



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, 2020

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

ELECTED OFFICIALS

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

DEPARTMENT HEADS

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



INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the general fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City of Carlsbad (the City), as of and for the year ended June 30, 2020, 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, the general major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City, as of June 30, 2020, and the respective

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

Emphasis of Matter

As discussed in Note 11 to the financial statements, the City has elected to reclassify the Municipal Transit Fund from a business-type fund to a governmental-type fund for the fiscal year ended June 30, 2020. Management has determined this is a more appropriate fund type classification. Our opinions are 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 schedules of the City's proportionate share of the net pension and OPEB liabilities and the City's contributions, listed as "*Required Supplementary Information*" in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hinkle + Landers, PC
Albuquerque, New Mexico
December 14, 2020

**STATE OF NEW MEXICO
CITY OF CARLSBAD
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020**

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | |
| Assets | | | |
| Current assets | | | |
| Cash | \$ 57,312,317 | 22,800,408 | 80,112,725 |
| Receivables, net | 10,836,870 | 3,032,373 | 13,869,243 |
| Inventory | - | 978,699 | 978,699 |
| Total current assets | <u>68,149,187</u> | <u>26,811,480</u> | <u>94,960,667</u> |
| Noncurrent assets | | | |
| Restricted cash | 540,812 | 9,087,676 | 9,628,488 |
| Restricted cash held by fiscal agent | 496,873 | 370,458 | 867,331 |
| Restricted investments | - | 6,514,984 | 6,514,984 |
| Capital assets: | | | |
| Land and construction in progress | 5,743,950 | 1,189,108 | 6,933,058 |
| Other capital assets, net of depreciation | 132,124,023 | 112,889,298 | 245,013,321 |
| Total noncurrent assets | <u>138,905,658</u> | <u>130,051,524</u> | <u>268,957,182</u> |
| Deferred outflows of resources | | | |
| Pension related | 12,662,522 | 1,553,586 | 14,216,108 |
| OPEB related | 1,293,707 | 168,108 | 1,461,815 |
| Total deferred outflows of resources | <u>13,956,229</u> | <u>1,721,694</u> | <u>15,677,923</u> |
| Total assets and deferred outflows of resources | <u>\$ 221,011,074</u> | <u>158,584,698</u> | <u>379,595,772</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ 1,904,886 | 1,669,524 | 3,574,410 |
| Accrued salaries | 1,595,316 | 282,855 | 1,878,171 |
| Accrued liabilities | 73,744 | 79,596 | 153,340 |
| Unearned revenue | 50,463 | - | 50,463 |
| Accrued interest payable | 16,830 | 314,862 | 331,692 |
| Deposits payable | - | 599,231 | 599,231 |
| Current maturities of: | | | |
| Notes payable | 754,757 | 1,730,136 | 2,484,893 |
| Compensated absences | 839,173 | 134,418 | 973,591 |
| Total current liabilities | <u>5,235,169</u> | <u>4,810,622</u> | <u>10,045,791</u> |
| Noncurrent liabilities | | | |
| Notes payable | 6,963,240 | 31,793,633 | 38,756,873 |
| Compensated absences | 1,459,045 | 192,306 | 1,651,351 |
| Landfill closure and post-closure | - | 549,212 | 549,212 |
| Net pension liability | 65,631,844 | 8,280,300 | 73,912,144 |
| Net OPEB liability | 18,465,036 | 2,399,411 | 20,864,447 |
| Total noncurrent liabilities | <u>92,519,165</u> | <u>43,214,862</u> | <u>135,734,027</u> |
| Total liabilities | <u>97,754,334</u> | <u>48,025,484</u> | <u>145,779,818</u> |
| Deferred inflows of resources | | | |
| Pension related | 2,785,108 | 377,569 | 3,162,677 |
| OPEB related | 10,778,042 | 1,400,536 | 12,178,578 |
| Total deferred inflows of resources | <u>13,563,150</u> | <u>1,778,105</u> | <u>15,341,255</u> |
| Net position | | | |
| Net investment in capital assets | 130,149,976 | 80,554,637 | 210,704,613 |
| Restricted for: | | | |
| Special revenue | 5,287,552 | - | 5,287,552 |
| Debt service | - | 2,932,007 | 2,932,007 |
| State mandated per statutes | 10,285,003 | - | 10,285,003 |
| Construction and improvement | 267,697 | - | 267,697 |
| Endowment: | | | |
| Expendable | - | 8,943,861 | 8,943,861 |
| Unrestricted | <u>(36,296,638)</u> | <u>16,350,604</u> | <u>(19,946,034)</u> |
| Total net position | <u>109,693,590</u> | <u>108,781,109</u> | <u>218,474,699</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 221,011,074</u> | <u>158,584,698</u> | <u>379,595,772</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, 2020**

