



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO
CITY OF CARLSBAD**

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

For The Year Ended June 30, 2019

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CITY OF CARLSBAD
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CITY OF CARLSBAD
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**STATE OF NEW MEXICO
CITY OF CARLSBAD
OFFICIAL ROSTER**

ELECTED OFFICIALS

NAME	TITLE
Dale Janway	Mayor
Collis Johnson	Municipal Judge
Lisa Anaya Flores	City Councilor
Edward T. Rodriguez	City Councilor
Leo B. Estrada	City Councilor
Jason O. Chavez	City Councilor
Jason Shirley	City Councilor
Judith E. Waters	City Councilor
Wesley A. Carter	City Councilor
Mark C. Walterscheid	City Councilor

DEPARTMENT HEADS

NAME	TITLE
Michael Hernandez	City Administrator
John Lowe	Deputy City Administrator
Wendy Austin	Director of Finance/City Treasurer
Nadine Mireles	City Clerk
Shane Skinner	Chief of Police
Richard Lopez	Fire Chief
Scot Bendixsen	Human Resources Director
KC Cass	Director of Engineering Services
Eileen P. Riordan	City Attorney
Kenneth Britt	Director of Community Development
Jeff Patterson	Director of Planning, Engineering, and Regulations Department
Wayne Hatfield	Director of Information Technology
Patrick Cass	Director of Public Works
Ron Myers	Director of Utilities



INDEPENDENT AUDITOR’S REPORT

Mr. Brian S. Colón
New Mexico State Auditor
Mayor and City Council
The City of Carlsbad
Carlsbad, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City of Carlsbad (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 as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, 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 budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the 2019 financial statements have been restated to correct misstatements related to capital assets in the governmental and business type activities. Additionally, there was a change in accounting principle in which the Cemetery and Performing Arts business-type funds were consolidated into the General Fund. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedules related to PERA, net pension liabilities, OPEB, and net OPEB liabilities, listed as "*Required Supplementary Information*" in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of changes in assets and liabilities, as listed in the table of contents, as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other schedules, as required by 2.2.2 NMAC, as listed other supplementary information in the table of contents, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements and schedules, listed as supplementary and other supplementary information in the table of contents, 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 statements and schedules were 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hinkle & Landers, P.C." in a cursive, script font.

Hinkle + Landers, PC
Albuquerque, New Mexico
December 12, 2019

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF NET POSITION
AS OF JUNE 30, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash	\$ 60,068,526	27,506,191	87,574,717
Receivables, net	14,982,839	3,024,823	18,007,662
Inventory	-	870,254	870,254
Total current assets	<u>75,051,365</u>	<u>31,401,268</u>	<u>106,452,633</u>
Noncurrent assets			
Restricted cash	1,482,969	2,783,593	4,266,562
Restricted cash held by fiscal agent	400,378	301,365	701,743
Restricted investments	-	6,303,909	6,303,909
Prepaid bond insurance premiums	-	48,836	48,836
Capital assets:			
Land and construction in progress	5,184,591	47,960,340	53,144,931
Other capital assets, net of depreciation	123,974,207	61,737,632	185,711,839
Total noncurrent assets	<u>131,042,145</u>	<u>119,135,675</u>	<u>250,177,820</u>
Deferred outflows of resources			
Pension related	15,109,851	2,126,539	17,236,390
OPEB related	801,458	125,083	926,541
Total deferred outflows of resources	<u>15,911,309</u>	<u>2,251,622</u>	<u>18,162,931</u>
Total assets and deferred outflows of resources	<u>\$ 222,004,819</u>	<u>152,788,565</u>	<u>374,793,384</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,617,469	1,740,547	3,358,016
Accrued salaries	1,298,101	252,057	1,550,158
Accrued liabilities	70,440	74,129	144,569
Accrued interest payable	32,499	378,504	411,003
Deposits payable	1,200	594,026	595,226
Current maturities of:			
Bonds payable	315,000	1,035,000	1,350,000
Notes payable	454,812	1,699,009	2,153,821
Compensated absences	662,712	147,759	810,471
Total current liabilities	<u>4,452,233</u>	<u>5,921,031</u>	<u>10,373,264</u>
Noncurrent liabilities			
Bonds payable	3,484,883	11,458,190	14,943,073
Notes payable	4,117,997	33,523,770	37,641,767
Compensated absences	1,331,720	146,784	1,478,504
Landfill closure and post-closure	-	501,287	501,287
Net pension liability	57,418,501	8,274,279	65,692,780
Net OPEB liability	23,724,946	3,702,737	27,427,683
Total noncurrent liabilities	<u>90,078,047</u>	<u>57,607,047</u>	<u>147,685,094</u>
Total liabilities	<u>94,530,280</u>	<u>63,528,078</u>	<u>158,058,358</u>
Deferred inflows of resources			
Pension related	4,468,114	711,417	5,179,531
OPEB related	6,130,089	956,719	7,086,808
Total deferred inflows of resources	<u>10,598,203</u>	<u>1,668,136</u>	<u>12,266,339</u>
Net Position			
Net investment in capital assets	120,786,106	61,982,003	182,768,109
Restricted for:			
Special revenue	3,101,858	-	3,101,858
Debt service	-	759,404	759,404
State mandated per statutes	10,284,103	-	10,284,103
Endowment:			
Expendable	-	8,618,324	8,618,324
Unrestricted	(17,295,731)	16,232,620	(1,063,111)
Total net position	<u>116,876,336</u>	<u>87,592,351</u>	<u>204,468,687</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 222,004,819</u>	<u>152,788,565</u>	<u>374,793,384</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Program Revenues				Primary Government Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 15,131,695	165,843	-	-	(14,965,852)	-	(14,965,852)
Public safety	26,248,364	710,679	1,070,939	-	(24,466,746)	-	(24,466,746)
Public works	10,387,256	39,489	37,263	296,517	(10,013,987)	-	(10,013,987)
Culture and recreation	10,724,999	657,990	7,510	16,738	(10,042,761)	-	(10,042,761)
Health and welfare	524,496	-	-	-	(524,496)	-	(524,496)
Economic development	-	-	-	-	-	-	-
Interest on long-term debt	298,052	-	-	-	(298,052)	-	(298,052)
Total governmental activities	63,314,862	1,574,001	1,115,712	313,255	(60,311,894)	-	(60,311,894)
Business-type activities							
Joint Utility	11,081,917	13,873,388	-	-	-	2,791,471	2,791,471
Solid waste	5,014,143	6,410,072	-	111,000	-	1,506,929	1,506,929
Museum	8,443	3,060	-	-	-	(5,383)	(5,383)
Municipal transit	1,254,359	82,227	399,230	-	-	(772,902)	(772,902)
Performing arts center	1	-	-	-	-	(1)	(1)
Cemetery	-	-	-	-	-	-	-
Interest on long-term debt	1,427,653	-	-	-	-	(1,427,653)	(1,427,653)
Total business-type activities	18,786,516	20,368,747	399,230	111,000	-	2,092,461	2,092,461
Total primary government	\$ 82,101,378	21,942,748	1,514,942	424,255	(60,311,894)	2,092,461	(58,219,433)
General Revenues:							
Gross receipts taxes					69,806,641	1,351,858	71,158,499
Property taxes, levied for general purposes					3,007,658	-	3,007,658
Lodgers' taxes					4,120,937	-	4,120,937
Franchise taxes					782,288	-	782,288
Public service taxes					809,038	-	809,038
Licenses and permits					588,528	-	588,528
Fines					702,767	-	702,767
Interest income					197,382	401,830	599,212
Donations					529,497	50,114	579,611
Donations of infrastructure					426,391	568,047	994,438
Miscellaneous					220,617	20,825	241,442
Special item - Gain on disposal of asset					1,841,182	52,075	1,893,257
Transfers					(5,748,476)	5,748,476	-
Total general revenues, special items, and transfers					77,284,450	8,193,225	85,477,675
Change in net position					16,972,556	10,285,686	27,258,242
Net position, beginning of year					97,603,206	81,158,586	178,761,792
Restatements					2,300,574	(3,851,921)	(1,551,347)
Net position, beginning of year, restated					99,903,780	77,306,665	177,210,445
Net position, end of year					\$ 116,876,336	87,592,351	204,468,687

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2019**

	General Fund (01,85)	CIEP Fund (49)	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 25,762,428	14,626,435	12,518,010	52,906,873
Receivables, net	12,797,770	-	2,185,070	14,982,840
Due from other funds	100,509	-	-	100,509
Restricted:				
Cash held by fiscal agent	-	-	400,377	400,377
Total assets	<u>\$ 38,660,707</u>	<u>14,626,435</u>	<u>15,103,457</u>	<u>68,390,599</u>
Liabilities:				
Accounts payable	\$ 578,949	69,762	926,282	1,574,993
Accrued salaries	1,277,579	-	20,521	1,298,100
Accrued liabilities	70,440	-	-	70,440
Deposits payable	1,200	-	-	1,200
Due to other funds	-	-	100,509	100,509
Total liabilities	<u>1,928,168</u>	<u>69,762</u>	<u>1,047,312</u>	<u>3,045,242</u>
Deferred Inflows of Resources:				
Unavailable property tax revenue	130,843	-	-	130,843
Unavailable charges for services	489,126	-	-	489,126
Total deferred inflows	<u>619,969</u>	<u>-</u>	<u>-</u>	<u>619,969</u>
Fund Balances				
Restricted for:				
Public safety	-	-	301,516	301,516
Sports complex activities	-	-	2,800,342	2,800,342
State mandated per statutes	-	-	6,083,757	6,083,757
State mandated budget reserve	4,200,346	-	-	4,200,346
Construction and improvements	-	-	-	-
Committed for:				
City budget reserve	4,200,346	-	-	4,200,346
Subsequent years' expenditures	12,759,597	-	-	12,759,597
Assigned	-	14,556,673	5,109,960	19,666,633
Unassigned	14,952,281	-	(239,430)	14,712,851
Total fund balances	<u>36,112,570</u>	<u>14,556,673</u>	<u>14,056,145</u>	<u>64,725,388</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 38,660,707</u>	<u>14,626,435</u>	<u>15,103,457</u>	<u>68,390,599</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET POSITION
JUNE 30, 2019**

Total fund balance, governmental funds	\$	64,725,388
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		129,158,798
Deferred outflows of resources related to pensions are applicable to future periods and, there are not reported in the funds.		15,911,309
Certain accrued interest expenses are not due and payable in the current period and, therefore not reported in the governmental funds.		(32,499)
Long-term obligations applicable to the City's governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(10,367,124)
Long-term pension obligations applicable to the City's governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(81,143,447)
Deferred inflows of resources related to pensions are applicable to future periods and, there are not reported in the funds.		(10,598,203)
Recognition of certain revenues are reflected on the full accrual basis within the statement of net position. Governmental funds recognize these revenues on the modified accrual basis. The current years revenues are property taxes, \$130,843 and charges for service, \$489,126.		619,969
Residual balances of the internal service funds are included within the governmental activities and are not reported in the governmental funds.		8,602,146
Rounding		(1)
Total Net Position of Governmental Activities	\$	<u><u>116,876,336</u></u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund (01, 85)	CIEP Fund (49)	Other Governmental Funds	Total Governmental Funds
Revenues				
Gross receipts taxes	\$ 61,874,095	-	7,932,547	69,806,642
Property taxes	3,012,740	-	-	3,012,740
Franchise taxes	782,288	-	-	782,288
Lodgers' taxes	-	-	4,120,937	4,120,937
Public service taxes	-	-	809,036	809,036
Intergovernmental:				
Federal	6,902	-	266,699	273,601
State	486,016	-	669,349	1,155,365
Charges for services	1,572,522	-	26,879	1,599,401
Licenses and permits	491,888	-	96,641	588,529
Contributions and donations	431,267	-	-	431,267
Fines and forfeitures	554,467	-	148,300	702,767
Interest	151,170	3,794	19,373	174,337
Donations	-	-	98,229	98,229
Miscellaneous	173,305	-	-	173,305
Total revenues	<u>69,536,660</u>	<u>3,794</u>	<u>14,187,990</u>	<u>83,728,444</u>
Expenditures				
Current:				
General government	10,746,450	-	195,262	10,941,712
Public safety	23,341,740	-	488,002	23,829,742
Public works	6,475,203	-	-	6,475,203
Culture and recreation	5,505,045	-	2,357,756	7,862,801
Health and welfare	361,092	-	-	361,092
Capital outlay	2,335,632	675,175	7,737,175	10,747,982
Debt service:				
Principal	-	-	747,665	747,665
Interest and other charges	-	-	300,271	300,271
Total expenditures	<u>48,765,162</u>	<u>675,175</u>	<u>11,826,131</u>	<u>61,266,468</u>
Excess (deficiency) of revenues over expenditures	20,771,498	(671,381)	2,361,859	22,461,976
Other Financing Sources (Uses)				
Transfers in	1,383,539	12,195,000	2,635,017	16,213,556
Transfers (out)	(19,481,255)	-	(6,532,814)	(26,014,069)
Total other financing sources and (uses)	<u>(18,097,716)</u>	<u>12,195,000</u>	<u>(3,897,797)</u>	<u>(9,800,513)</u>
Special Item				
Proceeds from sale of assets	120,809	2,184,675	5,040	2,310,524
Net change in fund balances	2,794,591	13,708,294	(1,530,898)	14,971,987
Fund balance, beginning of year	33,317,979	848,379	15,587,043	49,753,401
Fund balance, end of year	<u>\$ 36,112,570</u>	<u>14,556,673</u>	<u>14,056,145</u>	<u>64,725,388</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Net change in fund balances - total governmental funds: 14,971,987

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

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

Donations of infrastructure	426,391
Donations of capital assets	5,000
Capital expenditures recorded in capital outlay	10,622,530
Depreciation expense	(7,588,006)
Transfers to business-type funds	(208,671)

Within the statement of activities, the basis of capital assets disposed of are netted with the gross proceeds to report a gain or loss. The disposal of capital assets are not considered use of financial resources and, therefore, are not reported as expenditures in the governmental funds. (469,342)

Governmental funds report revenues not collected within 60 days as deferred revenues until subsequently collected. These transactions are recorded as revenues when earned in the statement of activities

Property taxes	(5,082)
Charges for services	(25,400)

The issuance of long-term debt (notes, bonds, leases) provides current 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, discounts, and similar items when debt is first issued, whereas amounts are deferred and amortized in the statement of activities:

Bond and note obligation principal payments	747,665
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in compensated absences	(200,406)
Change in accrued interest payable	2,629
Amortization of bond premium/discount	(411)
Pension expense	(4,504,549)
OPEB revenue (expense)	456,395

Transfer in of government wide business-type activities -

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. 2,741,829

Rounding	(3)
Change in net assets of governmental activities	16,972,556

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
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**

