



# 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, 2017**



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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  
As of June 30, 2017**

**ELECTED OFFICIALS**

<b>NAME</b>	<b>TITLE</b>
Dale Janway	Mayor
Janell Whitlock	Municipal Judge
Richard "Dick" W. Doss	Mayor Pro-Tem
Lisa Anaya-Flores	City Councilor
Wesley Carter	City Councilor
J.R. Doportto	City Councilor
Wanda Durham	City Councilor
Leo Estrada	City Councilor
Edward T. Rodriguez	City Councilor
Jason Shirley	City Councilor

**DEPARTMENT HEADS**

<b>NAME</b>	<b>TITLE</b>
Steven V. McCutcheon	City Administrator
Michael Hernandez	Deputy City Administrator
Wendy Hammett	Director of Finance/ City Treasurer
Annette Barrick	City Clerk
D. Kent Waller	Chief of Police
Richard Lopez	Fire Chief
Scot Bendixsen	Human Resources Director
Luis Camero	Director of Engineering Services
Eileen P. Riordan	City Attorney
Patsy Jackson-Christopher	Director of Arts and Culture
Steve Hendley	Director of Sports and Recreation
Jeff Patterson	Director of Planning, Engineering, and Regulations Department
Sam Plumlee	Director of Information Technology
Patrick Cass	Director of Public Works
Ron Myers	Director of Utilities



**INDEPENDENT AUDITOR’S REPORT**

Mr. Wayne Johnson  
New Mexico State Auditor  
To the 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, 2017, and the related notes to the financial statements which collectively comprise the City’s basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City’s nonmajor governmental, internal service funds, and fiduciary funds, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017, 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, and the budgetary comparison for the general fund of the City, as of June 30, 2017, and the

respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, internal service, and fiduciary fund of the City as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof 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 2017 financial statements have been restated due to misstatements. Our opinion is not modified with respect to this matter.

**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 and Net Pension Liabilities, listed as “*Required Supplemental 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 fund financial statements, and the schedule of changes in assets and liabilities - agency funds. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other schedules listed as “other supplementary information” in the table of contents, required by 2.2.2 NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose

of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

*Hinkle & Landers, P.C.*

Hinkle + Landers, PC  
Albuquerque, New Mexico  
December 15, 2017



**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
STATEMENT OF NET POSITION  
As of June 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 37,267,928	18,030,941	55,298,869
Receivables, net	9,192,030	2,702,355	11,894,385
Prepaid expenses	-	-	-
Inventory	-	533,024	533,024
Internal balance	-	-	-
Total current assets	<u>46,459,958</u>	<u>21,266,320</u>	<u>67,726,278</u>
<b>Noncurrent assets</b>			
Restricted cash	953,584	7,086,069	8,039,653
Restricted cash held by fiscal agent	1,804,211	286,558	2,090,769
Restricted investments	-	6,234,518	6,234,518
Prepaid bond insurance premiums	-	58,940	58,940
Capital assets:			
Land and construction in progress	3,167,226	40,507,571	43,674,797
Other capital assets, net of depreciation	119,006,937	66,862,325	185,869,262
Total noncurrent assets	<u>124,931,958</u>	<u>121,035,981</u>	<u>245,967,939</u>
<b>Deferred outflows of resources</b>			
Pension related	21,134,370	3,146,285	24,280,655
Charges related to advance refunding	-	58,057	58,057
Total deferred outflows of resources	<u>21,134,370</u>	<u>3,204,342</u>	<u>24,338,712</u>
Total assets and deferred outflows of resources	<u>\$ 192,526,286</u>	<u>145,506,643</u>	<u>338,032,929</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 1,984,432	1,286,814	3,271,246
Accrued salaries	1,059,915	229,957	1,289,872
Accrued liabilities	61,388	57,369	118,757
Accrued interest payable	41,689	119,332	161,021
Deposits payable	450	559,243	559,693
Current maturities of:			
Bonds payable	625,239	965,291	1,590,530
Notes payable	441,537	829,276	1,270,813
Compensated absences	512,301	120,932	633,233
Total current liabilities	<u>4,726,951</u>	<u>4,168,214</u>	<u>8,895,165</u>
<b>Noncurrent liabilities</b>			
Bonds payable	4,099,472	13,495,695	17,595,167
Notes payable	5,020,474	36,765,804	41,786,278
Compensated absences	1,309,551	111,877	1,421,428
Landfill closure and post-closure	-	374,220	374,220
Net pension liability	58,551,967	8,680,513	67,232,480
Total noncurrent liabilities	<u>68,981,464</u>	<u>59,428,109</u>	<u>128,409,573</u>
Total liabilities	<u>73,708,415</u>	<u>63,596,323</u>	<u>137,304,738</u>
<b>Deferred inflows of resources</b>			
Pension related	475,889	93,923	569,812
<b>Net Position</b>			
Net investment in capital assets	111,987,441	55,313,830	167,301,271
Restricted for:			
Debt service	362,246	4,218,262	4,580,508
Endowment:			
Expendable	-	8,417,064	8,417,064
Unrestricted	5,992,295	13,867,241	19,859,536
Total net position	<u>118,341,982</u>	<u>81,816,397</u>	<u>200,158,379</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 192,526,286</u>	<u>145,506,643</u>	<u>338,032,929</u>

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, 2017**

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
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 11,110,939	385,461	-	-	(10,725,478)	-	(10,725,478)
Public safety	24,608,556	1,417,974	1,110,137	154,889	(21,925,556)	-	(21,925,556)
Public works	9,908,167	394,512	-	1,176,758	(8,336,897)	-	(8,336,897)
Culture and recreation	9,816,356	823,716	7,733	16,222	(8,968,685)	-	(8,968,685)
Health and welfare	344,457	-	-	-	(344,457)	-	(344,457)
Economic development	11,790	-	-	-	(11,790)	-	(11,790)
Interest on long-term debt	334,817	-	-	-	(334,817)	-	(334,817)
Total governmental activities	56,135,082	3,021,663	1,117,870	1,347,869	(50,647,680)	-	(50,647,680)
<b>Business-type activities</b>							
Water	7,297,839	5,943,659	115,899	2,272,117	-	1,033,836	1,033,836
Solid waste	4,286,321	5,380,423	39,048	111,000	-	1,244,150	1,244,150
Wastewater	3,105,430	4,140,123	-	-	-	1,034,693	1,034,693
Museum	5,562	751	-	-	-	(4,811)	(4,811)
Municipal transit	1,223,656	67,980	394,861	-	-	(760,815)	(760,815)
Performing arts center	221,601	12,890	-	-	-	(208,711)	(208,711)
Cemetery	816,128	150,041	-	-	-	(666,087)	(666,087)
Interest on long-term debt	1,041,683	-	-	-	-	(1,041,683)	(1,041,683)
Total business-type activities	17,998,220	15,695,867	549,808	2,383,117	-	630,572	630,572
Total primary government	\$ 74,133,302	18,717,530	1,667,678	3,730,986	(50,647,680)	630,572	(50,017,108)
<b>General Revenues:</b>							
Sales taxes					34,966,438	669,774	35,636,212
Property taxes, levied for general purposes					2,738,078	-	2,738,078
Lodgers' taxes					1,952,729	-	1,952,729
Franchise taxes					757,462	-	757,462
Public service taxes					724,927	-	724,927
Interest income					34,147	104,219	138,366
Investment gain/(loss)					-	(122,438)	(122,438)
Donations					1,170,197	538,346	1,708,543
Insurance recoveries					1,024,947	25,219	1,050,166
Miscellaneous					16,663	24,433	41,096
Special item - Gain on disposal of asset					(188,820)	40,985	(147,835)
Transfers					3,946,189	(3,946,189)	-
Total general revenues, special items, and transfers					47,142,957	(2,665,651)	44,477,306
Change in net position					(3,504,723)	(2,035,079)	(5,539,802)
Net position, beginning of year					121,291,272	83,037,372	204,328,644
Restatements					555,433	814,104	1,369,537
Net position, beginning of year, restated					121,846,705	83,851,476	205,698,181
Net position, end of year					\$ 118,341,982	81,816,397	200,158,379

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, 2017**

	General Fund	GRT Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 17,811,152	5,481,198	9,023,860	32,316,210
Receivables, net	6,770,131	489,930	1,931,450	9,191,511
Due from other funds	-	-	-	-
Restricted:				
Cash	450	-	-	450
Cash held by fiscal agent	-	-	1,804,211	1,804,211
Total assets	<u>\$ 24,581,733</u>	<u>5,971,128</u>	<u>12,759,521</u>	<u>43,312,382</u>
<b>Liabilities:</b>				
Accounts payable	\$ 422,631	-	1,513,548	1,936,179
Accrued salaries	1,040,376	-	19,539	1,059,915
Accrued liabilities	60,888	-	500	61,388
Deposits payable	450	-	-	450
Due to other funds	-	-	-	-
Total liabilities	<u>1,524,345</u>	<u>-</u>	<u>1,533,587</u>	<u>3,057,932</u>
<b>Deferred Inflows of Resources:</b>				
Unavailable property tax revenue	130,420	-	-	130,420
Unavailable charges for services	233,696	-	-	233,696
Unavailable grant revenue	-	-	-	-
Total deferred inflows	<u>364,116</u>	<u>-</u>	<u>-</u>	<u>364,116</u>
<b>Fund Balances</b>				
Restricted for:				
Debt service	-	-	376,395	376,395
State mandated per statutes	-	-	2,657,405	2,657,405
State mandated budget reserve	3,599,739	-	-	3,599,739
Construction and improvements	-	-	1,723,583	1,723,583
Committed for:				
City budget reserve	3,599,739	-	-	3,599,739
Subsequent years' expenditures	6,728,905	5,971,128	6,169,560	18,869,593
Assigned	-	-	300,670	300,670
Unassigned	8,764,889	-	(1,679)	8,763,210
Total fund balances	<u>22,693,272</u>	<u>5,971,128</u>	<u>11,225,934</u>	<u>39,890,334</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 24,581,733</u>	<u>5,971,128</u>	<u>12,759,521</u>	<u>43,312,382</u>

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, 2017**

Total fund balance, governmental funds	\$	39,890,334
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.		122,174,163
Insurance premiums paid during the issuance of bonds are not expensed in the year of issuance. These costs are capitalized, in the statement of net position and are not reported in the governmental funds.		-
Deferred outflows of resources related to pensions are applicable to future periods and, there are not reported in the funds.		21,134,370
Certain accrued interest expenses are not due and payable in the current period and, therefore not reported in the governmental funds.		(41,689)
		(12,008,574)
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.		(58,551,967)
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.		(475,889)
Deferred inflows of resources related to pensions are applicable to future periods and, there are not reported in the funds.		364,116
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, \$130,420 and charges for service, \$233,696.		5,857,118
Residual balances of the internal service funds are included within the governmental activities and are not reported in the governmental funds.		5,857,118
Total Net Position of Governmental Activities	\$	<u><u>118,341,982</u></u>

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	General Fund	GRT Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Sales taxes	\$ 31,130,230	2,496,729	1,339,474	34,966,433
Property taxes	2,737,307	-	-	2,737,307
Franchise taxes	757,462	-	-	757,462
Lodgers' taxes	-	-	1,952,730	1,952,730
Public service taxes	-	-	724,928	724,928
Intergovernmental:				
Federal	20,315	-	555,577	575,892
State	610,903	292,877	1,468,944	2,372,724
Charges for services	1,362,785	-	351,265	1,714,050
Licenses and permits	321,021	-	93,810	414,831
Fines and forfeitures	384,870	-	-	384,870
Interest	18,364	842	27,130	46,336
Miscellaneous	258,921	-	1,024,288	1,283,209
Total revenues	<u>37,602,178</u>	<u>2,790,448</u>	<u>7,538,146</u>	<u>47,930,772</u>
<b>Expenditures</b>				
Current:				
General government	8,032,007	-	-	8,032,007
Public safety	19,644,454	-	344,857	19,989,311
Public works	6,474,639	-	-	6,474,639
Culture and recreation	4,968,235	50	2,121,188	7,089,473
Health and welfare	333,005	-	-	333,005
Economic development	-	-	11,791	11,791
Capital outlay	1,415,556	2,374,398	11,335,695	15,125,649
Debt service:				
Principal	-	-	1,026,431	1,026,431
Interest and other charges	-	-	357,977	357,977
Total expenditures	<u>40,867,896</u>	<u>2,374,448</u>	<u>15,197,939</u>	<u>58,440,283</u>
Excess (deficiency) of revenues over expenditures	(3,265,718)	416,000	(7,659,793)	(10,509,511)
<b>Other Financing Sources (Uses)</b>				
Transfers in	6,532,972	-	2,869,082	9,402,054
Transfers (out)	(2,592,848)	(3,550,002)	(1,315,114)	(7,457,964)
Note payable proceeds	-	-	-	-
Cost of note issuance	-	-	-	-
Total other financing sources and (uses)	<u>3,940,124</u>	<u>(3,550,002)</u>	<u>1,553,968</u>	<u>1,944,090</u>
<b>Special Item</b>				
Proceeds from sale of assets	13,146	-	-	13,146
Net change in fund balances	687,552	(3,134,002)	(6,105,825)	(8,552,275)
Fund balance, beginning of year	21,995,202	9,105,130	16,824,337	47,924,669
Restatement	10,518	-	507,422	517,940
Fund balance, beginning of year restated	<u>22,005,720</u>	<u>9,105,130</u>	<u>17,331,759</u>	<u>48,442,609</u>
Fund balance, end of year	<u>\$ 22,693,272</u>	<u>5,971,128</u>	<u>11,225,934</u>	<u>39,890,334</u>

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, 2017**

Net change in fund balances - total governmental funds: \$ (8,552,275)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 7,909,435

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	770
Charges for services	37,266
Grant revenues	(190,000)

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. (201,965)

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:

Note proceeds received	-
Bond and note obligation principal payments	1,026,431
Net effects of bond premiums, discounts, and deferred amounts on refunding	671

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	(21,926)
Change in accrued interest payable	5,118
Pension expense	(5,110,028)

During the current year the City recorded amortization expense in respect to the bond insurance premium. The expense is reflected within the statement of activities however, the expense does not use a current financial resource. (812)

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.

