



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, 2018

**STATE OF NEW MEXICO
CITY OF CARLSBAD
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FOR THE YEAR ENDED JUNE 30, 2018**

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CITY OF CARLSBAD
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**STATE OF NEW MEXICO
CITY OF CARLSBAD
OFFICIAL ROSTER
AS OF JUNE 30, 2018**

ELECTED OFFICIALS

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

DEPARTMENT HEADS

NAME	TITLE
Michael Hernandez	City Administrator
John Lowe	Deputy City Administrator
Wendy Austin	Director of Finance/City Treasurer
Nadine Mireles	City Clerk
Shane Skinner	Chief of Police
Richard Lopez	Fire Chief
Scot Bendixsen	Human Resources Director
Luis Camero	Director of Engineering Services
Eileen P. Riordan	City Attorney
Kenneth Britt	Director of Community Development
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, 2018, and the related notes to the financial statements which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial

position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the 2018 financial statements have been restated due to misstatements and the implementation of GASB 75. 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, Net Pension Liabilities, OPEB, and Net OPEB liabilities, listed as “*Required Supplementary Information*” in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The supplementary information such as the combining and individual nonmajor fund financial statements, 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 (Uniform Guidance)*, 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, the combining and individual nonmajor fund financial statements, and the other schedules listed as “other supplementary information” 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 Schedule of Expenditures of Federal Awards, the combining and individual nonmajor fund financial statements, and the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Hinkle + Landers, PC
Albuquerque, New Mexico
December 14, 2018

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash	\$ 44,966,117	20,087,716	65,053,833
Receivables, net	12,393,732	2,365,635	14,759,367
Inventory	-	549,849	549,849
Total current assets	<u>57,359,849</u>	<u>23,003,200</u>	<u>80,363,049</u>
Noncurrent assets			
Restricted cash	961,851	5,602,704	6,564,555
Restricted cash held by fiscal agent	388,448	290,710	679,158
Restricted investments	-	6,136,579	6,136,579
Prepaid bond insurance premiums	-	53,888	53,888
Capital assets:			
Land and construction in progress	3,918,375	42,818,948	46,737,323
Other capital assets, net of depreciation	119,809,383	66,806,579	186,615,962
Total noncurrent assets	<u>125,078,057</u>	<u>121,709,408</u>	<u>246,787,465</u>
Deferred outflows of resources			
Pension related	13,005,980	1,829,049	14,835,029
OPEB related	463,558	75,463	539,021
Charges related to advance refunding	-	23,223	23,223
Total deferred outflows of resources	<u>13,469,538</u>	<u>1,927,735</u>	<u>15,397,273</u>
Total assets and deferred outflows of resources	<u>\$ 195,907,444</u>	<u>146,640,343</u>	<u>342,547,787</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,208,350	275,118	1,483,468
Accrued salaries	1,173,383	234,592	1,407,975
Accrued liabilities	63,846	71,699	135,545
Accrued interest payable	35,128	299,400	334,528
Deposits payable	400	559,288	559,688
Current maturities of:			
Bonds payable	300,000	995,000	1,295,000
Notes payable	447,665	1,668,670	2,116,335
Compensated absences	574,826	128,211	703,037
Total current liabilities	<u>3,803,598</u>	<u>4,231,978</u>	<u>8,035,576</u>
Noncurrent liabilities			
Bonds payable	3,799,472	12,500,695	16,300,167
Notes payable	4,572,809	35,222,778	39,795,587
Compensated absences	1,200,940	121,544	1,322,484
Landfill closure and post-closure	-	414,075	414,075
Net pension liability	49,200,951	7,161,553	56,362,504
Net OPEB liability	24,277,459	3,952,145	28,229,604
Total noncurrent liabilities	<u>83,051,631</u>	<u>59,372,790</u>	<u>142,424,421</u>
Total liabilities	<u>86,855,229</u>	<u>63,604,768</u>	<u>150,459,997</u>
Deferred inflows of resources			
Pension related	5,923,517	977,491	6,901,008
OPEB related	5,525,492	899,499	6,424,991
Total deferred inflows of resources	<u>11,449,009</u>	<u>1,876,990</u>	<u>13,325,999</u>
Net Position			
Net investment in capital assets	114,607,812	59,238,384	173,846,196
Restricted for:			
Debt service	-	2,897,431	2,897,431
State mandated per statutes	7,929,162	-	7,929,162
Construction and improvement	304,975	-	304,975
Endowment:			
Expendable	-	8,358,735	8,358,735
Unrestricted	(25,238,743)	10,664,035	(14,574,708)
Total net position	<u>97,603,206</u>	<u>81,158,585</u>	<u>178,761,791</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 195,907,444</u>	<u>146,640,343</u>	<u>342,547,787</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Primary Government Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 12,987,095	1,473,332	-	-	(11,513,763)	-	(11,513,763)
Public safety	23,866,943	1,641,652	836,835	82,016	(21,306,440)	-	(21,306,440)
Public works	9,582,020	112,293	-	151,468	(9,318,259)	-	(9,318,259)
Culture and recreation	9,745,246	816,096	56,993	40,861	(8,831,296)	-	(8,831,296)
Health and welfare	477,856	-	-	-	(477,856)	-	(477,856)
Economic development	170,856	-	-	308,071	137,215	-	137,215
Interest on long-term debt	319,329	-	-	-	(319,329)	-	(319,329)
Total governmental activities	57,149,345	4,043,373	893,828	582,416	(51,629,728)	-	(51,629,728)
Business-type activities							
Joint Utility	9,736,105	11,541,082	-	6,850	-	1,811,827	1,811,827
Solid waste	3,851,552	5,808,140	-	111,000	-	2,067,588	2,067,588
Museum	2,082	2,312	-	-	-	230	230
Municipal transit	1,286,285	64,271	647,978	-	-	(574,036)	(574,036)
Performing arts center	292,792	12,835	-	-	-	(279,957)	(279,957)
Cemetery	734,291	202,339	-	-	-	(531,952)	(531,952)
Interest on long-term debt	1,356,285	-	-	-	-	(1,356,285)	(1,356,285)
Total business-type activities	17,259,392	17,630,979	647,978	117,850	-	1,137,415	1,137,415
Total primary government	\$ 74,408,737	21,674,352	1,541,806	700,266	(51,629,728)	1,137,415	(50,492,313)
General Revenues:							
Gross receipts taxes					50,960,266	971,760	51,932,026
Property taxes, levied for general purposes					2,934,839	-	2,934,839
Lodgers' taxes					3,656,638	-	3,656,638
Franchise taxes					788,318	-	788,318
Public service taxes					774,024	-	774,024
Interest income					70,213	169,932	240,145
Investment gain/(loss)					-	(97,748)	(97,748)
Donations					3,039,513	-	3,039,513
Insurance recoveries					10,335	-	10,335
Miscellaneous					(4,467)	47,296	42,829
Special item - Gain on disposal of asset					(237,851)	(240,922)	(478,773)
Transfers					(2,011,356)	2,011,256	(100)
Total general revenues, special items, and transfers					59,980,472	2,861,574	62,842,046
Change in net position					8,350,744	3,998,989	12,349,733
Net position, beginning of year					118,341,982	81,816,397	200,158,379
Restatements (Note 11)					(29,089,520)	(4,656,801)	(33,746,321)
Net position, beginning of year, restated					89,252,462	77,159,596	166,412,058
Net position, end of year					\$ 97,603,206	81,158,585	178,761,791

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018**

	General Fund (01,85)	GRT Capital Outlay Fund (02)	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 25,317,475	6,369,689	8,361,141	40,048,305
Receivables, net	10,327,323	774,689	1,291,719	12,393,731
Restricted:				
Cash held by fiscal agent	-	-	388,448	388,448
Total assets	<u>\$ 35,644,798</u>	<u>7,144,378</u>	<u>10,041,308</u>	<u>52,830,484</u>
Liabilities:				
Accounts payable	\$ 463,964	317,764	407,274	1,189,002
Accrued salaries	1,148,158	-	25,226	1,173,384
Accrued liabilities	63,846	-	-	63,846
Deposits payable	400	-	-	400
Total liabilities	<u>1,676,368</u>	<u>317,764</u>	<u>432,500</u>	<u>2,426,632</u>
Deferred Inflows of Resources:				
Unavailable property tax revenue	135,925	-	-	135,925
Unavailable charges for services	514,526	-	-	514,526
Total deferred inflows	<u>650,451</u>	<u>-</u>	<u>-</u>	<u>650,451</u>
Fund Balances				
Restricted for:				
State mandated per statutes	-	-	4,122,790	4,122,790
State mandated budget reserve	3,806,372	-	-	3,806,372
Construction and improvements	-	-	304,975	304,975
Committed for:				
City budget reserve	3,806,372	-	-	3,806,372
Subsequent years' expenditures	7,663,366	4,176,085	117,795	11,957,246
Assigned	-	2,650,529	5,063,248	7,713,777
Unassigned	18,041,869	-	-	18,041,869
Total fund balances	<u>33,317,979</u>	<u>6,826,614</u>	<u>9,608,808</u>	<u>49,753,401</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 35,644,798</u>	<u>7,144,378</u>	<u>10,041,308</u>	<u>52,830,484</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET POSITION
JUNE 30, 2018**

Total fund balance, governmental funds	\$	49,753,401
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.		123,727,758
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.		
Pension related		13,005,980
OPEB related		463,558
Certain accrued interest expenses are not due and payable in the current period and, therefore not reported in the governmental funds.		(35,128)
Long-term obligations applicable to the City's governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(10,895,712)
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.		(73,478,410)
Deferred inflows of resources related to pensions are applicable to future periods and, there are not reported in the funds.		(11,449,009)
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, \$135,925 and charges for service, \$514,526.		650,450
Residual balances of the internal service funds are included within the governmental activities and are not reported in the governmental funds.		5,860,317
Rounding		1
Total Net Position of Governmental Activities	\$	<u><u>97,603,206</u></u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund (01, 85)	GRT Capital Outlay Fund (02)	Other Governmental Funds	Total Governmental Funds
Revenues				
Gross receipts taxes	\$ 45,287,892	3,728,920	1,943,452	50,960,264
Property taxes	2,929,334	-	-	2,929,334
Franchise taxes	788,318	-	-	788,318
Lodgers' taxes	-	-	3,656,638	3,656,638
Public service taxes	-	-	774,024	774,024
Intergovernmental:				
Federal	15,132	-	100,538	115,670
State	322,228	-	1,038,345	1,360,573
Charges for services	1,466,271	-	256,894	1,723,165
Licenses and permits	1,222,141	-	94,019	1,316,160
Fines and forfeitures	446,517	-	-	446,517
Interest	47,505	742	21,966	70,213
Miscellaneous	454,176	-	-	454,176
Total revenues	<u>52,979,514</u>	<u>3,729,662</u>	<u>7,885,876</u>	<u>64,595,052</u>
Expenditures				
Current:				
General government	8,084,440	-	-	8,084,440
Public safety	21,079,371	-	340,957	21,420,328
Public works	6,433,277	-	223	6,433,500
Culture and recreation	5,143,823	-	2,254,174	7,397,997
Health and welfare	417,552	-	-	417,552
Economic development	-	-	168,792	168,792
Capital outlay	1,714,034	1,538,853	5,991,498	9,244,385
Debt service:				
Principal	-	-	1,066,537	1,066,537
Interest and other charges	-	-	326,116	326,116
Total expenditures	<u>42,872,497</u>	<u>1,538,853</u>	<u>10,148,297</u>	<u>54,559,647</u>
Excess (deficiency) of revenues over expenditures	10,107,017	2,190,809	(2,262,421)	10,035,405
Other Financing Sources (Uses)				
Transfers in	3,123,697	-	2,315,010	5,438,707
Transfers (out)	(2,609,503)	(1,335,323)	(1,669,715)	(5,614,541)
Total other financing sources and (uses)	<u>514,194</u>	<u>(1,335,323)</u>	<u>645,295</u>	<u>(175,834)</u>
Special Item				
Proceeds from sale of assets	3,496	-	-	3,496
Net change in fund balances	10,624,707	855,486	(1,617,126)	9,863,067
Fund balance, beginning of year	22,693,272	5,971,128	11,225,934	39,890,334
Restatement	-	-	-	-
Fund balance, beginning of year restated	<u>22,693,272</u>	<u>5,971,128</u>	<u>11,225,934</u>	<u>39,890,334</u>
Fund balance, end of year	<u>\$ 33,317,979</u>	<u>6,826,614</u>	<u>9,608,808</u>	<u>49,753,401</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - total governmental funds:	9,863,067
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital expenditures recorded in capital outlay	12,039,493
Depreciation expense	(7,467,224)
Transfers to business-type funds	(2,525,568)
<p>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.</p>	
	(241,346)
<p>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</p>	
Property taxes	5,505
Charges for services	280,830
<p>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:</p>	
Bond and note obligation principal payments	1,066,537
Net effects of bond premiums, discounts, and deferred amounts on refunding	239
<p>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:</p>	
Change in compensated absences	46,086
Change in accrued interest payable	6,562
Pension expense	(4,225,004)
OPEB expense	(501,635)
<p>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.</p>	
	3,199
Rounding	3
Change in net assets of governmental activities	8,350,744