| 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 | \$ 16,600,677 | 480,586 | 1,444,406 | - | (14,675,685) | - | (14,675,685) |
| Public safety | 29,444,276 | (489,126) | 704,257 | - | (29,229,145) | - | (29,229,145) |
| Public works | 17,473,933 | 47,761 | 616,948 | 1,957,214 | (14,852,010) | - | (14,852,010) |
| Culture and recreation | 13,574,733 | 487,279 | 19,543 | - | (13,067,911) | - | (13,067,911) |
| Health and welfare | 911,033 | 976,441 | - | - | 65,408 | - | 65,408 |
| Economic development | 1,263,910 | - | - | - | (1,263,910) | - | (1,263,910) |
| Interest on long-term debt | 333,323 | - | - | - | (333,323) | - | (333,323) |
| Total governmental activities | 79,601,885 | 1,502,941 | 2,785,154 | 1,957,214 | (73,356,576) | - | (73,356,576) |
| Business-type activities | | | | | | | |
| Joint utility | 13,350,746 | 14,804,917 | - | - | - | 1,454,171 | 1,454,171 |
| Solid waste | 6,635,991 | 6,769,003 | - | 111,000 | - | 244,012 | 244,012 |
| Museum | 8,231 | 452 | - | - | - | (7,779) | (7,779) |
| Interest on long-term debt | 991,896 | - | - | - | - | (991,896) | (991,896) |
| Total business-type activities | 20,986,864 | 21,574,372 | - | 111,000 | - | 698,508 | 698,508 |
| Total primary government | \$ 100,588,749 | 23,077,313 | 2,785,154 | 2,068,214 | (73,356,576) | 698,508 | (72,658,068) |
| General Revenues: | | | | | | | |
| Gross receipts taxes | | | | | 73,760,137 | 1,429,897 | 75,190,034 |
| Property taxes, levied for general purposes | | | | | 3,327,713 | - | 3,327,713 |
| Lodgers' taxes | | | | | 3,390,469 | - | 3,390,469 |
| Franchise taxes | | | | | 793,140 | - | 793,140 |
| Public service taxes | | | | | 793,376 | - | 793,376 |
| Licenses and permits | | | | | 539,049 | - | 539,049 |
| Fines | | | | | 910,733 | - | 910,733 |
| Interest income | | | | | 238,192 | 503,427 | 741,619 |
| Donations | | | | | 364,829 | - | 364,829 |
| Donations of infrastructure | | | | | - | 90,000 | 90,000 |
| Miscellaneous | | | | | 319,486 | 62,705 | 382,191 |
| <i>Special item - Gain on disposal of asset</i> | | | | | 137,062 | 3,865 | 140,927 |
| Transfers | | | | | (18,201,681) | 18,201,681 | - |
| Total general revenues, special items, and transfers | | | | | 66,372,505 | 20,291,575 | 86,664,080 |
| Change in net position | | | | | (6,984,071) | 20,990,083 | 14,006,012 |
| Net position, beginning of year | | | | | 116,876,336 | 87,592,351 | 204,468,687 |
| Restatements | | | | | (198,675) | 198,675 | - |
| Net position, beginning of year, restated | | | | | 116,677,661 | 87,791,026 | 204,468,687 |
| Net position, end of year | | | | | \$ 109,693,590 | 108,781,109 | 218,474,699 |