Change in net assets of governmental activities	1,592,592
	\$ (3,504,723)

**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, 2017**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
<b>Revenues</b>						
Sales taxes	\$ 32,176,550	32,176,550	31,130,232	-	31,130,232	(1,046,318)
Property taxes	2,489,083	2,489,083	2,737,307	-	2,737,307	248,224
Franchise taxes	749,700	749,700	747,665	9,797	757,462	(2,035)
Intergovernmental:						
Federal	-	-	40,875	(20,560)	20,315	40,875
State	712,160	719,160	600,861	10,042	610,903	(118,299)
Charges for services	1,113,827	1,122,631	1,370,673	(7,888)	1,362,785	248,042
Licenses and permits	290,000	290,000	321,021	-	321,021	31,021
Fines and forfeitures	383,600	383,600	384,870	-	384,870	1,270
Interest	6,917	6,917	18,364	-	18,364	11,447
Miscellaneous	68,300	777,267	274,251	(15,330)	258,921	(503,016)
Total revenues	<u>37,990,137</u>	<u>38,714,908</u>	<u>37,626,119</u>	<u>(23,939)</u>	<u>37,602,180</u>	<u>(1,088,789)</u>
<b>Expenditures</b>						
Current:						
General government	8,477,809	9,485,122	8,700,194	(668,187)	8,032,007	784,928
Public safety	20,442,132	20,572,102	20,264,293	(619,837)	19,644,456	307,809
Public works	6,947,584	7,063,883	6,762,889	(288,250)	6,474,639	300,994
Culture and recreation	5,404,031	5,492,279	5,079,491	(111,256)	4,968,235	412,788
Health and welfare	428,137	427,696	333,245	(240)	333,005	94,451
Capital outlay	1,868,212	1,955,658	1,415,556	-	1,415,556	540,102
Total expenditures	<u>43,567,905</u>	<u>44,996,740</u>	<u>42,555,668</u>	<u>(1,687,770)</u>	<u>40,867,898</u>	<u>2,441,072</u>
Excess (deficiency) of revenues over expenditures	(5,577,768)	(6,281,832)	(4,929,549)	1,663,831	(3,265,718)	1,352,283
<b>Other Financing Sources (Uses)</b>						
Transfers in	7,829,576	7,851,377	6,532,972	-	6,532,972	(1,318,405)
Transfers (out)	(2,693,091)	(2,693,091)	(2,592,848)	-	(2,592,848)	100,243
Total other financing sources and (uses)	5,136,485	5,158,286	3,940,124	-	3,940,124	(1,218,162)
<b>Special Item</b>						
Proceeds from sale of assets	1,000	1,000	13,146	-	13,146	12,146
Net change	(440,283)	(1,122,546)	(976,279)	1,663,831	687,552	146,267
Cash balance, beginning of year	16,491,419	16,491,419	16,491,419			-
Cash advanced to other funds	-	-	-			-
Cash balance, end of year	<u>\$ 16,051,136</u>	<u>15,368,873</u>	<u>15,515,140</u>			<u>146,267</u>
<b>Explanation of Differences:</b>						
Change in receivables				51,453		
Change in accounts payable				(77,145)		
Change in accrued liabilities				1,741,697		
Change in deferred revenues				(52,174)		
				<u>1,663,831</u>		

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, 2017**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund	Joint Water and Sewer Fund	Other Enterprise Funds	Total	
<b>Assets</b>					
Current assets:					
Cash	\$ 5,716,080	11,929,770	385,092	18,030,942	4,951,719
Receivables, net	839,336	1,798,969	64,050	2,702,355	517
Prepaid expenses	-	-	-	-	-
Inventory	-	533,024	-	533,024	-
Total current assets	<u>6,555,416</u>	<u>14,261,763</u>	<u>449,142</u>	<u>21,266,321</u>	<u>4,952,236</u>
Noncurrent assets:					
Restricted cash	-	7,246,365	-	7,246,365	953,134
Restricted cash held by fiscal agent	126,262	-	-	126,262	-
Restricted investments	-	6,234,518	-	6,234,518	-
Prepaid bond insurance premium	-	58,940	-	58,940	-
Capital Assets:					
Land and construction in progress	10,000	40,248,416	249,156	40,507,572	-
Other capital assets, net of accumulated depreciation	<u>2,802,592</u>	<u>60,523,096</u>	<u>3,536,637</u>	<u>66,862,325</u>	<u>-</u>
Total noncurrent assets	<u>2,938,854</u>	<u>114,311,335</u>	<u>3,785,793</u>	<u>121,035,982</u>	<u>953,134</u>
<b>Deferred Outflows of Resources</b>					
Pension related	726,506	1,980,271	439,508	3,146,285	-
Charges related to advance refunding	-	58,057	-	58,057	-
Total deferred outflows of resources	<u>726,506</u>	<u>2,038,328</u>	<u>439,508</u>	<u>3,204,342</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 10,220,776</u>	<u>130,611,426</u>	<u>4,674,443</u>	<u>145,506,645</u>	<u>5,905,370</u>
<b>Liabilities:</b>					
Current Liabilities:					
Accounts payable	\$ 371,853	832,185	82,776	1,286,814	48,252
Accrued salaries	52,167	141,802	35,987	229,956	-
Accrued liabilities	-	57,369	-	57,369	-
Accrued interest payable	2,251	117,081	-	119,332	-
Customer deposits	-	559,243	-	559,243	-
Due to other funds	-	-	-	-	-
Current maturities of liabilities:					
Bonds payable	-	965,291	-	965,291	-
Notes payable	113,573	715,703	-	829,276	-
Compensated absences	<u>27,815</u>	<u>60,410</u>	<u>32,708</u>	<u>120,933</u>	<u>-</u>
Total current liabilities	<u>567,659</u>	<u>3,449,084</u>	<u>151,471</u>	<u>4,168,214</u>	<u>48,252</u>
Noncurrent liabilities:					
Bonds payable	-	13,495,695	-	13,495,695	-
Notes payable	827,289	35,938,515	-	36,765,804	-
Compensated absences	26,051	55,262	30,564	111,877	-
Landfill closure and post-closure	374,220	-	-	374,220	-
Net pension liability	<u>1,894,571</u>	<u>5,599,571</u>	<u>1,186,371</u>	<u>8,680,513</u>	<u>-</u>
Total noncurrent liabilities	<u>3,122,131</u>	<u>55,089,043</u>	<u>1,216,935</u>	<u>59,428,109</u>	<u>-</u>
Total liabilities	<u>3,689,790</u>	<u>58,538,127</u>	<u>1,368,406</u>	<u>63,596,323</u>	<u>48,252</u>
<b>Deferred Inflows of Resources</b>					
Pension related	17,975	63,714	12,234	93,923	-
<b>Net Position</b>					
Net investment in capital assets	1,997,992	49,656,308	3,785,793	55,440,093	-
Restricted:					
Debt service	117,891	3,752,096	-	3,869,987	-
Endowment:					
Expendable	-	8,371,020	-	8,371,020	-
Unrestricted	<u>4,397,128</u>	<u>10,230,161</u>	<u>(491,990)</u>	<u>14,135,299</u>	<u>5,857,118</u>
Total net position	<u>6,513,011</u>	<u>72,009,585</u>	<u>3,293,803</u>	<u>81,816,399</u>	<u>5,857,118</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 10,220,776</u>	<u>130,611,426</u>	<u>4,674,443</u>	<u>145,506,645</u>	<u>5,905,370</u>

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, 2017**

	Business - Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund	Joint Water and Sewer Fund	Other Enterprise Funds	Total	
<b>Operating Revenues</b>					
Charges for services	\$ 5,380,423	9,914,304	231,093	15,525,820	6,260,655
<b>Operating Expenses</b>					
Personnel services	1,958,439	4,948,029	1,193,607	8,100,075	-
Utilities	195	705,359	129,307	834,861	-
Contractual services	74,592	314,364	500,725	889,681	2,452
Repairs and maintenance	331,884	534,020	60,385	926,289	-
Insurance claims and expenses	-	-	-	-	5,166,646
Other supplies and expenses	1,434,317	701,417	107,493	2,243,227	1,875,266
Depreciation and amortization	486,894	3,287,652	275,428	4,049,974	-
Total operating expenses	<u>4,286,321</u>	<u>10,490,841</u>	<u>2,266,945</u>	<u>17,044,107</u>	<u>7,044,364</u>
Operating income (loss)	1,094,102	(576,537)	(2,035,852)	(1,518,287)	(783,709)
<b>Non-Operating Revenues (Expenses)</b>					
Sales taxes	669,775	-	-	669,775	-
Intergovernmental	150,048	2,444,197	394,861	2,989,106	76,519
Investment income	17,106	87,113	-	104,219	6,016
Miscellaneous	5,860	246,695	4,004	256,559	291,667
Gain/(loss) on sale of assets	14,079	25,786	1,120	40,985	-
Gain/(loss) on investments	-	(122,438)	-	(122,438)	-
Amortization expense	-	(5,052)	-	(5,052)	-
Interest expense	(13,506)	(1,027,649)	-	(1,041,155)	-
Total non-operating revenue (expenses)	<u>843,362</u>	<u>1,648,652</u>	<u>399,985</u>	<u>2,891,999</u>	<u>374,202</u>
Income (loss) before capital contributions and transfers	1,937,464	1,072,115	(1,635,867)	1,373,712	(409,507)
<b>Capital Contributions and Transfers</b>					
Capital contributions	-	537,400	-	537,400	-
Transfers in	441,111	1,671,979	770,238	2,883,328	2,050,750
Transfers (out)	(2,516,052)	(4,288,465)	(25,000)	(6,829,517)	(48,651)
Total capital contributions and transfers	<u>(2,074,941)</u>	<u>(2,079,086)</u>	<u>745,238</u>	<u>(3,408,789)</u>	<u>2,002,099</u>
Change in net position	(137,477)	(1,006,971)	(890,629)	(2,035,077)	1,592,592
Net position, beginning of year	6,644,155	72,248,570	4,144,647	83,037,372	4,264,526
Restatements	6,333	767,986	39,785	814,104	-
Net position, beginning of year, restated	<u>6,650,488</u>	<u>73,016,556</u>	<u>4,184,432</u>	<u>83,851,476</u>	<u>4,264,526</u>
Net position, end of year	\$ <u>6,513,011</u>	<u>72,009,585</u>	<u>3,293,803</u>	<u>81,816,399</u>	<u>5,857,118</u>

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, 2017**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund	Joint Water and Sewer Fund	Other Enterprise Funds	Total	
<b>Cash Flows From Operating Activities</b>					
Cash received from customers	\$ 5,236,538	9,859,800	201,759	15,298,097	-
Internal activity - receipts from other funds	-	-	-	-	6,261,011
Cash payments to suppliers for goods and services	(1,711,711)	(2,662,764)	(828,707)	(5,203,182)	-
Cash payments to employees for services	(1,772,567)	(4,485,828)	(1,043,946)	(7,302,341)	(7,017,827)
Net cash provided (used) by operating activities	1,752,260	2,711,208	(1,670,894)	2,792,574	(756,816)
<b>Cash Flows for Non-Capital and Financing Activities</b>					
Cash received from sales taxes	669,775	-	-	669,775	-
Intergovernmental revenues	150,048	2,444,197	394,861	2,989,106	-
Utility deposit, sales taxes and miscellaneous receipts	5,860	805,938	4,004	815,802	-
Utility deposits and sales taxes remitted	-	(627,605)	-	(627,605)	-
Net transfers in (out)	(2,074,941)	(2,616,486)	745,238	(3,946,189)	2,002,099
Net cash provided (used) by non-capital and related financing act	(1,249,258)	6,044	1,144,103	(99,111)	2,002,099
<b>Cash Flows for Capital and Financing Activities</b>					
Proceeds from the sale of assets	14,079	25,786	1,120	40,985	-
Acquisition of capital assets	(191,885)	(8,009,581)	(289,559)	(8,491,025)	-
Capital contribution	-	537,400	-	537,400	-
Long term debt proceeds	-	3,019,501	-	3,019,501	-
Principal payments on capital debt	(113,042)	(1,133,209)	-	(1,246,251)	-
Interest on capital debt	(13,506)	(1,027,649)	-	(1,041,155)	-
Net cash (used) by capital and related financing activities	(304,354)	(6,587,752)	(288,439)	(7,180,545)	-
<b>Cash Flows From Investing Activities</b>					
Investment income	17,106	87,113	-	104,219	6,016
Loss on redemption of investments and bank charges	-	(132,714)	-	(132,714)	-
Purchase of investments	-	(835,341)	-	(835,341)	-
Net cash provided (used) by investing activities	17,106	(880,942)	-	(863,836)	6,016
Net increase (decrease) in cash	215,754	(4,751,442)	(815,230)	(5,350,918)	1,251,299
Cash and cash equivalents, beginning of year	5,626,588	23,927,577	1,200,322	30,754,487	4,285,368
Cash and cash equivalents, end of year	\$ 5,842,342	19,176,135	385,092	25,403,569	5,536,667
<b>Displayed as</b>					
Cash	\$ 5,716,080	11,929,770	385,092	18,030,942	4,951,719
Restricted cash	-	7,246,365	-	7,246,365	953,134
Restricted cash held be fiscal agent	126,262	-	-	126,262	-
	\$ 5,842,342	19,176,135	385,092	25,403,569	5,904,853
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>					
Operating Income (Loss)	\$ 1,094,102	(576,537)	(2,035,852)	(1,518,287)	(783,709)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	486,894	3,287,652	275,428	4,049,974	-
Bad debts	2,719	21,677	-	24,396	-
Landfill closure & post closure liability	24,366	-	-	24,366	-
Amortization	-	5,052	-	5,052	-
Restatement	6,333	767,986	39,785	814,104	-
<b>Change in Assets and Liabilities</b>					
(Increase) decrease in accounts receivable	(146,604)	(76,181)	(38,243)	(261,028)	496
Decrease in inventories	-	69,362	-	69,362	-
(Increase) in deferred outflows of resources related to pension	(585,350)	(1,528,318)	(347,907)	(2,461,575)	-
Increase (decrease) in accounts payable	98,578	(1,250,004)	(61,673)	(1,213,099)	26,397
Increase (decrease) in accrued salaries	6,491	27,915	26,251	60,657	-
Increase (decrease) in accrued liabilities	-	(6,627)	-	(6,627)	-
Increase (decrease) in compensated absences	(14,322)	(64,836)	8,281	(70,877)	-
Increase (decrease) in net pension liability	789,483	2,061,298	469,235	3,320,016	-
Increase (decrease) in deferred inflows of resources related to pension	(10,430)	(27,231)	(6,199)	(43,860)	-
Total adjustments	658,158	3,287,745	364,958	4,310,861	26,893
Net cash provided (used) by operating activities	\$ 1,752,260	2,711,208	(1,670,894)	2,792,574	(756,816)

The accompanying notes are an integral part of these financial statements

**CITY OF CARLSBAD**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES --**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Assets**

Cash	\$ 34,607
Note receivable	<u>495,000</u>

\$ 529,607

**Liabilities**

Due to others	\$ <u>529,607</u>
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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, 2017**

**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, 2017**

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.