	Original Approved Budget	Final Approved Budget	Actual	Variances Favorable (Unfavorable)
Revenues				
Intergovernmental sources - federal	\$ -	-	5,365	5,365
Intergovernmental sources - state	595,086	713,586	481,844	(231,742)
Local and state shared taxes	42,922,507	48,922,507	59,223,039	10,300,532
Property taxes	3,276,259	3,276,259	2,982,345	(293,914)
Franchise taxes	857,500	857,500	799,362	(58,138)
Licenses and permits	397,850	397,850	493,961	96,111
Fines	433,772	433,772	554,467	120,695
Charges for services	1,643,050	1,643,050	1,571,890	(71,160)
Interest	11,500	11,500	156,403	144,903
Donations	100,000	120,000	431,267	311,267
Other revenue	168,000	172,151	294,114	121,963
Total revenues	<u>50,405,524</u>	<u>56,548,175</u>	<u>66,994,057</u>	<u>10,445,882</u>
Expenditures				
Current:				
General government	10,265,876	11,844,531	10,472,028	1,372,503
Public safety	23,745,370	24,582,138	23,205,808	1,376,330
Public Works	6,970,410	7,158,590	6,438,123	720,467
Health and welfare	464,241	458,741	356,525	102,216
Culture and recreation	6,040,247	6,246,309	5,534,947	711,362
Capital Outlay				
Capital outlay	2,918,009	3,996,852	2,363,578	1,633,274
Total expenditures	<u>50,404,153</u>	<u>54,287,161</u>	<u>48,371,009</u>	<u>5,916,152</u>
Excess (deficiency) of revenues over (under) expenditures	1,371	2,261,014	18,623,048	16,362,034
Other Financing Sources (Uses)				
Transfers in	278,782	1,383,537	1,383,539	2
Transfers out	(8,867,000)	(19,472,000)	(19,472,000)	-
Total other financing sources (uses)	<u>(8,588,218)</u>	<u>(18,088,463)</u>	<u>(18,088,461)</u>	<u>2</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(8,586,847)</u>	<u>(15,827,449)</u>	<u>534,587</u>	<u>16,362,036</u>
Budgeted cash carryover	<u>8,586,847</u>	<u>15,827,449</u>		
Total	\$ <u>-</u>	<u>-</u>		
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 534,587	
To adjust applicable revenue accruals and deferrals			2,663,411	
To adjust applicable expenditure accruals			(403,407)	
Change in fund balance (GAAP basis)			<u>\$ 2,794,591</u>	

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF NET POSITION- PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds	Total	
Assets					
Current assets:					
Cash	\$ 10,487,322	16,799,852	219,017	27,506,191	7,161,653
Receivables, net	843,383	2,077,926	103,514	3,024,823	-
Inventory	-	870,254	-	870,254	-
Total current assets	<u>11,330,705</u>	<u>19,748,032</u>	<u>322,531</u>	<u>31,401,268</u>	<u>7,161,653</u>
Noncurrent assets:					
Restricted cash	2,349	2,781,244	-	2,783,593	1,482,969
Restricted cash held by fiscal agent	127,867	173,498	-	301,365	-
Restricted investments	-	6,303,909	-	6,303,909	-
Prepaid bond insurance premium	-	48,836	-	48,836	-
Capital Assets:					
Land and construction in progress	10,000	47,634,460	315,880	47,960,340	-
Other capital assets, net of accumulated depreciation	2,809,978	58,159,679	767,975	61,737,632	-
Total noncurrent assets	<u>2,950,194</u>	<u>115,101,626</u>	<u>1,083,855</u>	<u>119,135,675</u>	<u>1,482,969</u>
Deferred Outflows of Resources					
Pension related	516,282	1,384,636	225,621	2,126,539	-
OPEB related	27,796	78,756	18,531	125,083	-
Total deferred outflows of resources	<u>544,078</u>	<u>1,463,392</u>	<u>244,152</u>	<u>2,251,622</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 14,824,977</u>	<u>136,313,050</u>	<u>1,650,538</u>	<u>152,788,565</u>	<u>8,644,622</u>
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 53,485	1,678,458	8,604	1,740,547	42,476
Accrued salaries	67,355	154,333	30,369	252,057	-
Accrued liabilities	-	74,112	17	74,129	-
Accrued interest payable	1,834	376,670	-	378,504	-
Customer deposits	-	594,026	-	594,026	-
Current maturities of liabilities:					
Bonds payable	-	1,035,000	-	1,035,000	-
Notes payable	115,203	1,583,806	-	1,699,009	-
Compensated absences	39,972	78,988	28,799	147,759	-
Total current liabilities	<u>277,849</u>	<u>5,575,393</u>	<u>67,789</u>	<u>5,921,031</u>	<u>42,476</u>
Noncurrent liabilities:					
Bonds payable	-	11,458,190	-	11,458,190	-
Notes payable	597,808	32,925,962	-	33,523,770	-
Compensated absences	39,606	88,073	19,105	146,784	-
Landfill closure and post-closure	501,287	-	-	501,287	-
Net pension liability	1,848,962	5,470,346	954,971	8,274,279	-
Net OPEB liability	822,830	2,331,353	548,554	3,702,737	-
Total noncurrent liabilities	<u>3,810,493</u>	<u>52,273,924</u>	<u>1,522,630</u>	<u>57,607,047</u>	<u>-</u>
Total liabilities	<u>4,088,342</u>	<u>57,849,317</u>	<u>1,590,419</u>	<u>63,528,078</u>	<u>42,476</u>
Deferred Inflows of Resources					
Pension related	155,667	453,840	101,910	711,417	-
OPEB related	212,604	602,379	141,736	956,719	-
Total deferred inflows of resources	<u>368,271</u>	<u>1,056,219</u>	<u>243,646</u>	<u>1,668,136</u>	<u>-</u>
Net Position					
Net investment in capital assets	2,106,967	58,791,181	1,083,855	61,982,003	-
Restricted:					
Debt service	119,076	640,328	-	759,404	-
Endowment:					
Expendable	-	8,618,324	-	8,618,324	-
Unrestricted	8,142,321	9,357,681	(1,267,382)	16,232,620	8,602,146
Total net position	<u>10,368,364</u>	<u>77,407,514</u>	<u>(183,527)</u>	<u>87,592,351</u>	<u>8,602,146</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,824,977</u>	<u>136,313,050</u>	<u>1,650,538</u>	<u>152,788,565</u>	<u>8,644,622</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Business - Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds	Total	
Operating Revenues					
Charges for services	\$ 6,410,072	13,873,388	85,287	20,368,747	6,511,917
Operating Expenses					
Personnel services	2,279,383	5,238,893	1,040,452	8,558,728	-
Utilities	2,251	759,917	11,340	773,508	-
Contractual services	47,377	481,602	3,915	532,894	1,355,544
Repairs and maintenance	376,087	692,207	45,612	1,113,906	-
Insurance claims and expenses	-	-	-	-	4,888,783
Other supplies and expenses	1,776,808	694,021	96,931	2,567,760	1,851,827
Depreciation and amortization	532,237	3,215,277	64,553	3,812,067	-
Total operating expenses	<u>5,014,143</u>	<u>11,081,917</u>	<u>1,262,803</u>	<u>17,358,863</u>	<u>8,096,154</u>
Operating income (loss)	1,395,929	2,791,471	(1,177,516)	3,009,884	(1,584,237)
Non-Operating Revenues (Expenses)					
Gross receipts taxes	1,351,858	-	-	1,351,858	-
Intergovernmental	111,000	-	399,230	510,230	-
Investment income	88,562	313,268	-	401,830	23,046
Miscellaneous	17,762	620,480	744	638,986	42,311
Gain/(loss) on sale of assets	20,000	30,075	2,000	52,075	-
Interest expense	(11,627)	(1,416,026)	-	(1,427,653)	-
Total non-operating revenue (expenses)	<u>1,577,555</u>	<u>(452,203)</u>	<u>401,974</u>	<u>1,527,326</u>	<u>65,357</u>
Income (loss) before capital contributions and transfers	2,973,484	2,339,268	(775,542)	4,537,210	(1,518,880)
Capital Contributions and Transfers					
Transfers in	606,296	8,240,737	687,306	9,534,339	5,549,900
Transfers (out)	(627,322)	(2,857,757)	(300,784)	(3,785,863)	(1,289,191)
Total capital contributions and transfers	<u>(21,026)</u>	<u>5,382,980</u>	<u>386,522</u>	<u>5,748,476</u>	<u>4,260,709</u>
Change in net position	2,952,458	7,722,248	(389,020)	10,285,686	2,741,829
Net position, beginning of year	7,589,426	70,230,088	3,339,072	81,158,586	5,860,317
Restatements	(173,520)	(544,822)	(3,133,579)	(3,851,921)	-
Net position, beginning of year, restated	<u>7,415,906</u>	<u>69,685,266</u>	<u>205,493</u>	<u>77,306,665</u>	<u>5,860,317</u>
Net position, end of year	<u>\$ 10,368,364</u>	<u>77,407,514</u>	<u>(183,527)</u>	<u>87,592,351</u>	<u>8,602,146</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds	Total	
Cash Flows From Operating Activities					
Cash received from customers	\$ 6,316,759	13,279,998	112,657	19,709,414	-
Internal activity - receipts from other funds	-	-	-	-	6,511,917
Cash payments to suppliers for goods and services	(2,073,303)	(748,529)	(165,583)	(2,987,415)	-
Cash payments to employees for services	(2,102,987)	(4,676,384)	(948,393)	(7,727,764)	(8,073,026)
Net cash provided (used) by operating activities	<u>2,140,469</u>	<u>7,855,085</u>	<u>(1,001,319)</u>	<u>8,994,235</u>	<u>(1,561,109)</u>
Cash Flows for Non-Capital and Financing Activities					
Cash received from gross receipts taxes	1,351,858	-	-	1,351,858	-
Intergovernmental revenues	111,000	-	399,230	510,230	-
Utility deposit, grt. and miscellaneous receipts	17,762	52,433	744	70,939	42,311
Net transfers in (out)	(21,026)	5,382,980	386,522	5,748,476	4,260,709
Net cash provided (used) by non-capital and related financing activities	<u>1,459,594</u>	<u>5,435,413</u>	<u>786,496</u>	<u>7,681,503</u>	<u>4,303,020</u>
Cash Flows for Capital and Financing Activities					
Acquisition of capital assets	(1,020,645)	(6,316,006)	(16,008)	(7,352,659)	-
Transfers in/out of debt	-	-	-	-	-
Transfers in/out of capital assets	-	(309,614)	-	(309,614)	-
Capital contribution	-	(568,047)	-	(568,047)	-
Principal payments on capital debt	(114,278)	(2,549,362)	-	(2,663,640)	-
Interest on capital debt	(11,627)	(1,416,026)	-	(1,427,653)	-
Net cash (used) by capital and related financing activities	<u>(1,146,550)</u>	<u>(11,159,055)</u>	<u>(16,008)</u>	<u>(12,321,613)</u>	<u>-</u>
Cash Flows From Investing Activities					
Investment income	88,562	313,268	-	401,830	23,046
Purchase of investments	-	(145,937)	-	(145,937)	-
Net cash provided (used) by investing activities	<u>88,562</u>	<u>167,331</u>	<u>-</u>	<u>255,893</u>	<u>23,046</u>
Net increase (decrease) in cash	2,542,075	2,298,774	(230,831)	4,610,018	2,764,957
Cash and cash equivalents, beginning of year	8,075,463	17,455,820	449,848	25,981,131	5,879,665
Cash and cash equivalents, end of year	<u>\$ 10,617,538</u>	<u>19,754,594</u>	<u>219,017</u>	<u>30,591,149</u>	<u>8,644,622</u>
Displayed as					
Cash	\$ 10,487,322	16,799,852	219,017	27,506,191	7,161,653
Restricted cash	2,349	2,781,244	-	2,783,593	1,482,969
Restricted cash held be fiscal agent	127,867	173,498	-	301,365	-
	<u>\$ 10,617,538</u>	<u>19,754,594</u>	<u>219,017</u>	<u>30,591,149</u>	<u>8,644,622</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 1,395,929	2,791,471	(1,177,516)	3,009,884	(1,584,237)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	532,237	3,215,277	64,553	3,812,067	-
Landfill closure & post closure liability	87,212	-	-	87,212	-
Pension expense	156,475	442,659	104,274	703,408	-
OPEB expense/revenue	(15,829)	(44,848)	(10,552)	(71,229)	-
(Gain)/loss on disposal of capital asset	20,000	30,075	2,000	52,075	-
Restatement	173,520	544,822	-	718,342	-
Change in Assets and Liabilities					
(Increase) decrease in accounts receivable	(93,313)	(593,390)	27,370	(659,333)	-
(Increase) decrease in inventories	-	(320,405)	-	(320,405)	-
Increase (decrease) in accounts payable	(151,512)	1,624,726	(7,785)	1,465,429	23,128
Increase (decrease) in accrued salaries	11,226	6,228	11	17,465	-
Increase (decrease) in accrued liabilities	(417)	116,689	-	116,272	-
Increase (decrease) in compensated absences	24,941	41,781	(3,674)	63,048	-
Total adjustments	<u>744,540</u>	<u>5,063,614</u>	<u>176,197</u>	<u>5,984,351</u>	<u>23,128</u>
Net cash provided (used) by operating activities	<u>\$ 2,140,469</u>	<u>7,855,085</u>	<u>(1,001,319)</u>	<u>8,994,235</u>	<u>(1,561,109)</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**CITY OF CARLSBAD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF JUNE 30, 2019**

Assets

Cash	\$ 39,810
Note receivable	<u>90,000</u>

\$ 129,810

Liabilities

Due to others	\$ <u><u>129,810</u></u>
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See independent auditor's report. The accompanying notes are an integral part of these financial statements.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Carlsbad (the "City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The significant accounting policies of the City are described below.

A. Reporting Entity

The City of Carlsbad, established on March 25, 1918, is a political subdivision of the state of New Mexico, and operates under the mayor-council form of government. The City provides the following authorized services: public safety (police and fire), public works, water, sanitation, health and welfare, social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The City's basic financial statements include all activities and accounts of the City's financial reporting entity.

The financial reporting entity consists of the primary government, and any other organization 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, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Based on this criterion, there are no component units of the City.

B. Basis of Presentation

Government-Wide and Fund Financial Statements—The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities, which normally are supported by truces and intergovernmental revenues, are reported separately from the business-type activities, 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 in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity, 2) grants and contributions that are restricted to meeting

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

the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function of governmental-type activity) is normally covered by general revenues (property, sales, franchise, public service truces, interest income, etc.) The City does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term is considered an indirect expense and is reported separately on the Statement of Activities.

Separate fund based 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. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

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

Government-Wide Financial Statements—The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property truces, grants, entitlements, and donations. On an accrual basis, revenue from property truces is recognized in the fiscal year to which the truces are levied. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements—Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. 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. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met, and the revenues are available. 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 made.

Property, franchise, sales, and public service tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fine and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

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

There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business-type activities, and all proprietary funds, are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases (e.g., revenues and expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following proprietary fund types:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements.

Additionally, City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by an activity to other departments of the City on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements.

Agency funds are used to account for monies held by the City in a custodial capacity. These funds do not report operations or have a measurement focus.

The City reports the following Major Governmental Funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property, sales and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenues. Expenditures include all costs associated with the daily operation of the City, except for items included in other funds.

The *CIEP Fund* accounts for the financing and acquisition of capital improvements and equipment purchases for the City. Financing is provided from the General Fund. The fund is authorized by city council.

The City reports the following major business-type funds:

The *Solid Waste Fund* is used to account for the provisions of solid waste disposal for the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The *Joint Water and Sewer Fund* accounts for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund,

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including, but not limited to, administration, operations, maintenance, financing and related debt service, billing, and collection.