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, 2020**

| | General Fund (101) | Other Governmental Funds | Total Governmental Funds |
|---|--------------------------|--------------------------------|--------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| <u>Assets</u> | | | |
| Cash | \$ 33,701,871 | 19,143,321 | 52,845,192 |
| Receivables, net | 9,288,342 | 1,548,529 | 10,836,871 |
| Due from other funds | 2,598 | - | 2,598 |
| Restricted: | | | |
| Cash | - | 61,940 | 61,940 |
| Cash held by fiscal agent | - | 496,873 | 496,873 |
| Total assets | <u>\$ 42,992,811</u> | <u>21,250,663</u> | <u>64,243,474</u> |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 673,107 | 1,158,679 | 1,831,786 |
| Accrued salaries | 1,533,501 | 61,815 | 1,595,316 |
| Accrued liabilities | 65,214 | 8,530 | 73,744 |
| Unearned revenue | - | 50,463 | 50,463 |
| Due to other funds | - | 2,598 | 2,598 |
| Total liabilities | <u>2,271,822</u> | <u>1,282,085</u> | <u>3,553,907</u> |
| Deferred inflows of resources: | | | |
| Unavailable property tax revenue | 116,028 | - | 116,028 |
| Unavailable charges for services | 231,521 | - | 231,521 |
| Total deferred inflows | <u>347,549</u> | <u>-</u> | <u>347,549</u> |
| <u>Fund balances</u> | | | |
| Restricted for: | | | |
| Public safety | - | 1,389,953 | 1,389,953 |
| Sports complex activities | - | 3,897,599 | 3,897,599 |
| State mandated per statutes | - | 5,887,629 | 5,887,629 |
| State mandated budget reserve | 4,397,374 | - | 4,397,374 |
| Construction and improvements | - | 267,697 | 267,697 |
| Committed for: | | | |
| City budget reserve | 4,397,374 | - | 4,397,374 |
| Subsequent years' expenditures | 18,088,008 | - | 18,088,008 |
| Assigned | - | 8,525,700 | 8,525,700 |
| Unassigned | <u>13,490,685</u> | <u>-</u> | <u>13,490,685</u> |
| Total fund balances | <u>40,373,440</u> | <u>19,968,578</u> | <u>60,342,018</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 42,992,811</u> | <u>21,250,663</u> | <u>64,243,474</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 TOTAL FUND BALANCE FROM THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE TOTAL NET POSITION ON THE STATEMENT OF NET POSITION
JUNE 30, 2020**

| | |
|---|-----------------------|
| Total fund balance, governmental funds | \$ 60,342,018 |
| 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. | 137,867,973 |
| 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. | 13,956,229 |
| Certain accrued interest expenses are not due and payable in the current period and, therefore not reported in the governmental funds. | (16,830) |
| 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. | (10,016,215) |
| 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. | (84,096,880) |
| Deferred inflows of resources related to pensions are applicable to future periods and, there are not reported in the funds. | (13,563,150) |
| 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, \$116,028 and charges for service, \$231,521. | 347,549 |
| Residual balances of the internal service funds are included within the governmental activities and are not reported in the governmental funds. | 4,872,896 |
| Rounding | - |
| Total Net Position of Governmental Activities | <u>\$ 109,693,590</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, 2020**