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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 *GRT Capital Outlay Fund*, is a capital projects fund that accounts for receipts and disbursements and sales taxes for capital outlay projects. 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 sixteen other individual governmental funds that are considered nonmajor funds; nine are classified as special revenue funds; four are classified as capital project funds; and three are classified as 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 *RSVP Fund* accounts, maintains, and reports to the state of New Mexico hours performed by retired volunteers in the area. The fund is financed by grants from the federal government and the state of New Mexico. 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 *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 *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 *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 sales tax revenue bonds and provide additional funds for capital improvements and equipment. Financing is provided by sales 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 sales 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 four 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.

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.



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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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Net revenue bond interest cost incurred during construction is capitalized as part of the construction project.

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

<u>Classification</u>	<u>Years</u>
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.

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**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 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.

**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 reports the difference between the reacquisition price and the net carrying amount of old, retired debt as a deferred outflow of resources. The amount is amortized as a component of interest in a systematic and rational manner over the remaining life of the old debt that is a shorter period than the life of the new debt.

The City has the following deferred outflows of resources during fiscal year 2017 on the government-wide financials:

**Deferred Outflows of Resources - GW**

Pension deferrals	\$	24,280,655
Charges related to advance refunding		58,057
Total deferred outflows of resources	\$	24,338,712

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.

The City has the following deferred inflows of resources during fiscal year 2017 on the fund financials:

**Deferred Inflows of Resources - Fund Financials**

Unavailable property tax revenue	\$	130,420
Unavailable charges for services		233,696
Unavailable grant revenue		-
Total deferred outflows of resources	\$	364,116

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The City has the following deferred inflows of resources during fiscal year 2017 on the government-wide financials:

**Deferred Inflows of Resources - GW**

Pension deferrals	\$	569,812
Total deferred outflows of resources	\$	<u>569,812</u>

**Unearned Revenue/Deferred Revenue**

There are two types of unearned revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding deferred inflow for deferred revenue. The other type of deferred revenue is “unavailable revenue.” Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available, to finance expenditures of the current fiscal period, and all other eligibility requirements have been met, then the assets must be offset by a corresponding deferred inflow for deferred 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 revenue 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.

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

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**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.

### **Subsequent Events**

Management has evaluated events through December 15, 2017, the date the financial statements were available to be issued.

## **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

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given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by 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 four financial institutions within Carlsbad, New Mexico. The City's deposits are carried at cost.

As of June 30, 2017, 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:

	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
Cash on hand	\$ 4,447	-	4,447
Carlsbad National Bank	9,407,672	(76,708)	9,330,964
Pioneer Savings Bank	3,069,789	-	3,069,789
Wells Fargo Bank	41,405,435	(948,126)	40,457,309
Western Commerce Bank	10,560,023	(49,403)	10,510,620
Total cash deposits	<u>\$ 64,447,366</u>	<u>(1,074,237)</u>	<u>63,373,129</u>

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

<u>Statement of Net Position</u>	<u>Amount</u>
Cash	\$ 55,298,869
Restricted	<u>8,039,653</u>
	<u>63,338,522</u>
Agency fund	34,607
Total cash	<u>\$ 63,373,129</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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	<u>Carlsbad National Bank</u>	<u>Pioneer Savings Bank</u>	<u>Wells Fargo Bank, N.A.</u>	<u>Western Commerce Bank</u>
Total deposits in bank	\$ 9,407,672	3,069,789	41,405,435	10,560,023
Less FDIC coverage	(250,000)	(250,000)	(250,000)	(500,000)
Uninsured public funds	<u>9,157,672</u>	<u>2,819,789</u>	<u>41,155,435</u>	<u>10,060,023</u>
Pledged collateral held by pledging bank's trust, but not in the City's name	<u>8,140,912</u>	<u>1,741,262</u>	<u>22,695,298</u>	<u>6,863,152</u>
Uninsured and uncollateralized public funds	<u>1,016,760</u>	<u>1,078,527</u>	<u>18,460,137</u>	<u>3,196,871</u>
Total pledged collateral	<u>8,140,912</u>	<u>1,741,262</u>	<u>22,695,298</u>	<u>6,863,152</u>
50% pledged collateral requirement per state statute	<u>4,578,836</u>	<u>1,409,895</u>	<u>20,577,718</u>	<u>5,030,012</u>
Pledged collateral (under) over the requirements	<u>\$ 3,562,076</u>	<u>331,367</u>	<u>2,117,580</u>	<u>1,833,141</u>

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, 2017, \$63,192,919 of the City's bank balance of \$63,192,919 was exposed to custodial credit risk as follows:

	<u>Carlsbad National Bank</u>	<u>Pioneer Savings Bank</u>	<u>Wells Fargo Bank, N.A.</u>	<u>Western Commerce Bank</u>
Uninsured and collateralized held by pledging bank's trust dept. or agent not in the City name	\$ <u>9,157,672</u>	<u>2,819,789</u>	<u>41,155,435</u>	<u>10,060,023</u>

**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 is 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, 2017, the NMFA held \$2,090,769.

**NOTE 4. RESTRICTED INVESTMENTS**

**Investments Held at Wells Fargo Bank, N.A. Roswell, 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>6,234,518</u>

As of June 30, 2017, the restricted investments are composed of the following:

Investment - US Treasury Notes	\$ <u>6,234,518</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, 2017.

<u>Market Value</u>	<u>%</u>	<u>Maturity</u>
\$ 524,276	8%	Less than 1 year
1,254,197	20%	1-2 years
4,456,045	71%	2-5 years
\$ 6,234,518	100%	

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:

<b>Description</b>	<b>2017</b>
	<b>Level 1</b>
U.S. Treasury Notes	\$ 6,234,518

**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, 2017, consisted of the following:

<b>Types of Receivables</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>Accounts receivable</b>			
Charges for services	\$ 1,477,467	2,914,135	4,391,602
Allowance for doubtful accounts	(52,175)	(405,621)	(457,796)
Total	1,425,292	2,508,514	3,933,806
<b>Taxes receivable</b>			
Gross receipts taxes	6,746,325	128,746	6,875,071
Franchise taxes	134,045	-	134,045
Property taxes	219,348	-	219,348
Lodgers' taxes	224,146	-	224,146
Public service taxes	66,306	-	66,306
Allowance for doubtful accounts	(4,387)	-	(4,387)
Total	7,385,783	128,746	7,514,529
<b>Intergovernmental receivables</b>			
Building improvement grants	-	-	-
Public safety grants	24,061	-	24,061
Infrastructure improvement grants	354,980	-	354,980
Municipal transit grants	-	63,292	63,292
Total	379,041	63,292	442,333
Interest receivable	1,914	1,803	3,717
Receivables, net	\$ 9,192,030	2,702,355	11,894,385

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 1<sup>st</sup>. Property tax rates for the year are set no later than September 1<sup>st</sup> 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 1<sup>st</sup>. The Eddy County Treasurer sends tax notices to property owners by November 1<sup>st</sup> of each year. Taxes are payable in equal semiannual installments by November 10<sup>th</sup> and April 10<sup>th</sup> 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 2016, was \$4.908 per \$1,000 for non-residential and \$6.225 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 \$52,175 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, 2017, is \$405,620.

**NOTE 8. CAPITAL ASSETS**

Capital assets for the fiscal year ended June 30, 2017, are as follows:

<b>Governmental Activities</b>	<b>Balance 2016</b>	<b>Additions</b>	<b>Deletions &amp; Transfers</b>	<b>Adjustments</b>	<b>Balance 2017</b>
<b>Non-Depreciable Capital Assets</b>					
Land	\$ 1,997,341	-	-	-	1,997,341
Construction in Progress	7,549,207	450,175	-	(6,829,497)	1,169,885
Total non-depreciable capital assets	<u>9,546,548</u>	<u>450,175</u>	<u>-</u>	<u>(6,829,497)</u>	<u>3,167,226</u>
<b>Capital Assets Being Depreciated</b>					
Buildings	66,492,347	3,775,325	(345,227)	6,655,095	76,577,540
Improvements	534,954	-	-	9	534,963
Infrastructure	85,705,422	9,964,137	(129,230)	23,111	95,563,440
Equipment	24,783,143	1,650,787	(821,953)	162,013	25,773,990
Total capital assets being depreciated	<u>177,515,866</u>	<u>15,390,249</u>	<u>(1,296,410)</u>	<u>6,840,228</u>	<u>198,449,933</u>
<b>Less Accumulated Depreciation For</b>					
Buildings	(27,344,383)	(2,977,709)	288,961	(2,955)	(30,036,086)
Improvements	(147,972)	(25,210)	-	-	(173,182)
Utility System & Facilities	(30,456,692)	(2,416,605)	91,016	-	(32,782,281)
Equipment	(14,684,167)	(2,511,465)	714,468	29,717	(16,451,447)
Total accumulated depreciation	<u>(72,633,214)</u>	<u>(7,930,989)</u>	<u>1,094,445</u>	<u>26,762</u>	<u>(79,442,996)</u>
Total capital assets being depreciated, net	<u>104,882,652</u>	<u>7,459,260</u>	<u>(201,965)</u>	<u>6,866,990</u>	<u>119,006,937</u>
Total capital assets, net of depreciation \$	<u>114,429,200</u>	<u>7,909,435</u>	<u>(201,965)</u>	<u>37,493</u>	<u>122,174,163</u>

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<b>Business-type Activities</b>	<b>Balance 2016</b>	<b>Additions</b>	<b>Deletions &amp; Transfers</b>	<b>Adjustments</b>	<b>Balance 2017</b>
<b>Non-Depreciable Capital Assets</b>					
Land & Water Rights	\$ 1,282,273	-	-	33,899	1,316,172
Construction in Progress	36,056,996	4,416,059	-	(1,281,656)	39,191,399
	<u>37,339,269</u>	<u>4,416,059</u>	<u>-</u>	<u>(1,247,757)</u>	<u>40,507,571</u>
<b>Capital Assets Being Depreciated</b>					
Buildings and Improvements	43,881,089	1,158,197	1,297,805	580,060	46,917,151
Equipment	16,015,663	1,266,917	(873,934)	(1,327,305)	15,081,341
Utility system	50,580,501	1,603,731	(1,312,590)	3,092,719	53,964,361
Total capital assets being depreciated	<u>110,477,253</u>	<u>4,028,845</u>	<u>(888,719)</u>	<u>2,345,474</u>	<u>115,962,853</u>
<b>Less Accumulated Depreciation For</b>					
Buildings & Improvements	(14,031,619)	(1,370,958)	(626,715)	(2,763,565)	(18,792,857)
Equipment	(9,875,857)	(1,447,230)	873,853	(11,772)	(10,461,006)
Utility system	(22,019,596)	(1,231,786)	641,152	2,763,565	(19,846,665)
Total accumulated depreciation	<u>(45,927,072)</u>	<u>(4,049,974)</u>	<u>888,290</u>	<u>(11,772)</u>	<u>(49,100,528)</u>
Total capital assets being depreciated, net	<u>64,550,181</u>	<u>(21,129)</u>	<u>(429)</u>	<u>2,333,702</u>	<u>66,862,325</u>
Total capital assets, net of depreciation \$	<u>101,889,450</u>	<u>4,394,930</u>	<u>(429)</u>	<u>1,085,945</u>	<u>107,369,896</u>

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

**Governmental activities**

General Government	\$ 1,838,778
Public Safety	1,860,633
Public Works	2,414,077
Culture & Recreation	1,771,568
Health & Welfare	45,933
Total governmental activities	<u>\$ 7,930,989</u>

**Business-type activities**

Solid Waste	486,894
Joint Water and Sewer	3,287,652
Municipal Transit	77,824
Performing Arts Center	112,933
Cemetery	84,671
Total business-type activities	<u>\$ 4,049,974</u>