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues						
Gross receipts taxes	\$ 31,415,005	31,415,005	41,932,561	3,355,331	45,287,892	10,517,556
Property taxes	2,657,429	2,657,429	2,959,543	(30,209)	2,929,334	302,114
Franchise taxes	749,500	749,500	793,135	(4,817)	788,318	43,635
Intergovernmental:						
Federal	-	-	15,491	(359)	15,132	15,491
State	370,070	370,070	322,364	(136)	322,228	(47,706)
Charges for services	1,235,850	1,235,850	1,523,332	(57,061)	1,466,271	287,482
Licenses and permits	289,000	289,000	1,210,854	11,287	1,222,141	921,854
Fines and forfeitures	364,000	364,000	439,485	7,032	446,517	75,485
Interest	6,500	6,500	43,117	4,388	47,505	36,617
Miscellaneous	125,500	154,835	458,708	(4,532)	454,176	303,873
Total revenues	<u>37,212,854</u>	<u>37,242,189</u>	<u>49,698,590</u>	<u>3,280,924</u>	<u>52,979,514</u>	<u>12,456,401</u>
Expenditures						
Current:						
General government	8,973,590	9,131,966	8,014,884	69,556	8,084,440	1,117,082
Public safety	21,467,414	21,865,359	21,003,690	75,681	21,079,371	861,669
Public works	6,942,005	7,122,271	6,463,682	(30,405)	6,433,277	658,589
Culture and recreation	5,566,686	5,635,865	5,137,671	6,152	5,143,823	498,194
Health and welfare	390,709	544,593	421,041	(3,489)	417,552	123,552
Capital outlay	2,336,062	2,657,881	1,670,369	43,665	1,714,034	987,512
Total expenditures	<u>45,676,466</u>	<u>46,957,935</u>	<u>42,711,337</u>	<u>161,160</u>	<u>42,872,497</u>	<u>4,246,598</u>
Excess (deficiency) of revenues over expenditures	(8,463,612)	(9,715,746)	6,987,253	3,119,764	10,107,017	16,702,999
Other Financing Sources (Uses)						
Transfers in	4,349,519	4,992,319	3,123,697	-	3,123,697	(1,868,622)
Transfers (out)	(2,615,812)	(2,615,812)	(2,609,503)	-	(2,609,503)	6,309
Total other financing sources and (uses)	1,733,707	2,376,507	514,194	-	514,194	(1,862,313)
Special Item						
Proceeds from sale of assets	1,000	1,000	3,496	-	3,496	2,496
Net change	(6,728,905)	(7,338,239)	7,504,943	<u>3,119,764</u>	<u>10,624,707</u>	<u>14,843,182</u>
Cash balance, beginning of year	17,811,152	17,811,152	17,811,152			-
Cash advanced to other funds	-	-	-			-
Cash balance, end of year	<u>\$ 11,082,247</u>	<u>10,472,913</u>	<u>25,316,095</u>			<u>14,843,182</u>
Explanation of Differences:						
Change in receivables				3,558,122		
Change in accounts payable				(41,333)		
Change in accrued liabilities				(110,690)		
Change in deferred revenues				(286,335)		
				<u>3,119,764</u>		

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF NET POSITION- PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds	Total	
Assets					
Current assets:					
Cash	\$ 7,947,491	11,690,377	449,848	20,087,716	4,917,813
Receivables, net	750,070	1,484,536	131,029	2,365,635	-
Inventory	-	549,849	-	549,849	-
Total current assets	<u>8,697,561</u>	<u>13,724,762</u>	<u>580,877</u>	<u>23,003,200</u>	<u>4,917,813</u>
Noncurrent assets:					
Restricted cash	2,280	5,600,425	-	5,602,705	961,852
Restricted cash held by fiscal agent	125,692	165,018	-	290,710	-
Restricted investments	-	6,136,579	-	6,136,579	-
Prepaid bond insurance premium	-	53,888	-	53,888	-
Capital Assets:					
Land and construction in progress	10,000	42,317,807	491,140	42,818,947	-
Other capital assets, net of accumulated depreciation	2,668,887	60,020,290	4,117,402	66,806,579	-
Total noncurrent assets	<u>2,806,859</u>	<u>114,294,007</u>	<u>4,608,542</u>	<u>121,709,408</u>	<u>961,852</u>
Deferred Outflows of Resources					
Pension related	444,241	1,180,520	204,288	1,829,049	-
OPEB related	16,171	45,817	13,475	75,463	-
Charges related to advance refunding	-	23,223	-	23,223	-
Total deferred outflows of resources	<u>460,412</u>	<u>1,249,560</u>	<u>217,763</u>	<u>1,927,735</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 11,964,832</u>	<u>129,268,329</u>	<u>5,407,182</u>	<u>146,640,343</u>	<u>5,879,665</u>
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 204,997	53,732	16,389	275,118	19,348
Accrued salaries	56,129	148,105	30,358	234,592	-
Accrued liabilities	-	71,682	17	71,699	-
Accrued interest payable	2,251	297,149	-	299,400	-
Customer deposits	-	559,288	-	559,288	-
Current maturities of liabilities:					
Bonds payable	-	995,000	-	995,000	-
Notes payable	114,278	1,554,392	-	1,668,670	-
Compensated absences	28,778	65,951	33,482	128,211	-
Total current liabilities	<u>406,433</u>	<u>3,745,299</u>	<u>80,246</u>	<u>4,231,978</u>	<u>19,348</u>
Noncurrent liabilities:					
Bonds payable	-	12,500,695	-	12,500,695	-
Notes payable	713,011	34,509,767	-	35,222,778	-
Compensated absences	25,859	59,329	36,356	121,544	-
Landfill closure and post-closure	414,075	-	-	414,075	-
Net pension liability	1,569,079	4,677,345	915,129	7,161,553	-
Net OPEB liability	846,888	2,399,516	705,740	3,952,144	-
Total noncurrent liabilities	<u>3,568,912</u>	<u>54,146,652</u>	<u>1,657,225</u>	<u>59,372,789</u>	<u>-</u>
Total liabilities	<u>3,975,345</u>	<u>57,891,951</u>	<u>1,737,471</u>	<u>63,604,767</u>	<u>19,348</u>
Deferred Inflows of Resources					
Pension related	207,311	600,166	170,014	977,491	-
OPEB related	192,750	546,124	160,625	899,499	-
Total deferred inflows of resources	<u>400,061</u>	<u>1,146,290</u>	<u>330,639</u>	<u>1,876,990</u>	<u>-</u>
Net Position					
Net investment in capital assets	1,851,598	52,778,243	4,608,542	59,238,383	-
Restricted:					
Debt service	117,184	2,780,247	-	2,897,431	-
Endowment:					
Expendable	-	8,358,735	-	8,358,735	-
Unrestricted	5,620,644	6,312,863	(1,269,470)	10,664,037	5,860,317
Total net position	<u>7,589,426</u>	<u>70,230,088</u>	<u>3,339,072</u>	<u>81,158,586</u>	<u>5,860,317</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,964,832</u>	<u>129,268,329</u>	<u>5,407,182</u>	<u>146,640,343</u>	<u>5,879,665</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Business - Type Activities - Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds		
Operating Revenues					
Charges for services	\$ 5,808,140	11,541,082	281,757	17,630,979	6,465,797
Operating Expenses					
Personnel services	1,981,419	5,168,146	1,235,004	8,384,569	-
Utilities	1,053	618,834	96,645	716,532	-
Contractual services	24,912	272,403	486,325	783,640	127,501
Repairs and maintenance	393,069	600,242	67,838	1,061,149	-
Insurance claims and expenses	-	-	-	-	5,261,476
Other supplies and expenses	1,184,755	648,331	92,255	1,925,341	2,047,845
Depreciation and amortization	266,344	2,428,149	337,383	3,031,876	-
Total operating expenses	<u>3,851,552</u>	<u>9,736,105</u>	<u>2,315,450</u>	<u>15,903,107</u>	<u>7,436,822</u>
Operating income (loss)	1,956,588	1,804,977	(2,033,693)	1,727,872	(971,025)
Non-Operating Revenues (Expenses)					
Gross receipts taxes	971,760	-	-	971,760	-
Intergovernmental	111,000	6,850	647,978	765,828	-
Investment income	45,480	124,452	-	169,932	15,057
Miscellaneous	11,094	34,218	1,983	47,295	269,121
Gain/(loss) on sale of assets	(35,681)	(203,043)	(2,198)	(240,922)	-
Gain/(loss) on investments	-	(97,748)	-	(97,748)	-
Interest expense	(12,862)	(1,343,423)	-	(1,356,285)	-
Total non-operating revenue (expenses)	<u>1,090,791</u>	<u>(1,478,694)</u>	<u>647,763</u>	<u>259,860</u>	<u>284,178</u>
Income (loss) before capital contributions and transfers	3,047,379	326,283	(1,385,930)	1,987,732	(686,847)
Capital Contributions and Transfers					
Transfers in	476,037	3,834,941	2,281,484	6,592,462	1,490,000
Transfers (out)	(1,441,033)	(3,120,173)	(20,000)	(4,581,206)	(799,954)
Total capital contributions and transfers	<u>(964,996)</u>	<u>714,768</u>	<u>2,261,484</u>	<u>2,011,256</u>	<u>690,046</u>
Change in net position	2,082,383	1,041,051	875,554	3,998,988	3,199
Net position, beginning of year	6,513,011	72,009,585	3,293,803	81,816,399	5,857,118
Restatements	(1,005,968)	(2,820,548)	(830,285)	(4,656,801)	-
Net position, beginning of year, restated	<u>5,507,043</u>	<u>69,189,037</u>	<u>2,463,518</u>	<u>77,159,598</u>	<u>5,857,118</u>
Net position, end of year	<u>\$ 7,589,426</u>	<u>70,230,088</u>	<u>3,339,072</u>	<u>81,158,586</u>	<u>5,860,317</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			Total	Governmental
	Solid Waste Fund (22,24)	Joint Water and Sewer Fund (36)	Other Enterprise Funds		Internal Service Funds
Cash Flows From Operating Activities					
Cash received from customers	\$ 5,897,406	11,855,515	214,796	17,967,717	-
Internal activity - receipts from other funds	-	-	-	-	6,466,314
Cash payments to suppliers for goods and services	(1,730,790)	(2,935,086)	(809,451)	(5,475,327)	-
Cash payments to employees for services	(1,813,077)	(4,494,253)	(1,097,727)	(7,405,057)	(7,465,725)
Net cash provided (used) by operating activities	2,353,539	4,426,176	(1,692,382)	5,087,333	(999,411)
Cash Flows for Non-Capital and Financing Activities					
Cash received from gross receipts taxes	971,760	-	-	971,760	-
Intergovernmental revenues	111,000	6,850	647,978	765,828	-
Utility deposit, grt, and miscellaneous receipts	11,094	34,218	1,983	47,295	-
Net transfers in (out)	(964,996)	714,768	2,261,484	2,011,256	690,046
Net cash provided (used) by non-capital and related financing activities	128,858	755,836	2,911,445	3,796,139	690,046
Cash Flows for Capital and Financing Activities					
Proceeds from the sale of assets	5,200	2,257	4,000	11,457	-
Acquisition of capital assets	(173,521)	(2,527,990)	(275,090)	(2,976,601)	-
Transfers in/out of capital assets	-	(1,642,351)	(883,217)	(2,525,568)	-
Principal payments on capital debt	(113,573)	(1,675,703)	-	(1,789,276)	-
Interest on capital debt	(12,862)	(1,343,423)	-	(1,356,285)	-
Net cash (used) by capital and related financing activities	(294,756)	(7,187,210)	(1,154,307)	(8,636,273)	-
Cash Flows From Investing Activities					
Investment income	45,480	124,452	-	169,932	15,057
Loss on redemption of investments and bank charges	-	(97,939)	-	(97,939)	-
Purchase of investments	-	253,648	-	253,648	-
Net cash provided (used) by investing activities	45,480	280,161	-	325,641	15,057
Net increase (decrease) in cash	2,233,121	(1,725,037)	64,756	572,840	(294,308)
Cash and cash equivalents, beginning of year	5,842,342	19,015,839	385,092	25,243,273	5,904,852
Cash and cash equivalents, end of year	\$ 8,075,463	17,290,802	449,848	25,816,113	5,610,544
Displayed as					
Cash	\$ 7,947,491	11,690,377	449,848	20,087,716	4,917,813
Restricted cash	2,280	5,600,425	-	5,602,705	961,852
Restricted cash held be fiscal agent	125,692	-	-	125,692	-
	\$ 8,075,463	17,290,802	449,848	25,816,113	5,879,665
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 1,956,588	1,804,977	(2,033,693)	1,727,872	(971,025)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	266,344	2,428,149	337,383	3,031,876	-
Landfill closure & post closure liability	39,855	-	-	39,855	-
Pension expense	146,109	413,977	121,758	681,844	-
OPEB expense	17,499	49,580	14,582	81,661	-
Change in Assets and Liabilities					
(Increase) decrease in accounts receivable	89,266	314,433	(66,979)	336,720	517
(Increase) decrease in inventories	-	(16,824)	-	(16,824)	-
Increase (decrease) in accounts payable	(166,856)	(778,452)	(66,388)	(1,011,696)	(28,903)
Increase (decrease) in accrued salaries	3,962	6,302	(5,629)	4,635	-
Increase (decrease) in accrued liabilities	-	194,426	18	194,444	-
Increase (decrease) in compensated absences	772	9,608	6,566	16,946	-
Total adjustments	396,951	2,621,199	341,311	3,359,461	(28,386)
Net cash provided (used) by operating activities	\$ 2,353,539	4,426,176	(1,692,382)	5,087,333	(999,411)