| | General Fund (101) | Other Gov't Funds | Total Gov't Funds |
|--|--------------------------|-------------------------|-------------------------|
| <u>Revenues</u> | | | |
| Gross receipts taxes | \$ 65,726,431 | 8,033,708 | 73,760,139 |
| Property taxes | 3,342,529 | - | 3,342,529 |
| Franchise taxes | 793,140 | - | 793,140 |
| Lodgers' taxes | - | 3,390,469 | 3,390,469 |
| Public service taxes | - | 793,377 | 793,377 |
| Intergovernmental: | | | |
| Federal | 174,968 | 2,424,900 | 2,599,868 |
| State | 746,381 | 1,396,120 | 2,142,501 |
| Charges for services | 1,691,411 | 69,135 | 1,760,546 |
| Licenses and permits | 440,290 | 98,759 | 539,049 |
| Contributions and donations | 334,829 | | 334,829 |
| Fines and forfeitures | - | 910,733 | 910,733 |
| Interest | 182,967 | 23,853 | 206,820 |
| Donations | - | 30,000 | 30,000 |
| Miscellaneous | 210,298 | 130 | 210,428 |
| Total revenues | <u>73,643,244</u> | <u>17,171,184</u> | <u>90,814,428</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| General government | 7,854,192 | 1,155,217 | 9,009,409 |
| Public safety | 25,186,142 | 307,884 | 25,494,026 |
| Public works | 9,014,363 | 1,173,428 | 10,187,791 |
| Culture and recreation | 5,892,048 | 2,691,627 | 8,583,675 |
| Health and welfare | 583,029 | - | 583,029 |
| Economic development | 1,479,421 | - | 1,479,421 |
| Capital outlay | 7,555,716 | 12,522,306 | 20,078,022 |
| Debt service: | | | |
| Principal | - | 4,719,812 | 4,719,812 |
| Interest and other charges | - | 303,875 | 303,875 |
| Total expenditures | <u>57,564,911</u> | <u>22,874,149</u> | <u>80,439,060</u> |
| Excess (deficiency) of revenues over expenditures | 16,078,333 | (5,702,965) | 10,375,368 |
| <u>Other financing sources (uses)</u> | | | |
| Transfers in | 1,440,280 | 7,716,651 | 9,156,931 |
| Transfers (out) | (13,319,474) | (15,036,319) | (28,355,793) |
| Note payable proceeds | - | 4,020,000 | 4,020,000 |
| Total other financing sources and (uses) | <u>(11,879,194)</u> | <u>(3,299,668)</u> | <u>(15,178,862)</u> |
| <u>Special item</u> | | | |
| Proceeds from sale of assets | 61,731 | 90,000 | 151,731 |
| Net change in fund balances | 4,260,870 | (8,912,633) | (4,651,763) |
| Fund balance, beginning of year | <u>36,112,570</u> | <u>28,414,143</u> | <u>64,526,713</u> |
| Restatement | - | 467,068 | 467,068 |
| Fund balance, beginning of year restated | <u>36,112,570</u> | <u>28,881,211</u> | <u>64,993,781</u> |
| Fund balance, end of year | <u>\$ 40,373,440</u> | <u>19,968,578</u> | <u>60,342,018</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-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

| | |
|---|-----------------------|
| Net change in fund balances - total governmental funds: | \$ (4,651,763) |
| Amounts reported for Governmental Activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |
| Capital expenditures recorded in capital outlay | 20,072,313 |
| Depreciation expense | (12,432,324) |
| 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. | |
| | (14,669) |
| Governmental funds report revenues not collected within 60 days as deferred revenues until subsequently collected. These transactions are recorded as revenues when earned in the statement of activities | |
| Property taxes | (14,815) |
| Charges for services | (257,605) |
| The issuance of long-term debt (notes, bonds, leases) provides current resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas amounts are deferred and amortized in the statement of activities: | |
| Note proceeds received | (4,020,000) |
| Bond and note obligation principal payments | 4,719,812 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | |
| Change in compensated absences | (255,882) |
| Change in accrued interest payable | 15,669 |
| Amortization of bond premium/discount | (45,117) |
| Pension expense | (8,146,405) |
| OPEB revenue (expense) | 1,775,966 |
| 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. | |
| | (3,729,250) |
| Rounding | (1) |
| Change in net assets of governmental activities | \$ <u>(6,984,071)</u> |