**NOTE 9. ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2017, consisted of the following:

	<b>Governmental Activities</b>	<b>Business Type Activities</b>
Gov't sales tax payable	\$ 5,370	-
Compensating taxes	440	-
State tax payable	<u>55,578</u>	<u>57,369</u>
	<u>\$ 61,388</u>	<u>57,369</u>

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**NOTE 10. LONG-TERM OBLIGATIONS**

Changes in governmental activities obligations during the year ended June 30, 2017, were as follows:

<b>Governmental Activities</b>	<b>Balance</b>			<b>Amounts</b>	
	<b>2016</b>	<b>Additions</b>	<b>Reduction</b>	<b>Balance 2017</b>	<b>Due Within One Year</b>
Notes pay able	\$ 5,898,442	-	(436,431)	5,462,011	441,537
Bonds pay able	5,360,000	-	(590,000)	4,770,000	625,000
Less net bond premium (discount)	(44,618)	-	(671)	(45,289)	239
Compensated absences	1,799,926	1,555,596	(1,533,670)	1,821,852	512,301
Net pension liability	37,724,844	-	20,827,123	58,551,967	-
Governmental activities long-term liabilities	\$ 50,738,594	1,555,596	18,266,351	70,560,541	1,579,077

**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 \$378,348 for the year ended June 30, 2017.

The annual requirements to amortize the loan outstanding as of June 30, 2017, including interest payments, are as follows:

	Principal	Interest	Total
2018	\$ 78,662	9,062	87,724
2019	81,706	6,221	87,927
2020	84,937	3,202	88,139
	\$ 245,305	18,485	263,790

**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
2018	\$ 362,875	112,861	475,736
2019	365,959	109,776	475,736
2020	369,875	105,860	475,736
2021	374,757	100,978	475,736
2022	380,566	95,170	475,736
2023-2027	2,020,087	358,593	2,378,680
2028-2030	1,342,587	84,620	1,427,207
	\$ 5,216,706	967,858	6,184,567

**2002 Refunding and Improvement Bonds**

On February 12, 2002, the City issued bonds in the amount of \$3,710,000 for the purposes of defraying the cost of public building projects; and the cost of refunding, paying, discharging, and liquidating a portion of the 1994 sales tax revenue bonds. The bond bears interest at rates between 4.00% and 4.85% per annum and matures on October 1, 2017. 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

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\$35.6 million for the year ended June 30, 2017. The bonds maturing on October 1, 2017 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. As and for a sinking fund for the redemption of the bonds maturing on October 1, 2017, the City shall cause to be deposited in the debt service fund a sum which is sufficient to redeem the bonds at the redemption date.

The annual requirements to amortize the bonds outstanding as of June 30, 2017, including interest payments, are as follows:

		Principal	Premium (Discount)	Net Book Value	Interest	Total
2018	\$	335,000	(284)	334,716	8,124	342,840

**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 \$35.6 million for the year ended June 30, 2017.

The annual requirements to amortize the bonds outstanding as of June 30, 2017, including interest payments, are as follows:

		Principal	Premium (Discount)	Net Book Value	Interest	Total
2018	\$	290,000	523	290,523	195,456	485,456
2019		300,000	(411)	299,589	183,856	483,856
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
2023-2027		1,950,000	(20,294)	1,929,706	492,538	2,442,538
2028-2029		910,000	(18,918)	891,082	65,313	975,313
	\$	4,435,000	(45,005)	4,389,995	1,414,125	5,849,125

**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.

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**Business-Type Activities**

Changes in the business-type activities obligations during the year ended June 30, 2017, were as follows:

<b>Business-Type Activities</b>	<b>Balance 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Adjustments</b>	<b>Balance 2017</b>	<b>Amounts Due Within One-Year</b>
Notes payable	\$ 33,375,091	3,019,500	(208,209)	1,408,698	37,595,080	829,276
Bonds payable	15,530,000	-	(925,000)	-	14,605,000	960,000
Less net bond premium (discount)	(141,531)	-	(2,483)	-	(144,014)	5,291
Landfill closure	349,854	24,366	-	-	374,220	-
Compensated absences	303,687	298,417	(369,294)	-	232,810	120,933
Net pension liability	5,360,497	3,320,016	-	-	8,680,513	-
Business-type activities long-term liabilities	<u>\$ 54,777,598</u>	<u>6,662,299</u>	<u>(1,504,986)</u>	<u>1,408,698</u>	<u>61,343,609</u>	<u>1,915,500</u>

**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. 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 \$10 million for the year ended June 30, 2017.

As of June 30, 2017, the City has requested loan proceeds totaling \$15,688,737. As per the agreement, the first loan payment is not required until completion of the project. The City received the final loan agreement subsequent to year end. Pending the City's approval of the final loan agreement, there will be 20 equal annual installments of \$1,187,310 beginning on September 29, 2018 and ending on September 29, 2037.

**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 \$10 million for the year ended June 30, 2017.

As per the agreement, the City has three years from the date of the agreement to complete all work on the wastewater utility system. As of June 30, 2017, the City has requested loan proceeds, totaling \$19,288,576. As per the agreement, the first loan payment is not required until one year after the completion of the project. The City recorded the proceeds as long-term debt.

The City recorded the proceeds as long-term debt with \$620,298 allocated to current liabilities based on the formal amortization schedule created by NMFA.

**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 \$10 million for the year ended June 30, 2017. The annual requirements to amortize the loan outstanding as of June 30, 2017, including interest payments, are as follows:

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	<u>Principal</u>	<u>Admin Fee</u>	<u>Total</u>
2018	\$ 14,905	492	15,397
2019	14,942	455	15,397
2020	14,980	417	15,397
2021	15,017	380	15,397
2022	15,055	342	15,397
2023-2027	75,840	1,145	76,985
2028-2030	45,961	230	46,191
Total	<u>\$ 196,700</u>	<u>3,461</u>	<u>200,161</u>

**NMFA # 13—Note Payable—Solid Waste Grapppler 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 grapppler trucks. The payments of principal and interest are paid from the net revenues of the City's water and wastewater utility system activities, which was approximately \$10 million for the year ended June 30, 2017.

The annual requirements to amortize the loan outstanding as of June 30, 2017, including interest payments, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 113,573	12,862	126,435
2019	114,278	12,044	126,322
2020	115,203	11,004	126,207
2021	116,332	9,760	126,092
2022	117,705	8,271	125,976
2023-2025	363,771	13,442	377,213
Total	<u>\$ 940,862</u>	<u>67,383</u>	<u>1,008,245</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 \$10 million for the year ended June 30, 2017. During the fiscal year ended June 30, 2017, the City had received the full balance of the \$1,500,000.

The annual requirements to amortize the loan outstanding as of June 30, 2017, including interest payments, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 29,447	1,353	30,800
2019	29,520	1,280	30,800
2020	29,594	1,206	30,800
2021	29,668	1,132	30,800
2022	29,742	1,058	30,800
2023-2027	149,830	4,170	154,000
2028-2032	151,711	2,289	154,000
2033-2035	91,940	460	92,400
Total	<u>\$ 541,452</u>	<u>12,948</u>	<u>554,400</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 \$10 million for the year ended June 30, 2017.

The annual requirements to amortize the loan outstanding as of June 30, 2017, including interest payments, are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$	51,053	2,347	53,400
2019		51,181	2,219	53,400
2020		51,309	2,091	53,400
2021		51,437	1,963	53,400
2022		51,566	1,834	53,400
2023-2027		259,771	7,229	267,000
2028-2032		263,033	3,967	267,000
2033-2035		159,403	797	160,200
Total	\$	<u>938,753</u>	<u>22,447</u>	<u>961,200</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, 2017, including interest payments, are as follows:

		<u>Principal</u>	<u>Premium (Discount)</u>	<u>Interest</u>	<u>Total</u>
2018	\$	960,000	5,291	663,181	1,623,181
2019		995,000	7,505	627,181	1,622,181
2020		1,035,000	(768)	587,381	1,622,381
2021		1,075,000	(6,883)	545,981	1,620,981
2022		1,120,000	(12,167)	501,638	1,621,638
2023-2027		6,405,000	(95,041)	1,705,539	8,110,539
2028-2029		3,015,000	(41,951)	224,000	3,239,000
Total	\$	<u>14,605,000</u>	<u>(144,014)</u>	<u>4,854,901</u>	<u>19,459,901</u>



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**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 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 \$3,179,041 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, 2017. 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, 2017:

Estimated landfill closure cost	\$ 2,044,275
Estimated landfill post-closure care cost	1,174,504
Total estimated closure and post-closure costs	<u>\$ 3,218,779</u>
FY17 tonnage received	86,499
conversion to compacted cubic yards in-place	2
Cubic yards	<u>\$ 172,998</u>
FY16 capacity used to date	3,069,075
FY17 tonnage received/capacity used	172,998
FY17 capacity used to date	<u>\$ 3,242,073</u>
Total capacity used to date (approximately 3,242,073 gate cubic yards) as a percentage of total capacity (13,943,056 gate cubic yards including expansion)	<u>23.25%</u>
Total estimated closure and post-closure costs	3,218,779
Total capacity used to date	23.25%
Estimated closure and post-closure care costs	<u>\$ 748,438</u>
Estimated closure and post-closure care costs	748,438
Prior year liability	699,707
Decrease in estimated liability	<u>\$ 48,731</u>
City of Carlsbad's portion (50%)	<u>\$ 24,366</u>
Prior year liability recognized	349,854
Increase/decrease in estimated liability	24,366
Estimated liability for the fiscal year ended June 30, 2017	<u>\$ 374,220</u>

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**NOTE 11. RESTATEMENT OF NET POSITION**

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>
<b>Government-Wide Financial Statements</b>			
Capital assets were understated	\$ 37,493	-	-
<b>Major Funds</b>			
<b>General Fund</b>			
Receiv ables were understated	10,518	-	<u>10,518</u>
<b>Solid Waste Fund</b>			
Capital assets understated	-	6,333	<u>6,333</u>
<b>Water &amp; Sewer Fund</b>			
Receiv ables were understated	-	71,017	
Capital assets overstated	-	(711,729)	
Interest should have been capitalized. Capital	-	1,408,698	
Total water & sewer			<u>767,986</u>
<b>Non-Major Funds</b>			
<b>Airport Fund</b>			
Receiv ables were understated	75,264	-	<u>75,264</u>
<b>Lodger's Tax Fund</b>			
Receiv ables were understated	141,158	-	<u>141,158</u>
<b>Federal Projects Fund</b>			
Receiv ables were understated	291,000	-	
Total federal projects			<u>291,000</u>
<b>Performing Arts Center Fund</b>			
Capital assets were understated	-	5,886	<u>5,886</u>
<b>Municipal Transit Fund</b>			
Capital assets were understated	-	8,909	<u>8,909</u>
<b>Cemetery Fund</b>			
Capital assets were understated	-	24,990	<u>24,990</u>
	<u>\$ 555,433</u>	<u>814,104</u>	<u>1,332,044</u>

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**NOTE 12. PENSION PLAN—PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Summary of Significant Accounting Policies**

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA’s. 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.

**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% 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 2017.

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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 \$3,287,261 and employer paid member benefits that were “picked up” by the employer were \$0.00 for the year ended June 30, 2017.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions;** At June 30, 2017, the City reported a liability of \$67,232,480 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The City’s proportion of the net pension liability was based on a projection of the City long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City’s proportion was 2.2391%, which was an increase of 0.1026% from its proportion measured as of June 30, 2015.

**For PERA Fund Division; Municipal General Division,** at June 30, 2017, the City reported a liability of \$30,211,818 for its proportionate share of the net pension liability. At June 30, 2016, the City’s proportion was 1.8910%, which was an increase of 0.0887% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal General Division pension expense of \$3,700,464. At June 30, 2017, 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:

<b>Municipal General Division</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,509,507	294,851
Changes of assumptions	1,771,569	5,024
Net difference between projected and actual earnings on pension plan investments	5,558,917	-
Change in proportion and differences between the City contributions and proportionate share of contributions	1,474,180	-
The City contributions subsequent to the measurement date	1,587,426	-
Total	<u>\$ 11,901,599</u>	<u>299,875</u>

\$1,587,426 reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	<b>Amount</b>
2018	\$ (2,435,765)
2019	(2,435,765)
2020	(3,715,801)
2021	(1,426,967)
2022	-
Thereafter	-
	<u>\$ (10,014,298)</u>

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**For PERA Fund Division; Municipal Police Division**, at June 30, 2017, the City reported a liability of \$14,967,615 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 2.0286%, which was an increase of 0.1556% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal Police Division pension expense of \$2,216,528. At June 30, 2017, 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:

<b>Municipal Police Division</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,098,841	-
Changes of assumptions	991,371	269,937
Net difference between projected and actual earnings on pension plan investments	2,367,214	-
Change in proportion and differences between the City contributions and proportionate share of contributions	780,974	-
The City contributions subsequent to the measurement date	809,977	-
Total	<u>\$ 6,048,377</u>	<u>269,937</u>

\$809,977 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	<b>Amount</b>
2018	\$ (1,281,024)
2019	(1,281,024)
2020	(1,784,746)
2021	(621,669)
2022	-
Thereafter	-
	<u>\$ (4,968,463)</u>

**For PERA Fund Division; Municipal Fire Division**, at June 30, 2017, the City reported a liability of \$22,053,047 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was 3.3058%, which was an increase of 0.2633% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized PERA Fund Division; Municipal Fire Division pension expense of \$3,294,879.