The City maintains other individual governmental funds that are considered nonmajor funds and which are classified as special revenue funds, capital project funds, and debt service funds. A description of each nonmajor governmental fund is as follows:

Special Revenue Funds

The *Fire Protection Fund* accounts for proceeds of the state fire allotment, and the expenditures for public safety there from. New Mexico state law requires these funds be used to help maintain the fire department. The fund was established by local ordinance and in accordance with Section 59A-53-1, of the New Mexico State Insurance Code. Section 59A-53-8 of the code restricts the use of the funds for only the maintenance of the City's fire department.

The *Lodgers' Tax Fund* accounts for funds received from a special local lodgers' tax that is to be used for promotion of the City. The fund was established by local ordinance authorized by Section 3-38-13 through 3-38-24, NMSA 1978. Section 3-38-1S(E), NMSA 1978, restricts the use of the tax for advertising, publicizing and promoting, establishing and operating tourist-related attractions, facilities, and events.

The *Airport Fund* accounts for the operating and maintenance of the airport. Financing is provided by federal, state, and county grants. The fund is authorized by city council and is required by federal grants for segregating interest earned and for auditing purposes.

The *Emergency Medical Services Fund* accounts for the state emergency medical services grant, to be used for specific medical services provided through fire department activities. This state grant comes through the New Mexico Department of Health per EMS regulation DOH 94-11. The fund was created by local ordinance. Section 24-IOA-1 to 24-IOA-IO, NMSA 1978 provides funds to municipalities for use in the establishment and enhancement of local emergency medical services. Section 24-IOA-7, NMSA 1978 restricts expenditures from the fund for only emergency medical services.

The *Local Government Corrections Fund* accounts for the fees collected by the municipal judge, which are legally restricted to expenditure for jail related costs. The fund was established by local ordinance in order to comply with Section 35-14-11, NMSA 1978.

The *Law Enforcement Protection Fund* accounts for the state grant to be used for the repair and/or replacement of law enforcement equipment, according to state law, Section 29-13.1 through 29-13.9, NMSA 1978. The fund was established by local ordinance to comply with state statutes. Section 29-13-17A, NMSA 1978 limits distributions from the fund for law enforcement related expenditures, including, but not limited to, the purchase of equipment, expenses associated with advanced law enforcement planning, and training.

The *Sports Complex Fund* accounts for the operation of the City's sports complex. Financing is provided from infrastructure gross receipts tax revenues. The fund is authorized by city council.

The *Community Development Fund* accounts for funds received for community development and improvements funded under New Mexico Community Development Block Grants pursuant to the U.S. Department of Housing and Urban Development Title I grant. The fund is authorized by city council.

Capital Project Funds

The *GRT Capital Outlay Fund*, is a capital projects fund that accounts for receipts and disbursements and gross receipts taxes for capital outlay projects. The fund is authorized by city council.

The *Park Improvement Fund* accounts for the receipts and disbursements to build and improve parks within the City. Financing is provided from state grants. The fund is authorized by city council.

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The *Federal Projects Fund* accounts for receipts and disbursements for infrastructure and improvements. Financing is provided from federal and state grants. The funding is authorized by city council and is required by federal grantors for segregating interest earned and for auditing purposes.

The *Street System Improvement Fund* accounts for funds receipts and disbursements for City street improvements and maintenance. Financing is provided from motor vehicle fees and state and county grants. The authority for the fund is given by section 7-1-6.27, NMSA and the City's ordinance number 389.

Debt Service Funds

The *2002 Sales Tax Bonds Fund* accounts for the receipts and disbursements for the repayment of the refunding 1994 gross receipts tax revenue bonds and provide additional funds for capital improvements and equipment. Financing is provided by gross receipts tax collected in the General Fund. The fund is authorized by city council and is in conformance with bond covenants.

The *GRT Capital Outlay Fund* accounts for the receipts and disbursements for the payment of the 2009 revenue bonds. Financing is provided by gross receipts taxes collected in the GRT capital outlay fund. The fund is authorized by city council and is in conformance with bond covenants.

The *NM Finance Authority Loan Fund* accounts for the receipts and disbursements for the repayment of loans to the New Mexico Finance Authority recorded as governmental activities. Transfers from fire protection and sports complex funds provide reserves to reduce loan obligations. The fund is authorized by city council and is in conformance with loan covenants.

The City maintains two individual agency funds. A description of each fund is as follows:

The *Municipal Court Trust Funds* accounts for monies held in trust by the municipal judge to reduce court fines, costs, and administrative fees. Any unused funds available after the reduction of fines and fees are returned to the defendant.

The *U.S. Department of Energy Fund* accounts for monies collected and remitted to the U.S. Department of Energy.

The City maintains other individual enterprise funds that are considered nonmajor funds. A description of each nonmajor enterprise funds is as follows:

The *Museum Gift Shop Fund* accounts for the receipts and disbursements of the operations of the museum gift shop. The fund is authorized by city council.

The *Municipal Transit Fund* accounts for the receipts and disbursements of the City's transportation services. Financing is provided from federal and state grants, and customer receipts. The fund is authorized by city council and required by federal grantors for segregating interest earned and for auditing purposes.

The *Performing Arts Center Fund* accounts for the operations of promotional activities of the City. Financing is provided primarily by transfers from the Lodgers' Tax Fund. The fund is authorized by Section 3-38-13 through 3-38-24, NMSA 1978. For the year ended June 30, 2019 all assets and liabilities were consolidated into the general fund and government wide governmental activities.

The *Cemetery Fund* accounts for the operation and maintenance of the City cemetery. Financing is provided through lot sales and fees for services. The funding is authorized by Section 3-40-1 through 3-40-9, NMSA 1978. For the year ended June 30, 2019 all assets and liabilities were consolidated to the general fund and government wide governmental activities.

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The City maintains three individual internal service funds. A description of each fund is as follows:

The *General Insurance Fund* accounts for the cost of providing insurance and worker's compensation coverage and liability claims against the City. Such costs are billed to the other departments at actual cost.

The *Group Health Insurance Fund* accounts for the cost of providing group health benefits to City employees. The costs are billed to employees and various departments based on a minimum premium plan for eligible participants.

The *Disaster Preparedness Fund* accounts for unforeseen disasters such as natural disasters, emergency evacuations of citizens, and other disaster situations where the City would be required to spend funds immediately without the guarantee of future reimbursement.

D. Budgets

Budgets for all funds are prepared by management and approved by the City council and the New Mexico Department of Finance and Administration. The City administrator is responsible for preparing the budget from requests submitted by department heads.

The appropriated budget is prepared by line item within object class, program, department, and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the City council for approval by resolution.

The proposed budget is then submitted by June 1" to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excludes encumbrances, and secure appropriation of funds for only one year. Carryover funds are re-appropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is presented as a committed portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local council approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

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

Deposits and Investments

Investments in the City's cash and certificates of deposit are stated at cost, which approximates fair value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

Interfund Receivables and Payables

Activity between funds, that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year, is referred to as interfund balance. Long-term advances between funds, as reported in the

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fund financial statements, as nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventory

Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as an expense when consumed rather than when purchased.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain long-term assets are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as deposits held in trust for others.

Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balance 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 costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Purchased computer software is recorded at historical cost. The City defines capital assets as assets with an initial, individual cost or donated value of more than \$5,000 and an estimated useful life in excess of one year.

Infrastructure fixed assets consisting of roads, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Classification	Years
Buildings and building improvements	10-50
Public domain infrastructure	25
Utility system	40
Machinery and equipment, including vehicles	5-10

Vacation Pay

Employees of the City may accumulate a total of ten to thirty days of vacation per year. A maximum of seventy-five days of vacation may be accumulated for executive officers. Employees compensated on an hourly basis may accumulate up to thirty days of vacation. Appointed officers may accrue thirty-one and a half days of paid time off per year with no maximum accumulation. All vacation and time off compensation are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if it has matured.

Sick Leave

Appointed officers do not accrue sick leave. Executive officers and those employees compensated on an hourly basis may accumulate a total of twelve days of sick leave per year; however, if the employee has qualified to retire under the state retirement program, employees are not paid for the accumulated sick leave

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upon retirement or other termination. If the employee has not qualified to retire under the state retirement program, the City will pay the employee for one-third portion of the accumulated sick leave on the last day of service to the City. Accordingly, the one-third portion of the sick leave earned for is accrued on the government-wide and proprietary fund financials statements.

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 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

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

The City has the following deferred outflows of resources during fiscal year 2019:

<u>Deferred Outflows of Resources - GW</u>	
Pension deferrals	\$ 17,236,390
OPEB deferrals	926,541
Charges related to advance refunding	-
Total deferred outflows of resources	<u>\$ 18,162,931</u>

<u>Deferred Outflows of Resources - Proprietary Funds</u>	
Pension deferrals	\$ 2,126,539
OPEB deferrals	125,083
Charges related to advance refunding	-
Total deferred outflows of resources	<u>\$ 2,251,622</u>

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue.

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The City has the following deferred inflows of resources during fiscal year 2019:

Deferred Inflows of Resources - GW

Pension deferrals	\$ 5,179,532
OPEB deferrals	7,086,807
Total deferred outflows of resources	<u>\$ 12,266,339</u>

Deferred Inflows of Resources - Governmental Funds

Unavailable property tax revenue	\$ 130,843
Unavailable charges for services	489,126
Total deferred outflows of resources	<u>\$ 619,969</u>

Deferred Inflows of Resources - Proprietary Funds

Pension deferrals	\$ 711,417
OPEB deferrals	956,719
Total deferred outflows of resources	<u>\$ 1,668,136</u>

Unavailable Revenue

The City reports unavailable revenue on its financial statements. When resources are received in advance of charges for services being earned, or in advance of any eligibility requirement, other than a time requirement being met for government-mandated or voluntary nonexchange transactions (i.e. for intergovernmental revenues), a liability is reported for the unavailable revenue.

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

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 business-type activities within the statement of net position. 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. Bond issuance costs are reported as debt service expense in the year of issuance.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as, bond issuance costs, during the year of issuance. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets—This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Restricted net position—This category reflects the portion of net position that has third party limitations on their use.

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Unrestricted net position—This category reflects net position of the City, not restricted for any project or other purpose.

Fund Balance Reservation and Designations—in the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance—This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance—These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City council - the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the City council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have specifically committed for use in satisfying those contractual requirements.

Assigned fund balance—This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance—This fund balance is the residual classification for the General Fund. The classification is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned—in order as needed.

F. Other Matters

Cash Flows

For the purpose of the statement of cash flows, the City considers all highly liquid investments, including restricted cash with maturity of three months or less, to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

New Mexico state statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more bank 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 of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by

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the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or 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.

Cash Deposited with Financial Institutions

The City maintains cash in five financial institutions within Carlsbad, New Mexico. The City's deposits are carried at cost.

As of June 30, 2019, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
Cash on hand	\$ 5,067	-	5,067
Carlsbad National Bank	7,379,848	(37,531)	7,342,317
First American Bank	1,676,082	-	1,676,082
Pioneer Savings Bank	3,820,542	-	3,820,542
Wells Fargo Bank	59,190,105	(961,374)	58,228,731
Western Commerce Bank	21,058,821	(250,471)	20,808,350
Total cash deposits	\$ 93,130,465	(1,249,376)	91,881,089

The amounts reported as cash for the government within the financial statements is displayed as:

Statement of Net Position	Amount
Cash	\$ 87,574,717
Restricted	4,266,562
	<u>91,841,279</u>
Agency fund	39,810
Total cash	\$ <u>91,881,089</u>

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the City. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the City carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

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	Carlsbad National Bank	First American Bank	Pioneer Savings Bank	Wells Fargo Bank, N.A.	Western Commerce Bank
Total deposits in bank	\$ 7,379,848	1,676,082	3,820,542	59,190,105	21,058,821
Less FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)	(500,000)
Uninsured public funds	7,129,848	1,426,082	3,570,542	58,940,105	20,558,821
Pledged collateral held by pledging bank's trust, but not in the City's name	6,777,723	920,387	1,842,859	35,060,134	11,238,151
Uninsured and uncollateralized public funds	352,125	505,696	1,727,683	23,879,971	9,320,670
Total pledged collateral	6,777,723	920,387	1,842,859	35,060,134	11,238,151
50% pledged collateral requirement per state statute	3,564,924	713,041	1,785,271	29,470,053	10,279,411
Pledged collateral (under) over the requirements	\$ 3,212,799	207,346	57,588	5,590,081	958,741

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report.

Demand deposits, time deposits, savings deposits and interest-bearing money market accounts at a public unit in an institution in the same state are insured up to \$250,000.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2019, \$91,625,398 of the City's bank balance of \$93,125,398 was exposed to custodial credit risk as follows:

	Carlsbad National Bank	First American Bank	Pioneer Savings Bank	Wells Fargo Bank, N.A.	Western Commerce Bank
Uninsured and collateralized held by pledging bank's trust dept. or agent not in the City name	\$ 7,129,848	1,426,082	3,570,542	58,940,105	20,558,821

NOTE 3. RESTRICTED CASH HELD BY FISCAL AGENT

The City has entered into various loan agreements with the New Mexico Finance Authority. As required by the loan agreements, any unexpended loan proceeds are maintained by NMFA until needed by the City. Additionally, the City is required to set aside reserve amounts for the debt obligations. As of June 30, 2019, the NMFA held \$701,743.

NOTE 4. RESTRICTED INVESTMENTS

Investments Held at Wells Fargo Bank, N.A. Las Cruces, NM

The amounts reported as investments for the government within the financial statements are displayed as:

<u>Statement of Net Position</u>	
Restricted investments	\$ <u>6,303,909</u>

As of June 30, 2019, the restricted investments are composed of the following:

Investment - US Treasury Notes	\$ <u>6,303,909</u>
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The U.S. Treasury Notes all carry a Moody's rating of AAA and the City's Treasury notes reach maturity as follows: as of June 30, 2019.

	<u>Market Value</u>	<u>%</u>	<u>Maturity</u>
\$	1,593,468	25%	Less than 1 year
	1,871,369	30%	1-2 years
	2,429,636	39%	2-5 years
	409,436	6%	5-7 years
\$	<u>6,303,909</u>	<u>94%</u>	

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

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

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

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

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

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

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

Level 1

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

Level 2

Are significant other observable inputs

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

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

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Level 3

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

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

<u>Description</u>	<u>2019</u> <u>Level 1</u>
U.S. Treasury Notes	\$ 6,303,909

Investments Held by Fiscal Agent

As required by note agreements with the New Mexico Finance Authority (NMFA), the City has cash held and invested with the NMFA.

NOTE 5. RECEIVABLES

Receivables, net of allowance for doubtful accounts, at June 30, 2019, consisted of the following:

<u>Types of Receivables</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Accounts receivable			
Charges for services	\$ 839,378	3,079,219	3,918,597
Allowance for doubtful accounts	(209,420)	(395,666)	(605,086)
Total	629,958	2,683,553	3,313,511
Taxes receivable			
Gross receipts taxes	13,307,588	252,870	13,560,458
Franchise taxes	112,153	-	112,153
Property taxes	230,939	-	230,939
Lodgers' taxes	355,652	-	355,652
Public service taxes	77,357	-	77,357
Allowance for doubtful accounts	(4,619)	-	(4,619)
Total	14,079,070	252,870	14,331,940
Intergovernmental receivables			
Building improvement grants	-	-	-
Public safety grants	13,955	-	13,955
Infrastructure improvement grants	259,857	-	259,857
Municipal transit grants	-	88,400	88,400
Total	273,812	88,400	362,212
Interest receivable	-	-	-
Receivables, net	\$ 14,982,840	3,024,823	18,007,663

The City's policy is to provide for uncollectible accounts based upon expected defaults.