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, 2020**

| | Original Approved Budget | Final Approved Budget | Actual | Variances Favorable (Unfavorable) |
|---|--------------------------------|-----------------------------|---------------------|---|
| <u>Revenues</u> | | | | |
| Intergovernmental sources - federal | \$ 20,631 | 188,540 | 41,661 | (146,879) |
| Intergovernmental sources - state | 410,609 | 769,913 | 754,791 | (15,122) |
| Local and state shared taxes | 53,217,000 | 59,548,875 | 69,250,412 | 9,701,537 |
| Property taxes | 2,999,800 | 2,999,800 | 3,333,639 | 333,839 |
| Franchise taxes | 831,000 | 831,000 | 792,643 | (38,357) |
| Licenses and permits | 440,000 | 476,000 | 438,091 | (37,909) |
| Fines | 419,000 | - | - | - |
| Charges for services | 1,447,800 | 1,543,800 | 1,657,704 | 113,904 |
| Interest | 117,000 | 117,000 | 182,967 | 65,967 |
| Donations | - | 275,039 | 334,829 | 59,790 |
| Other revenue | 235,000 | 129,000 | 225,144 | 96,144 |
| Total revenues | <u>60,137,840</u> | <u>66,878,967</u> | <u>77,011,881</u> | <u>10,132,914</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| General government | 11,794,952 | 8,700,582 | 8,110,433 | 590,149 |
| Public safety | 25,036,769 | 26,216,632 | 25,059,681 | 1,156,951 |
| Public works | 7,810,732 | 10,368,726 | 8,771,733 | 1,596,993 |
| Health and welfare | 456,964 | 542,820 | 544,546 | (1,726) |
| Culture and recreation | 6,349,701 | 6,709,371 | 5,868,491 | 840,880 |
| Economic development | - | 2,146,303 | 1,435,598 | 710,705 |
| Capital outlay | | | | |
| Capital outlay | 1,319,366 | 10,367,790 | 7,449,408 | 2,918,382 |
| Total expenditures | <u>52,768,484</u> | <u>65,052,224</u> | <u>57,239,890</u> | <u>7,812,334</u> |
| Excess (deficiency) of revenues over (under) expenditures | 7,369,356 | 1,826,743 | 19,771,991 | 17,945,248 |
| <u>Other financing sources (uses)</u> | | | | |
| Transfers in | - | 1,440,280 | 1,440,280 | - |
| Transfers out | (3,035,000) | (13,319,474) | (13,319,474) | - |
| Total other financing sources (uses) | <u>(3,035,000)</u> | <u>(11,879,194)</u> | <u>(11,879,194)</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | <u>4,334,356</u> | <u>(10,052,451)</u> | <u>7,892,797</u> | <u>17,945,248</u> |
| Budgeted cash carryover | - | 10,052,451 | | |
| Total | <u>\$ 4,334,356</u> | <u>-</u> | | |
| <u>RECONCILIATION FROM BUDGET/ACTUAL TO GAAP</u> | | | | |
| Change in fund balance (Budget Basis) | | | \$ 7,892,797 | |
| To adjust applicable revenue accruals and deferrals | | | (3,306,906) | |
| To adjust applicable expenditure accruals | | | (325,022) | |
| Change in fund balance (GAAP basis) | | | <u>\$ 4,260,869</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, 2020