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

**CITY OF CARLSBAD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES --
AGENCY FUNDS
AS OF JUNE 30, 2018**

Assets

Cash	\$ 32,423
Note receivable	<u>270,100</u>

\$ 302,523

Liabilities

Due to others	\$ <u><u>302,523</u></u>
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See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018**

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

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

Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

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

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

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

Governmental Fund Financial Statements—Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met, and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as, expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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 gross receipts 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.

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.

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.

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

Debt Service Funds

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

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

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

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

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

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

The City maintains 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.

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.

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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 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.

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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:

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

Vacation Pay

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

Sick Leave

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

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Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Deferred Outflows/Inflows of Resources

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

The City has the following deferred outflows of resources during fiscal year 2018:

Deferred Outflows of Resources - GW

Pension deferrals	\$ 14,835,029
OPEB deferrals	539,021
Charges related to advance refunding	<u>23,223</u>
Total deferred outflows of resources	<u>\$ 15,397,273</u>

Deferred Outflows of Resources - Fund Financials

Pension deferrals	\$ 1,829,049
OPEB deferrals	75,463
Charges related to advance refunding	<u>23,223</u>
Total deferred outflows of resources	<u>\$ 1,927,735</u>

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

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The City has the following deferred inflows of resources during fiscal year 2018:

Deferred Inflows of Resources - GW

Pension deferrals	\$ 6,901,008
OPEB deferrals	6,424,991
Total deferred outflows of resources	\$ 13,325,999

Deferred Inflows of Resources - Fund Financials

Unavailable property tax revenue	\$ 135,925
Unavailable charges for services	514,526
Pension deferrals	977,491
OPEB deferrals	899,499
Total deferred outflows of resources	\$ 2,527,441

Unavailable Revenue

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

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

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

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

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

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

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

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

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

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

F. Other Matters

Cash Flows

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

Use of Estimates

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

Subsequent Events

Management has evaluated events through December 14, 2018, the date the financial statements were available to be issued.

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NOTE 2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

New Mexico state statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by 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, 2018, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
Cash on hand	\$ 5,067	-	5,067
Carlsbad National Bank	8,856,985	(350,211)	8,506,774
First American Bank	1,642,000	-	1,642,000
Pioneer Savings Bank	3,759,617	-	3,759,617
Wells Fargo Bank	51,555,343	(1,368,523)	50,186,820
Western Commerce Bank	7,635,202	(84,669)	7,550,533
Total cash deposits	\$ 73,454,214	(1,803,403)	71,650,811

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

Statement of Net Position	Amount
Cash	\$ 65,053,833
Restricted	6,564,555
	<u>71,618,388</u>
Agency fund	32,423
Total cash	\$ <u>71,650,811</u>

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

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	Carlsbad National Bank	First American Bank	Pioneer Savings Bank	Wells Fargo Bank, N.A.	Western Commerce Bank
Total deposits in bank	\$ 8,856,985	1,642,000	3,759,617	51,555,343	7,635,202
Less FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)	(500,000)
Uninsured public funds	8,606,985	1,392,000	3,509,617	51,305,343	7,135,202
Pledged collateral held by pledging bank's trust, but not in the City's name	6,569,511	886,824	2,136,494	30,825,545	5,754,781
Uninsured and uncollateralized public funds	2,037,474	505,176	1,373,123	20,479,798	1,380,421
Total pledged collateral	6,569,511	886,824	2,136,494	30,825,545	5,754,781
50% pledged collateral requirement per state statute	4,303,493	696,000	1,754,809	25,652,672	3,567,601
Pledged collateral (under) over the requirements	\$ 2,266,018	190,824	381,686	5,172,874	2,187,180

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, 2018, \$71,949,147 of the City's bank balance of \$74,449,147 was exposed to custodial credit risk as follows:

	Carlsbad National Bank	First American Bank	Pioneer Savings Bank	Wells Fargo Bank, N.A.	Western Commerce Bank
Uninsured and collateralized held by pledging bank's trust dept. or agent not in the City name	\$ 8,606,985	1,392,000	3,509,617	51,305,343	7,135,202

NOTE 3. RESTRICTED CASH HELD BY FISCAL AGENT

The City has entered into various loan agreements with the New Mexico Finance Authority. As required by the loan agreements, any unexpended loan proceeds are maintained by NMFA until needed by the City. Additionally, the City is required to set aside reserve amounts for the debt obligations. As of June 30, 2018, the NMFA held \$679,159.

NOTE 4. RESTRICTED INVESTMENTS

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

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

Statement of Net Position	
Restricted investments	\$ 6,136,579

As of June 30, 2018, the restricted investments are composed of the following:

Investment - US Treasury Notes	\$ 6,136,579
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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, 2018.

	Market Value	%	Maturity
\$	524,276	9%	Less than 1 year
	1,254,197	20%	1-2 years
	4,358,106	71%	2-5 years
\$	6,136,579	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:

Description	2018 Level 1
U.S. Treasury Notes	\$ 6,136,579

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, 2018, consisted of the following:

Types of Receivables	Governmental Activities	Business-Type Activities	Totals
Accounts receivable			
Charges for services	\$ 794,522	2,323,198	3,117,720
Allowance for doubtful accounts	(160,715)	(307,670)	(468,385)
Total	633,807	2,015,528	2,649,335
Taxes receivable			
Gross receipts taxes	10,530,450	200,773	10,731,223
Franchise taxes	129,228	-	129,228
Property taxes	205,110	-	205,110
Lodgers' taxes	377,008	-	377,008
Public service taxes	68,947	-	68,947
Allowance for doubtful accounts	(4,102)	-	(4,102)
Total	11,306,641	200,773	11,507,414
Intergovernmental receivables			
Building improvement grants	-	-	-
Public safety grants	32,426	-	32,426
Infrastructure improvement grants	330,062	-	330,062
Municipal transit grants	84,562	130,530	215,092
Total	447,050	130,530	577,580
Interest receivable	6,234	18,804	25,038
Receivables, net	\$ 12,393,732	2,365,635	14,759,367

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

NOTE 6. PROPERTY TAX

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

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

The City is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the City is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the City. The City's total tax rate to finance general government services for the year 2017, was \$5,616 per \$1,000 for non-residential and \$7,500 for residential property.

NOTE 7. BAD DEBT EXPENSE

Governmental Activities

During the current fiscal year, the City recorded an allowance on all receivables related to ambulance fees over 180 days, as well as an additional charge of 1%, which amounted to \$160,715 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, 2018, is \$307,670.

NOTE 8. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2018, are as follows:

Governmental Activities	Balance 2017	Additions	Deletions	Transfers & Adjustments	Restatements	Balance 2018
Non-Depreciable Capital Assets						
Land	\$ 1,997,341	-	(64,206)	(10)	-	1,933,125
Construction in Progress	1,169,885	873,445	-	(58,080)	-	1,985,250
Total non-depreciable capital assets	<u>3,167,226</u>	<u>873,445</u>	<u>(64,206)</u>	<u>(58,090)</u>	<u>-</u>	<u>3,918,375</u>
Capital Assets Being Depreciated						
Buildings	76,577,540	5,034,160	(198,038)	(819,367)	(251,761)	80,342,534
Improvements	534,963	-	(9,257)	(4,447)	-	521,259
Infrastructure	95,563,440	3,597,949	(23,212)	(1,720,234)	-	97,417,943
Equipment	25,773,991	2,533,939	(2,196,015)	4,581	-	26,116,496
Total capital assets being depreciated	<u>198,449,934</u>	<u>11,166,048</u>	<u>(2,426,522)</u>	<u>(2,539,467)</u>	<u>(251,761)</u>	<u>204,398,232</u>
Less Accumulated Depreciation For						
Buildings	(30,036,086)	(2,855,455)	169,412	375,485	-	(32,346,644)
Improvements	(173,182)	(17,171)	2,730	(6,891)	-	(194,514)
Utility System & Facilities	(32,782,281)	(3,117,699)	15,446	567,186	-	(35,317,348)
Equipment	(16,451,447)	(1,476,899)	2,061,794	(863,791)	-	(16,730,343)
Total accumulated depreciation	<u>(79,442,996)</u>	<u>(7,467,224)</u>	<u>2,249,382</u>	<u>71,989</u>	<u>-</u>	<u>(84,588,849)</u>
Total capital assets being depreciated, net	<u>119,006,938</u>	<u>3,698,824</u>	<u>(177,140)</u>	<u>(2,467,478)</u>	<u>(251,761)</u>	<u>119,809,383</u>
Total capital assets, net of depreciation	<u>\$ 122,174,164</u>	<u>4,572,269</u>	<u>(241,346)</u>	<u>(2,525,568)</u>	<u>(251,761)</u>	<u>123,727,758</u>

