Assets:				
Cash	\$ 22,204	22,495	(29,990)	14,709
Total assets	\$ 22,204	22,495	(29,990)	14,709
Liabilities:				
Accounts payable	22,204	22,495	(29,990)	14,709
Total liabilities	\$ 22,204	22,495	(29,990)	14,709
Total Agency Funds				
Assets:				
Cash	\$ 59,586	1,793,635	(1,796,896)	56,325
Accounts receivable	961	3,032	(465)	3,528
Total assets	\$ 60,547	1,796,667	(1,797,361)	59,853
Liabilities:				
Accounts payable	60,547	1,796,667	(1,797,361)	59,853
Total liabilities	\$ 60,547	1,796,667	(1,797,361)	59,853

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

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FUND BALANCES
As of June 30, 2019**

	<u>Major Funds</u>			<u>Total Non-Major Funds</u>	<u>Total Funds</u>
	<u>Spec Revenue</u>		<u>Cap Projects</u>		
	<u>General Fund</u>	<u>Economic Development</u>	<u>Water Project Fund</u>		
Fund Balances:					
Nonspendable:					
Inventory	229,916	-	-	1,846	231,762
Subtotal nonspendable funds	\$ 229,916	-	-	1,846	231,762
Restricted for:					
Operate/maintain recreational facilities	-	-	-	16,236	16,236
Tourism	-	-	-	85,836	85,836
Economic development efforts	-	1,209,297	-	4,775	1,214,072
Various capital project efforts	-	-	2,319,178	-	2,319,178
Road improvements	-	-	-	95,159	95,159
Debt service requirements	-	-	-	609,055	609,055
Senior center programs/improvements	-	-	-	23,749	23,749
Health and welfare programs	-	-	-	11,321	11,321
Public safety and law enforcement efforts	-	-	-	143,487	143,487
Operate/maintain theater	-	-	-	1,782	1,782
Subtotal restricted funds	-	1,209,297	2,319,178	991,400	4,519,875
Committed to:					
Subtotal committed funds	-	-	-	-	-
Assigned to:					
Subtotal assigned funds	-	-	-	-	-
Unassigned	2,611,611	-	-	(97,584)	2,514,027
	\$ 2,841,527	1,209,297	2,319,178	895,662	7,265,664

See independent auditor's report.

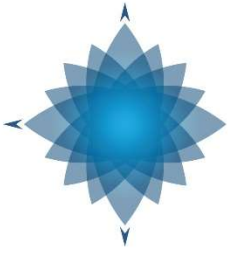
**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF DEPOSITORIES
As of June 30, 2019**

Account name	Type	Lea County State Bank	NMFA	BAC Community Bank	Hills Bank and Trust	Luther Burbank Savings	Plus Deposit in Transit	Less O/S Checks	Balance Per Books
Payroll	CK	14,387	-	-	-	-	-	(4,740)	9,647
General Operating Account	CK*	3,000,000	-	-	-	-	2,191	(436,091)	2,566,100
Motor Vehicle Department	CK	9,028	-	-	-	-	-	-	9,028
Municipal Court	CK	12,914	-	-	-	-	-	-	12,914
Municipal Court	CK	2,657	-	-	-	-	-	(862)	1,795
NMFA Debt Service and Reserves		-	2,701,474	-	-	-	-	-	2,701,474
Sweep Account	CK*	-	-	249,000	249,000	66,587	219	(45,123)	519,683
Petty cash		-	-	-	-	-	-	-	4,350
Total cash and equivalents		<u>3,038,986</u>	<u>2,701,474</u>	<u>249,000</u>	<u>249,000</u>	<u>66,587</u>	<u>2,410</u>	<u>(486,816)</u>	<u>5,824,991</u>
Total amount on deposit		3,038,986	2,701,474	249,000	249,000	66,587	2,410	(486,816)	5,824,991
FDIC coverage		<u>(288,986)</u>	<u>(2,701,474)</u>	<u>(249,000)</u>	<u>(249,000)</u>	<u>(66,587)</u>			
Total uninsured public funds		<u>2,750,000</u>	-	-	-	-			
50% collateral requirement (Section 6-10-17 NMSA-1978)		1,375,000	-	-	-	-			
Pledge security		<u>4,644,496</u>							
See NMFA audited financials			-	-	-	-			
Amount (over)/under collateralized		<u>(3,269,496)</u>	-	-	-	-			