| | Business - Type Activities - Enterprise Funds | | | Total | Governmental Activities Internal Service Funds |
|--|---|---------------------------------|------------------------------|--------------------|--|
| | Joint Water and Sewer Fund (700) | Solid Waste Fund (720) | Other Enterprise Funds | | |
| <u>Assets</u> | | | | | |
| Current assets | | | | | |
| Cash | \$ 14,100,003 | 8,687,998 | 12,407 | 22,800,408 | 4,467,125 |
| Receivables, net | 2,221,997 | 810,376 | - | 3,032,373 | - |
| Inventory | 978,699 | - | - | 978,699 | - |
| Total current assets | <u>17,300,699</u> | <u>9,498,374</u> | <u>12,407</u> | <u>26,811,480</u> | <u>4,467,125</u> |
| Noncurrent assets | | | | | |
| Restricted cash | 4,999,248 | 4,088,428 | - | 9,087,676 | 478,871 |
| Restricted cash held by fiscal agent | 240,493 | 129,965 | - | 370,458 | - |
| Restricted investments | 6,514,984 | - | - | 6,514,984 | - |
| Capital Assets: | | | | | |
| Land and construction in progress | 1,179,108 | 10,000 | - | 1,189,108 | - |
| Other capital assets, net of accumulated depreciation | <u>110,345,747</u> | <u>2,543,551</u> | <u>-</u> | <u>112,889,298</u> | <u>-</u> |
| Total noncurrent assets | <u>123,279,580</u> | <u>6,771,944</u> | <u>-</u> | <u>130,051,524</u> | <u>478,871</u> |
| Deferred outflows of resources | | | | | |
| Pension related | 1,127,913 | 425,673 | - | 1,553,586 | - |
| OPEB related | <u>124,254</u> | <u>43,854</u> | <u>-</u> | <u>168,108</u> | <u>-</u> |
| Total deferred outflows of resources | <u>1,252,167</u> | <u>469,527</u> | <u>-</u> | <u>1,721,694</u> | <u>-</u> |
| Total assets and deferred outflows of resources | <u>\$ 141,832,446</u> | <u>16,739,845</u> | <u>12,407</u> | <u>158,584,698</u> | <u>4,945,996</u> |
| <u>Liabilities</u> | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 1,465,314 | 204,210 | - | 1,669,524 | 73,100 |
| Accrued salaries | 198,772 | 84,083 | - | 282,855 | - |
| Accrued liabilities | 79,596 | - | - | 79,596 | - |
| Accrued interest payable | 313,235 | 1,627 | - | 314,862 | - |
| Customer deposits | 599,231 | - | - | 599,231 | - |
| Current maturities of liabilities: | | | | | |
| Notes payable | 1,613,804 | 116,332 | - | 1,730,136 | - |
| Compensated absences | <u>89,606</u> | <u>44,812</u> | <u>-</u> | <u>134,418</u> | <u>-</u> |
| Total current liabilities | <u>4,359,558</u> | <u>451,064</u> | <u>-</u> | <u>4,810,622</u> | <u>73,100</u> |
| Noncurrent liabilities | | | | | |
| Notes payable | 31,312,157 | 481,476 | - | 31,793,633 | - |
| Compensated absences | 151,226 | 41,080 | - | 192,306 | - |
| Landfill closure and post-closure | - | 549,212 | - | 549,212 | - |
| Net pension liability | 6,180,645 | 2,099,655 | - | 8,280,300 | - |
| Net OPEB liability | <u>1,773,478</u> | <u>625,933</u> | <u>-</u> | <u>2,399,411</u> | <u>-</u> |
| Total noncurrent liabilities | <u>39,417,506</u> | <u>3,797,356</u> | <u>-</u> | <u>43,214,862</u> | <u>-</u> |
| Total liabilities | <u>43,777,064</u> | <u>4,248,420</u> | <u>-</u> | <u>48,025,484</u> | <u>73,100</u> |
| Deferred inflows of resources | | | | | |
| Pension related | 282,408 | 95,161 | - | 377,569 | - |
| OPEB related | <u>1,035,179</u> | <u>365,357</u> | <u>-</u> | <u>1,400,536</u> | <u>-</u> |
| Total deferred inflows of resources | <u>1,317,587</u> | <u>460,518</u> | <u>-</u> | <u>1,778,105</u> | <u>-</u> |
| <u>Net position</u> | | | | | |
| Net investment in capital assets | 78,598,894 | 1,955,743 | - | 80,554,637 | - |
| Restricted: | | | | | |
| Debt service | 2,810,864 | 121,143 | - | 2,932,007 | - |
| Endowment: | | | | | |
| Expendable | 8,943,861 | - | - | 8,943,861 | - |
| Unrestricted | <u>6,384,176</u> | <u>9,954,021</u> | <u>12,407</u> | <u>16,350,604</u> | <u>4,872,896</u> |
| Total net position | <u>96,737,795</u> | <u>12,030,907</u> | <u>12,407</u> | <u>108,781,109</u> | <u>4,872,896</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 141,832,446</u> | <u>16,739,845</u> | <u>12,407</u> | <u>158,584,698</u> | <u>4,945,996</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, 2020