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Business-type Activities	Balance 2017	Additions	Deletions	Transfers & Adjustments	Restatements	Balance 2018
Non-Depreciable Capital Assets						
Land & Water Rights	\$ 1,316,172	-	-	10	-	1,316,182
Construction in Progress	39,191,399	2,045,600	-	265,767	-	41,502,766
	<u>40,507,571</u>	<u>2,045,600</u>	<u>-</u>	<u>265,777</u>	<u>-</u>	<u>42,818,948</u>
Capital Assets Being Depreciated						
Buildings and Improvements	46,917,150	233,016	(11,649)	433,076	-	47,571,593
Equipment	15,081,342	447,743	(1,145,887)	367,904	-	14,751,102
Utility system	53,964,361	250,242	(653,718)	1,530,800	29,696	55,121,381
Total capital assets being depreciated	115,962,853	931,001	(1,811,254)	2,331,780	29,696	117,444,076
Less Accumulated Depreciation For						
Buildings & Improvements	(18,792,857)	(1,312,496)	14,859	(67,231)	-	(20,157,725)
Equipment	(10,461,006)	(500,089)	1,020,428	(457,739)	8,022	(10,390,384)
Utility system	(19,846,665)	(1,219,291)	523,587	452,981	-	(20,089,388)
Total accumulated depreciation	<u>(49,100,528)</u>	<u>(3,031,876)</u>	<u>1,558,874</u>	<u>(71,989)</u>	<u>8,022</u>	<u>(50,637,497)</u>
Total capital assets being depreciated, net	66,862,325	(2,100,875)	(252,380)	2,259,791	37,718	66,806,579
Total capital assets, net of depreciation	\$ <u>107,369,896</u>	<u>(55,275)</u>	<u>(252,380)</u>	<u>2,525,568</u>	<u>37,718</u>	<u>109,625,527</u>

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

Governmental activities

General Government	\$ 1,731,255
Public Safety	1,751,832
Public Works	2,272,914
Culture & Recreation	1,667,976
Health & Welfare	43,247
Total governmental activities	<u>\$ 7,467,224</u>

Business-type activities

Solid Waste	266,344
Joint Water and Sewer	2,428,149
Municipal Transit	68,412
Performing Arts Center	185,881
Cemetery	83,090
Total business-type activities	<u>\$ 3,031,876</u>

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018, consisted of the following:

	Governmental Activities	Business Type Activities
Gov't sales tax payable	\$ 5,276	-
Compensating taxes	-	-
State tax payable	58,570	71,699
	<u>\$ 63,846</u>	<u>71,699</u>

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NOTE 10. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2018, were as follows:

Governmental Activities	Balance				Restatement	Amounts Due Within	
	2017	Additions	Retirements	2018		One Year	
Notes payable	\$ 5,462,011	-	(441,537)	-	5,020,474	447,665	
Bonds payable	4,770,000	-	(625,000)	-	4,145,000	300,000	
Less net bond premium (discount)	(45,289)	-	(239)	-	(45,528)	-	
Compensated absences	1,821,852	1,555,596	(1,601,682)	-	1,775,766	574,826	
Net pension liability	58,551,967	-	(9,351,016)	-	49,200,951	-	
Net OPEB liability	-	459,967	(5,020,267)	28,837,759	24,277,459	-	
Governmental activities long-term liabilities	\$ <u>70,560,541</u>	<u>2,015,563</u>	<u>(17,039,741)</u>	<u>28,837,759</u>	<u>84,374,122</u>	<u>1,322,491</u>	

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 \$492,268 for the year ended June 30, 2018.

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

	Principal	Interest	Total
2019	\$ 81,706	6,221	87,927
2020	84,937	3,202	88,139
	\$ <u>166,643</u>	<u>9,423</u>	<u>176,066</u>

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
2019	\$ 365,959	109,776	475,735
2020	369,875	105,860	475,735
2021	374,757	100,978	475,735
2022	380,566	95,170	475,736
2023	387,264	88,472	475,736
2024-2028	2,067,261	311,419	2,378,680
Thereafter	908,149	43,322	951,471
	\$ <u>4,853,831</u>	<u>854,997</u>	<u>5,708,828</u>

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, 2018. 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. As of June 30, 2018, this loan was paid in full.

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, 2018.

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

		Principal	Premium (Discount)	Net Book Value	Interest	Total
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		355,000	(4,182)	350,818	131,187	486,187
2024-2028		2,040,000	(24,059)	2,015,941	404,576	2,444,576
Thereafter		465,000	(10,971)	454,029	22,088	487,088
	\$	4,145,000	(45,528)	4,099,472	1,218,669	5,363,669

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, 2018, were as follows:

Business-Type Activities	Balance 2017	Additions	Retirements	Restatement	Balance 2018	Amounts Due Within One-Year
Notes payable	\$ 37,595,080	125,644	(829,276)	-	36,891,448	1,668,670
Bonds payable	14,605,000	-	(960,000)	-	13,645,000	995,000
Less net bond premium (discount)	(144,014)	-	(5,291)	-	(149,305)	-
Landfill closure	374,220	39,855	-	-	414,075	-
Compensated absences	232,810	268,906	(251,961)	-	249,755	128,211
Net pension liability	8,680,513	-	(1,518,960)	-	7,161,553	-
Net OPEB liability	-	74,879	(817,253)	4,694,519	3,952,145	-
Business-type activities long-term liabilities	\$ 61,343,609	509,284	(4,382,741)	4,694,519	62,164,671	2,791,881

NMED—Note Payable—Wastewater Utility System Improvements

On April 29, 2010, the City entered into a clean water state revolving loan agreement with the New Mexico Environment Department, with a total maximum amount of \$18,000,000. As of June 30, 2018, the total balance for the loan totaled \$19,414,220 which includes interest that was rolled into the loan. The note is for twenty years and accrues interest at 2.00% per annum. The proceeds of the loan agreement will be used for improvements to the City's wastewater utility system. The payments of principal and interest will be paid with net revenues from the City's water and wastewater utility system activities, which was approximately \$11.5 million for the year ended June 30, 2018.

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

	Principal	Interest	Total
2019	\$ 799,026	388,284	1,187,310
2020	815,006	372,304	1,187,310
2021	831,306	356,004	1,187,310
2022	847,932	339,378	1,187,310
2023	864,891	322,419	1,187,310
2024-2028	4,590,946	1,345,604	5,936,550
2029-2033	5,068,775	867,775	5,936,550
Thereafter	5,596,338	340,212	5,936,550
Total	\$ 19,414,220	4,331,980	23,746,200

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 \$11.5 million for the year ended June 30, 2018.

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, 2018, the City has requested loan proceeds, totaling \$18,615,194. 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 \$659,723 allocated to current liabilities based on the formal amortization schedule created by NMFA.

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$	659,723	301,368	961,091
2020		672,917	288,174	961,091
2021		686,376	274,714	961,090
2022		700,103	260,988	961,091
2023		714,105	246,986	961,091
2024-2028		3,790,557	1,014,896	4,805,453
2029-2033		4,185,082	620,370	4,805,452
Thereafter		3,659,576	184,786	3,844,362
Total	\$	<u>15,068,439</u>	<u>3,192,282</u>	<u>18,260,721</u>

NMFA # 10—Note Payable—Double Eagle Waterline Improvements

On June 18, 2010, the City entered into a water project loan and subsidy agreement with the New Mexico Water Trust Board, financed by the New Mexico Finance Authority, with a total amount of \$1,500,000, of which the loan portion of the agreement is a maximum of \$300,000. The note matures on June 1, 2030 and does not accrue interest. The note accrues an administrative fee of .25% per annum. The proceeds of the loan and subsidy agreement will be used for water line improvements to the Double Eagle system. The payments of principal and interest will be paid from net revenues from the City's water and wastewater utility system activities, which was approximately \$11.5 million for the year ended June 30, 2018. The annual requirements to amortize the loan outstanding as of June 30, 2018, including interest payments, are as follows:

		<u>Principal</u>	<u>Admin Fee</u>	<u>Total</u>
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		15,092	305	15,397
2024-2028		76,030	955	76,985
Thereafter		30,679	115	30,794
Total	\$	<u>181,795</u>	<u>2,969</u>	<u>184,764</u>

NMFA # 13—Note Payable—Solid Waste Grappler Trucks

On March 20, 2015, the City borrowed \$1,165,267 from the New Mexico Finance Authority. The note matures on May 1, 2025 and accrues interest at a rate of 1.449%. The proceeds of the loan were used for the purchase of new solid waste equipment, including grappler trucks. The payments of principal and interest are paid from the net revenues of the City's solid waste disposal activities, which was approximately \$5.8 million for the year ended June 30, 2018.

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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		119,317	6,540	125,857
Thereafter		244,454	6,902	251,356
Total	\$	<u>827,289</u>	<u>54,521</u>	<u>881,810</u>

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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 \$11.5 million for the year ended June 30, 2018. As of June 30, 2018, the City had received the full balance of the \$1,500,000.

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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		29,816	984	30,800
2024-2028		150,205	3,795	154,000
2029-2033		152,090	1,910	154,000
Thereafter		61,370	230	61,600
Total	\$	<u>512,005</u>	<u>11,595</u>	<u>523,600</u>

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 \$11.5 million for the year ended June 30, 2018.

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

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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		51,695	1,705	53,400
2024-2028		260,420	6,580	267,000
2029-2033		263,691	3,309	267,000
Thereafter		106,401	399	106,800
Total	\$	<u>887,700</u>	<u>20,100</u>	<u>907,800</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.

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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, 2018, including interest payments, are as follows:

		Principal	Premium (Discount)	Net Book	Interest	Total
2019	\$	995,000	7,505	1,002,505	627,181	1,622,181
2020		1,035,000	(768)	1,034,232	587,381	1,622,381
2021		1,075,000	(6,883)	1,068,117	545,981	1,620,981
2022		1,120,000	(12,167)	1,107,833	501,638	1,621,638
2023		1,170,000	(10,340)	1,159,660	454,038	1,624,038
2023-2027		6,705,000	(104,859)	6,600,141	1,398,251	8,103,251
2028-2029		1,545,000	(21,793)	1,523,207	77,250	1,622,250
	\$	13,645,000	(149,305)	13,495,695	4,191,720	17,836,720

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 \$3,358,983 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, 2018. 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.

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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, 2018:

Estimated landfill closure cost	\$	2,240,169
Estimated landfill post-closure care cost		<u>1,118,814</u>
Total estimated closure and post-closure costs	\$	<u>3,358,983</u>
FY18 tonnage received		97,777
conversion to compacted cubic yards in-place		<u>2</u>
Cubic yards	\$	<u>195,554</u>
FY17 capacity used to date		3,242,073
FY18 tonnage received/capacity used		<u>195,533</u>
FY18 capacity used to date	\$	<u>3,437,606</u>
Total capacity used to date (approximately 3,437,606 gate cubic yards) as a percentage of total capacity (13,943,056 gate cubic yards including expansion)		<u>24.65%</u>
Total estimated closure and post-closure costs		3,358,983
Total capacity used to date		<u>24.65%</u>
Estimated closure and post-closure care costs	\$	<u>828,144</u>
Estimated closure and post-closure care costs		828,144
Prior year liability		<u>748,438</u>
Decrease in estimated liability	\$	<u>79,706</u>
City of Carlsbad's portion (50%)	\$	<u>39,855</u>
Prior year liability recognized		374,220
Increase/decrease in estimated liability		<u>39,855</u>
Estimated liability for the fiscal year ended June 30, 2018	\$	<u>414,075</u>

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NOTE 11. RESTATEMENTS OF NET POSITION AND FUND BALANCES

After a review of the prior year's statements of financial position of the government-wide activities and the individual funds, the City has determined that errors existed in several of the statements. As a result, the following adjustments have been made to the beginning equity amounts of both the government-wide and the individual fund statements. Additionally, the City adopted GASB 75, which required a restatement of equity related to unfunded OPEB liabilities. An explanation of the restatements is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Individual Funds</u>
Government-Wide Financial Statements			
Capital assets were overstated	\$ (251,761)	-	-
GASB 75 OPEB	(28,837,759)	-	-
Major Funds			
Solid Waste Fund			
GASB 75 OPEB	-	(1,005,968)	<u>(1,005,968)</u>
Water & Sewer Fund			
Capital assets understated	-	29,696	
GASB 75 OPEB	-	<u>(2,850,244)</u>	
Total water & sewer			<u>(2,820,548)</u>
Non-Major Funds			
Performing Arts Center Fund			
Capital assets were understated	-	8,022	<u>8,022</u>
Municipal Transit Fund			
GASB 75 OPEB	-	(670,646)	<u>(670,646)</u>
Cemetery Fund			
GASB 75 OPEB	-	<u>(167,661)</u>	<u>(167,661)</u>
	\$ <u>(29,089,520)</u>	<u>(4,656,801)</u>	<u>(4,656,801)</u>

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.