* denotes interest bearing account

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF PLEDGED COLLATERAL BY DEPOSITORY
As of June 30, 2019**

Cusip ID	Description/ Maturity	Coupon	S&P Rating	Pledged Percent	Pledged	
					Par	Market Value
Lea County State Bank						
<i>Safekeeping Location - Lea County State Bank, Hobbs New Mexico</i>						
013595LL5	ALBUQUERQUE NM 8/1/2021	5.00	AA	100%	\$ 900,000	903,150
387766CF3	GRANT COUNTY NM 9/1/2023	4.00	N/A	100%	395,000	432,766
433866GA2	HOBBS NM SD 9/15/2023	3.50	N/A	100%	300,000	317,850
470143AG3	JAL NM PSD 10/1/2022	3.00		100%	300,000	315,873
778550JX2	ROSWELL NM ISD 8/1/2024	4.00		100%	470,000	527,697
801889NT9	SANTA FE CNTY NM 7/1/2021	5.00	N/A	100%	2,000,000	2,147,160
					\$ 4,365,000	4,644,496



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

Brian S. Colón
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 comparisons of the General Fund and major special revenue fund of the City of Lovington (the City) as of and for the year ended June 30, 2019, 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, 2019.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may

exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-004, 2015-007, and 2019-001 that we consider to be material weaknesses.

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 items: 2019-002 and 2019-003.

The City's Response to Findings

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

Purpose of this Report

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

Integrity Accounting & Consulting, LLC
Albuquerque, NM

December 12, 2019

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND REPOSSES
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 1. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| c. Noncompliance material to the financial statements noted? | No |
| d. Other Matters? | Yes |

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>
SECTION II - FINANCIAL STATEMENT FINDINGS	
<u>Prior Year Findings</u>	
2015-004 - Preparation of Accounts Receivable	Repeat and Modified
2015-007 - Preparation of Accounts Payable	Repeat and Modified
2017-001 - Deficiency in Internal Controls over Proprietary and Governmental Revenues Transaction Cycle	Resolved
2018-001 - Deficiency in Internal Controls over Ambulance charges	Resolved
2018-002 - Capital Lease	Resolved
<u>Current Year Findings</u>	
2019-001 - Identification of Capital Assets	Current
2019-002 - Adjustments to Customer Water Accounts	Current
SECTION III - FEDERAL AWARD FINDINGS	
<u>Prior Year Findings</u>	
None	
<u>Current Year Findings</u>	
None	
SECTION IV - SECTION 12-6-5 NMSA 1978 (2.2.2.10 (L)(1)(C) NMAC FINDINGS	
<u>Prior Year Findings</u>	
2018-003 - Budgetary Compliance	Resolved
<u>Current Year Findings</u>	
2019-003 - Travel and Per Diem	Current

SECTION II - FINANCIAL STATEMENT FINDINGS

UNRESOLVED PRIOR YEAR FINDINGS

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

Condition: During the audit the client provided a list of accounts receivable at yearend totaling \$195,121, however based on testing, an additional \$435,839 in adjustments were necessary to properly report the City's accounts payable balances as of June 30, 2019. While the client did identify certain receivables at year end, 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.

This is a repeat finding from the previous year. During the year ended June 30, 2019, additional training was provided to City personnel by the Finance Director to aid them in understanding the characteristics of receivable and how to better identify them at year end. The client made progress in identifying certain receivables at year end, however they were unable to fully identify all receivables and the oversight provided by the Finance Director was not adequate to fully ensure all necessary accruals were identified.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

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 items that are considered to be accounts receivable at year end.