At June 30, 2017, 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:

<b>Municipal Fire Division</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 998,669	-
Changes of assumptions	1,166,520	-
Net difference between projected and actual earnings on pension plan investments	1,836,904	-
Change in proportion and differences between the City contributions and proportionate share of contributions	1,438,728	-
The City contributions subsequent to the measurement date	889,858	-
Total	<u>\$ 6,330,679</u>	<u>-</u>

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\$889,858 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended</b>		<b>Amount</b>
<b>June 30:</b>		
2018	\$	(1,633,130)
2019		(1,633,130)
2020		(1,670,678)
2021		(503,883)
2022		-
Thereafter		-
	\$	<u>(5,440,821)</u>

**Actuarial assumptions** – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

<b>Actuarial valuation date</b>	June 30, 2015
<b>Actuarial cost method</b>	Entry age normal
<b>Amortization method</b>	Level percentage of pay, open
<b>Amortization period</b>	Solved for based on statutory rates
<b>Asset valuation method</b>	Fair value
<b>Actuarial assumptions</b>	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Pay roll growth	2.75% for first 10 years, then 3.25 annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	Includes inflation at 2.25% for the first 10 years and 2.75% thereafter
Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2015 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board use in the June 30, 2015 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:

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<u>All Funds - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.5%	7.39%
Risk Reduction & Mitigation	21.5%	1.79%
Credit Oriented Fixed Income	15.0%	5.77%
Real Assets	20.0%	7.35%
Total	<u>100.0%</u>	

**Discount rate** – A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016. This rate was an increase from the fiscal year 2016 rate of 7.45%. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

**Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate** – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.48 percent, as well as what the employer name’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.48 percent) or 1-percentage-point higher (8.48 percent) than the current rate:

<u>PERA Fund Division -</u>	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
Municipal General Division \$	45,043,132	\$ 30,211,818	\$ 17,909,979
Municipal Police Division \$	22,021,077	\$ 14,967,615	\$ 9,198,708
Municipal Fire Division \$	28,845,272	\$ 22,053,047	\$ 16,473,944

**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/>.

**NOTE 13. POST-EMPLOYMENT - STATE RETIREE HEALTH CARE PLAN**

**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.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment health care plan. That report and further

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information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, New Mexico 87107.

**Funding Policy**—The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requires for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board. The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plans 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary.

For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1- 6.1 NMSA 1978 and the employer and employee contributions to the authority, in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The City's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$540,761, \$522,165, and \$479,115 respectively, which equal the required contributions for each year.

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**NOTE 14. COMMITMENTS**

The City has the following construction projects, which are evidenced by contractual arrangements with construction contractors, as of June 30, 2017:

**Commitments of Governmental-type Activities**

<b>Project</b>	<b>Fund</b>	<b>Contract Amount</b>	<b>Spent to Date</b>	<b>Commitment Remaining</b>	<b>Percentage Complete</b>
Youth Sports Complex	Sports Complex & Federal Project	\$ 7,481,295	6,761,136	720,159	90.37%
Callaway Drive	Street Improvement	2,919,178	1,940,792	978,386	66.48%
San Jose Street	Disaster Preparedness, GRT Capital Outlay, & Street Improvement	2,353,024	1,401,251	951,773	59.55%
Performing Arts Center	CIEP	828,747	90,066	738,681	10.87%
National Cave Karst Research Institute	CIEP	564,376	558,674	5,702	98.99%
Bridge Remediation Projects	Street Improvement	342,046	183,759	158,287	53.72%
City Hall Remediation	CIEP	321,580	291,830	29,750	90.75%
Multiple Re-roof Projects (due-to hail storm)	CEIP	187,449	23,965	163,484	12.78%
Standpipe Road	Street Improvement	213,600	35,705	177,895	16.72%
<b>Total</b>		<b>\$ 15,211,295</b>	<b>11,287,178</b>	<b>3,924,117</b>	<b>74.20%</b>

**Commitments of Business-type Activities**

<b>Project</b>	<b>Fund</b>	<b>Contract Amount</b>	<b>Spent to Date</b>	<b>Commitment Remaining</b>	<b>Percentage Complete</b>
Sewer Lift Stations	Sewer System Improvement	\$ 1,575,234	1,209,557	365,677	76.79%
Double Eagle - Water Projects	Water & Sewer	5,104,115	2,798,892	2,305,223	54.84%
Sheep's Draw Well #6	Water & Sewer	2,544,478	1,440,205	1,104,273	56.60%
Water Building	Water & Sewer	1,087,329	523,137	564,192	48.11%
<b>Total</b>		<b>\$ 10,311,156</b>	<b>5,971,791</b>	<b>4,339,365</b>	<b>57.92%</b>

The City also had commitments outstanding at June 30, 2017, relating to vehicle and equipment orders totaling approximately \$151,500.

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For the Year Ended June 30, 2017**

**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, 2017 was approximately \$292,000 and was apportioned between governmental and business type activities.

<b>Year Ended June 30,</b>	<b>Amount</b>
2018	\$ 163,453
2019	102,850
2020	78,534
2021	56,221
2022	18,598
	\$ 419,656

**NOTE 15. 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 16. 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 17. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

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

**Deficit Fund Balance of Individual Funds**

There were no funds that had a deficit fund balance for the year ended June 30, 2017.

**Excess of Expenditures Over Appropriations**

There were no funds that exceeded approved budgetary authority for the year ended June 30, 2017.

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Notes to Financial Statements  
For the Year Ended June 30, 2017**

**Designated Cash Appropriations**

There were no funds that exceeded approved designated cash appropriations for the year ended June 30, 2017.

**NOTE 18. 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.

		<b>Transfers In</b>						
		General	Solid	Joint	Other	Other	Internal	
		Fund	Waste	Water &	Governmental	Enterprise	Service	Total
		Fund	Fund	Sewer	Funds	Funds	Funds	
<b>Transfers Out</b>	General Fund	\$ -	-	-	502,848	665,000	1,425,000	2,592,848
	GRT Capital Outlay Fund	1,868,212	-	-	1,681,790	-	-	3,550,002
	Solid Waste Fund	1,948,700	438,602	-	-	-	128,750	2,516,052
	Joint Water & Sewer Fund	2,177,500	-	1,638,965	-	-	472,000	4,288,465
	Other Governmental Funds	500,000	-	27,268	683,755	104,091	-	1,315,114
	Other Enterprise Funds	-	-	-	-	-	25,000	25,000
	Internal Service Funds	38,560	2,509	5,746	689	1,147	-	48,651
	<b>\$ 6,532,972</b>	<b>441,111</b>	<b>1,671,979</b>	<b>2,869,082</b>	<b>770,238</b>	<b>2,050,750</b>	<b>14,336,132</b>	

**NOTE 19. DUE TO DUE FROM**

The City records temporary interfund receivables and payables to enable funds to operate until fund can be repaid. All interfund balances are to be repaid within one year. Interfund balances at June 30, 2017 consist of the following:

		<b>Due from - Advance to</b>			
		<b>Nonmajor</b>	<b>Sold</b>	<b>Water and</b>	
		<b>Governmental</b>	<b>Waste</b>	<b>Sewer</b>	<b>Total</b>
		<b>Activities</b>	<b>Fund</b>	<b>Fund</b>	
<b>Due to - Advance From</b>					
General Fund	\$	-	-	-	-
Nonmajor governmental activities		-	-	-	-
Total	\$	-	-	-	-

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	Special Revenue Funds						
	Fire Protection Fund	Lodgers' Tax Fund	Airport Fund	Emergency Medical Services Fund	Local Government Corrections Fund	Law Enforcement Protection Fund	Sports Complex Fund
<b>Assets</b>							
Cash	\$ 83,515	2,290,618	117,622	-	212,321	7,679	298,874
Receivables, net	-	224,146	189,196	19,904	-	-	273,385
Due from other funds	-	-	-	-	-	-	-
Restricted assets:							
Cash held by fiscal agent	-	-	-	-	-	-	1,723,583
Total assets	<u>\$ 83,515</u>	<u>2,514,764</u>	<u>306,818</u>	<u>19,904</u>	<u>212,321</u>	<u>7,679</u>	<u>2,295,842</u>
<b>Liabilities</b>							
Accounts payable	\$ -	97,974	9,362	-	25,125	-	553,899
Accrued salaries	-	-	-	-	-	-	19,539
Accrued liabilities	-	-	-	-	-	-	500
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>97,974</u>	<u>9,362</u>	<u>-</u>	<u>25,125</u>	<u>-</u>	<u>573,938</u>
Deferred Inflows of Resources:							
Unavailable grant revenue	-	-	-	-	-	-	-
<b>Fund Balances</b>							
Restricted for:							
Debt service	-	-	-	-	-	-	-
State mandated per statutes	83,515	2,416,790	-	19,904	137,196	-	-
Construction and improvements	-	-	-	-	-	-	1,723,583
Committed for:							
Subsequent years' expenditures	-	-	-	-	50,000	7,679	-
Assigned	-	-	297,456	-	-	-	-
Unassigned	-	-	-	-	-	-	(1,679)
Total fund balances	<u>83,515</u>	<u>2,416,790</u>	<u>297,456</u>	<u>19,904</u>	<u>187,196</u>	<u>7,679</u>	<u>1,721,904</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 83,515</u>	<u>2,514,764</u>	<u>306,818</u>	<u>19,904</u>	<u>212,321</u>	<u>7,679</u>	<u>2,295,842</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	Special Revenue Funds			Capital Project Funds		
	RSVP Program Fund	Community Development Fund	Total Special Revenue Funds	Park Improvement Fund	CIEP Fund	Federal Projects Fund
<b>Assets</b>						
Cash	\$ -	-	3,010,629	25,305	1,258,588	626,603
Receivables, net	-	-	706,631	4,308	1,032,429	-
Due from other funds	-	-	-	-	-	-
Restricted assets:			-			
Cash held by fiscal agent	-	-	1,723,583	-	-	-
Total assets	\$ -	-	<u>5,440,843</u>	<u>29,613</u>	<u>2,291,017</u>	<u>626,603</u>
<b>Liabilities</b>						
Accounts payable	\$ -	-	686,360	1,094	194,446	-
Accrued salaries	-	-	19,539	-	-	-
Accrued interest payable	-	-	500	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	-	-	<u>706,399</u>	<u>1,094</u>	<u>194,446</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>						
Unavailable grant revenue	-	-	-	-	-	-
<b>Fund Balances</b>						
Restricted for:						
Debt service	-	-	-	-	-	-
State mandated per statutes	-	-	2,657,405	-	-	-
Construction and improvements			1,723,583	-	-	-
Committed for:						
Subsequent years' expenditures	-	-	57,679	25,305	2,096,571	626,603
Assigned	-	-	297,456	3,214	-	-
Unassigned	-	-	(1,679)	-	-	-
Total fund balances	-	-	<u>4,734,444</u>	<u>28,519</u>	<u>2,096,571</u>	<u>626,603</u>
Total liabilities, deferred inflows of resources and fund balances	\$ -	-	<u>5,440,843</u>	<u>29,613</u>	<u>2,291,017</u>	<u>626,603</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017**

	Capital Project Funds		Debt Service Funds				Total Other Governmental Fund
	Street System Improvement Fund	Total Capital Projects Funds	2002 Sales Tax Bonds Fund	Capital Outlay GRT Fund	New Mexico Finance Authority Loan Fund	Total Debt Service Funds	
<b>Assets</b>							
Cash	\$ 3,806,968	5,717,464	255,312	40,455	-	295,767	9,023,860
Receivables, net	188,082	1,224,819	-	-	-	-	1,931,450
Due from other funds	-	-	-	-	-	-	-
Restricted assets:							
Cash held by fiscal agent	-	-	-	-	80,628	80,628	1,804,211
Total assets	<u>\$ 3,995,050</u>	<u>6,942,283</u>	<u>255,312</u>	<u>40,455</u>	<u>80,628</u>	<u>376,395</u>	<u>12,759,521</u>
<b>Liabilities</b>							
Accounts payable	\$ 631,648	827,188	-	-	-	-	1,513,548
Accrued salaries	-	-	-	-	-	-	19,539
Accrued interest payable	-	-	-	-	-	-	500
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>631,648</u>	<u>827,188</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,533,587</u>
<b>Deferred Inflows of Resources</b>							
Unavailable grant revenue	-	-	-	-	-	-	-
<b>Fund Balances:</b>							
Restricted for:							
Debt service	-	-	255,312	40,455	80,628	376,395	376,395
State mandated per statutes	-	-	-	-	-	-	2,657,405
Construction and improvements	-	-	-	-	-	-	1,723,583
Committed for:							
Subsequent years' expenditures	3,363,402	6,111,881	-	-	-	-	6,169,560
Assigned	-	3,214	-	-	-	-	300,670
Unassigned	-	-	-	-	-	-	(1,679)
Total fund balances	<u>3,363,402</u>	<u>6,115,095</u>	<u>255,312</u>	<u>40,455</u>	<u>80,628</u>	<u>376,395</u>	<u>11,225,934</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 3,995,050</u>	<u>6,942,283</u>	<u>255,312</u>	<u>40,455</u>	<u>80,628</u>	<u>376,395</u>	<u>12,759,521</u>