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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 2018.

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 \$3,269,759 and employer paid member benefits that were “picked up” by the employer were \$0.00 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions; At June 30, 2018, the City reported a liability of \$56,362,504 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, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City’s proportion was 2.2529%, which was a decrease of 0.0138% from its proportion measured as of June 30, 2016.

For PERA Fund Division; Municipal General Division, at June 30, 2018, the City reported a liability of \$25,404,076 for its proportionate share of the net pension liability. At June 30, 2017, the City’s proportion was 1.8488%, which was a decrease of 0.0422% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized PERA Fund Division; Municipal General Division pension expense of \$3,525,035. At June 30, 2018, the City reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the

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following sources:

Municipal General Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 998,209	1,301,123
Changes of assumptions	1,171,505	262,516
Net difference between projected and actual earnings on pension plan investments	2,084,251	-
Change in proportion and differences between the City contributions and proportionate share of contributions	900,579	358,662
The City contributions subsequent to the measurement date	1,576,092	-
Total	<u>\$ 6,730,636</u>	<u>1,922,301</u>

\$1,576,092 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2017, 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:

Year Ended June 30:	Amount
2019	\$ 1,171,572
2020	2,417,083
2021	252,699
2022	(609,111)
2023	-
Thereafter	-
Total	<u>\$ 3,232,243</u>

For PERA Fund Division; Municipal Police Division, at June 30, 2018, the City reported a liability of \$11,552,430 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 2.0794%, which was an increase of 0.0508% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized PERA Fund Division; Municipal Police Division pension expense of \$1,771,409. At June 30, 2018, the City reported PERA Fund Division; Municipal Police Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Municipal Police Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 701,637	2,158,459
Changes of assumptions	687,331	268,632
Net difference between projected and actual earnings on pension plan investments	930,390	-
Change in proportion and differences between the City contributions and proportionate share of contributions	699,695	-
The City contributions subsequent to the measurement date	793,834	-
Total	<u>\$ 3,812,887</u>	<u>2,427,091</u>

\$793,834 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2017, 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:

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Year Ended June 30:	Amount
2019	\$ 306,783
2020	825,110
2021	(267,897)
2022	(272,034)
2023	-
Thereafter	-
	\$ 591,962

For PERA Fund Division; Municipal Fire Division, at June 30, 2018, the City reported a liability of \$19,406,998 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 3.3918%, which was an increase of 0.0860% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized PERA Fund Division; Municipal Fire Division pension expense of \$2,843,619. At June 30, 2018, the City reported PERA Fund Division; Municipal Fire Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Municipal Fire Division	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 633,644	2,429,951
Changes of assumptions	767,197	121,666
Net difference between projected and actual earnings on pension plan investments	728,482	-
Change in proportion and differences between the City contributions and proportionate share of contributions	1,262,350	-
The City contributions subsequent to the measurement date	899,833	-
Total	\$ 4,291,506	2,551,617

\$889,833 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date June 30, 2017, 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:

Year Ended June 30:	Amount
2019	\$ 684,358
2020	727,130
2021	(361,546)
2022	(209,886)
2023	-
Thereafter	-
	\$ 840,056

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Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial assumptions	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 9 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 9 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, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

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

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

Discount rate – A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

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Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

PERA Fund Division -	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
Municipal General Division	\$ 39,816,578	\$ 25,404,076	\$ 13,418,077
Municipal Police Division	\$ 18,422,921	\$ 11,552,430	\$ 5,914,176
Municipal Fire Division	\$ 26,009,060	\$ 19,405,998	\$ 13,964,472

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. STATE RETIREE HEALTH CARE PLAN CONTRIBUTIONS

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

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

	2018	2017	2016
City Contributions	\$ 539,021	\$ 540,761	\$ 521,067

NOTE 14. OPEB

General Information about the OPEB/RHCA

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

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

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

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Employees covered by benefit terms – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
 Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the City were \$539,021 for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability of \$28,229,604 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the City’s proportion was 0.62294 percent.

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,122,318. At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,083,302
Changes of assumptions	-	4,935,587
Net difference between actual and projected earnings on OPEB plan investments	-	406,102
Contributions subsequent to the measurement date	539,021	-
Total	\$ 539,021	6,424,991

Deferred outflows of resources totaling \$539,021 represent City contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

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Year Ended	
June 30:	Amount
2019	\$ (1,365,998)
2020	(1,365,998)
2021	(1,365,998)
2022	(1,365,998)
2023	(960,999)
Thereafter	-

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

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions	
Inflation	2.50% for ERB members, 2.25% for PERA members
Projected salary increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

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

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

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	4.10%
U.S. equity - large cap	9.10%
Non U.S. - emerging markets	12.20%
Non U.S. - developed equities	9.80%
Private equity	13.80%
Credit and structured finance	7.30%
Real estate	6.90%
Absolute return	6.10%
U.S. equity - small/mid cap	9.10%

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability

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through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

1% Decrease (2.81%)	Current Discount (3.81%)	1% Increase (4.81%)
\$ 34,242,070	\$ 28,229,604	\$ 23,512,284

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

1% Decrease	Current Trend Rate	1% Increase
\$ 24,011,222	\$ 28,229,604	\$ 31,518,899

OPEB plan fiduciary net position. Detailed information about the OPEB plan’s fiduciary net position is available in NMRHCA’s audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the City reported a payable of \$20,529 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

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NOTE 15. COMMITMENTS

The City has the following construction projects, which are evidenced by contractual arrangements with construction contractors, as of June 30, 2018:

Commitments of Governmental-type Activities

Project	Fund	Contract Amount	Spent to Date	Commitment Remaining	Percentage Complete
Runway 8-26 Rehab	Airport	206,068	198,404	7,664	96%
Airport Front Entrance	Airport	93,884	61,331	32,553	65%
Cross Roads Health Facility - Architecture & Asbestos Removal	CIEP	494,700	60,808	433,892	12%
Beach Area Landscaping	CIEP	10,000	5,106	4,894	51%
IT Improvement Survey & Fiber Cabling	General	210,181	185,181	25,000	88%
Potash Museum Storage Shed & Train Shed	General	115,000	6,409	108,591	6%
1024 E Riverside Dr Water Service	General	37,686	2,412	35,274	6%
Upper Tansill Damn Remediation	General	100,000	2,341	97,659	2%
	GRT Capital				
Callaway Drive Light Poles	Outlay	80,413	33,515	46,898	42%
Cavern Theater	Lodger's Tax	1,214,108	776,047	438,061	64%
Upgrades at Jr. & Sr. Fields & 12,000 BTU Air conditioner	Sports Complex	257,283	6,010	251,273	2%
Sports Complex Landscaping	Sports Complex	17,350	2,822	14,528	16%
Dark Canyon Bridge	Street Improvement	442,183	342,183	100,000	77%
Lea & Standpipe Road Rehab	Street Improvement	1,310,094	107,587	1,202,507	8%
Eagle & Elizondo Road Rehab	Street Improvement	440,313	153,368	286,945	35%
		<u>5,029,263</u>	<u>1,943,524</u>	<u>3,085,739</u>	

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Commitments of Business-type Activities

<u>Project</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Spent to Date</u>	<u>Commitment Remaining</u>	<u>Percentage Complete</u>
Transit Mechanic Shop	Transit	257,029	241,111	15,918	94%
Veteran's Memorial WA	Cemetery	10,000	5,203	4,797	52%
Cemetary Building	Cemetery	10,000	9,449	551	94%
San Jose Phase III	Cemetery	55,437	7,304	48,133	13%
Well #8, #9, & #6 Rehab	Water & Sewer	2,569,486	2,519,486	50,000	98%
Industrial Park Freshwater Station	Water & Sewer	73,417	43,417	30,000	59%
Tatum Well Field Design & Engineering	Water & Sewer	418,885	118,885	300,000	28%
Double Eagle Wellfield Rehab	Water & Sewer	493,583	432,994	60,589	88%
Well C7, C8, C9, C10, & C11 Rehab	Water & Sewer	1,712,515	1,651,926	60,589	96%
Double Eagle Waterline Extension	Water & Sewer	44,488,560	33,264,596	11,223,964	75%
Chlorination Plant Upgrades	Water & Sewer	135,504	5,504	130,000	4%
Well Monitoring Equipment	Water & Sewer	950,946	947,060	3,886	99%
Sewer Interceptor	Water & Sewer	782,972	755,837	27,135	97%
Hagerman, Hall, Bataan, Pate, Stevens, - Lift Station Reb	Water & Sewer	2,127,373	1,495,247	632,126	70%
		<u>54,085,707</u>	<u>41,498,019</u>	<u>12,587,688</u>	

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, 2018 was approximately \$312,400 and was apportioned between governmental and business type activities.

<u>Year Ended</u>	<u>Amount</u>
<u>June 30,</u>	
2019	\$ 314,017
2020	292,844
2021	199,764
2022	41,114
2023	-
	<u>\$ 847,739</u>

NOTE 16. RISK MANAGEMENT

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

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 17. CONTINGENT LIABILITIES

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

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

NOTE 18. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

Deficit Fund Balance/Net Position of Individual Funds

The Municipal Transit Fund had a deficit net position of \$(83,823) for the year ended June 30, 2018.

Excess of Expenditures Over Appropriations

There were no funds that exceeded approved budgetary authority for the year ended June 30, 2018.

Designated Cash Appropriations

There were no funds that exceeded approved designated cash appropriations for the year ended June 30, 2018.

NOTE 19. INTERFUND TRANSFERS

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

		Transfers In							
		General Fund	Solid Waste Fund	Joint Water & Sewer Fund	Other Governmental Funds	Other Enterprise Funds	Internal Service Funds	Agency Funds	Total
Transfers Out	General Fund	\$ -	-	-	254,403	1,375,000	980,000	100	2,609,503
	GRT Capital Outlay Fund	-	-	300,000	1,035,323	-	-	-	1,335,323
	Solid Waste Fund	913,598	437,435	-	-	-	90,000	-	1,441,033
	Joint Water & Sewer Fund	911,657	-	1,808,516	-	-	400,000	-	3,120,173
	Other Governmental Funds	655,642	-	-	1,014,073	-	-	-	1,669,715
	Other Enterprise Funds	-	-	-	-	-	20,000	-	20,000
	Internal Service Funds	642,800	38,602	84,074	11,211	23,267	-	-	799,954
		<u>\$ 3,123,697</u>	<u>476,037</u>	<u>2,192,590</u>	<u>2,315,010</u>	<u>1,398,267</u>	<u>1,490,000</u>	<u>100</u>	<u>10,995,701</u>

In addition to the transfers noted above, the City transferred \$2,525,568 of capital assets from governmental to business-type funds.