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

Views of Responsible Officials and Planned Corrective Action:

Additional Accounting specific training will be provided to our employees through college courses and on the job, training provided by the Finance Director to help staff understand what a Receivable/Accrual is. The Finance Director will identify the college course work needed and provide the time for the training. In addition, the Finance Director will develop a check list identifying the steps needed to record year end accruals by June 30, 2020.

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

Condition: During the audit the client provided a list of accounts payable at yearend totaling \$319,762, however based on testing, an additional \$232,669 in adjustments were necessary to properly report the City's accounts payable balances as of June 30, 2019. While the client did identify certain payables at year end, 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.

This is a repeat finding from the previous year. During the year ended June 30, 2019, additional training was provided to City personnel by the Finance Director to aid them in understanding the characteristics of payable and how to better identify them at year end. The client made progress in identifying certain payables at year end, however they were unable to fully identify all payables and the oversight provided by the Finance Director was not adequate to fully ensure all necessary accruals were identified.

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.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

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:

Additional Accounting specific training will be provided to our employees through college courses and on the job, training provided by the Finance Director to help staff understand what a Payable/Accrual is. The Finance Director will identify the college course work needed and provide the time for the training. In addition, the Finance Director will develop a check list identifying the steps needed to record year end accruals by June 30, 2020.

CURRENT YEAR FINDINGS

2019-001 - Identification of Capital Assets (Material Weakness)

Condition: During testwork over capital assets, we noted the following:

- Several adjustments were required to the City's capital asset listing that were identified through audit work and not by the City based on items identified through reading the minutes, disbursement testwork, and items noted through review of expense detail. Adjustments were required to reasonably state capital outlay at year end. Assets not included on the City's list of additions identified by the auditors totaled approximately \$5,800,000.

Criteria: Section 2.20.1 NMAC requires agencies to properly account for capital assets; including implementing a capital asset accounting system, proper internal controls over the capital assets, and properly accounting for capital assets disposed of during the year.

Effect: Assets are more susceptible to being misclassified, and this may result in material misstatements of financial information if they have not been accounted for properly.

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

Auditors' Recommendations: We recommend that the City maintain the asset listing throughout the entire year to ensure that they have all been accounted for at year end. Repairs and maintenance and other activity should be reviewed at least monthly to ensure correct posting to accounts and entries made to reclassify items posted incorrectly.

Views of Responsible Officials and Planned Corrective Action:

We had provided a list of asset additions that did reconcile to our annual expenditure reports. However, due to the need for training on our software, we did not provide a completed asset list that showed both additions and deletions.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

We have created a new position (Accounting Clerk) in the Finance Department who will be responsible to track and post both asset additions and deletions. In addition, our Accounting Clerk will be trained through our software provider to understand the best tools to create an accurate asset list. This list will be verified by the Finance Director, who will confirm that all the additions tie to our annual expense accounts. We will be in compliance by June 30, 2020.

2019-002 – Water Billing Adjustments (Other Matter)

Condition: During testwork over utility billing, we noted the following:

- During the year ended June 30, 2019 there were 276 billing adjustment entries to the general ledger totaling \$161,037.27 or 7.17% of overall water/wastewater service revenues.
- Review of the documentation for 40 adjustments suggested that, while there didn't appear to be any indications of wrongdoing, there was no formal process for documenting the rationale and approval for the billing adjustments. This made it difficult to determine whether the adjustments were appropriate and necessary.
- It did not appear that the water/wastewater department or other higher approval was required to make the billing adjustments.

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

Effect: Because the process is not formalized and approvals adequately documented, there is potential for unauthorized and unnecessary billing adjustments to be made.

Cause: The City did not have a documented policy for adjusting customer bills that included documented approval/authorization.