NOTE 6. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1st. Property tax rates for the year are set no later than September 1st each year by the New Mexico Secretary of Finance and Administration. The rate of tax are then used by the Eddy County Assessor to develop the property tax schedule by October 1st. The Eddy County Treasurer sends tax notices to property owners by November 1st of each year. Taxes are payable in equal semiannual installments by November 10th and April 10th of the subsequent year. Thirty days later the bill becomes delinquent and the county treasurer assesses penalties and interest. Taxes are collected on behalf of the City by the county treasurer and are remitted to the City in the month following collection. The county

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treasurer is statutorily required to collect taxes as an intermediary agency for all forms of government. Distribution of taxes collected is made through the county treasurer's office.

The City is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the City is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the City. The City's total tax rate to finance general government services for the year 2018, was \$5,613 per \$1,000 for non-residential and \$7,500 for residential property.

NOTE 7. BAD DEBT EXPENSE

Governmental Activities

During the current fiscal year, the City recorded an allowance on all receivables related to ambulance fees over 180 days, as well as an additional charge of 1%, which amounted to \$209,420 in total. Ambulance fees are reflected as public safety charges for services in the government-wide statement of activities and charges for services within the general fund.

Business-Type Activities

During the current fiscal year, the City's policy has been to record an allowance of .015% of sales. Total allowance as of June 30, 2019, is \$395,666.

NOTE 8. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2019, are as follows:

Governmental Activities	Balance 2018	Additions	Deletions	Transfers & Adjustments	Restatements	Balance 2019
Non-Depreciable Capital Assets						
Land	\$ 1,933,125	-	(105,952)	-	176,616	2,003,789
Construction in progress	1,985,250	1,236,172	-	-	(40,619)	3,180,803
Total non-depreciable capital assets	<u>3,918,375</u>	<u>1,236,172</u>	<u>(105,952)</u>	<u>-</u>	<u>135,997</u>	<u>5,184,592</u>
Capital Assets Being Depreciated						
Buildings	80,342,534	1,317,914	(2,555,621)	-	4,668,519	83,773,346
Improvements	521,259	-	(42,579)	-	-	478,680
Infrastructure	97,417,944	6,090,919	(188,180)	(208,671)	237,919	103,349,931
Equipment	26,116,495	2,208,238	(1,539,077)	-	(6,693)	26,778,963
Total capital assets being depreciated	<u>204,398,232</u>	<u>9,617,071</u>	<u>(4,325,457)</u>	<u>(208,671)</u>	<u>4,899,745</u>	<u>214,380,920</u>
Less Accumulated Depreciation For:						
Buildings	(32,346,643)	(2,890,959)	2,401,462	-	(1,964,411)	(34,800,551)
Improvements	(194,514)	(22,795)	15,808	-	-	(201,501)
Utility System & facilities	(35,317,348)	(2,479,875)	185,685	-	(143,418)	(37,754,956)
Equipment	(16,730,343)	(2,194,377)	1,359,112	-	(84,098)	(17,649,706)
Total accumulated depreciation	<u>(84,588,848)</u>	<u>(7,588,006)</u>	<u>3,962,067</u>	<u>-</u>	<u>(2,191,927)</u>	<u>(90,406,714)</u>
Total capital assets being depreciated, net	<u>119,809,384</u>	<u>2,029,065</u>	<u>(363,390)</u>	<u>(208,671)</u>	<u>2,707,818</u>	<u>123,974,206</u>
Total capital assets, net of depreciation	<u>\$ 123,727,759</u>	<u>3,265,237</u>	<u>(469,342)</u>	<u>(208,671)</u>	<u>2,843,815</u>	<u>129,158,798</u>

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Business-type Activities	Balance 2018	Additions	Deletions	Transfers & Adjustments	Restatements	Balance 2019
Non-Depreciable Capital Assets						
Land and water rights	\$ 1,316,182	-	-	-	(176,616)	1,139,566
Construction in progress	41,502,766	5,345,160	-	-	(27,152)	46,820,774
	<u>42,818,948</u>	<u>5,345,160</u>	<u>-</u>	<u>-</u>	<u>(203,768)</u>	<u>47,960,340</u>
Capital Assets Being Depreciated						
Buildings and improvements	47,571,593	59,476	-	-	(4,705,578)	42,925,491
Equipment	14,751,102	1,291,509	(546,258)	-	(328,371)	15,167,982
Utility system	55,121,381	659,197	-	208,671	(629,449)	55,359,800
Total capital assets being depreciated	117,444,076	2,010,182	(546,258)	208,671	(5,663,398)	113,453,273
Less Accumulated Depreciation For						
Buildings and improvements	(20,157,725)	(1,130,413)	-	-	1,964,411	(19,323,727)
Equipment	(10,390,384)	(1,429,475)	541,996	-	84,098	(11,193,765)
Utility system	(20,089,388)	(1,252,179)	-	-	143,418	(21,198,149)
Total accumulated depreciation	(50,637,497)	(3,812,067)	541,996	-	2,191,927	(51,715,641)
Total capital assets being depreciated, net	66,806,579	(1,801,885)	(4,262)	208,671	(3,471,471)	61,737,632
Total capital assets, net of depreciation	\$ <u>109,625,527</u>	<u>3,543,275</u>	<u>(4,262)</u>	<u>208,671</u>	<u>(3,675,239)</u>	<u>109,697,972</u>

Depreciation expense was charged to functions (programs) and funds as follows:

Governmental activities

General Government	\$ 1,759,258
Public Safety	1,780,168
Public Works	2,309,678
Culture & Recreation	1,694,955
Health & Welfare	43,947
Total governmental activities	\$ <u>7,588,006</u>

Business-type activities

Solid Waste	532,237
Joint Water and Sewer	3,215,277
Municipal Transit	64,553
Performing Arts Center	-
Cemetery	-
Total business-type activities	\$ <u>3,812,067</u>

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2019, consisted of the following:

Description	Governmental Activities	Business Type Activities
State tax payable	\$ 70,440	74,129

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NOTE 10. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2019, were as follows:

Governmental Activities	Balance 2018	Additions	Retirements	Transfer	Balance 2019	Amounts Due Within One Year
Notes payable	\$ 5,020,474		(447,665)		4,572,809	454,812
Bonds payable	4,145,000	-	(300,000)	-	3,845,000	315,000
Less net bond premium (discount)	(45,528)	411	-	-	(45,117)	-
Compensated absences	1,775,766	1,479,520	(1,279,114)	18,260	1,994,432	662,712
Net pension liability	49,200,951	10,899,145	(2,828,340)	146,745	57,418,501	-
Net OPEB liability	24,277,459	-	(693,661)	141,148	23,724,946	-
Governmental activities long-term liabilities	\$ 84,374,122	12,379,076	(5,548,780)	306,153	91,510,571	1,432,524

NMFA # 4—Note Payable—Aerial Platform Truck

On July 19, 2005, the City borrowed \$1,000,000 from the New Mexico Finance Authority. The note matures on May 1, 2020 and accrues interest at rates between 1.290% and 3.850% per annum. The proceeds of the loan were used for the acquisition of a fire pumper and an aerial (ladder) platform truck. The payments of principal and interest are paid from receipts of the City's annual state fire allotment, which totaled \$502,530 for the year ended June 30, 2019.

The annual requirements to amortize the loan outstanding as of June 30, 2019, including interest payments, are as follows:

	Principal	Interest	Total
2020	\$ 84,937	3,202	88,139
	\$ 84,937	3,202	88,139

NMFA # 15—Note Payable—Sports Complex Loan

On December 18, 2015, the City borrowed \$5,710,429 from the New Mexico Finance Authority for the purpose of financing the design and construction of various additions and expansions to the Bob Forrest Youth Sports Complex. The bond bears a blended interest rate of 2.464178% per annum and matures on May 1, 2030. The payment of principal, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from Municipal Infrastructure Gross Receipts Tax of .0625%, and Lodgers' Tax.

	Principal	Interest	Total
2020	\$ 369,875	105,861	475,736
2021	374,757	100,979	475,736
2022	380,566	95,170	475,736
2023	387,264	88,472	475,736
2024	394,854	80,882	475,736
2025-2029	2,119,617	259,063	2,378,680
Thereafter	460,939	14,796	475,735
	\$ 4,487,872	745,223	5,233,095

2009 Public Infrastructure Projects Bonds

On July 28, 2009, the City issued bonds in the amount of \$8,550,000 for the purposes of defraying the cost of public infrastructure projects. The bond bears interest at rates between 2.00% and 4.75% per annum and matures on June 1, 2029. The payment of principal, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from pledged gross receipts tax revenues, which totaled approximately \$71.1 million for the year ended June 30, 2019.

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The annual requirements to amortize the bonds outstanding as of June 30, 2019, including interest payments, are as follows:

	Principal	Premium (Discount)	Net Book Value	Interest	Total
2020	\$ 315,000	(1,912)	313,088	171,856	486,856
2021	325,000	(2,209)	322,791	159,256	484,256
2022	345,000	(1,784)	343,216	145,850	490,850
2023	355,000	(4,182)	350,818	131,187	486,187
2024	375,000	(4,320)	370,680	116,100	491,100
2025-2029	2,130,000	(30,710)	2,099,290	310,564	2,440,564
	\$ 3,845,000	(45,117)	3,799,883	1,034,813	4,879,813

Compensated Absences

City employees are entitled to certain compensated absences based on their employment classification and length of employment. A liability for unused vacation for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered.
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the general fund.

Business-Type Activities

Changes in the business-type activities obligations during the year ended June 30, 2019, were as follows:

Business-Type Activities	Balance 2018	Additions	Retirements	Transfer	Balance 2019	Amounts Due Within One-Year
Notes payable	\$ 36,891,448	-	(1,668,669)	-	35,222,779	1,699,009
Bonds payable	13,645,000	-	(95,000)	-	12,650,000	1,035,000
Less net bond premium (discount)	(149,305)	-	(7,505)	-	(156,810)	-
Landfill closure	414,075	87,212	-	-	501,287	-
Compensated absences	249,755	308,743	(245,695)	(18,260)	294,543	147,759
Net pension liability	7,161,553	1,700,890	(441,419)	(146,745)	8,274,279	-
Net OPEB liability	3,952,145	-	(108,260)	(141,148)	3,702,737	-
Business-type activities long-term liabilities	\$ 62,164,671	2,096,845	(3,466,548)	(306,153)	60,488,815	2,881,768

NMED—Note Payable—Wastewater Utility System Improvements

On April 29, 2010, the City entered into a clean water state revolving loan agreement with the New Mexico Environment Department, with a total maximum amount of \$18,000,000. As of June 30, 2018, the total balance for the loan totaled \$19,414,220 which includes interest that was rolled into the loan. The note is for twenty years and accrues interest at 2.00% per annum. The proceeds of the loan agreement will be used for improvements to the City's wastewater utility system. The payments of principal and interest will be paid with net revenues from the City's water and wastewater utility system activities, which was approximately \$13.8 million for the year ended June 30, 2019.

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The annual requirements to amortize this note outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	815,006	372,304	1,187,310
2021		831,306	356,004	1,187,310
2022		847,932	339,378	1,187,310
2023		864,891	322,419	1,187,310
2024		882,189	305,121	1,187,310
2025-2029		4,682,765	1,253,785	5,936,550
2030-2034		5,170,151	766,399	5,936,550
Thereafter		4,520,954	228,286	4,749,240
Total	\$	<u>18,615,195</u>	<u>3,943,695</u>	<u>22,558,890</u>

NMFA # 11—Note Payable—Drinking Water Loan

On November 22, 2013, the City entered into a drinking water state revolving loan fund agreement with the New Mexico Finance Authority, with a total amount of \$20,200,000 of which the loan portion of the agreement is a maximum of \$16,151,670. The note is for twenty years and accrues interest at 2.00% per annum. The proceeds of the loan agreement will be used for improvements to the City's Double Eagle water line system. The payments of principal and interest will be paid with net revenues from the City's water utility system activities, which was approximately \$13.8 million for the year ended June 30, 2019.

The annual requirements to amortize this note outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	672,917	288,174	961,091
2021		686,376	274,714	961,090
2022		700,103	260,988	961,091
2023		714,105	246,986	961,091
2024		728,387	232,704	961,091
2025-2029		3,866,369	939,084	4,805,453
2030-2034		4,268,783	536,668	4,805,451
Thereafter		2,771,676	111,596	2,883,272
Total	\$	<u>14,408,716</u>	<u>2,890,914</u>	<u>17,299,630</u>

NMFA # 10—Note Payable—Double Eagle Waterline Improvements

On June 18, 2010, the City entered into a water project loan and subsidy agreement with the New Mexico Water Trust Board, financed by the New Mexico Finance Authority, with a total amount of \$1,500,000, of which the loan portion of the agreement is a maximum of \$300,000. The note matures on June 1, 2030 and does not accrue interest. The note accrues an administrative fee of .25% per annum. The proceeds of the loan and subsidy agreement will be used for water line improvements to the Double Eagle system. The payments of principal and interest will be paid from net revenues from the City's water and wastewater utility system activities, which was approximately \$13.8 million for the year ended June 30, 2019.

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The annual requirements to amortize the loan outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Admin Fee</u>	<u>Total</u>
2020	\$	14,980	417	15,397
2021		15,017	380	15,397
2022		15,055	342	15,397
2023		15,092	305	15,397
2024		15,130	267	15,397
2025-2029		76,220	765	76,985
Thereafter		15,359	38	15,397
Total	\$	<u>166,853</u>	<u>2,514</u>	<u>169,367</u>

NMFA # 13—Note Payable—Solid Waste Grappler Trucks

On March 20, 2015, the City borrowed \$1,165,267 from the New Mexico Finance Authority. The note matures on May 1, 2025 and accrues interest at a rate of 1.449%. The proceeds of the loan were used for the purchase of new solid waste equipment, including grappler trucks. The payments of principal and interest are paid from the net revenues of the City's solid waste disposal activities, which was approximately \$6.4 million for the year ended June 30, 2019.

The annual requirements to amortize the loan outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	115,203	11,004	126,207
2021		116,332	9,760	126,092
2022		117,705	8,271	125,976
2023		119,317	6,540	125,857
2024		121,191	4,548	125,739
Thereafter		123,263	2,354	125,617
Total	\$	<u>713,011</u>	<u>42,477</u>	<u>755,488</u>

NMFA # 14—Note Payable—Water Storage/Conveyance

On May 1, 2015, the City entered into a water loan and subsidy agreement with the New Mexico Water Trust Board, financed by the New Mexico Finance Authority, with a total amount of \$1,500,000, of which the loan portion of the agreement is a maximum of \$600,000. The note matures on June 1, 2035 and does not accrue interest. The note accrues an administrative fee of .25% per annum. The proceeds of the loan and subsidy agreement will be used for water storage and conveyance. The payments of principal and interest will be paid from net revenues from the City's water and wastewater utility system activities, which was approximately \$13.8 million for the year ended June 30, 2019.