NOTE 20. GASB 77 DISCLOSURE

The City has no tax abatement agreements as of June 30, 2018, and therefore no disclosures under GASB 77 are required.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018**

	Special Revenue Funds							Total Special Revenue Funds
	Fire Protection Fund (20)	Lodgers' Tax Fund (21,23)	Airport Fund (25)	Emergency Medical Services Fund (31)	Local Government Corrections Fund (32)	Law Enforcement Protection Fund (34)	Sports Complex Fund (29,68)	
Assets								
Cash	\$ 122,525	3,696,531	182,635	-	227,613	-	1,385,827	5,615,131
Receivables, net	-	402,382	85,726	-	-	-	404,108	892,216
Restricted assets:								
Cash held by fiscal agent	-	-	-	-	-	-	304,975	304,975
Total assets	<u>\$ 122,525</u>	<u>4,098,913</u>	<u>268,361</u>	<u>-</u>	<u>227,613</u>	<u>-</u>	<u>2,094,910</u>	<u>6,812,322</u>
Liabilities								
Accounts payable	\$ -	208,466	-	-	-	-	19,569	228,035
Accrued salaries	-	-	-	-	-	-	25,226	25,226
Total liabilities	<u>-</u>	<u>208,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,795</u>	<u>253,261</u>
Fund Balances								
Restricted for:								
State mandated per statutes	84,730	3,890,447	-	-	147,613	-	-	4,122,790
Construction and improvements	-	-	-	-	-	-	304,975	304,975
Committed for:								
Subsequent years' expenditures	37,795	-	-	-	80,000	-	-	117,795
Assigned	-	-	268,361	-	-	-	1,745,140	2,013,501
Unassigned	-	-	-	-	-	-	-	-
Total fund balances	<u>122,525</u>	<u>3,890,447</u>	<u>268,361</u>	<u>-</u>	<u>227,613</u>	<u>-</u>	<u>2,050,115</u>	<u>6,559,061</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 122,525</u>	<u>4,098,913</u>	<u>268,361</u>	<u>-</u>	<u>227,613</u>	<u>-</u>	<u>2,094,910</u>	<u>6,812,322</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018**