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, 2017**

	Special Revenue Funds						
	Fire Protection Fund	Lodgers' Tax Fund	Airport Fund	Emergency Medical Services Fund	Local Government Corrections Fund	Law Enforcement Protection Fund	Sports Complex Fund
<b>Revenues</b>							
Sales taxes	\$ -	-	-	-	-	-	1,339,474
Lodgers' taxes	-	1,952,730	-	-	-	-	-
Intergovernmental:							
Federal	-	-	149,737	-	-	-	-
State	378,348	-	5,692	39,904	-	68,400	-
Charges for services	-	-	40,992	-	146,534	-	163,739
Interest	-	2	-	-	-	-	18,205
Miscellaneous	-	-	-	-	-	-	7,558
Total revenues	<u>378,348</u>	<u>1,952,732</u>	<u>196,421</u>	<u>39,904</u>	<u>146,534</u>	<u>68,400</u>	<u>1,528,976</u>
<b>Expenditures</b>							
Current:							
Public safety	90,823	-	47,445	-	175,125	31,464	-
Culture and recreation	-	1,012,278	-	-	-	-	1,091,092
Capital outlay	233,597	87,425	166,158	35,758	-	36,935	3,100,517
Debt service:							
Principal	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-
Total expenditures	<u>324,420</u>	<u>1,099,703</u>	<u>213,603</u>	<u>35,758</u>	<u>175,125</u>	<u>68,399</u>	<u>4,191,609</u>
Excess (deficiency) of revenues over expenditures	53,928	853,029	(17,182)	4,146	(28,591)	1	(2,662,633)
<b>Other Financing Sources (Uses)</b>							
Transfers in	-	119,689	135,500	15,758	-	-	689
Transfers (out)	(88,330)	(238,623)	-	-	-	-	(356,802)
Total other financing	<u>(88,330)</u>	<u>(118,934)</u>	<u>135,500</u>	<u>15,758</u>	<u>-</u>	<u>-</u>	<u>(356,113)</u>
<b>Special Item</b>							
Proceeds from sale of assets	-	-	-	-	-	-	-
Net change in fund balance	(34,402)	734,095	118,318	19,904	(28,591)	1	(3,018,746)
Fund balance, beginning of year	117,917	1,541,537	103,874	-	215,787	7,678	4,740,650
Restatement	-	141,158	75,264	-	-	-	-
Fund balance, beginning of year, restated	117,917	1,682,695	179,138	-	215,787	7,678	4,740,650
Fund balance, end of year	<u>\$ 83,515</u>	<u>2,416,790</u>	<u>297,456</u>	<u>19,904</u>	<u>187,196</u>	<u>7,679</u>	<u>1,721,904</u>

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, 2017**

	Special Revenue Funds			Capital Project Funds		
	RSVP Program Fund	Community Development Fund	Total Special Revenue Funds	Park Improve- ment Fund	CIEP Fund	Federal Projects Fund
<b>Revenues</b>						
Sales taxes	\$ -	-	1,339,474	-	-	-
Lodgers' taxes	-	-	1,952,730	-	-	-
Intergovernmental:						
Federal	-	-	149,737	-	-	405,840
State	-	-	492,344	16,222	74,460	190,000
Charges for services	-	-	351,265	-	-	-
Interest	-	-	18,207	-	2,724	-
Miscellaneous	-	-	7,558	-	1,015,686	-
Total revenues	-	-	4,311,315	16,222	1,092,870	595,840
<b>Expenditures</b>						
Current:	-	-	-	-	-	-
Public safety	-	-	344,857	-	-	-
Culture and recreation	-	-	2,103,370	17,818	-	-
Economic development	-	-	-	-	11,791	-
Capital outlay	-	-	3,660,390	-	2,831,441	515,416
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total expenditures	-	-	6,108,617	17,818	2,843,232	515,416
Excess (deficiency) of revenues over expenditures	-	-	(1,797,302)	(1,596)	(1,750,362)	80,424
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	271,636	-	-	-
Transfers (out)	-	-	(683,755)	-	(124,268)	(507,091)
Total other financing sources (uses)	-	-	(412,119)	-	(124,268)	(507,091)
<b>Special Item</b>						
Proceeds from sale of assets	-	-	-	-	-	-
Net change in fund balance	-	-	(2,209,421)	(1,596)	(1,874,630)	(426,667)
Fund balance, beginning of year	-	-	6,727,443	30,115	3,971,201	762,270
Restatement	-	-	216,422	-	-	291,000
Fund balance, beginning of year, restated	-	-	6,943,865	30,115	3,971,201	1,053,270
Fund balance, end of year	\$ -	-	4,734,444	28,519	2,096,571	626,603

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, 2017**

	Capital Projects Funds		Debt Service Funds				Total Other Governmental Funds
	Street System Improvement Fund	Total Capital Project Funds	2002 Sales Tax Bonds Fund	GRT Capital Outlay Fund	New Mexico Finance Authority Loan Fund	Total Debt Service Funds	
<b>Revenues</b>							
Sales taxes	\$ -	-	-	-	-	-	1,339,474
Lodgers' taxes	-	-	-	-	-	-	1,952,730
Public service taxes	724,928	724,928	-	-	-	-	724,928
Intergovernmental:							
Federal	-	405,840	-	-	-	-	555,577
State	695,918	976,600	-	-	-	-	1,468,944
Charges for services	-	-	-	-	-	-	351,265
Licenses and permits	93,810	93,810	-	-	-	-	93,810
Interest	5,088	7,812	-	-	1,111	1,111	27,130
Miscellaneous	1,044	1,016,730	-	-	-	-	1,024,288
Total revenues	<u>1,520,788</u>	<u>3,225,720</u>	<u>-</u>	<u>-</u>	<u>1,111</u>	<u>1,111</u>	<u>7,538,146</u>
<b>Expenditures</b>							
Current:							
Public safety	-	-	-	-	-	-	344,857
Public works	-	-	-	-	-	-	-
Culture and recreation	-	17,818	-	-	-	-	2,121,188
Economic development	-	11,791	-	-	-	-	11,791
Capital outlay	4,328,448	7,675,305	-	-	-	-	11,335,695
Debt service:							
Principal	-	-	315,000	275,000	436,431	1,026,431	1,026,431
Interest and other charges	-	-	23,886	206,456	127,635	357,977	357,977
Total expenditures	<u>4,328,448</u>	<u>7,704,914</u>	<u>338,886</u>	<u>481,456</u>	<u>564,066</u>	<u>1,384,408</u>	<u>15,197,939</u>
Excess (deficiency) of revenues over expenditures	(2,807,660)	(4,479,194)	(338,886)	(481,456)	(562,955)	(1,383,297)	(7,659,793)
<b>Other Financing Sources (Uses)</b>							
Transfers in	1,200,000	1,200,000	351,590	481,790	564,066	1,397,446	2,869,082
Transfers (out)	-	(631,359)	-	-	-	-	(1,315,114)
Total other financing sources (uses)	<u>1,200,000</u>	<u>568,641</u>	<u>351,590</u>	<u>481,790</u>	<u>564,066</u>	<u>1,397,446</u>	<u>1,553,968</u>
<b>Special Item:</b>							
Proceeds from sale of assets	-	-	-	-	-	-	-
Net change in fund balance	(1,607,660)	(3,910,553)	12,704	334	1,111	14,149	(6,105,825)
Fund balance, beginning of year	4,971,062	9,734,648	242,608	40,121	79,517	362,246	16,824,337
Restatement	-	291,000	-	-	-	-	507,422
Fund balance, beginning of year, restated	<u>4,971,062</u>	<u>10,025,648</u>	<u>242,608</u>	<u>40,121</u>	<u>79,517</u>	<u>362,246</u>	<u>17,331,759</u>
Fund balance, end of year	<u>\$ 3,363,402</u>	<u>6,115,095</u>	<u>255,312</u>	<u>40,455</u>	<u>80,628</u>	<u>376,395</u>	<u>11,225,934</u>

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  
FOR THE YEAR ENDED JUNE 30, 2017**

	Museum Gift Shop Fund	Municipal Transit Fund	Performing Arts Center Fund	Cemetery Fund	Total
<b>Assets</b>					
Current assets:					
Cash	\$ 17,733	181,815	141,466	44,078	385,092
Receivables, net	-	64,050	-	-	64,050
Total current assets	<u>17,733</u>	<u>245,865</u>	<u>141,466</u>	<u>44,078</u>	<u>449,142</u>
<b>Noncurrent Assets</b>					
Capital assets:					
Land and construction in progress	-	72,540	110,000	66,616	249,156
Other capital assets, net of accumulated depreciation	-	863,495	1,364,184	1,308,958	3,536,637
Total noncurrent assets	<u>-</u>	<u>936,035</u>	<u>1,474,184</u>	<u>1,375,574</u>	<u>3,785,793</u>
<b>Deferred Outflows of Resources</b>					
Pensions related	-	365,770	-	73,738	439,508
Total assets and deferred outflow of resources	<u>\$ 17,733</u>	<u>1,547,670</u>	<u>1,615,650</u>	<u>1,493,390</u>	<u>4,674,443</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	\$ 159	16,811	9,869	55,937	82,776
Accrued salaries	-	31,018	-	4,969	35,987
Accrued liabilities	-	-	-	-	-
Current maturities of:					
Compensated absences	-	28,539	-	4,169	32,708
Total current liabilities	<u>159</u>	<u>76,368</u>	<u>9,869</u>	<u>65,075</u>	<u>151,471</u>
<b>Noncurrent Liabilities</b>					
Compensated absences	-	16,473	-	14,091	30,564
Net pension liability	-	985,377	-	200,994	1,186,371
Total noncurrent liabilities	<u>-</u>	<u>1,001,850</u>	<u>-</u>	<u>215,085</u>	<u>1,216,935</u>
Total liabilities	<u>159</u>	<u>1,078,218</u>	<u>9,869</u>	<u>280,160</u>	<u>1,368,406</u>
<b>Deferred Inflows of Resources</b>					
Pensions related	-	10,116	-	2,118	12,234
<b>Net Position</b>					
Net investment in capital assets	-	936,035	1,474,184	1,375,574	3,785,793
Unrestricted	<u>17,574</u>	<u>(476,699)</u>	<u>131,597</u>	<u>(164,462)</u>	<u>(491,990)</u>
Total net position	<u>17,574</u>	<u>459,336</u>	<u>1,605,781</u>	<u>1,211,112</u>	<u>3,293,803</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,733</u>	<u>1,547,670</u>	<u>1,615,650</u>	<u>1,493,390</u>	<u>4,674,443</u>

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, 2017**

	Museum Gift Shop Fund	Municipal Transit Fund	Performing Arts Center Fund	Cemetery Fund	Total
Operating Revenues:					
Charges for services	\$ 401	67,761	12,890	150,041	231,093
Operating Expenses:					
Personnel services	-	1,006,802	-	186,805	1,193,607
Utilities	-	8,722	16,986	103,599	129,307
Contractual services	-	5,429	78,948	416,348	500,725
Repairs and maintenance	-	48,411	10,947	1,027	60,385
Other operating expenses	5,561	76,467	1,787	23,678	107,493
Depreciation expense	-	77,824	112,933	84,671	275,428
Total operating expenses	<u>5,561</u>	<u>1,223,655</u>	<u>221,601</u>	<u>816,128</u>	<u>2,266,945</u>
Operating income (loss)	(5,160)	(1,155,894)	(208,711)	(666,087)	(2,035,852)
Non-Operating Revenues (Expenses):					
Intergovernmental	-	394,861	-	-	394,861
Miscellaneous	1,296	218	2,490	-	4,004
Gain on sale of assets	-	1,120	-	-	1,120
Total non-operating revenues (expenses)	<u>1,296</u>	<u>396,199</u>	<u>2,490</u>	<u>-</u>	<u>399,985</u>
Income (loss) before capital contributions and transfers	(3,864)	(759,695)	(206,221)	(666,087)	(1,635,867)
Capital Contributions and Transfers:					
Capital contributions	-	-	-	-	-
Transfers in	-	590,848	104,091	75,299	770,238
Transfers (out)	-	(25,000)	-	-	(25,000)
Total capital contributions and transfers	<u>-</u>	<u>565,848</u>	<u>104,091</u>	<u>75,299</u>	<u>745,238</u>
Change in net position	(3,864)	(193,847)	(102,130)	(590,788)	(890,629)
Net position, beginning of year	<u>21,438</u>	<u>644,274</u>	<u>1,702,025</u>	<u>1,776,910</u>	<u>4,144,647</u>
Restatement	-	8,909	5,886	24,990	39,785
Net position, beginning of year restated	<u>21,438</u>	<u>653,183</u>	<u>1,707,911</u>	<u>1,801,900</u>	<u>4,184,432</u>
Net position, end of year	<u>\$ 17,574</u>	<u>459,336</u>	<u>1,605,781</u>	<u>1,211,112</u>	<u>3,293,803</u>

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, 2017**

	Museum Gift Shop Fund	Municipal Transit Fund	Performing Arts Center Fund	Cemetery Fund	Total
<b>Cash Flows From Operating Activities</b>					
Cash received from customers	\$ 401	37,577	13,740	150,041	201,759
Cash payments to suppliers for goods and services	(5,417)	(130,256)	(150,562)	(542,472)	(828,707)
Cash payments to employees for services	-	(883,135)	-	(160,811)	(1,043,946)
Net cash (used) by operating activities	<u>(5,016)</u>	<u>(975,814)</u>	<u>(136,822)</u>	<u>(553,242)</u>	<u>(1,670,894)</u>
<b>Cash Flows for Non-Capital and Financing Activities</b>					
Cash received from intergovernmental sources	-	394,861	-	-	394,861
Miscellaneous revenues	1,296	218	2,490	-	4,004
Net transfers in (out)	-	565,848	104,091	75,299	745,238
Net cash provided by non-capital and financing activities	<u>1,296</u>	<u>960,927</u>	<u>106,581</u>	<u>75,299</u>	<u>1,144,103</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Proceeds from the sale of capital assets	-	1,120	-	-	1,120
Acquisition of capital assets	-	(65,286)	(199,283)	(24,990)	(289,559)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(64,166)</u>	<u>(199,283)</u>	<u>(24,990)</u>	<u>(288,439)</u>
Net increase (decrease) in cash	<u>(3,720)</u>	<u>(79,053)</u>	<u>(229,524)</u>	<u>(502,933)</u>	<u>(815,230)</u>
Cash and cash equivalents, beginning of year	21,453	260,868	370,990	547,011	1,200,322
Cash and cash equivalents, end of year	<u>\$ 17,733</u>	<u>181,815</u>	<u>141,466</u>	<u>44,078</u>	<u>385,092</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>					
Operating (loss)	\$ (5,160)	(1,155,894)	(208,711)	(666,087)	(2,035,852)
<b>Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>					
Depreciation	-	77,824	112,933	84,671	275,428
Restatement	-	8,909	5,886	24,990	39,785
<b>Change in Assets and Liabilities:</b>					
(Increase) decrease in accounts receivable	-	(39,093)	850	-	(38,243)
(Increase) decrease in deferred outflows of resources related to pension	-	(289,838)	-	(58,069)	(347,907)
Increase (decrease) in accounts payable	144	8,773	(47,780)	(22,810)	(61,673)
Increase in accrued salaries	-	21,946	-	4,305	26,251
Increase (decrease) in accrued liabilities	-	-	-	-	-
Increase (decrease) in compensated absences	-	5,808	-	2,473	8,281
Increase (decrease) in net pension liability	-	390,915	-	78,320	469,235
Increase (decrease) in deferred inflows of resources related to pension	-	(5,164)	-	(1,035)	(6,199)
Total adjustments	<u>144</u>	<u>180,080</u>	<u>71,889</u>	<u>112,845</u>	<u>364,958</u>
Net cash (used) by operating activities	<u>\$ (5,016)</u>	<u>(975,814)</u>	<u>(136,822)</u>	<u>(553,242)</u>	<u>(1,670,894)</u>