The annual requirements to amortize the loan outstanding as of June 30, 2018, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	29,594	1,206	30,800
2021		29,668	1,132	30,800
2022		29,742	1,058	30,800
2023		29,816	984	30,800
2024		29,891	909	30,800
2025-2029		150,580	3,420	154,000
2030-2034		152,471	1,529	154,000
Thereafter		30,723	77	30,800
Total	\$	<u>482,485</u>	<u>10,315</u>	<u>492,800</u>

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NMFA # 16—Note Payable—Water Conservation Recycle

On March 1, 2016, the City entered into a water loan and subsidy agreement with the New Mexico Water Trust Board, financed by the New Mexico Finance Authority, with a total amount of \$2,500,000, of which the loan portion of the agreement is a maximum of \$1,000,000. The note matures on June 1, 2035 and does not accrue interest. The note accrues an administrative fee of .25% per annum. The proceeds of the loan and subsidy agreement will be used for water conservation or recycling treatment or reuse of water as provided by law. The payments of principal and interest will be paid from net revenues from the City's water and wastewater utility system activities, which was approximately \$13.8 million for the year ended June 30, 2019.

The annual requirements to amortize the loan outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	51,309	2,091	53,400
2021		51,437	1,963	53,400
2022		51,566	1,834	53,400
2023		51,695	1,705	53,400
2024		51,824	1,576	53,400
2025-2029		261,071	5,929	267,000
2030-2034		264,350	2,650	267,000
Thereafter		53,267	133	53,400
Total	\$	<u>836,519</u>	<u>17,881</u>	<u>854,400</u>

2009 Advance Refunding Bonds

On March 12, 2009, the City issued bonds in the amount of \$21,440,000, which the City advance refunded \$13,705,000 of the outstanding series 1998 water and sewer revenue bonds with interest rates ranging between 4.00% and 4.75%. The City used the net proceeds, along with other resources, to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1998 water and sewer bonds.

As a result, that portion of the 1998 water and sewer bonds is considered defeased, and the City has removed the liability from its accounts. The advance refunding increased total debt service payments over the next fifteen years by \$208,770. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$426,168. The remaining portion of the bonds issued is for the purposes of the extension, enlargement, betterment, repair, and other improvements to the joint water and sewer system. The bond bears interest at rates between 3.00% through 5.00% per annum and matures on June 1, 2029. The payment of principal, premium, and interest thereon, whether at maturity or on a redemption date, are paid with income derived from the operation of the joint water and sewer system.

The annual requirements to amortize the bonds outstanding as of June 30, 2019, including interest payments, are as follows:

		<u>Principal</u>	<u>Premium (Discount)</u>	<u>Net Book</u>	<u>Interest</u>	<u>Total</u>
2020	\$	1,035,000	(768)	1,034,232	587,381	1,622,381
2021		1,075,000	(6,883)	1,068,117	545,981	1,620,981
2022		1,120,000	(12,167)	1,107,833	501,638	1,621,638
2023		1,170,000	(10,340)	1,159,660	454,038	1,624,038
2024		1,220,000	(16,371)	1,203,629	401,388	1,621,388
2025-2029		7,030,000	(110,281)	6,919,719	1,074,113	8,104,113
	\$	<u>12,650,000</u>	<u>(156,810)</u>	<u>12,493,190</u>	<u>3,564,539</u>	<u>16,214,539</u>

Landfill Closure and Post-Closure Costs

The City and Eddy County jointly own and operate a landfill. State and federal laws and regulations require that upon closing, the City and the County of Eddy place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure of the landfill

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site. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste.

Based on a joint powers agreement between the City and County of Eddy, the closure and post-closure care costs will be shared at 50% for each government. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during each year.

The estimated total current cost of the landfill closure and post-closure care of \$3,793,039 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2019. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in state and federal landfill laws and regulations. The estimated remaining site life is approximately 72 years.

The City is required by the state of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs. The following calculation details the current amount recognized for landfill closure and post closure care as of June 30, 2019:

Estimated landfill closure cost	\$ 2,529,649
Estimated landfill post-closure care cost	<u>1,263,390</u>
Total estimated closure and post-closure costs	<u>\$ 3,793,039</u>
FY19 tonnage received	123,893
conversion to compacted cubic yards in-place	<u>2</u>
Cubic yards	<u>\$ 247,786</u>
FY19 capacity used to date	3,437,626
FY18 tonnage received/capacity used	<u>247,786</u>
FY18 capacity used to date	<u>\$ 3,685,412</u>
Total capacity used to date (approximately 3,685,417 gate cubic yards) as a percentage of total capacity (13,943,056 gate cubic yards including expansion)	<u>26.43%</u>
Total estimated closure and post-closure costs	3,793,039
Total capacity used to date	<u>26.43%</u>
Estimated closure and post-closure care costs	<u>\$ 1,002,572</u>
Estimated closure and post-closure care costs	1,002,572
Prior year liability	<u>828,150</u>
Decrease in estimated liability	<u>\$ 174,422</u>
City of Carlsbad's portion (50%)	<u>\$ 87,212</u>
Prior year liability recognized	414,075
Increase/decrease in estimated liability	<u>87,212</u>
Estimated liability for the fiscal year ended June 30, 2019	<u>\$ 501,287</u>

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NOTE 11. RESTATEMENTS OF NET POSITION AND FUND BALANCES

After a review of the prior year's statements of financial position of the government-wide activities and the individual funds, the City has determined that errors existed in several of the statements. As a result, the following adjustments have been made to the beginning equity amounts of both the government-wide and the individual fund statements. An explanation of the restatements is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Individual Funds</u>
<u>Government-Wide Financial Statements</u>			
Capital assets were overstated in FY18	\$ (623,443)	-	-
Over-capitalization of expenditures in FY18	(200,676)	-	-
Business-type funds (Cemetery and Performing Arts) consolidated into the General Fund	3,124,693	-	-
<u>Major Funds</u>			
<u>Solid Waste Fund (22,24)</u>			
Capital assets were overstated in FY18	-	(173,520)	(173,520)
<u>Water & Sewer Fund (36)</u>			
Capital assets were overstated in FY18	-	(25,575)	
Over-capitalization of expenditures in FY18	-	(519,247)	
Total water & sewer			(544,822)
<u>Non-Major Funds</u>			
<u>Cemetery Fund (26)</u>			
Capital assets were overstated	-	(8,886)	
Consolidated into the General Fund	-	(955,372)	
Total cemetery			(964,258)
<u>Performing Arts Center Fund (18)</u>			
Consolidated into the General Fund	-	(2,169,321)	(2,169,321)
	\$ 2,300,574	(3,851,921)	(3,851,921)

NOTE 12. PENSION PLAN—PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

General Information about the Pension Plan

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

Benefits provided – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5%

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of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

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

Contributions – See PERA's publicly available financial report and comprehensive annual financial report obtained at <http://saonm.org/> using the Audit Report Search function for agency 366, for the employer and employee contribution rates in effect for fiscal year 2019.

The PERA coverage options that apply to the City are: Municipal General Division, Municipal Police Division, and Municipal Fire Division. Statutorily required contributions to the pension plan from the City were \$4,202,497 and employer paid member benefits that were "picked up" by the employer were \$0.00 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions; At June 30, 2019, the City reported a liability of \$65,692,779 for its proportionate share of the net pension liability. 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. At June 30, 2018, the City's proportion was 2.6528%, which was a decrease of 0.3867% from its proportion measured as of June 30, 2017.

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For PERA Fund Division; Municipal General Division, at June 30, 2019, the City reported a liability of \$31,195,445 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 1.9566%, which was a decrease of 0.1078% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized PERA Fund Division; Municipal General Division pension expense of \$4,466,809.

At June 30, 2019, the City reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Municipal General Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 901,612	819,027
Changes of assumptions	2,828,308	179,362
Net difference between projected and actual earnings on pension plan investments	2,313,612	-
Change in proportion and differences between the City contributions and proportionate share of contributions	1,321,100	233,693
The City contributions subsequent to the measurement date	1,678,684	-
Total	\$ 9,043,316	1,232,082

\$1,678,684 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:	Amount
2020	\$ 3,826,690
2021	1,551,843
2022	634,633
2023	119,384
2024	-
Thereafter	-
	\$ 6,132,550

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For PERA Fund Division; Municipal Police Division, at June 30, 2019, the City reported a liability of \$13,562,162 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 1.0917%, which was a decrease of 0.0917% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized PERA Fund Division; Municipal Police Division pension expense of \$1,715,312.

At June 30, 2019, the City reported PERA Fund Division; Municipal Police Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Municipal Police Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 663,940	1,344,362
Changes of assumptions	1,547,461	82,911
Net difference between projected and actual earnings on pension plan investments	933,270	-
Change in proportion and differences between the City contributions and proportionate share of contributions	348,461	385,974
The City contributions subsequent to the measurement date	845,507	-
Total	<u>\$ 4,338,639</u>	<u>1,813,247</u>

\$845,507 reported as deferred outflows of resources related to pensions resulting from the City 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:	Amount
2020	\$ 1,248,842
2021	195,436
2022	188,098
2023	47,509
2024	-
Thereafter	-
	<u>\$ 1,679,885</u>

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For PERA Fund Division; Municipal Fire Division, at June 30, 2019, the City reported a liability of \$20,935,172 for its proportionate share of the net pension liability. At June 30, 2018, the City's proportion was 3.2708%, which was a decrease of 0.1210% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized PERA Fund Division; Municipal Fire Division pension expense of \$2,507,053.

At June 30, 2019, the City reported PERA Fund Division; Municipal Fire Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Municipal Fire Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 336,434	1,526,796
Changes of assumptions	1,209,074	76,446
Net difference between projected and actual earnings on pension plan investments	734,142	-
Change in proportion and differences between the City contributions and proportionate share of contributions	616,379	530,961
The City contributions subsequent to the measurement date	958,406	-
Total	<u>\$ 3,854,435</u>	<u>2,134,203</u>

\$958,406 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:	Amount
2020	\$ 903,253
2021	(159,036)
2022	(17,556)
2023	35,165
2024	-
Thereafter	-
	<u>\$ 761,826</u>

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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:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	
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	2.5%, 2.75% 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:

All Funds - Asset Class	Allocation	Real Rate of Return
Global Equity	43.5%	7.48%
Risk Reduction & Mitigation	21.5%	2.37%
Credit Oriented Fixed Income	15.0%	5.47%
Real Assets to include Real Estate Equity	20.0%	6.48%
Total	<u>100.0%</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-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.

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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 -	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Municipal General Division	\$ 48,070,092	\$ 31,195,445	\$ 17,245,851
Municipal Police Division	\$ 20,853,040	\$ 13,562,162	\$ 7,618,369
Municipal Fire Division	\$ 27,946,863	\$ 20,935,172	\$ 15,191,136

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

Payable Changes in the Net Pension Liability. At June 30, 2019, the City reported a payable of \$144,250 for outstanding contributions due to NMPERA for the year ended June 30, 2019.

NOTE 13. STATE RETIREE HEALTH CARE PLAN CONTRIBUTIONS

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

The City’s contributions to the RHCA for the following years is identified below:

	2019	2018	2017
City Contributions	\$ <u>567,564</u>	\$ <u>539,021</u>	\$ <u>540,761</u>

NOTE 14. OPEB

General Information about the OPEB/RHCA

Plan description - Employees of the City are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

Benefits provided - The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

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Employees covered by benefit terms – At June 30, 2018, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership

Current retirees and surviving spouses	51,205
Inactive and eligible for deferred benefit	11,471
Current active members	93,349
	<u>156,025</u>

Active membership

State general	19,593
State police and corrections	1,886
Municipal general	17,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	<u>93,349</u>

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the City were \$570,016 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the City reported a liability of \$27,427,683 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2018. At June 30, 2018, the City’s proportion was 0.63076 percent.

For the year ended June 30, 2019, the City recognized OPEB income of \$527,624. At June 30, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	1,623,893
Changes of assumptions	-	5,120,627
Net difference between actual and projected earnings on OPEB plan investments	-	342,287
Change in proportion	358,977	
Contributions subsequent to the measurement date	567,564	-
Total	<u>\$ 926,541</u>	<u>7,086,807</u>

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Deferred outflows of resources totaling \$567,564 represent City contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended		Amount
June 30:		
2020	\$	(1,724,551)
2021		(1,724,551)
2022		(1,724,551)
2023		(1,314,468)
2024		(239,709)
Thereafter	\$	-

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions	
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Inflation	2.50% for ERB, 2.25% for PERA
Payroll growth	2.75% for first 9 years, then 3.25 annual rate
Projected payroll increases	3.25% to 12.50%, based on years of service, including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare and medical plans
Mortality	ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members : RP-2000 Combined Healthy Mortality

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

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The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	2.10%
U.S. equity - large cap	7.10%
Non U.S. - emerging markets	10.20%
Non U.S. - developed equities	7.80%
Private equity	11.80%
Credit and structured finance	5.30%
Real estate	4.90%
Absolute return	4.10%
U.S. equity - small/mid cap	7.10%

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 4.08% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2029. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 4.08% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08 percent) or 1-percentage-point higher (5.08 percent) than the current discount rate:

<u>1% Decrease (3.08%)</u>	<u>Current Discount (4.08%)</u>	<u>1% Increase (5.08%)</u>
\$ 33,193,955	\$ 27,427,683	\$ 22,882,575

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
\$ 23,186,008	\$ 27,427,683	\$ 30,753,251

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2018.

Payable Changes in the Net OPEB Liability. At June 30, 2019, the City reported a payable of \$22,710 for outstanding contributions due to NMRHCA for the year ended June 30, 2019.

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NOTE 15. COMMITMENTS

The City has the following construction projects, which are evidenced by contractual arrangements with construction contractors, as of June 30, 2019:

Commitments of Governmental-type Activities

Project	Contract Amount	Spent to Date	Commitment Remaining	Percentage Complete
CO-Tyler-Munis	\$ 581,443	24,053	557,390	4%
CO-Tyler-New World Public Safety	105,156	41,712	63,444	40%
CO-Water Meters	40,477	5,203	35,274	13%
CO-Engineering Upper Dam	100,002	19,447	80,555	19%
CO-Land Acquisition	25,106	5,106	20,000	20%
CO-Fiber Network	285,181	185,181	100,000	65%
CO-Fencing-Airport	600,525	551,721	48,803	92%
CO-Flooring-Cemetery	32,571	15,571	17,000	48%
CO-Fire Station 6	2,617,285	355	2,616,930	0%
CO-Health Facility	1,004,268	60,808	943,460	6%
CO-Remediation Cavern Theater	1,330,301	1,268,321	61,980	95%
CO-Potash Park	153,406	30,309	123,097	20%
CO-Standpipe	375,577	107,587	267,990	29%
CO-Boyd/Hidalgo Intersection	100,000	31,811	68,189	32%
CO-Callaway Dr	53,515	33,515	20,000	63%
CO-Sidewalks	72,406	59,757	12,649	83%
CO-Annual Street Maintenance	952,579	531,801	420,778	56%
CO-Soccer Lighting	211,597	208,543	3,054	99%
	<u>\$ 8,641,396</u>	<u>3,180,803</u>	<u>5,460,593</u>	

Commitments of Business-type Activities

Project	Contract Amount	Spent to Date	Commitment Remaining	Percentage Complete
CO-Van	\$ 377,902	257,120	120,782	68%
CO-W&S Line Extension/Upgrades	572,720	272,720	300,000	48%
CO-Well Rehabilitation	120,671	70,671	50,000	59%
CO-Reservoir #2	4,193,159	2,412,330	1,780,829	58%
CO-Sewer Line Extension	3,117,729	2,817,729	300,000	90%
CO-DE Extension	46,577,057	38,016,172	8,560,886	82%
CO-Well Rehabilitation DE	2,654,193	2,598,986	55,207	98%
CO-Tatum Wellfield	418,886	217,687	201,199	52%
CO-Well Rehab #9	205,239	157,360	47,879	77%
	<u>\$ 58,237,556</u>	<u>46,820,774</u>	<u>11,416,782</u>	

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Operating Lease Commitments

The City is the lessee in various operating type leases involving copiers, scanners, and grounds maintenance equipment due in either monthly or quarterly payments. The leases expire in various years through fiscal year 2022. Total operating lease expense for the year ended June 30, 2019 was approximately \$404,911 and was apportioned between governmental and business type activities.