	Capital Project Funds					Debt Service Funds				
	Park Improve- ment Fund (40)	CIEP Fund (49)	Federal Projects Fund (81)	Street System Improvement Fund (44)	Total Capital Projects Funds	2002 Sales Tax Bonds Fund (56)	GRT Capital Outlay Fund (54)	NMFA Loan Fund (51)	Total Debt Service Funds	Total Other Governmental Fund
Assets										
Cash	\$ 27,004	612,204	-	2,066,480	2,705,688	-	40,322	-	40,322	8,361,141
Receivables, net	1,815	308,133	-	89,335	399,283	-	-	220	220	1,291,719
Restricted assets:										
Cash held by fiscal agent	-	-	-	-	-	-	83,473	83,473	-	388,448
Total assets	<u>\$ 28,819</u>	<u>920,337</u>	<u>-</u>	<u>2,155,815</u>	<u>3,104,971</u>	<u>-</u>	<u>40,322</u>	<u>83,693</u>	<u>124,015</u>	<u>10,041,308</u>
Liabilities										
Accounts payable	-	71,958	-	107,281	179,239	-	-	-	-	407,274
Accrued salaries	-	-	-	-	-	-	-	-	-	25,226
Total liabilities	<u>-</u>	<u>71,958</u>	<u>-</u>	<u>107,281</u>	<u>179,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,500</u>
Fund Balances										
Restricted for:										
State mandated per statutes	-	-	-	-	-	-	-	-	-	4,122,790
Construction and improvements	-	-	-	-	-	-	-	-	-	304,975
Committed for:										
Subsequent years' expenditures	-	-	-	-	-	-	-	-	-	117,795
Assigned	28,819	848,379	-	2,048,534	2,925,732	-	40,322	83,693	124,015	5,063,248
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>28,819</u>	<u>848,379</u>	<u>-</u>	<u>2,048,534</u>	<u>2,925,732</u>	<u>-</u>	<u>40,322</u>	<u>83,693</u>	<u>124,015</u>	<u>9,608,808</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 28,819</u>	<u>920,337</u>	<u>-</u>	<u>2,155,815</u>	<u>3,104,971</u>	<u>-</u>	<u>40,322</u>	<u>83,693</u>	<u>124,015</u>	<u>10,041,308</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds							Total Special Revenue Funds
	Fire Protection Fund (20)	Lodgers' Tax Fund (21,23)	Airport Fund (25)	Emergency Medical Services Fund (31)	Local Government Corrections Fund (32)	Law Enforcement Protection Fund (34)	Sports Complex Fund (29,68)	
Revenues								
Gross receipts taxes	\$ -	-	-	-	-	-	1,943,452	1,943,452
Lodgers' taxes	-	3,656,638	-	-	-	-	-	3,656,638
Intergovernmental:								
Federal	-	-	79,178	-	-	-	-	79,178
State	492,268	25,374	8,222	-	-	64,200	-	590,064
Charges for services	-	-	16,639	-	137,719	-	102,536	256,894
Interest	-	-	-	-	-	-	13,997	13,997
Total revenues	<u>492,268</u>	<u>3,682,012</u>	<u>104,039</u>	<u>-</u>	<u>137,719</u>	<u>64,200</u>	<u>2,059,985</u>	<u>6,540,223</u>
Expenditures								
Current:								
Public safety	28,434	-	39,556	-	232,302	40,665	-	340,957
Culture and recreation	-	1,230,142	-	-	-	-	1,008,845	2,238,987
Capital outlay	336,487	528,213	93,578	51,495	-	23,535	258,404	1,291,712
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-
Total expenditures	<u>364,921</u>	<u>1,758,355</u>	<u>133,134</u>	<u>51,495</u>	<u>232,302</u>	<u>64,200</u>	<u>1,267,249</u>	<u>3,871,656</u>
Excess (deficiency) of revenues over expenditures	127,347	1,923,657	(29,095)	(51,495)	(94,583)	-	792,736	2,668,567
Other Financing Sources (Uses)								
Transfers in	-	-	-	31,591	135,000	-	11,211	177,802
Transfers (out)	(88,337)	(450,000)	-	-	-	(7,679)	(475,736)	(1,021,752)
Total other financing	<u>(88,337)</u>	<u>(450,000)</u>	<u>-</u>	<u>31,591</u>	<u>135,000</u>	<u>(7,679)</u>	<u>(464,525)</u>	<u>(843,950)</u>
Net change in fund balance	39,010	1,473,657	(29,095)	(19,904)	40,417	(7,679)	328,211	1,824,617
Fund balance, beginning of year	83,515	2,416,790	297,456	19,904	187,196	7,679	1,721,904	4,734,444
Restatement	-	-	-	-	-	-	-	-
Fund balance, beginning of year, restated	<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>	<u>4,734,444</u>
Fund balance, end of year	<u>\$ 122,525</u>	<u>3,890,447</u>	<u>268,361</u>	<u>-</u>	<u>227,613</u>	<u>-</u>	<u>2,050,115</u>	<u>6,559,061</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Capital Project Funds					Debt Service Funds				Total Other Governmental Funds
	Park Improve- ment Fund (40)	CIEP Fund (49)	Federal Projects Fund (81)	Street System Improvement Fund (44)	Total Capital Project Funds	2002 Sales Tax Bonds Fund (56)	GRT Capital Outlay Fund (54)	NMFA Loan Fund (51)	Total Debt Service Funds	
Revenues										
Gross receipts taxes	\$ -	-	-	-	-	-	-	-	-	1,943,452
Lodgers' taxes	-	-	-	-	-	-	-	-	-	3,656,638
Public service taxes	-	-	-	774,024	774,024	-	-	-	-	774,024
Intergovernmental:										
Federal	-	-	21,360	-	21,360	-	-	-	-	100,538
State	15,487	308,071	-	124,723	448,281	-	-	-	-	1,038,345
Charges for services	-	-	-	-	-	-	-	-	-	256,894
Licenses and permits	-	-	-	94,019	94,019	-	-	-	-	94,019
Interest	-	1,851	-	3,053	4,904	-	-	3,065	3,065	21,966
Total revenues	<u>15,487</u>	<u>309,922</u>	<u>21,360</u>	<u>995,819</u>	<u>1,342,588</u>	<u>-</u>	<u>-</u>	<u>3,065</u>	<u>3,065</u>	<u>7,885,876</u>
Expenditures										
Current:										
Public safety	-	-	-	-	-	-	-	-	-	340,957
Public works	-	-	-	223	223	-	-	-	-	223
Culture and recreation	15,187	-	-	-	15,187	-	-	-	-	2,254,174
Economic development	-	168,792	-	-	168,792	-	-	-	-	168,792
Capital outlay	-	1,939,322	-	2,760,464	4,699,786	-	-	-	-	5,991,498
Debt service:										
Principal	-	-	-	-	-	335,000	290,000	441,537	1,066,537	1,066,537
Interest and other charges	-	-	-	-	-	8,124	195,456	122,536	326,116	326,116
Total expenditures	<u>15,187</u>	<u>2,108,114</u>	<u>-</u>	<u>2,760,687</u>	<u>4,883,988</u>	<u>343,124</u>	<u>485,456</u>	<u>564,073</u>	<u>1,392,653</u>	<u>10,148,297</u>
Excess (deficiency) of revenues over expenditures	300	(1,798,192)	21,360	(1,764,868)	(3,541,400)	(343,124)	(485,456)	(561,008)	(1,389,588)	(2,262,421)
Other Financing Sources (Uses)										
Transfers in	-	550,000	-	450,000	1,000,000	87,812	485,323	564,073	1,137,208	2,315,010
Transfers (out)	-	-	(647,963)	-	(647,963)	-	-	-	-	(1,669,715)
Total other financing sources (uses)	<u>-</u>	<u>550,000</u>	<u>(647,963)</u>	<u>450,000</u>	<u>352,037</u>	<u>87,812</u>	<u>485,323</u>	<u>564,073</u>	<u>1,137,208</u>	<u>645,295</u>
Net change in fund balance	300	(1,248,192)	(626,603)	(1,314,868)	(3,189,363)	(255,312)	(133)	3,065	(252,380)	(1,617,126)
Fund balance, beginning of year	28,519	2,096,571	626,603	3,363,402	6,115,095	255,312	40,455	80,628	376,395	11,225,934
Restatement	-	-	-	-	-	-	-	-	-	-
Fund balance, beginning of year, restated	<u>28,519</u>	<u>2,096,571</u>	<u>626,603</u>	<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>
Fund balance, end of year	<u>\$ 28,819</u>	<u>848,379</u>	<u>-</u>	<u>2,048,534</u>	<u>2,925,732</u>	<u>-</u>	<u>40,322</u>	<u>83,693</u>	<u>124,015</u>	<u>9,608,808</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF NET POSITION
OTHER ENTERPRISE FUNDS
AS OF JUNE 30, 2018**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Assets					
Current assets:					
Cash	\$ 19,804	151,260	87,853	190,931	449,848
Receivables, net	-	131,029	-	-	131,029
Total current assets	<u>19,804</u>	<u>282,289</u>	<u>87,853</u>	<u>190,931</u>	<u>580,877</u>
Noncurrent Assets					
Capital assets:					
Land and construction in progress	-	299,872	110,000	81,268	491,140
Other capital assets, net of accumulated depreciation	-	832,527	2,059,321	1,225,554	4,117,402
Total noncurrent assets	<u>-</u>	<u>1,132,399</u>	<u>2,169,321</u>	<u>1,306,822</u>	<u>4,608,542</u>
Deferred Outflows of Resources					
Pensions related	-	177,594	-	26,694	204,288
OPEB related	-	10,780	-	2,695	13,475
Total deferred outflows of resources	<u>-</u>	<u>188,374</u>	<u>-</u>	<u>29,389</u>	<u>217,763</u>
Total assets and deferred outflow of resources	<u>\$ 19,804</u>	<u>1,603,062</u>	<u>2,257,174</u>	<u>1,527,142</u>	<u>5,407,182</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ -	7,134	331	8,924	16,389
Accrued salaries	-	30,358	-	-	30,358
Accrued liabilities	17	-	-	-	17
Current maturities of:					
Compensated absences	-	29,313	-	4,169	33,482
Total current liabilities	<u>17</u>	<u>66,805</u>	<u>331</u>	<u>13,093</u>	<u>80,246</u>
Noncurrent Liabilities					
Compensated absences	-	22,265	-	14,091	36,356
Net pension liability	-	768,383	-	146,746	915,129
Net OPEB liability	-	564,592	-	141,148	705,740
Total noncurrent liabilities	<u>-</u>	<u>1,355,240</u>	<u>-</u>	<u>301,985</u>	<u>1,657,225</u>
Total liabilities	<u>17</u>	<u>1,422,045</u>	<u>331</u>	<u>315,078</u>	<u>1,737,471</u>
Deferred Inflows of Resources					
Pensions related	-	136,340	-	33,674	170,014
OPEB related	-	128,500	-	32,125	160,625
Total deferred inflows of resources	<u>-</u>	<u>264,840</u>	<u>-</u>	<u>65,799</u>	<u>330,639</u>
Net Position					
Net investment in capital assets	-	1,132,399	2,169,321	1,306,822	4,608,542
Unrestricted	19,787	(1,216,222)	87,522	(160,557)	(1,269,470)
Total net position	<u>19,787</u>	<u>(83,823)</u>	<u>2,256,843</u>	<u>1,146,265</u>	<u>3,339,072</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,804</u>	<u>1,603,062</u>	<u>2,257,174</u>	<u>1,527,142</u>	<u>5,407,182</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Operating Revenues:					
Charges for services	\$ 2,312	64,271	12,835	202,339	281,757
Operating Expenses:					
Personnel services	-	1,074,401	-	160,603	1,235,004
Utilities	-	9,059	16,231	71,355	96,645
Contractual services	40	3,114	79,876	403,295	486,325
Repairs and maintenance	-	54,776	9,200	3,862	67,838
Other operating expenses	2,042	76,523	1,604	12,086	92,255
Depreciation expense	-	68,412	185,881	83,090	337,383
Total operating expenses	<u>2,082</u>	<u>1,286,285</u>	<u>292,792</u>	<u>734,291</u>	<u>2,315,450</u>
Operating income (loss)	230	(1,222,014)	(279,957)	(531,952)	(2,033,693)
Non-Operating Revenues (Expenses):					
Intergovernmental	-	647,978	-	-	647,978
Miscellaneous	1,983	-	-	-	1,983
Gain (loss) on sale of assets	-	3,134	(5,017)	(315)	(2,198)
Total non-operating revenues (expenses)	<u>1,983</u>	<u>651,112</u>	<u>(5,017)</u>	<u>(315)</u>	<u>647,763</u>
Income (loss) before capital contributions and transfers	2,213	(570,902)	(284,974)	(532,267)	(1,385,930)
Capital Contributions and Transfers:					
Transfers in	-	718,389	928,014	635,081	2,281,484
Transfers (out)	-	(20,000)	-	-	(20,000)
Total capital contributions and transfers	<u>-</u>	<u>698,389</u>	<u>928,014</u>	<u>635,081</u>	<u>2,261,484</u>
Change in net position	2,213	127,487	643,040	102,814	875,554
Net position, beginning 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>
Restatement	-	(670,646)	8,022	(167,661)	(830,285)
Net position, beginning of year restated	<u>17,574</u>	<u>(211,310)</u>	<u>1,613,803</u>	<u>1,043,451</u>	<u>2,463,518</u>
Net position, end of year	<u>\$ 19,787</u>	<u>(83,823)</u>	<u>2,256,843</u>	<u>1,146,265</u>	<u>3,339,072</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Museum Gift Shop Fund (12)	Municipal Transit Fund (15)	Performing Arts Center Fund (18)	Cemetery Fund (26)	Total
Cash Flows From Operating Activities					
Cash received from customers	\$ 2,330	(2,708)	12,835	202,339	214,796
Cash payments to suppliers for goods and services	(2,242)	(153,149)	(116,448)	(537,612)	(809,451)
Cash payments to employees for services	-	(959,423)	-	(138,304)	(1,097,727)
Net cash (used) by operating activities	<u>88</u>	<u>(1,115,280)</u>	<u>(103,613)</u>	<u>(473,577)</u>	<u>(1,692,382)</u>
Cash Flows for Non-Capital and Financing Activities					
Cash received from intergovernmental sources	-	647,978	-	-	647,978
Miscellaneous revenues	1,983	-	-	-	1,983
Net transfers in (out)	-	698,389	928,014	635,081	2,261,484
Net cash provided by non-capital and financing activities	<u>1,983</u>	<u>1,346,367</u>	<u>928,014</u>	<u>635,081</u>	<u>2,911,445</u>
Cash Flows From Capital and Related Financing Activities:					
Proceeds from the sale of capital assets	-	4,000	-	-	4,000
Transfers in/out of capital assets	-	-	(878,014)	(5,203)	(883,217)
Acquisition of capital assets	-	(265,642)	-	(9,448)	(275,090)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(261,642)</u>	<u>(878,014)</u>	<u>(14,651)</u>	<u>(1,154,307)</u>
Net increase (decrease) in cash	2,071	(30,555)	(53,613)	146,853	64,756
Cash and cash equivalents, beginning of year	17,733	181,815	141,466	44,078	385,092
Cash and cash equivalents, end of year	<u>\$ 19,804</u>	<u>151,260</u>	<u>87,853</u>	<u>190,931</u>	<u>449,848</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating (loss)	\$ 230	(1,222,014)	(279,957)	(531,952)	(2,033,693)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	-	68,412	185,881	83,090	337,383
OPEB expense	-	11,666	-	2,916	14,582
Pension expense	-	97,406	-	24,352	121,758
Change in Assets and Liabilities:					
(Increase) decrease in accounts receivable	-	(66,979)	-	-	(66,979)
Increase (decrease) in accounts payable	(160)	(9,677)	(9,537)	(47,014)	(66,388)
Increase (decrease) in accrued salaries	-	(660)	-	(4,969)	(5,629)
Increase (decrease) in accrued liabilities	18	-	-	-	18
Increase (decrease) in compensated absences	-	6,566	-	-	6,566
Total adjustments	<u>(142)</u>	<u>106,734</u>	<u>176,344</u>	<u>58,375</u>	<u>341,311</u>
Net cash (used) by operating activities	<u>\$ 88</u>	<u>(1,115,280)</u>	<u>(103,613)</u>	<u>(473,577)</u>	<u>(1,692,382)</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AS OF JUNE 30, 2018**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Assets				
Current assets:				
Cash	\$ 1,995,190	2,021,904	900,719	4,917,813
Receivables, net	-	-	-	-
Total current assets	<u>1,995,190</u>	<u>2,021,904</u>	<u>900,719</u>	<u>4,917,813</u>
Noncurrent assets				
Restricted cash	509,463	452,389	-	961,852
Total assets	<u>\$ 2,504,653</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,879,665</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 19,348	-	-	19,348
Net Position				
Unrestricted	<u>2,485,305</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,860,317</u>
Total liabilities and net position	<u>\$ 2,504,653</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,879,665</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Operating Revenues				
Charges for services	\$ -	6,465,797	-	6,465,797
Operating Expenses				
Contractual services	-	-	127,501	127,501
Insurance claims and expenses	-	5,261,476	-	5,261,476
Other supplies and expenses	2,042,564	5,281	-	2,047,845
Total operating expenses	<u>2,042,564</u>	<u>5,266,757</u>	<u>127,501</u>	<u>7,436,822</u>
Operating (loss)	(2,042,564)	1,199,040	(127,501)	(971,025)
Non-Operating Revenues (Expenses):				
Intergovernmental	-	-	-	-
Miscellaneous revenue	267,224	1,897	-	269,121
Investment income	6,783	8,274	-	15,057
Income (loss) before transfers	<u>(1,768,557)</u>	<u>1,209,211</u>	<u>(127,501)</u>	<u>(686,847)</u>
Transfers				
Transfers in	1,260,000	-	230,000	1,490,000
Transfers (out)	-	(799,954)	-	(799,954)
Total transfers	<u>1,260,000</u>	<u>(799,954)</u>	<u>230,000</u>	<u>690,046</u>
Change in net position	(508,557)	409,257	102,499	3,199
Net position, beginning of year	<u>2,993,862</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,857,118</u>
Restatement	-	-	-	-
Net position, beginning of year, restated	<u>2,993,862</u>	<u>2,065,036</u>	<u>798,220</u>	<u>5,857,118</u>
Net position, end of year	<u>\$ 2,485,305</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,860,317</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Insurance Fund (27,28)	Group Health Insurance Fund (75)	Disaster Preparedness Fund (6)	Total
Cash Flows From Operating Activities:				
Internal activity - receipts from other funds	\$ -	6,466,314	-	6,466,314
Cash payments to suppliers for goods and services	<u>(2,071,467)</u>	<u>(5,266,757)</u>	<u>(127,501)</u>	<u>(7,465,725)</u>
Net cash provided (used) by operating activities	(2,071,467)	1,199,557	(127,501)	(999,411)
Cash Flows From Non-Capital Activities:				
Miscellaneous revenue	267,224	1,897	-	269,121
Net transfers in (out)	<u>1,260,000</u>	<u>(799,954)</u>	<u>230,000</u>	<u>690,046</u>
Cash Flows From Investing Activities:				
Investment income	<u>6,783</u>	<u>8,274</u>	<u>-</u>	<u>15,057</u>
Net increase (decrease) in cash	(537,460)	409,774	102,499	(25,187)
Cash and cash equivalents, beginning of year	<u>3,042,113</u>	<u>2,064,519</u>	<u>798,220</u>	<u>5,904,852</u>
Cash and cash equivalents, end of year	<u>\$ 2,504,653</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,879,665</u>
Displayed as:				
Cash	\$ 1,995,190	2,021,904	900,719	4,917,813
Restricted cash	<u>509,463</u>	<u>452,389</u>	<u>-</u>	<u>961,852</u>
	<u>\$ 2,504,653</u>	<u>2,474,293</u>	<u>900,719</u>	<u>5,879,665</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating (loss)	(2,042,564)	1,199,040	(127,501)	(971,025)
Adjustment to Reconcile Operating Income To Net Cash Provided by Operating Activities:				
Change in Assets and Liabilities:				
(Increase) decrease in accounts receivable	-	517	-	517
Increase (decrease) in accounts payable	<u>(28,903)</u>	<u>-</u>	<u>-</u>	<u>(28,903)</u>
Total adjustments	<u>(28,903)</u>	<u>517</u>	<u>-</u>	<u>(28,386)</u>
Net cash (used) by operating activities	<u>\$ (2,071,467)</u>	<u>1,199,557</u>	<u>(127,501)</u>	<u>(999,411)</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Balance June 30, 2017	Increases / Receipts	Decreases / Disbursements	Balance June 30, 2018
Municipal Court Bond Trust Fund				
Cash	\$ 34,607	65,654	67,938	32,323
Due to others	\$ 34,607	65,654	67,938	32,323
U.S. Department of Energy Fund (WIPP Acceleration)				
Cash	\$ -	100	-	100
Note receivable	495,000	15,288	240,188	270,100
Total assets	495,000	15,388	240,188	270,200
Due to others	\$ 495,000	15,388	240,188	270,200
Combined Agency Funds				
Cash	\$ 34,607	65,754	67,938	32,423
Note receivable	495,000	15,288	240,188	270,100
Total assets	529,607	81,042	308,126	302,523
Due to others	\$ 529,607	81,042	308,126	302,523