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  
FOR THE YEAR ENDED JUNE 30, 2017**

	General Insurance Fund	Group Health Insurance Fund	Disaster Preparedness Fund	Total
<b>Assets</b>				
Current assets:				
Cash	\$ 2,538,980	1,614,519	798,220	4,951,719
Receivables, net	-	517	-	517
Total current assets	<u>2,538,980</u>	<u>1,615,036</u>	<u>798,220</u>	<u>4,952,236</u>
<b>Noncurrent assets</b>				
Restricted cash	503,134	450,000	-	953,134
Total assets	<u>\$ 3,042,114</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,905,370</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 48,252	-	-	48,252
<b>Net Position</b>				
Unrestricted	<u>2,993,862</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,857,118</u>
Total liabilities and net position	<u>\$ 3,042,114</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,905,370</u>

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, 2017**

	General Insurance Fund	Group Health Insurance Fund	Disaster Preparedness Fund	Total
<b>Operating Revenues</b>				
Charges for services	\$ -	6,260,655	-	6,260,655
<b>Operating Expenses</b>				
Contractual services	-	-	2,452	2,452
Insurance claims and expenses	-	5,166,646	-	5,166,646
Other supplies and expenses	1,871,366	3,900	-	1,875,266
Total operating expenses	<u>1,871,366</u>	<u>5,170,546</u>	<u>2,452</u>	<u>7,044,364</u>
Operating (loss)	(1,871,366)	1,090,109	(2,452)	(783,709)
<b>Non-Operating Revenues (Expenses):</b>				
Intergovernmental	-	-	76,519	76,519
Miscellaneous revenue	260,754	-	30,913	291,667
Investment income	2,176	3,840	-	6,016
Income (loss) before transfers	<u>(1,608,436)</u>	<u>1,093,949</u>	<u>104,980</u>	<u>(409,507)</u>
<b>Transfers</b>				
Transfers in	2,050,750	-	-	2,050,750
Transfers (out)	-	(48,651)	-	(48,651)
Total transfers	<u>2,050,750</u>	<u>(48,651)</u>	<u>-</u>	<u>2,002,099</u>
Change in net position	442,314	1,045,298	104,980	1,592,592
Net position, beginning of year	<u>2,551,548</u>	<u>1,019,738</u>	<u>693,240</u>	<u>4,264,526</u>
Restatement	-	-	-	-
Net position, beginning of year, restated	<u>2,551,548</u>	<u>1,019,738</u>	<u>693,240</u>	<u>4,264,526</u>
Net position, end of year	<u>\$ 2,993,862</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,857,118</u>

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, 2017**

	General Insurance Fund	Group Health Insurance Fund	Disaster Preparedness Fund	Total
<b>Cash Flows From Operating Activities:</b>				
Internal activity - receipts from other funds	\$ -	6,261,011	-	6,261,011
Cash payments to suppliers for goods and services	<u>(1,844,829)</u>	<u>(5,170,546)</u>	<u>(2,452)</u>	<u>(7,017,827)</u>
Net cash provided (used) by operating activities	(1,844,829)	1,090,465	(2,452)	(756,816)
<b>Cash Flows From Non-Capital Activities:</b>				
Miscellaneous revenue	260,754	-	30,913	
Intergovernmental	-	-	76,519	
Net transfers in (out)	<u>2,050,750</u>	<u>(48,651)</u>	<u>-</u>	<u>2,002,099</u>
<b>Cash Flows From Investing Activities:</b>				
Investment income	<u>2,176</u>	<u>3,840</u>	<u>-</u>	<u>6,016</u>
Net increase (decrease) in cash	468,851	1,045,654	104,980	1,251,299
Cash and cash equivalents, beginning of year	<u>2,573,263</u>	<u>1,018,865</u>	<u>693,240</u>	<u>4,285,368</u>
Cash and cash equivalents, end of year	<u>\$ 3,042,114</u>	<u>2,064,519</u>	<u>798,220</u>	<u>5,536,667</u>
<b>Displayed as:</b>				
Cash	\$ 2,538,980	1,614,519	798,220	4,951,719
Restricted cash	<u>503,134</u>	<u>450,000</u>	<u>-</u>	<u>953,134</u>
	<u>\$ 3,042,114</u>	<u>2,064,519</u>	<u>798,220</u>	<u>5,904,853</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating (loss)	(1,871,366)	1,090,109	(2,452)	(783,709)
Adjustment to Reconcile Operating Income To Net Cash Provided by Operating Activities:				
<b>Change in Assets and Liabilities:</b>				
Decrease in accounts receivable	140	356	-	496
Increase in accounts payable	<u>26,397</u>	<u>-</u>	<u>-</u>	<u>26,397</u>
Total adjustments	<u>26,537</u>	<u>356</u>	<u>-</u>	<u>26,893</u>
Net cash (used) by operating activities	<u>\$ (1,844,829)</u>	<u>1,090,465</u>	<u>(2,452)</u>	<u>(756,816)</u>

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 FISCAL YEAR ENDED JUNE 30, 2017**

	Balance <u>June 30, 2016</u>	Increases / <u>Receipts</u>	Decreases / <u>Disbursements</u>	Balance <u>June 30, 2017</u>
<b>Municipal Court Bond Trust Fund</b>				
Cash	\$ 31,053	111,858	108,304	34,607
Due to others	\$ 31,053	111,858	108,304	34,607
<b>U.S. Department of Energy Fund (WIPP Acceleration)</b>				
Cash	\$ -	-	-	-
Note receivable	675,000	16,877	196,877	495,000
Total assets	\$ 675,000	16,877	196,877	495,000
Due to others	\$ 675,000	16,877	196,877	495,000
<b>Combined Agency Funds</b>				
Cash	\$ 31,053	111,858	108,304	34,607
Note receivable	675,000	16,877	196,877	495,000
Total assets	\$ 706,053	128,735	305,181	529,607
Due to others	\$ 706,053	128,735	305,181	529,607

The accompanying notes are an integral part of these financial statements



**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>2017</u>	<u>2016</u>	<u>2015</u>
	Measurement Date as of		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
The City's proportion of the net pension liability (asset) (%)			
Municipal General	1.8910%	1.8023%	1.6672%
Municipal Police	2.0286%	1.8730%	1.7809%
Municipal Fire	<u>3.3058%</u>	<u>3.0425%</u>	<u>2.8478%</u>
	2.2391%	2.1366%	2.0150%
The City's proportionate share of the net pension liability (asset) (\$)			
Municipal General	\$ 30,211,818	18,376,011	13,005,949
Municipal Police	14,967,615	9,006,434	5,805,215
Municipal Fire	<u>22,053,047</u>	<u>15,702,896</u>	<u>11,886,699</u>
	\$ 67,232,480	43,085,341	30,697,863
The City's covered payroll			
Municipal General	\$ 16,151,288	14,920,209	16,001,413
Municipal Police	4,056,254	3,670,508	4,645,008
Municipal Fire	<u>3,853,487</u>	<u>3,465,760</u>	<u>4,339,740</u>
	\$ 24,061,029	22,056,477	24,986,161
The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll			
Municipal General	187.06%	123.16%	81.28%
Municipal Police	369.00%	245.37%	124.98%
Municipal Fire	572.29%	453.09%	273.90%
Plan fiduciary net position as a percentage of the total pension liability			
Municipal General	69.18%	76.99%	81.29%
Municipal Police	69.18%	76.99%	81.29%
Municipal Fire	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.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY OF CARLSBAD'S CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN  
LAST 10 FISCAL YEARS\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution			
Municipal General	\$ 1,587,426	1,542,448	1,424,880
Municipal Police	809,977	766,632	693,726
Municipal Fire	<u>889,858</u>	<u>834,280</u>	<u>750,337</u>
	\$ 3,287,261	3,143,360	2,868,943
Contributions in relation to the contractually required contribution			
Municipal General	\$ 1,587,426	1,542,448	1,424,880
Municipal Police	809,977	766,632	693,726
Municipal Fire	<u>889,858</u>	<u>834,280</u>	<u>750,337</u>
	\$ 3,287,261	3,143,360	2,868,943
Contribution deficiency (excess)			
Municipal General	\$ -	-	-
Municipal Police	-	-	-
Municipal Fire	<u>-</u>	<u>-</u>	<u>-</u>
	\$ -	-	-
The City's covered payroll			
Municipal General	\$ 16,622,262	16,151,288	14,920,209
Municipal Police	4,285,593	4,056,254	3,670,508
Municipal Fire	<u>4,110,199</u>	<u>3,853,487</u>	<u>3,465,760</u>
	\$ 25,018,053	24,061,029	22,056,477
Contributions as a percentage of covered payroll			
Municipal General	9.55%	9.55%	9.55%
Municipal Police	18.90%	18.90%	18.90%
Municipal Fire	21.65%	21.65%	21.65%

\**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, 2017**

**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 Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2016 report is available at <http://www.nmpera.org/>

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
SCHEDULE OF CASH ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Financial Institution/ Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
Carlsbad National Bank P.O. Box 1359 Carlsbad, New Mexico 88221-1359				
Health Insurance	Checking	\$ 1,614,519	-	1,614,519
Payroll Account	Checking	105,593	(68,422)	37,171
Debt Service Account	Checking	3,887,567	-	3,887,567
Municipal Court	Checking	35,772	(1,165)	34,607
Worker's Compensation	Checking	7,221	(7,121)	100
General Operating	Certificate of Deposit	200,000	-	200,000
General Operating	Certificate of Deposit	300,000	-	300,000
General Operating	Certificate of Deposit	250,000	-	250,000
Sandpoint Closure Reserve	Certificate of Deposit	250,000	-	250,000
Sandpoint Closure Reserve	Certificate of Deposit	500,000	-	500,000
Sandpoint Closure Reserve	Certificate of Deposit	500,000	-	500,000
Worker's Compensation	Certificate of Deposit	50,000	-	50,000
Water & Sewer	Certificate of Deposit	300,000	-	300,000
Water & Sewer	Certificate of Deposit	500,000	-	500,000
Water & Sewer	Certificate of Deposit	457,000	-	457,000
Health Insurance	Certificate of Deposit	200,000	-	200,000
Health Insurance	Certificate of Deposit	250,000	-	250,000
		<u>\$ 9,407,672</u>	<u>(76,708)</u>	<u>9,330,964</u>
Pioneer Savings Bank P.O. Box 130 Roswell, New Mexico 88202-0130				
General Operating	Certificate of Deposit	\$ 443,714	-	443,714
General Operating	Certificate of Deposit	405,011	-	405,011
General Operating	Certificate of Deposit	405,011	-	405,011
Sandpoint Closure Reserve	Certificate of Deposit	202,505	-	202,505
Sandpoint Closure Reserve	Certificate of Deposit	957,909	-	957,909
Worker's Compensation	Certificate of Deposit	250,628	-	250,628
Worker's Compensation	Certificate of Deposit	202,505	-	202,505
Water & Sewer	Certificate of Deposit	202,505	-	202,505
		<u>\$ 3,069,788</u>	<u>-</u>	<u>3,069,788</u>
Wells Fargo Bank, N.A. Carlsbad Office 115 W. Fox Street Carlsbad, New Mexico 88221				
General Fund	Checking	\$ 40,225,932	(948,124)	39,277,808
Investment Trust	Money Market	33,989	-	33,989
City Fund Investment	Money Market	1,145,513	-	1,145,513
		<u>\$ 41,405,434</u>	<u>(948,124)</u>	<u>40,457,310</u>