Auditors' Recommendations: We recommend the City review its processes for performing adjustments to customer bills to ensure that any adjustments are fully investigated and warranted prior to the adjustment being entered into the billing system. Additionally, the City should consider developing a form or other formal method for documenting both that the billing adjustment is considered necessary and that it is approved by the appropriate level of management. We would recommend that this would include some type of approval from both the water department and the finance departments to allow for better tracking of the number and type of adjustments being made so the City can better identify, evaluate, and respond to any systemic issues that might arise.

Views of Responsible Officials and Planned Corrective Action:

The City has been upgrading water meters throughout the city that are read electronically. At the same time the City has also upgraded its water meter reading software. During this process we experienced several instances where meters were not reading correctly, creating substantial billing errors that required manual reads to verify consumption and proper billing.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

We have developed a new policy and procedure identifying that only our lead water clerk has the authority to make billing adjustments and that these can only happen after our Office Manager reviews and approves them. This will be completed by June 30, 2020. The Finance Director will monitor for compliance.

SECTION III - FEDERAL AWARD FINDINGS

UNRESOLVED PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

SECTION IV - SECTION 12-6-5 NMSA 1978 (2.2.2.10 (L)(1)(C) NMAC FINDINGS

UNRESOLVED PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

2019-003 – Travel and Per Diem (Other non-compliance)

Condition: During the course of the audit, we performed tests of travel and per diem expenditures. Our sample contained the following discrepancies:

- The City appears to be paying a majority of travel expenses (both lodging and meals) for key employees via City credit cards. These transactions do not appear to be checked to ensure the traveler did not exceed the \$30 in-state or \$45 out-of-state maximums established in the Per Diem and Mileage Act
- There was one instance where three travelers went to a conference in Santa Fe and, based on review of the accompanying receipts, appeared to pay for a dinner for more than those three individuals.
- One out of 22 transactions tested showed the employee was reimbursed for more than the allowable \$30/trip for undocumented expenses.
- On 1 out of 22 transactions tested, it appears the employee was advanced 100% of their per diem instead of the statutory limit of 80%
- On 6 out of 22 transactions tested, the travel vouchers were missing required approval signatures.

Criteria: The New Mexico Department of Finance and Administration (DFA) has issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage*

**STATE OF NEW MEXICO
CITY OF LOVINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

Act of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

Effect: Non-compliance with the state of New Mexico's Per Diem and Mileage Act subjects' officials and employees to penalties as required by state statutes.

Cause: The City staff did not have a complete understanding of the Per Diem and Mileage Act.

Auditors' Recommendations: We recommend the City review the Per Diem and Mileage Act to ensure compliance with the Act. Further, we recommend City re-evaluate its internal control procedures over the calculation and reimbursement amounts for employee travel and per diem.

Views of Responsible Officials and Planned Corrective Action:

The City developed a preferred policy of using credit cards to track travel and per-diem for all its employees. We have sent two of our Finance staff, who work on our accounts payables, to the annual Department of Finance's Local Government Division Budget conference to train on the State's Per-diem requirements. They will be required to have a reconciled travel report attached to the VISA statements before payment. We are updating our Travel and Per Diem Policy and will conduct trainings to ensure that everyone is in compliance by June 30, 2020. The Finance Director will monitor for compliance.

**STATE OF NEW MEXICO
CITY OF LOVINGTON
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2019**

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Presentation: The accompanying financial statements are the responsibility of the City and are based on information from the City's financial records. Assistance was provided by Integrity Accounting & Consulting to the City in preparing the financial statements.

B. EXIT CONFERENCE

The contents of the report for the City of Lovington were discussed on December 12, 2019. The following individuals were in attendance.

City of Lovington Officials

Bernard Butcher	Mayor Pro-Tem, City Commissioner
James Williams	City Manager
Gary Lee Chapman	Finance Director

Integrity Accounting & Consulting

Erick Robinson, CPA, CFE	Partner
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