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OF CARLSBAD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	Measurement Date as of			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
The City's proportion of the net pension liability (asset) (%)				
Municipal General	1.8488%	1.8910%	1.8023%	1.6672%
Municipal Police	2.0794%	2.0286%	1.8730%	1.7809%
Municipal Fire	3.3918%	3.3058%	3.0425%	2.8478%
	<u>2.2529%</u>	<u>2.2391%</u>	<u>2.1366%</u>	<u>2.0150%</u>
The City's proportionate share of the net pension liability (asset) (\$)				
Municipal General	\$ 25,404,076	30,211,818	18,376,011	13,005,949
Municipal Police	11,552,430	14,967,615	9,006,434	5,805,215
Municipal Fire	19,405,998	22,053,047	15,702,896	11,886,699
	<u>\$ 56,362,504</u>	<u>67,232,480</u>	<u>43,085,341</u>	<u>30,697,863</u>
The City's covered payroll				
Municipal General	\$ 16,622,262	16,151,288	14,920,209	16,001,413
Municipal Police	4,285,593	4,056,254	3,670,508	4,645,008
Municipal Fire	4,110,199	3,853,487	3,465,760	4,339,740
	<u>\$ 25,018,053</u>	<u>24,061,029</u>	<u>22,056,477</u>	<u>24,986,161</u>
The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll				
Municipal General	152.83%	187.06%	123.16%	81.28%
Municipal Police	269.56%	369.00%	245.37%	124.98%
Municipal Fire	472.14%	572.29%	453.09%	273.90%
Plan fiduciary net position as a percentage of the total pension liability				
Municipal General	73.74%	69.18%	76.99%	81.29%
Municipal Police	73.74%	69.18%	76.99%	81.29%
Municipal Fire	73.74%	69.18%	76.99%	81.29%

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory required contribution				
Municipal General	\$ 1,576,092	1,587,426	1,542,448	1,424,880
Municipal Police	793,834	809,977	766,632	693,726
Municipal Fire	899,833	889,858	834,280	750,337
	<u>\$ 3,269,759</u>	<u>3,287,261</u>	<u>3,143,360</u>	<u>2,868,943</u>
Contributions in relation to the statutorily required contribution				
Municipal General	\$ 1,576,092	1,587,426	1,542,448	1,424,880
Municipal Police	793,834	809,977	766,632	693,726
Municipal Fire	899,833	889,858	834,280	750,337
	<u>\$ 3,269,759</u>	<u>3,287,261</u>	<u>3,143,360</u>	<u>2,868,943</u>
Contribution deficiency (excess)				
Municipal General	\$ -	-	-	-
Municipal Police	-	-	-	-
Municipal Fire	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

**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, 2018**

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 2017 report is available at <http://www.nmpera.org/>

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

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

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

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

	2018*
Contractually required contribution	\$ 1,978,127
Contributions in relation to the contractually required contribution	992,799
Contribution deficiency (excess)	\$ 985,328
The City's covered payroll	\$ 25,949,484
Contributions as a percentage of covered payroll	3.83%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2018

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

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
Carlsbad National Bank P.O. Box 1359 Carlsbad, New Mexico 88221-1359				
Health Insurance	Checking	\$ 2,021,904	-	2,021,904
Payroll Account	Checking	372,408	(340,016)	32,392
Debt Service Account	Checking	2,662,668	(4,838)	2,657,830
Municipal Court	Checking	33,422	(1,099)	32,323
Worker's Compensation	Checking	4,358	(4,258)	100
General Operating	Certificate of Deposit	201,700	-	201,700
General Operating	Certificate of Deposit	550,000	-	550,000
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	50,425	-	50,425
Water & Sewer	Certificate of Deposit	300,000	-	300,000
Water & Sewer	Certificate of Deposit	957,711	-	957,711
Health Insurance	Certificate of Deposit	452,389	-	452,389
		<u>\$ 8,856,985</u>	<u>(350,211)</u>	<u>8,506,774</u>
First American Bank 303 W. Main Artesia, NM 88210				
General	Certificate of Deposit	1,000,000	-	1,000,000
Sandpoint Closure Reserve	Certificate of Deposit	642,000	-	642,000
		<u>1,642,000</u>	<u>-</u>	<u>1,642,000</u>
Pioneer Savings Bank P.O. Box 130 Roswell, New Mexico 88202-0130				
General Operating	Certificate of Deposit	\$ 447,750	-	447,750
General Operating	Certificate of Deposit	410,250	-	410,250
General Operating	Certificate of Deposit	410,250	-	410,250
General Operating	Certificate of Deposit	665,079	-	665,079
Sandpoint Closure Reserve	Certificate of Deposit	205,125	-	205,125
Sandpoint Closure Reserve	Certificate of Deposit	957,000	-	957,000
Worker's Compensation	Certificate of Deposit	253,913	-	253,913
Worker's Compensation	Certificate of Deposit	205,125	-	205,125
Water & Sewer	Certificate of Deposit	205,125	-	205,125
		<u>\$ 3,759,617</u>	<u>-</u>	<u>3,759,617</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
Wells Fargo Bank, N.A. Carlsbad Office 115 W. Fox Street Carlsbad, New Mexico 88221				
General Fund	Checking	\$ 50,290,897	(1,368,523)	48,922,374
Investment Trust	Money Market	25,008	-	25,008
City Fund Investment	Money Market	1,239,438	-	1,239,438
		<u>\$ 51,555,343</u>	<u>(1,368,523)</u>	<u>50,186,820</u>
Western Commerce Bank P.O. Drawer 1358 Carlsbad, New Mexico 88221-1358				
Construction Account	Checking	\$ 5,145,250	(84,669)	5,060,581
Federal Projects	Checking	100	-	100
General Operating	Certificate of Deposit	640,000	-	640,000
General Operating	Certificate of Deposit	274,000	-	274,000
General Operating	Certificate of Deposit	300,000	-	300,000
Sandpoint Closure Reserve	Certificate of Deposit	109,852	-	109,852
Sandpoint Closure Reserve	Certificate of Deposit	308,000	-	308,000
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>\$ 7,635,202</u>	<u>(84,669)</u>	<u>7,550,533</u>
New Mexico Finance Authority 207 Shelby Street Santa Fe, New Mexico 87501				
Carlsbad 4	Reserve	\$ 769	-	769
Carlsbad 13	Reserve	69	-	69
Carlsbad 13	Reserve	117,184	-	117,184
Carlsbad 13	Program Funds	8,439	-	8,439
Carlsbad 15	Reserve	82,704	-	82,704
Carlsbad 15	Program Funds	304,975	-	304,975
NMFA Double Eagle DW-2867	Reserve	165,018	-	165,018
		<u>\$ 679,158</u>	<u>-</u>	<u>679,158</u>

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF PLEDGED COLLATERAL
ALL FINANCIAL INSTITUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

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

Security Description	CUSIP Number	Maturity Date	Market Value
FHLMC Pool C91245	3128P7L27	01/01/36	\$ 1,344,861
FNR 2012-127 DH	3136A9B31	11/25/27	562,362
FHLMC Pool E09021	31294UAW3	02/01/28	843,555
FHLMC Pool C91758	3128P75T6	04/01/34	1,274,116
FNR 2012-55 PD	3136A53R5	05/25/42	676,723
FNMA Pool C91864		02/01/36	1,867,894
			<u>\$ 6,569,511</u>

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 09/27/16	3130A8HU0	06/27/24	\$ 284,078
FHLMC ARM 781721	31349S4E0	07/01/34	27,068
FHLMC G18627	3128MMVV2	01/01/32	812,184
FNMA 648558 ARM	31390KQK7	06/01/32	25,574
FNMA 661745 ARM	31391BES2	09/01/32	5,781
FNMA 759453 ARM	31403VWN5	01/01/34	50,496
FNMA 780385 ARM	31404V6W3	06/01/34	46,129
FNMA AB3404	31416YYA0	08/01/26	487,016
FNMA AJ1622	3138ASYU0	10/01/26	297,866
GNMA II 080418 ARM	36225CPC4	06/20/30	54,736
GNMA II 80477 ARM	36225CQ74	12/20/30	5,923
GNMA II 80540 ARM	36225CS64	09/20/31	8,013
GNMA II 80540 ARM	36225CS64	09/20/31	16,026
GNMA II 80562 ARM	36225CTU0	12/20/31	15,607
			<u>\$ 2,136,494</u>

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, 2018**

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

Security Description	CUSIP Number	Maturity Date	Market Value
FN AL8973	3138ET6K7	09/01/31	\$ 25,075,425
FG G18541	3128MMS79	02/01/30	5,750,120
			<u>\$ 30,825,545</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	\$ 101,030
GNMA 412570	36206JJP0	03/15/26	10,981
FNMA AA5840	31416PP27	06/01/39	213,210
FNMA AB4742	31417BHU4	03/01/42	796,509
FHLMC G08534	3128MJSY7	06/01/43	1,255,317
FHLMC J22899	31307BGG9	03/01/28	601,933
SBAP Series 2013-20J Class 1	83162CVV2	10/01/33	1,281,700
SBAP Series 2015-20D Class 1	83162CWY5	04/01/35	1,494,102
			<u>\$ 5,754,781</u>

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

First American Bank
303 W. Main
Artesia, NM 88210

Security Description	CUSIP Number	Maturity Date	Market Value
FHLB: GADSDEN NM INDEP SCH NM 25	362550NC5	08/15/25	\$ 627,354
FHLB: ALAMOGORDO MUNI SD#1 NM 2	011464KU7	08/01/29	259,470
			<u>\$ 886,824</u>

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

Total pledged collateral \$ 46,173,155

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Contract/Grant Project/State Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation/ Federal Aviation Administration			
Airport Pavement Rehabilitation	20.106	3-35-0007-025-2016	\$ 79,178
Total U.S. Department of Transportation/ Federal Aviation Administration			<u>79,178</u>
U.S. Department of Transportation			
<i>Passed through New Mexico Department of Transportation</i>			
Safe Routes to School	20.205	D15193	21,360
Formula Grants for Rural Areas	(1) 20.509	M01465	647,979
ENDWI	20.608	16-AL-64-013	14,391
ENDWI	20.608	17-AL-64-013	740
Total U.S. Department of Transportation			<u>684,470</u>
Total Expenditures of Federal Awards			<u>\$ 763,648</u>

(1) Denotes Major Program

Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance

Federal expenditures per SEFA	\$ 763,648
Total federal expenditures per GL - governmental funds	(115,670)
Total federal expenditures per GL - business-type funds	<u>(647,978)</u>
Difference	<u>\$ -</u>

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, 2018.

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 Mayor 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, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 14, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

Hinkle + Landers, P.C.
Albuquerque, NM 87102
December 14, 2018



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, 2018. 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, 2018.

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 14, 2018

STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | |
|---|-------------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| Material weakness identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | No |
| 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 | Unmodified |
| 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> | <u>Name of Federal Programs</u> | <u>Funding Source</u> |
| 20.509 | Formula Grants for Rural Areas | U.S. Dept. of Transportation |

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | Yes |

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

* Legend for Type of Findings

- A.** Material Weakness in Internal Control Over Financial Reporting
- B.** Significant Deficiency in Internal Control Over Financial Reporting
- C.** Finding That Does Not Rise to the Level of a Significant Deficiency (Other Matters) Involving Internal Control Over Financial Reporting
- D.** 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
- H.** Instance of Material Non-Compliance

**STATE OF NEW MEXICO
CITY OF CARLSBAD
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2018**

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 14, 2018. The following individuals were in attendance.

City of Carlsbad Officials

Dale Janway

Edward T. Rodriguez

Michael Hernandez

John Lowe

Wendy Austin

Melissa Salcido

Mayor

Mayor Pro Tem

City Administrator

Deputy City Administrator

Director of Finance and Investments

Grants and Projects Control Manager

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA

Maclen Enriquez, CPA

President

Senior Audit Manager