See Independent Auditor's Report

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
SCHEDULE OF CASH ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Financial Institution/ Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
Western Commerce Bank P.O. Drawer 1358 Carlsbad, New Mexico 88221-1358				
Construction Account	Checking	\$ 7,442,870	(49,403)	7,393,467
Federal Projects	Checking	626,603	-	626,603
General Operating	Certificate of Deposit	320,000	-	320,000
General Operating	Certificate of Deposit	321,215	-	321,215
General Operating	Certificate of Deposit	274,000	-	274,000
General Operating	Certificate of Deposit	300,000	-	300,000
Sandpoint Closure Reserve	Certificate of Deposit	166,335	-	166,335
Sandpoint Closure Reserve	Certificate of Deposit	142,000	-	142,000
Sandpoint Closure Reserve	Certificate of Deposit	109,000	-	109,000
Sandpoint Closure Reserve	Certificate of Deposit	504,000	-	504,000
Water & Sewer	Certificate of Deposit	100,000	-	100,000
Water & Sewer	Certificate of Deposit	254,000	-	254,000
		<u>\$ 10,560,023</u>	<u>(49,403)</u>	<u>10,510,620</u>
New Mexico Finance Authority 207 Shelby Street Santa Fe, New Mexico 87501				
Carlsbad 4	Reserve	\$ 408	-	408
Carlsbad 13	Reserve	34	-	34
Carlsbad 13	Reserve	117,891	-	117,891
Carlsbad 13	Program Funds	8,337	-	8,337
Carlsbad 15	Reserve	80,220	-	80,220
Carlsbad 15	Program Funds	1,723,583	-	1,723,583
NMFA Double Eagle DW-2867	Reserve	160,296	-	160,296
		<u>\$ 2,090,769</u>	<u>-</u>	<u>2,090,769</u>

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
SCHEDULE OF PLEDGED COLLATERAL  
ALL FINANCIAL INSTITUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

Security Description	CUSIP Number	Maturity Date	Current Market Value
FHLMC Pool C91245	3128P7L27	01/01/36	\$ 1,850,995
FNR 2012-127 DH	3136A9B31	11/25/27	899,857
FHLMC Pool E09021	31294UAW3	02/01/28	1,052,191
FHLMC Pool C91758	3128P75T6	04/01/34	1,533,311
FNR 2012-55 PD	3136A53R5	05/25/42	841,760
FNMA Pool AL9858	3138ERU0	03/01/30	1,962,797
			\$ 8,140,912

The holder of the security pledged by Carlsbad National Bank is Federal Home Loan bank of Dallas, 8500 Freeport 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 01/17/14	313381T88	01/17/20	\$ -
FHLB Call After 09/27/16	3130A8HU0	06/27/24	289,514
FNMA ARM CMT 781721	31349S4E0	07/01/34	-
FHLMC ARM 781721	31349S4E0	07/01/34	38,284
FNMA AJ1622	3138ASYU0	10/01/26	400,319
FNMA 648558 ARM	31390KQK7	06/01/32	117,784
FNMA 661745 ARM	31391BES2	09/01/32	6,187
FNMA 759453 ARM	31403VWN5	01/01/34	65,354
FNMA 780385 ARM	31404V6W3	06/01/34	102,195
FNMA AB3404	31416YYA0	08/01/26	595,682
GNMA II 080418 ARM	36225CPC4	06/20/30	65,544
GNMA II 80477 ARM	36225CQ74	12/20/30	8,760
GNMA II 80540 ARM	36225CS64	09/20/31	21,667
GNMA II 80540 ARM	36225CS64	09/20/31	10,834
GNMA II 80562 ARM	36225CTU0	12/20/31	19,138
			\$ 1,741,262

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, 2017**

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

Security Description	CUSIP Number	Maturity Date	Market Value
FN AQ 1010	3138MGDQ5	01/01/43	\$ 22,695,298
			<u>\$ 22,695,298</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	\$ 128,573
GNMA 412570	36206JJP0	03/15/26	12,106
FNMA AA5840	31416PP27	06/01/39	263,202
FNMA AB4742	31417BHU4	03/01/42	911,954
FHLMC G08534	3128MJSY7	06/01/43	1,463,958
FHLMC J22899	31307BGG9	03/01/28	762,496
SBAP Series 2013-20J Class 1	83162CVV2	10/01/33	1,585,242
SBAP Series 2015-20D Class 1	83162CWY5	04/01/35	1,735,622
			<u>\$ 6,863,152</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.

STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017

	CFDA Number	Contract/Grant Project/State Number	Federal Expenditures
<b>U.S. Department of Transportation/Federal Aviation Administration</b>			
Airport Pavement Rehabilitation	(1) 20.106	3-35-0007-25-2016	\$ 149,737
<b>Total U.S. Department of Transportation/Federal Aviation Administration</b>			<b>149,737</b>
<b>U.S. Department of Transportation</b>			
<i>Passed through New Mexico Department of Transportation</i>			
Safe Routes to School	20.205	D15193	405,840
Formula Grants for Rural Areas	(1) 20.509	M01465	394,861
100 Days & Nights of Summer	20.600	16-DS-02-013	5,265
Distracted Driving	20.600	16-DD-02-013	1,467
ENDWI	20.608	16-AL-64-013	8,617
ENDWI	20.608	17-AL-64-013	4,966
<b>Total U.S. Department of Transportation</b>			<b>821,016</b>
<b>U.S. Department of Homeland Security and Emergency Management</b>			
Disaster Grants - Public Assistance	97.036	FEMA-4199-DR-NM	65,588
<b>Total U.S. Department of Homeland Security and Emergency Management</b>			<b>65,588</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 1,036,341</b>
<b>Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance</b>			
Federal expenditures per SEFA			\$ 1,036,341
Total federal expenditures per GL - governmental funds			(575,892)
Total federal expenditures per GL - business-type funds			(394,861)
Total federal expenditures per GL - internal service funds			(65,588)
Difference			\$ -

(1) Denotes Major Program

**Notes to Schedule of Expenditures of Federal Awards**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Carlsbad, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

**Note 2 - Non-Cash Federal Assistance**

No non-cash federal assistance was received during the year ended June 30, 2017.

**Note 3 - Subrecipients**

The City of Carlsbad provided no federal awards presented above to sub-recipients during the year.

**Note 4 - Cost Rate**

The City of Carlsbad did not use the 10% de minimis indirect cost rate



**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. Wayne Johnson  
New Mexico State Auditor  
To the Major and City Councilors  
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, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and the combining and individual funds of the City presented as supplementary information and have issued our report thereon dated December 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 were not 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency: 2017-001.

**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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-002.



**City of Carlsbad, New Mexico's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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, NM 87102  
December 15, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Mr. Wayne Johnson  
New Mexico State Auditor  
The Mayor and City Council  
City of Carlsbad  
Carlsbad, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited the City of Carlsbad, State of New Mexico's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.  
Albuquerque, NM  
December 15, 2017

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

***Financial Statements:***

- |   |                   |
|---|-------------------|
| 1. Type of auditor's report issued  | <b>Unmodified</b> |
| 2. Internal control over financial reporting:                                 |                   |
| Material weakness identified?   | No                |
| Significant deficiencies identified not considered to be material weaknesses? | Yes               |
| Noncompliance material to the financial statements noted?                     | No                |

***Federal Awards:***

- |  |                                 |                                 |
|--|---------------------------------|---------------------------------|
| 1. Internal control over major programs:   |                                 |                                 |
| Material weaknesses identified?  |                                 | No                              |
| Significant deficiencies identified not considered to be material weaknesses?  |                                 | No                              |
| 2. Type of auditor's report issued on compliance for major programs  |                                 | <b>Unmodified</b>               |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a) |                                 | No                              |
| 4. Identification of major programs:   |                                 |                                 |
| <u>CFDA Numbers</u><br><u>Funding Source</u>   | <u>Name of Federal Programs</u> | <u>Funding Source</u>           |
| 20.106   | Airport Pavement Rehabilitation | U.S. Dept. of<br>Transportation |
| 20.509   | Formula Grants for Rural Areas  | U.S. Dept. of<br>Transportation |
| 5. Dollar threshold used to distinguish between type A and type B programs:  |                                 | \$750,000                       |
| 6. Auditee qualified as low-risk auditee?  |                                 | No                              |

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

<b>Reference #</b>	<b>Finding</b>	<b>Status of Prior Year Findings</b>	<b>Type of Finding</b>
<b>Prior Year Findings</b>			
None			
<b>Current Year Findings</b>			
2017-001	CONTROLS OVER INTERGOVERNMENTAL RECEIVABLES/REVENUES	Current	B
2017-002	EMERGENCY PROCUREMENT VIOLATION	Current	G

\* Legend for Type of Findings

- A.** Material Weakness in Internal Control Over Financial Reporting
- B.** Significant Deficiency in Internal Control Over Financial Reporting
- C.** Other Matters Involving Internal Control Over Financial Reporting
- D.** Material Weakness in Internal Control Over Compliance of Federal Awards
- E.** Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F.** Instance of Noncompliance related to Federal Awards
- G.** 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 Questioned Costs  
For the Year Ended June 30, 2017**

**2017-001 – CONTROLS OVER INTERGOVERNMENTAL RECEIVABLES/REVENUES**

**Type of Finding: B**

**Statement of Condition**

The reconciliation process related to intergovernmental grants and accounts receivables is not well established and documented, including the identification of receivables at year end, roles and responsibilities, methodology, format, and frequency of required analyses. Additionally, there does not appear to be a process to periodically reconcile balances to supporting detail and the general ledger resulting in multiple journal entries to intergovernmental revenue accounts as follows:

<u>Major Funds</u>	<u>Restatement</u>
<u>General Fund</u>	
Receiv ables were understated in prior year	\$ 10,518
<u>Water &amp; Sewer Fund</u>	
Receiv ables were understated in prior year	71,017
<u>Non-Major Funds</u>	
<u>Airport Fund</u>	
Receiv ables were understated in prior year	75,264
<u>Lodger's Tax Fund</u>	
Receiv ables were understated in prior year	141,158
<u>Federal Projects Fund</u>	
Receiv ables were understated in prior year	291,000
	<u>\$ 588,957</u>

**Criteria**

New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration. Within Title 2, Chapter 20, Part 5, Public Finance Accounting by Governmental Entities of the NMAC, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

**Effect**

Intergovernmental revenues may not be accurate, or may be related to another accounting period. Additionally, for federal cost reimbursement grants, there is an increased risk of misreporting federal award expenditures in the SEFA.

**Cause**

The City's intergovernmental grant reporting is decentralized. The City's Finance Department relies on information provided by the City's departments to identify and report state and federal award revenues and expenditures and there is no process in place to verify the accuracy and completeness of the information provided in a timely manner.

**Recommendation**

The City should establish and document a formal reconciliation and reporting process over intergovernmental accounts receivables and revenues.

**Management Response**

The City recognizes that grant reimbursements weren't being prepared timely, and that complete and accurate information wasn't being provided to the Finance Department for determining accruals, preparing reconciliations, and completing accurate financial statements.

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

**Corrective Action Plan Timeline**

As of June 30, 2017, the grant process remained decentralized. The City was aware of the issues related to grant reconciliations, and made a determination to improve the process by developing a Grants Administrator position. The City's Council approved the added position with the FY 17-18 Budget, and the position was filled immediately in July 2017. The Grant Administrator has already implemented controls over the grant reconciliation process and has improved communication between the Finance Department and other City departments.

**Designation of Employee Position Responsible for Meeting Deadline**

The Grant Administrator has been responsible for implementing the action plan and timeline.

**2017-002 – EMERGENCY PROCUREMENT VIOLATION**

**Type of Finding: G**

**Statement of Condition**

During our review of emergency procurement for the fiscal year, we noted one instance totaling \$486,458 (over a 15-month period) for the procurement of accounting and consulting services that did not comply with the City's guidelines on emergency procurement. The justification does not appear to meet the definition of an emergency.

**Criteria**

The City's procedure manual states, "An emergency condition is a situation which creates a threat to public health, welfare or safety such as may arise by reason of floods, fires, epidemics, riots, acts of terrorism, equipment failures or similar events and includes the planning and preparing for an emergency response. The condition must create a serious threat to: The function of government; the preservation or protection of property; or the health or safety of any person." The manual also states "Emergency purchases are extremely rare and should only occur in the event of an extreme emergency where the City infrastructure and/or its citizens are in danger or danger is imminent and there is not sufficient time to allow for the normal procurement process to take place. In this situation, it must be determined that a state of emergency exists or is imminent and that it is in the best interest of the City and its citizens to proceed under the Emergency Procurement Exemption provided for in the State of New Mexico Procurement Code Section # (1.4.1.58 NMAC – Rp, 1.4.1.58 NMAC 09-30-05)."

**Effect**

Inadequate internal control oversight and accounting practices can heighten the potential for fraud or misappropriation of funds. Also, the City may not have obtained the best price. In addition, the City does not appear to be in compliance with its procedure manual on emergency procurements.

**Cause**

In February of 2016, the Finance Director resigned without notice. In an attempt to provide financial leadership in the absence of a Finance Director, and to submit a timely audit for FY 15-16, the City may have incorrectly interpreted the definition of an emergency condition. The City determined that the absence of a Finance Director would negatively impact the functioning of government.

**Recommendation**

The City should review its procedure manual before making emergency purchases and should maintain proper documentation in the procurement files.

**Management Response**

The City always maintains proper documentation in all procurement files, including emergency procurement determinations. In future situations, where an emergency condition may exist, the City will use more due diligence in making this determination; including asking for guidance or recommendations from the New Mexico State Purchasing Division.

**Corrective Action Plan Timeline**

Beginning immediately, if the City is unsure that an emergency condition exists, the City will seek guidance from the New State Purchasing Division.

**Designation of Employee Position Responsible for Meeting Deadline**

The Purchasing Manager will be responsible for implementing the action plan and timeline.

**STATE OF NEW MEXICO  
CITY OF CARLSBAD  
Exit Conference  
For the Year Ended June 30, 2017**

**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 15, 2017. The following individuals were in attendance.

City of Carlsbad Officials

Richard "Dick" W. Doss  
J.R. Doporto  
Jason Shirley  
Steve V. McCutcheon  
Michael Hernandez  
Wendy Hammett

Mayor Pro Tem  
City Councilor  
City Councilor  
City Administrator  
Deputy City Administrator  
Finance Director

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA  
Maclen Enriquez, CPA

President  
Senior Audit Manager