Year Ended		Amount
June 30,		
2020	\$	356,551
2021		259,566
2022		100,917
2023		5,158
2024		-
	\$	<u>722,191</u>

NOTE 16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other local governments in the state and obtained insurance through the New Mexico Self-Insured Fund, a public entity risk pool currently operates as a common risk management and insurance program for local governments. The City pays an annual premium to New Mexico Self Insured Fund for its general insurance coverage, and all risk of loss is transferred.

The City maintains a self-insurance program for workers' compensation and employee health benefits. These programs are accounted for in the Internal Service Funds. Funding is provided by charging the other funds as costs are incurred for workers' compensation benefits and charging an estimated premium based on a minimum plan for employees' health benefits. Management does not have the information available to make a reasonable estimate of the amount of incurred but unreported claims and other outstanding liabilities of the plans; accordingly, no liability has been recorded.

NOTE 17. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 18. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

1. Deficit Fund Balance/Net Position of Individual Funds:

Governmental		Amount
Airport Fund	\$	(238,415)
Law Enforcement Protection Fund	\$	(1,015)
Proprietary		
Municipal Transit Fund	\$	(198,675)

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

2. Excess of Expenditures Over Appropriations

There were no funds that exceeded approved budgetary authority for the year ended June 30, 2019.

3. Designated Cash Appropriations

There were no funds that exceeded approved designated cash appropriations for the year ended June 30, 2019.

NOTE 19. INTERFUND TRANSFERS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend. Transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are also used to account for proper capitalization of assets with the governmental and business type activities.

		Transfers In							
		General	CIEP	Solid	Joint	Other	Other	Internal	
		Fund	Fund	Waste	Water &	Governmental	Enterprise	Service	Total
		Fund	Fund	Fund	Sewer	Funds	Funds	Funds	
Transfers Out	General Fund	\$ -	12,195,000	-	-	1,570,100	659,256	5,056,900	19,481,256
	CIEP Fund	-	-	-	-	-	-	-	-
	Solid Waste Fund	-	-	537,322	-	-	-	90,000	627,322
	Joint Water & Sewer Fund	-	-	-	2,476,757	-	-	381,000	2,857,757
	Other Governmental Funds	78,000	-	-	5,407,643	1,047,171	-	-	6,532,814
	Other Enterprise Funds	278,784	-	-	-	-	-	22,000	300,784
	Internal Service Funds	1,026,755	-	68,974	147,666	17,746	28,050	-	1,289,191
	GW fixed asset	-	-	-	208,671	-	-	-	208,671
	\$	1,383,539	12,195,000	606,296	8,240,737	2,635,017	687,306	5,549,900	31,297,795

NOTE 20. DUE TO/FROM

The City records temporary interfund receivables and payables to enable funds to operate until funds can be repaid. All interfund balances are to be repaid within one year.

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General Fund	Airport Fund	\$ 100,509

NOTE 21. GASB 77 DISCLOSURE

The City has no tax abatement agreements as of June 30, 2019, and therefore no disclosures under GASB 77 are required.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEETS
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2019**

	Special Revenue Funds								Total Special Revenue Funds
	Fire Protection Fund (20)	Lodgers' Tax Fund (21,23)	Airport Fund (25)	Emergency Medical Services Fund (31)	Local Government Corrections Fund (32)	Law Enforcement Protection Fund (34)	Sports Complex Fund (29,68)	Community Development Fund (80)	
Assets									
Cash	\$ 465,691	5,368,526	-	197	328,586	-	2,028,435	100	8,191,535
Receivables, net	-	355,652	283,395	-	-	-	505,740	-	1,144,787
Restricted assets:									
Cash held by fiscal agent	-	-	-	-	-	-	311,662	-	311,662
Total assets	\$ 465,691	5,724,178	283,395	197	328,586	-	2,845,837	100	9,647,984
Liabilities									
Accounts payable	\$ 355	105,954	421,301	-	27,170	1,015	24,974	-	580,769
Accrued salaries	-	-	-	-	-	-	20,521	-	20,521
Due to other funds	-	-	100,509	-	-	-	-	-	100,509
Total liabilities	355	105,954	521,810	-	27,170	1,015	45,495	-	701,799
Fund Balances									
Restricted for:									
Public safety	-	-	-	-	301,416	-	-	100	301,516
Sports complex activities	-	-	-	-	-	-	2,800,342	-	2,800,342
State mandated per statutes	465,336	5,618,224	-	197	-	-	-	-	6,083,757
Committed for:									
Subsequent years' expenditures	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	(238,415)	-	-	(1,015)	-	-	(239,430)
Total fund balances	465,336	5,618,224	(238,415)	197	301,416	(1,015)	2,800,342	100	8,946,185
Total liabilities, deferred inflows of resources and fund balances	\$ 465,691	5,724,178	283,395	197	328,586	-	2,845,837	100	9,647,984

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEETS
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2019**

	Capital Project Funds				Debt Service Funds			Total Other Governmental Funds
	GRT Capital Outlay (02)	Park Improvement Fund (40)	Street System Improvement Fund (44)	Total Capital Project Funds	GRT Capital Outlay Fund (54)	NMFA Loan Fund (51)	Total Debt Service Funds	
Assets								
Cash	\$ 2,478,798	25,153	1,782,202	4,286,153	40,322	-	40,322	12,518,010
Receivables, net	959,661	3,265	77,357	1,040,283	-	-	-	2,185,070
Restricted assets:				-				
Cash held by fiscal agent	-	-	-	-	-	88,715	88,715	400,377
Total assets	<u>\$ 3,438,459</u>	<u>28,418</u>	<u>1,859,559</u>	<u>5,326,436</u>	<u>40,322</u>	<u>88,715</u>	<u>129,037</u>	<u>15,103,457</u>
Liabilities								
Accounts payable	\$ 24,364	-	321,149	345,513	-	-	-	926,282
Accrued salaries	-	-	-	-	-	-	-	20,521
Total liabilities	<u>24,364</u>	<u>-</u>	<u>321,149</u>	<u>345,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,047,312</u>
Fund Balances								
Restricted for:								
Public safety	-	-	-	-	-	-	-	301,516
Sports complex activities	-	-	-	-	-	-	-	2,800,342
State mandated per statutes	-	-	-	-	-	-	-	6,083,757
Committed for:								
Subsequent years' expenditures	-	-	-	-	-	-	-	-
Assigned	3,414,095	28,418	1,538,410	4,980,923	40,322	88,715	129,037	5,109,960
Unassigned	-	-	-	-	-	-	-	(239,430)
Total fund balances	<u>3,414,095</u>	<u>28,418</u>	<u>1,538,410</u>	<u>4,980,923</u>	<u>40,322</u>	<u>88,715</u>	<u>129,037</u>	<u>14,056,145</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,438,459</u>	<u>28,418</u>	<u>1,859,559</u>	<u>5,326,436</u>	<u>40,322</u>	<u>88,715</u>	<u>129,037</u>	<u>15,103,457</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Special Revenue Funds								Total Special Revenue Funds
	Fire Protection Fund (20)	Lodgers' Tax Fund (21,23)	Airport Fund (25)	Emergency Medical Services Fund (31)	Local Government Corrections Fund (32)	Law Enforcement Protection Fund (34)	Sports Complex Fund (29,68)	Community Development Fund (80)	
Revenues									
Gross receipts taxes	\$ -	-	-	-	-	-	2,703,655	-	2,703,655
Lodgers' taxes	-	4,120,937	-	-	-	-	-	-	4,120,937
Intergovernmental:									
Federal	-	-	266,699	-	-	-	-	-	266,699
State	502,530	-	16,696	20,000	-	63,000	-	-	602,226
Charges for services	-	-	12,846	-	-	-	14,033	-	26,879
Donations	-	-	98,229	-	-	-	-	-	98,229
Fines and forfeitures	-	-	-	-	148,300	-	-	-	148,300
Interest	-	-	-	-	-	-	6,250	-	6,250
Total revenues	<u>502,530</u>	<u>4,120,937</u>	<u>394,470</u>	<u>20,000</u>	<u>148,300</u>	<u>63,000</u>	<u>2,723,938</u>	<u>-</u>	<u>7,973,175</u>
Expenditures									
Current:									
Public safety	88	-	36,369	13,033	374,497	64,015	-	-	488,002
Culture and recreation	-	1,253,527	-	-	-	-	1,087,090	-	2,340,617
Capital outlay	72,053	1,161,633	1,014,877	26,770	-	-	430,071	-	2,705,404
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-	-
Total expenditures	<u>72,141</u>	<u>2,415,160</u>	<u>1,051,246</u>	<u>39,803</u>	<u>374,497</u>	<u>64,015</u>	<u>1,517,161</u>	<u>-</u>	<u>5,534,023</u>
Excess (deficiency) of revenues over expenditures	430,389	1,705,777	(656,776)	(19,803)	(226,197)	(1,015)	1,206,777	-	2,439,152
Other Financing Sources (Uses)									
Transfers in	-	100,000	150,000	20,000	300,000	-	17,746	100	587,846
Transfers (out)	(87,578)	(78,000)	-	-	-	-	(475,736)	-	(641,314)
Total other financing sources (uses)	<u>(87,578)</u>	<u>22,000</u>	<u>150,000</u>	<u>20,000</u>	<u>300,000</u>	<u>-</u>	<u>(457,990)</u>	<u>100</u>	<u>(53,468)</u>
Special Item									
Proceeds from sale of assets	-	-	-	-	-	-	1,440	-	1,440
Net change in fund balance	342,811	1,727,777	(506,776)	197	73,803	(1,015)	750,227	100	2,387,124
Fund balance, beginning of year	122,525	3,890,447	268,361	-	227,613	-	2,050,115	-	6,559,061
Fund balance, end of year	<u>\$ 465,336</u>	<u>5,618,224</u>	<u>(238,415)</u>	<u>197</u>	<u>301,416</u>	<u>(1,015)</u>	<u>2,800,342</u>	<u>100</u>	<u>8,946,185</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Capital Project Funds				Debt Service Funds			Total Other Governmental Funds
	GRT Capital Outlay (02)	Park Improvement Fund (40)	Street System Improvement Fund (44)	Total Capital Project	GRT Capital Outlay Fund (54)	NMFA Loan Fund (51)	Total Debt Service	
Revenues								
Gross receipts taxes	\$ 5,228,892	-	-	5,228,892	-	-	-	7,932,547
Lodgers' taxes	-	-	-	-	-	-	-	4,120,937
Public service taxes	-	-	809,036	809,036	-	-	-	809,036
Intergovernmental:								
Federal	-	-	-	-	-	-	-	266,699
State	-	16,738	50,385	67,123	-	-	-	669,349
Charges for services	-	-	-	-	-	-	-	26,879
Donations	-	-	-	-	-	-	-	98,229
Licenses and permits	-	-	96,641	96,641	-	-	-	96,641
Fines and forfeitures	-	-	-	-	-	-	-	148,300
Interest	4,328	-	3,008	7,336	-	5,787	5,787	19,373
Total revenues	<u>5,233,220</u>	<u>16,738</u>	<u>959,070</u>	<u>6,209,028</u>	<u>-</u>	<u>5,787</u>	<u>5,787</u>	<u>14,187,990</u>
Expenditures								
Current:								
General government	195,262	-	-	195,262	-	-	-	195,262
Public safety	-	-	-	-	-	-	-	488,002
Culture and recreation	-	17,139	-	17,139	-	-	-	2,357,756
Capital outlay	2,558,977	-	2,472,794	5,031,771	-	-	-	7,737,175
Debt service:								
Principal	-	-	-	-	300,000	447,665	747,665	747,665
Interest and other charges	-	-	-	-	183,857	116,414	300,271	300,271
Total expenditures	<u>2,754,239</u>	<u>17,139</u>	<u>2,472,794</u>	<u>5,244,172</u>	<u>483,857</u>	<u>564,079</u>	<u>1,047,936</u>	<u>11,826,131</u>
Excess (deficiency) of revenues over expenditures	2,478,981	(401)	(1,513,724)	964,856	(483,857)	(558,292)	(1,042,149)	2,361,859
Other Financing Sources (Uses)								
Transfers in	-	-	1,000,000	1,000,000	483,857	563,314	1,047,171	2,635,017
Transfers (out)	(5,891,500)	-	-	(5,891,500)	-	-	-	(6,532,814)
Total other financing sources (uses)	<u>(5,891,500)</u>	<u>-</u>	<u>1,000,000</u>	<u>(4,891,500)</u>	<u>483,857</u>	<u>563,314</u>	<u>1,047,171</u>	<u>(3,897,797)</u>
Special Item								
Proceeds from sale of assets	-	-	3,600	3,600	-	-	-	5,040
Net change in fund balance	(3,412,519)	(401)	(510,124)	(3,923,044)	-	5,022	5,022	(1,530,898)
Fund balance, beginning of year	6,826,614	28,819	2,048,534	8,903,967	40,322	83,693	124,015	15,587,043
Fund balance, end of year	<u>\$ 3,414,095</u>	<u>28,418</u>	<u>1,538,410</u>	<u>4,980,923</u>	<u>40,322</u>	<u>88,715</u>	<u>129,037</u>	<u>14,056,145</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF NET POSITION
OTHER ENTERPRISE FUNDS
AS OF JUNE 30, 2019**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Assets					
Current assets:					
Cash	\$ 15,595	203,422	-	-	219,017
Receivables, net	-	103,514	-	-	103,514
Total current assets	<u>15,595</u>	<u>306,936</u>	-	-	<u>322,531</u>
Noncurrent Assets					
Capital assets:					
Land and construction in progress	-	315,880	-	-	315,880
Other capital assets, net of accumulated depreciation	-	767,975	-	-	767,975
Total noncurrent assets	-	<u>1,083,855</u>	-	-	<u>1,083,855</u>
Deferred Outflows of Resources					
Pensions related	-	225,621	-	-	225,621
OPEB related	-	18,531	-	-	18,531
Total deferred outflows of resources	-	<u>244,152</u>	-	-	<u>244,152</u>
Total assets and deferred outflow of resources	<u>\$ 15,595</u>	<u>1,634,943</u>	<u>-</u>	<u>-</u>	<u>1,650,538</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 430	8,174	-	-	8,604
Accrued salaries	-	30,369	-	-	30,369
Accrued liabilities	17	-	-	-	17
Current maturities of:					
Compensated absences	-	28,799	-	-	28,799
Total current liabilities	<u>447</u>	<u>67,342</u>	-	-	<u>67,789</u>
Noncurrent Liabilities					
Compensated absences	-	19,105	-	-	19,105
Net pension liability	-	954,971	-	-	954,971
Net OPEB liability	-	548,554	-	-	548,554
Total noncurrent liabilities	-	<u>1,522,630</u>	-	-	<u>1,522,630</u>
Total liabilities	<u>447</u>	<u>1,589,972</u>	-	-	<u>1,590,419</u>
Deferred Inflows of Resources					
Pensions related	-	101,910	-	-	101,910
OPEB related	-	141,736	-	-	141,736
Total deferred inflows of resources	-	<u>243,646</u>	-	-	<u>243,646</u>
Net Position					
Net investment in capital assets	-	1,083,855	-	-	1,083,855
Unrestricted	15,148	(1,282,530)	-	-	(1,267,382)
Total net position	<u>15,148</u>	<u>(198,675)</u>	-	-	<u>(183,527)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,595</u>	<u>1,634,943</u>	<u>-</u>	<u>-</u>	<u>1,650,538</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Operating Revenues:					
Charges for services	\$ 3,060	82,227	-	-	85,287
Operating Expenses:					
Personnel services	-	1,040,452	-	-	1,040,452
Utilities	-	11,340	-	-	11,340
Contractual services	74	3,841	-	-	3,915
Repairs and maintenance	-	45,612	-	-	45,612
Other operating expenses	8,369	88,561	1	-	96,931
Depreciation expense	-	64,553	-	-	64,553
Total operating expenses	<u>8,443</u>	<u>1,254,359</u>	<u>1</u>	<u>-</u>	<u>1,262,803</u>
Operating income (loss)	<u>(5,383)</u>	<u>(1,172,132)</u>	<u>(1)</u>	<u>-</u>	<u>(1,177,516)</u>
Non-Operating Revenues (Expenses):					
Intergovernmental	-	399,230	-	-	399,230
Miscellaneous	744	-	-	-	744
Gain (loss) on sale of assets	-	2,000	-	-	2,000
Total non-operating revenues (expenses)	<u>744</u>	<u>401,230</u>	<u>-</u>	<u>-</u>	<u>401,974</u>
Income (loss) before capital contributions and transfers	(4,639)	(770,902)	(1)	-	(775,542)
Capital Contributions and Transfers:					
Transfers in	-	678,050	332	8,924	687,306
Transfers (out)	-	(22,000)	(87,853)	(190,931)	(300,784)
Total capital contributions and transfers	<u>-</u>	<u>656,050</u>	<u>(87,521)</u>	<u>(182,007)</u>	<u>386,522</u>
Change in net position	(4,639)	(114,852)	(87,522)	(182,007)	(389,020)
Net position, beginning of year	<u>19,787</u>	<u>(83,823)</u>	<u>2,256,843</u>	<u>1,146,265</u>	<u>3,339,072</u>
Restatement	-	-	(2,169,321)	(964,258)	(3,133,579)
Net position, beginning of year restated	<u>19,787</u>	<u>(83,823)</u>	<u>87,522</u>	<u>182,007</u>	<u>205,493</u>
Net position, end of year	<u>\$ 15,148</u>	<u>(198,675)</u>	<u>-</u>	<u>-</u>	<u>(183,527)</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Cash Flows From Operating Activities					
Cash received from customers	\$ 3,060	109,597	-	-	112,657
Cash payments to suppliers for goods and services	(8,013)	(148,314)	(332)	(8,924)	(165,583)
Cash payments to employees for services	-	(948,393)	-	-	(948,393)
Net cash (used) by operating activities	(4,953)	(987,110)	(332)	(8,924)	(1,001,319)
Cash Flows for Non-Capital and Financing Activities					
Cash received from intergovernmental sources	-	399,230	-	-	399,230
Miscellaneous revenues	744	-	-	-	744
Net transfers in (out)	-	656,050	(87,521)	(182,007)	386,522
Net cash provided by non-capital and financing activities	744	1,055,280	(87,521)	(182,007)	786,496
Cash Flows From Capital and Related Financing Activities:					
Transfers in/out of debt	-	-	-	-	-
Transfers in/out of capital assets	-	-	-	-	-
Acquisition of capital assets	-	(16,008)	-	-	(16,008)
Net cash (used) by capital and related financing activities	-	(16,008)	-	-	(16,008)
Net increase (decrease) in cash	(4,209)	52,162	(87,853)	(190,931)	(230,831)
Cash and cash equivalents, beginning of year	19,804	151,260	87,853	190,931	449,848
Cash and cash equivalents, end of year	\$ 15,595	203,422	-	-	219,017
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating (loss)	\$ (5,383)	(1,172,132)	(1)	-	(1,177,516)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	-	64,553	-	-	64,553
OPEB expense/revenue	-	(10,552)	-	-	(10,552)
Pension expense	-	104,274	-	-	104,274
(Gain)/loss on disposal of assets	-	2,000	-	-	2,000
Change in Assets and Liabilities:					
(Increase) decrease in accounts receivable	-	27,370	-	-	27,370
Increase (decrease) in accounts payable	430	1,040	(331)	(8,924)	(7,785)
Increase (decrease) in accrued salaries	-	11	-	-	11
Increase (decrease) in compensated absences	-	(3,674)	-	-	(3,674)
Total adjustments	430	185,022	(331)	(8,924)	176,197
Net cash (used) by operating activities	\$ (4,953)	(987,110)	(332)	(8,924)	(1,001,319)

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AS OF JUNE 30, 2019**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Assets				
Current assets:				
Cash	\$ 1,052,089	2,399,389	3,710,175	7,161,653
Receivables, net	-	-	-	-
Total current assets	<u>1,052,089</u>	<u>2,399,389</u>	<u>3,710,175</u>	<u>7,161,653</u>
Noncurrent assets				
Restricted cash	1,020,503	462,466	-	1,482,969
Total assets	<u>\$ 2,072,592</u>	<u>2,861,855</u>	<u>3,710,175</u>	<u>8,644,622</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 863	41,613	-	42,476
Net Position				
Unrestricted	<u>2,071,729</u>	<u>2,820,242</u>	<u>3,710,175</u>	<u>8,602,146</u>
Total liabilities and net position	<u>\$ 2,072,592</u>	<u>2,861,855</u>	<u>3,710,175</u>	<u>8,644,622</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Operating Revenues				
Charges for services	\$ -	6,511,917	-	6,511,917
Operating Expenses				
Personal services	-	-	-	-
Utilities	-	-	-	-
Contractual services	-	-	1,355,544	1,355,544
Insurance claims and expenses	-	4,888,783	-	4,888,783
Other supplies and expenses	1,851,827	-	-	1,851,827
Depreciation and amortization	-	-	-	-
Total operating expenses	<u>1,851,827</u>	<u>4,888,783</u>	<u>1,355,544</u>	<u>8,096,154</u>
Operating (loss)	<u>(1,851,827)</u>	<u>1,623,134</u>	<u>(1,355,544)</u>	<u>(1,584,237)</u>
Non-Operating Revenues (Expenses):				
Intergovernmental	-	-	-	-
Miscellaneous revenue	42,311	-	-	42,311
Investment income	11,040	12,006	-	23,046
Income (loss) before transfers	<u>(1,798,476)</u>	<u>1,635,140</u>	<u>(1,355,544)</u>	<u>(1,518,880)</u>
Transfers				
Transfers in	1,384,900	-	4,165,000	5,549,900
Transfers (out)	-	(1,289,191)	-	(1,289,191)
Total transfers	<u>1,384,900</u>	<u>(1,289,191)</u>	<u>4,165,000</u>	<u>4,260,709</u>
Change in net position	(413,576)	345,949	2,809,456	2,741,829
Net position, beginning of year	2,485,305	2,474,293	900,719	5,860,317
Net position, end of year	<u>\$ 2,071,729</u>	<u>2,820,242</u>	<u>3,710,175</u>	<u>8,602,146</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Cash Flows From Operating Activities				
Internal activity - receipts from other funds	\$ -	6,511,917	-	6,511,917
Cash payments to suppliers for goods and services	(1,870,312)	(4,847,170)	(1,355,544)	(8,073,026)
Net cash provided (used) by operating activities	(1,870,312)	1,664,747	(1,355,544)	(1,561,109)
Cash Flows From Non-Capital Activities				
Miscellaneous revenue	42,311	-	-	42,311
Net transfers in (out)	1,384,900	(1,289,191)	4,165,000	4,260,709
Cash Flows From Investing Activities				
Investment income	11,040	12,006	-	23,046
Net increase (decrease) in cash	(432,061)	387,562	2,809,456	2,764,957
Cash and cash equivalents, beginning of year	2,504,653	2,474,293	900,719	5,879,665
Cash and cash equivalents, end of year	\$ 2,072,592	2,861,855	3,710,175	8,644,622
Displayed as				
Cash	\$ 1,052,089	2,399,389	3,710,175	7,161,653
Restricted cash	1,020,503	462,466	-	1,482,969
	\$ 2,072,592	2,861,855	3,710,175	8,644,622
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating (loss)	(1,851,827)	1,623,134	(1,355,544)	(1,584,237)
Adjustment to Reconcile Operating Income To Net Cash Provided by Operating Activities:				
Change in Assets and Liabilities				
Increase (decrease) in accounts payable	(18,485)	41,613	-	23,128
Total adjustments	(18,485)	41,613	-	23,128
Net cash (used) by operating activities	\$ (1,870,312)	1,664,747	(1,355,544)	(1,561,109)

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Balance June 30, 2018	Increases / Receipts	Decreases / Disbursements	Balance June 30, 2019
Municipal Court Bond Trust Fund				
Cash	\$ 32,323	18,803	11,416	39,710
Due to others	\$ 32,323	18,803	11,416	39,710
U.S. Department of Energy Fund (WIPP Acceleration)				
Cash	\$ 100	-	-	100
Note receivable	270,100	186,075	366,175	90,000
Total assets	270,200	186,075	366,175	90,100
Due to others	\$ 270,200	186,075	366,175	90,100
Combined Agency Funds				
Cash	\$ 32,423	18,803	11,416	39,810
Note receivable	270,100	186,075	366,175	90,000
Total assets	302,523	204,878	377,591	129,810
Due to others	\$ 302,523	204,878	377,591	129,810

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF CARLSBAD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
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>
	Measurement Date as of				
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
The City's proportion of the net pension liability (asset) (%)					
Municipal General	1.9566%	1.8488%	1.8910%	1.8023%	1.6672%
Municipal Police	1.9877%	2.0794%	2.0286%	1.8730%	1.7809%
Municipal Fire	3.2708%	3.3918%	3.3058%	3.0425%	2.8478%
	<u>2.6258%</u>	<u>2.2391%</u>	<u>2.2391%</u>	<u>2.1366%</u>	<u>2.0150%</u>
The City's proportionate share of the net pension liability (asset) (\$)					
Municipal General	\$ 31,195,445	25,404,076	30,211,818	18,376,011	13,005,949
Municipal Police	13,562,162	11,552,430	14,967,615	9,006,434	5,805,215
Municipal Fire	20,935,172	19,405,998	22,053,047	15,702,896	11,886,699
	<u>\$ 65,692,779</u>	<u>56,362,504</u>	<u>67,232,480</u>	<u>43,085,341</u>	<u>30,697,863</u>
The City's covered payroll					
Municipal General	\$ 16,503,581	16,622,262	16,151,288	14,920,209	16,001,413
Municipal Police	4,200,180	4,285,593	4,056,254	3,670,508	4,645,008
Municipal Fire	4,156,273	4,110,199	3,853,487	3,465,760	4,339,740
	<u>\$ 24,860,034</u>	<u>25,018,053</u>	<u>24,061,029</u>	<u>22,056,477</u>	<u>24,986,161</u>
The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll					
Municipal General	189.02%	152.83%	187.06%	123.16%	81.28%
Municipal Police	322.89%	269.56%	369.00%	245.37%	124.98%
Municipal Fire	503.70%	472.14%	572.29%	453.09%	273.90%
Plan fiduciary net position as a percentage of the total pension liability					
Municipal General	71.13%	73.74%	69.18%	76.99%	81.29%
Municipal Police	71.13%	73.74%	69.18%	76.99%	81.29%
Municipal Fire	71.13%	73.74%	69.18%	76.99%	81.29%

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF CARLSBAD'S CONTRIBUTIONS
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>
Statutory required contribution					
Municipal General	\$ 1,678,684	1,576,092	1,587,426	1,542,448	1,424,880
Municipal Police	845,507	793,834	809,977	766,632	693,726
Municipal Fire	958,406	899,833	889,858	834,280	750,337
	<u>\$ 3,482,597</u>	<u>3,269,759</u>	<u>3,287,261</u>	<u>3,143,360</u>	<u>2,868,943</u>
Contributions in relation to the statutorily required contribution					
Municipal General	\$ 1,678,684	1,576,092	1,587,426	1,542,448	1,424,880
Municipal Police	845,507	793,834	809,977	766,632	693,726
Municipal Fire	958,406	899,833	889,858	834,280	750,337
	<u>\$ 3,482,597</u>	<u>3,269,759</u>	<u>3,287,261</u>	<u>3,143,360</u>	<u>2,868,943</u>
Contribution deficiency (excess)					
Municipal General	\$ -	-	-	-	-
Municipal Police	-	-	-	-	-
Municipal Fire	-	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

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

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF CARLSBAD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST 10 FISCAL YEARS***

	<u>2019</u>	<u>2018</u>
	<u>Measurement Date as of:</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
The City's proportion of the net OPEB liability (%)	0.63076%	0.62294%
The City's proportionate share of OPEB liability (\$)	\$ 27,427,683	28,229,604
The City's covered payroll	\$ 27,063,494	25,949,484
The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	101.35%	108.79%
Plan fiduciary net position as a percentage of the total pension liability	13.14%	11.34%

*This schedule is presented to illustrate the requirement to show information for 10 years; However, until a full 10-year trend is compiled, the statement only requires presentation of information for available years.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2019**

Changes in benefit provisions. There were no modifications to the benefit provisions as this is the second year of adoption of the OPEB accounting standard.

Changes in assumptions and methods. There were no modifications to the assumptions and methods as this is the second year of adoption of the OPEB accounting standard.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF CARLSBAD'S CONTRIBUTIONS
OPEB**

	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 985,668	1,978,127
Contributions in relation to the contractually required contribution	973,633	992,799
Contribution deficiency (excess)	<u>\$ 12,035</u>	<u>985,328</u>
The City's covered payroll	\$ 27,063,494	25,949,484
Contributions as a percentage of covered payroll	3.60%	3.83%

*This schedule is presented to illustrate the requirement to show information for 10 years; However, until a full 10-year trend is compiled, the statement only requires presentation of information for available years.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2019**

Changes in benefit provisions. There were no modifications to the benefit provisions as this is the second year of adoption of the OPEB accounting standard.

Changes in assumptions and methods. There were no modifications to the assumptions and methods as this is the second year of adoption of the OPEB accounting standard.

OTHER SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
Carlsbad National Bank P.O. Box 1359 Carlsbad, New Mexico 88221-1359				
Health Insurance	Checking	\$ 2,399,389	-	2,399,389
Payroll Account	Checking	87,195	(33,977)	53,218
Debt Service Account	Checking	509,501	-	509,501
Municipal Court	Checking	40,008	(299)	39,709
Worker's Compensation	Checking	13,255	(3,255)	10,000
General Operating	Certificate of Deposit	206,301	-	206,301
General Operating	Certificate of Deposit	553,504	-	553,504
Sandpoint Closure Reserve	Certificate of Deposit	764,060	-	764,060
Sandpoint Closure Reserve	Certificate of Deposit	511,467	-	511,467
Sandpoint Closure Reserve	Certificate of Deposit	-	-	-
Worker's Compensation	Certificate of Deposit	551,419	-	551,419
Water & Sewer	Certificate of Deposit	301,911	-	301,911
Water & Sewer	Certificate of Deposit	979,372	-	979,372
Health Insurance	Certificate of Deposit	462,466	-	462,466
		<u>\$ 7,379,848</u>	<u>(37,531)</u>	<u>7,342,317</u>
First American Bank 303 W. Main Artesia, NM 88210				
General	Certificate of Deposit	1,022,316	-	1,022,316
Sandpoint Closure Reserve	Certificate of Deposit	653,766	-	653,766
		<u>1,676,082</u>	<u>-</u>	<u>1,676,082</u>
Pioneer Savings Bank P.O. Box 130 Roswell, New Mexico 88202-0130				
General Operating	Certificate of Deposit	\$ 457,436	-	457,436
General Operating	Certificate of Deposit	419,124	-	419,124
General Operating	Certificate of Deposit	419,124	-	419,124
General Operating	Certificate of Deposit	679,601	-	679,601
Sandpoint Closure Reserve	Certificate of Deposit	209,562	-	209,562
Sandpoint Closure Reserve	Certificate of Deposit	957,049	-	957,049
Worker's Compensation	Certificate of Deposit	259,522	-	259,522
Worker's Compensation	Certificate of Deposit	209,562	-	209,562
Water & Sewer	Certificate of Deposit	209,562	-	209,562
		<u>\$ 3,820,542</u>	<u>-</u>	<u>3,820,542</u>

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
Wells Fargo Bank, N.A. Carlsbad Office 115 W. Fox Street Carlsbad, New Mexico 88221				
General Fund	Checking	\$ 57,855,062	(961,374)	56,893,688
Investment Trust	Money Market	9,154	-	9,154
City Fund Investment	Money Market	1,325,889	-	1,325,889
		<u>\$ 59,190,105</u>	<u>(961,374)</u>	<u>58,228,731</u>
Western Commerce Bank P.O. Drawer 1358 Carlsbad, New Mexico 88221-1358				
Construction Account	Checking	\$ 18,497,661	(204,459)	18,293,202
Federal Projects	Checking	46,112	(46,012)	100
General Operating	Certificate of Deposit	640,000	-	640,000
General Operating	Certificate of Deposit	280,414	-	280,414
General Operating	Certificate of Deposit	308,238	-	308,238
Sandpoint Closure Reserve	Certificate of Deposit	504,000	-	504,000
Sandpoint Closure Reserve	Certificate of Deposit	425,650	-	425,650
Sandpoint Closure Reserve	Certificate of Deposit	-	-	-
Water & Sewer	Certificate of Deposit	102,746	-	102,746
Water & Sewer	Certificate of Deposit	254,000	-	254,000
		<u>\$ 21,058,821</u>	<u>(250,471)</u>	<u>20,808,350</u>
New Mexico Finance Authority 207 Shelby Street Santa Fe, New Mexico 87501				
Carlsbad 4	Reserve	\$ 1,473	-	1,473
Carlsbad 13	Reserve	167	-	167
Carlsbad 13	Reserve	119,076	-	119,076
Carlsbad 13	Program Funds	8,624	-	8,624
Carlsbad 15	Reserve	87,243	-	87,243
Carlsbad 15	Program Funds	311,662	-	311,662
NMFA Double Eagle DW-2867	Reserve	173,498	-	173,498
		<u>\$ 701,743</u>	<u>-</u>	<u>701,743</u>
		93,827,141	(1,249,376)	92,577,765

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF PLEDGED COLLATERAL
ALL FINANCIAL INSTITUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

Carlsbad National Bank
202 West Stevens
P.O. Box 1359
Carlsbad, New Mexico 88221-1359

Security Description	CUSIP Number	Maturity Date	Market Value
FHLMC Pool C91245	3128P7L27	01/01/36	\$ 1,103,505
FNR 2012-127 DH	3136A9B31	11/25/27	336,768
FMNA Pool MA1787		02/01/24	1,195,886
FHLMC Pool E09021	31294UAW3	02/01/28	710,678
FHLMC Pool C91758	3128P75T6	04/01/34	1,111,939
FNR 2012-55 PD	3136A53R5	05/25/42	612,772
FNMA Pool C91864		02/01/36	1,706,175
			\$ 6,777,723

The holder of the security pledged by Carlsbad National Bank is Federal Home Loan bank of Dallas, 8500 Freepport Parkway South, Irving, TX 75063.

Pioneer Savings Bank
3000 N. Main Street
P.O. Box 130
Roswell, NM 88202-0130

Security Description	CUSIP Number	Maturity Date	Market Value
FHLB Call After 09/27/16	3130A8HU0	06/27/24	300,003
FHLMC ARM 781721	31349S4E0	07/01/34	16,446
FHLMC G18627	3128MMVV2	01/01/32	711,688
FNMA AJ1622	3138ASYU0	10/01/26	229,690
FNMA AB3404	31416YYA0	08/01/26	390,090
FNMA 648558 ARM	31390KQK7	06/01/32	24,266
FNMA 661745 ARM	31391BES2	09/01/32	5,261
FNMA 759453 ARM	31403VWN5	01/01/34	44,841
FNMA 780385 ARM	31404V6W3	06/01/34	43,918
GNMA II 080418 ARM	36225CPC4	06/20/30	41,154
GNMA II 80477 ARM	36225CQ74	12/20/30	4,654
GNMA II 80540 ARM	36225CS64	09/20/31	12,401
GNMA II 80540 ARM	36225CS64	09/20/31	6,201
GNMA II 80562 ARM	36225CTU0	12/20/31	12,245
			\$ 1,842,859

The holder of the security pledged by Pioneer Bank is the Federal Home Loan Bank of Dallas, P.O. Box 619026, Dallas, TX 75261-9026.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF PLEDGED COLLATERAL
ALL FINANCIAL INSTITUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

Wells Fargo Bank, N.A.
Carlsbad Office
115 W. Fox Street
Carlsbad, New Mexico 88221

Security Description	CUSIP Number	Maturity Date	Market Value
FN AL8973	3138ET6K7	09/01/31	\$ 35,060,134
			<u>\$ 35,060,134</u>

The holder of the security pledged by Wells Fargo Bank, N.A. is Public Funds Administration, 420 Montgomery St., 11th San Francisco, CA 94104.

Western Commerce Bank
P.O. Drawer 1358
Carlsbad, New Mexico 88221-1358

Security Description	CUSIP Number	Maturity Date	Market Value
SBA Series 2005-20 A CLASS	83162CPG2	01/01/25	\$ 72,090
FNMA AA5840	31416PP27	06/01/39	190,997
FNMA AB4742	31417BHU4	03/01/42	757,612
FHLMC G08534	3128MJSY7	06/01/43	1,181,855
FHLMC J22899	31307BGG9	03/01/28	523,087
SBAP Series 2013-20J Class 1	83162CVV2	10/01/33	1,145,365
SBAP Series 2015-20D Class 1	83162CWY5	04/01/35	1,333,307
SBAP Series 2017-20I Class 1	83162CYW7	09/01/37	1,759,254
SBAP Series 2013-20B Class 1	83162CVH3	02/01/33	1,245,989
SBAP Series 2012-20E Class 1	83162CUU5	05/01/32	1,088,726
SBAP Series 2012-20J Class 1	83162CVB6	10/01/32	1,120,768
SBAP Series 2012-20H Class 1	83162CXY4	08/01/36	819,100
			<u>\$ 11,238,151</u>

The holder of the security pledged by Western Commerce Bank is the Federal Home Loan Bank of Dallas, P.O. Box 619026, Dallas, TX 75261-9026.

First American Bank
303 W. Main
Artesia, NM 88210

Security Description	CUSIP Number	Maturity Date	Market Value
FHLB: GADSDEN NM INDEP SCH NM 25	362550NC5	08/15/25	\$ 655,597
FHLB: ALAMOGORDO MUNI SD#1 NM 2	011464KU7	08/01/29	264,790
			<u>\$ 920,387</u>

The holder of the security pledged by First American Bank is the Federal Home Loan Bank of Dallas, P.O. Box 619026, Dallas, TX 75261-9026.

Total pledged collateral \$ 55,839,253



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

Mr. Brian S. Colón
New Mexico State Auditor
Mayor and City Council
The City of Carlsbad
Carlsbad, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund, of the City of Carlsbad (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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-001.

December 12, 2019

City of Carlsbad's Response to the Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



Hinkle + Landers, P.C.
Albuquerque, New Mexico
December 12, 2019

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

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report independent auditor issued on financial statements	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that not considered to be a material weakness(es)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Noncompliance material to the financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

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

SECTION II -SUMMARY OF AUDIT FINDINGS

Reference #	Finding	Status of Prior Year Findings	Type of Finding*
<u>Prior Year Findings</u>			
NONE		N/A	N/A
<u>Current Year Findings</u>			
2019-001	Internal Controls and Lien Policy on Delinquent Utility Accounts	CURRENT	C, D
2019-002	Capital Asset Software	CURRENT	B

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Finding that Does Not Rise to the Level of a Significant Deficiency
(Other Matters) Involving Internal Control Over Financial Reporting
- D. Non-compliance with State Audit Rule, NM State Statutes, NMAC or other entity compliance

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

CURRENT YEAR FINDINGS

2019-001—Internal Controls and Lien Policy on Delinquent Utility Accounts

Type of Finding: C and D

Statement of Condition

Of the 10 “past due” water utility bills reviewed, (90 days or more), the City had not filed 2 liens in accordance with its policy.

Criteria

City Ordinance Section 52-30 (d) – Failure to pay water service charges

“On or before October 1 of each year, the city clerk shall certify to the city council a statement of all the delinquent assessments, describing the land affected, after which the assessment shall be a lien upon each lot or parcel of land described in such confirmed assessment roll. It shall be the duty of the city clerk to make out, sign, attest and file for record in the office of the county clerk a claim of lien therefor, which claim of lien shall bear eight percent interest per annum from October 1 of the year in which made and filed, together with reasonable attorney's fees in the event of the foreclosure of such lien.”

The timely application of liens allows for better collectability of revenues.

Effect

The City stands to lose substantial revenue if utility bills are not collected timely. The longer it takes to follow through with collection procedures the more unlikely those revenues will be collected.

Cause

The report used to file liens, generated from the accounting software, is omitting some past due accounts.

Recommendation

We recommend the flaw in the accounting software be investigated and a new report be developed to more accurately capture the information. Analyzing the Lien Report against the Utility Accounts Receivable report would also be beneficial in discovering if all past due accounts are being reflected in the Lien Report. A random sample, such as the one performed during the audit, would likely detect missed accounts.

View of Responsible Officials and Corrective Action Plan

The City recognized several years ago that the current accounting systems were becoming antiquated and unreliable. The City's Governing Board approved a budget for a multi-year ERP system implementation during years 2019-2021. The City has successfully implemented and transitioned to the General Ledger, Procurement, and Payroll Modules of the ERP. The City is currently testing and converting to the Work Order, Fixed Assets, and Utility Billing modules of the ERP. Therefore, once the Utility Billing module is implemented, these reporting errors should be eliminated. In the meantime, City staff will work with the City's programmer of the current utility billing system to try and isolate and correct the utility lien report. In addition, the City will analyze the ageing report versus the utility lien report and attempt to find missed accounts on the utility lien report.

Corrective Action Plan Timeline:

The City will take immediate action in relation to working with the programmer of the current system and come October, when it's time to begin the lien process, the City will analyze the lien report in more detail.

Designated Employee Responsible for Corrective Action:

The responsible employee for the action plan, will be the Director of Finance & Investments, the Utility Account Supervisor, and any other employee assisting with the lien process.

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

2019-002 –Capital Asset Software

Type of Finding: B

Statement of Condition

During our testing of capital assets, we identified several inconsistencies in the capital asset listing including changes in balances of individual assets from one year to the next year. In FY19, fully depreciated assets were added to the listing by the system. One asset in the system generated report was overstated by \$1,720,234 due to an inaccuracy in the asset tracking system.

Capital assets were restated in the amount of \$623,443 for governmental activities and \$207,981 for business-type activities due to capital assets being overstated in FY18. Capital outlay accounts were restated in the amount of \$200,675 for governmental activities and \$519,247 for business-type activities due to premature capitalization of assets in FY18.

Criteria

Capital assets are a significant part of the City's financial statements and should be tracked in a system where controls ensure accuracy. Capital assets should then be reviewed before given to auditors.

Effect

The capital asset software has significant deficiencies resulting in restatements. Additionally, lack of sufficient records could result in assets that are not properly safeguarded. Asset identification and location are essential in prevention of theft and loss of assets due to fraudulent activity.

Cause

The AS400 software being utilized by the City has become increasingly unreliable.

Recommendation

We recommend the City implement a new capital asset software and verify the value of all assets before placing them into the new system.

View or Responsible Officials and Corrective Action Plan

The City is aware that the software being used for the accounting of fixed assets, including generating depreciation, is antiquated. The software does not require two-sided, balanced entries, and does not have consistent reporting. Over the last year, the City has started the transition to an ERP that includes a fixed asset module. The City has successfully implemented the following modules: general ledger, purchasing, accounts payable, payroll, projects and public safety. The City is currently in the process of implementing utility billing, work orders, and fixed assets. The fixed assets module is integrated with the other modules of the ERP and will include modernized reporting and accurate calculations.

Corrective Action Plan Timeline:

The fixed asset conversion is underway and will be complete by June 30, 2020. Those involved in the conversion will be certain to balance the fixed asset module to the final audited, and auditor approved list, of fixed assets.

Designated Employee Responsible for Corrective Action:

The Deputy City Administrator, who previously served as the Director of Finance and Investments, will be responsible for the conversation of fixed assets.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
EXIT CONFERENCE
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 Hinkle + Landers, PC to the City in preparing the financial statements.

B. EXIT CONFERENCE

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

City of Carlsbad Officials

Dale Janway

Edward T. Rodriguez

Michael Hernandez

John Lowe

Wendy Austin

Melissa Salcido

Mayor

Mayor Pro Tem

City Administrator

Deputy City Administrator

Director of Finance and Investments

Grants and Projects Control Manager

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA

Maclen Enriquez, CPA

President

Senior Audit Manager