| | Business - Type Activities - Enterprise Funds | | | Total | Governmental Activities Internal Service Funds |
|---|---|---------------------------------|------------------------------|--------------------|--|
| | Joint Water and Sewer Fund (700) | Solid Waste Fund (720) | Other Enterprise Funds | | |
| <u>Operating revenues</u> | | | | | |
| Charges for services | \$ 14,804,917 | 6,769,003 | 452 | 21,574,372 | 6,912,923 |
| <u>Operating expenses</u> | | | | | |
| Personnel services | 5,724,916 | 2,553,906 | - | 8,278,822 | - |
| Utilities | 749,908 | 3,441 | - | 753,349 | - |
| Contractual services | 774,910 | 62,352 | 16 | 837,278 | 3,562,617 |
| Repairs and maintenance | 1,139,070 | 414,757 | - | 1,553,827 | - |
| Insurance claims and expenses | - | - | - | - | 6,329,387 |
| Other supplies and expenses | 760,267 | 2,793,525 | 8,215 | 3,562,007 | 1,877,778 |
| Depreciation and amortization | 4,201,675 | 808,010 | - | 5,009,685 | - |
| Total operating expenses | <u>13,350,746</u> | <u>6,635,991</u> | <u>8,231</u> | <u>19,994,968</u> | <u>11,769,782</u> |
| Operating income (loss) | 1,454,171 | 133,012 | (7,779) | 1,579,404 | (4,856,859) |
| <u>Non-operating revenues (expenses)</u> | | | | | |
| Gross receipts taxes | - | 1,429,897 | - | 1,429,897 | - |
| Intergovernmental | - | 111,000 | - | 111,000 | - |
| Investment income | 417,811 | 85,616 | - | 503,427 | 31,371 |
| Miscellaneous | 134,668 | 12,999 | 5,038 | 152,705 | 99,057 |
| Gain/(loss) on sale of assets | 3,865 | - | - | 3,865 | - |
| Gain/(loss) on investments | - | - | - | - | - |
| Interest expense | <u>(981,099)</u> | <u>(10,797)</u> | <u>-</u> | <u>(991,896)</u> | <u>-</u> |
| Total non-operating revenue (expenses) | <u>(424,755)</u> | <u>1,628,715</u> | <u>5,038</u> | <u>1,208,998</u> | <u>130,428</u> |
| Income (loss) before capital contributions and transfers | 1,029,416 | 1,761,727 | (2,741) | 2,788,402 | (4,726,431) |
| <u>Capital contributions and transfers</u> | | | | | |
| Capital contributions | - | - | - | - | - |
| Transfers in | 24,996,539 | 1,065,816 | - | 26,062,355 | 2,725,000 |
| Transfers (out) | <u>(6,695,674)</u> | <u>(1,165,000)</u> | <u>-</u> | <u>(7,860,674)</u> | <u>(1,727,819)</u> |
| Total capital contributions and transfers | <u>18,300,865</u> | <u>(99,184)</u> | <u>-</u> | <u>18,201,681</u> | <u>997,181</u> |
| Change in net position | 19,330,281 | 1,662,543 | (2,741) | 20,990,083 | (3,729,250) |
| Net position, beginning of year | <u>77,407,514</u> | <u>10,368,364</u> | <u>15,148</u> | <u>87,791,026</u> | <u>8,602,146</u> |
| Net position, end of year | <u>\$ 96,737,795</u> | <u>12,030,907</u> | <u>12,407</u> | <u>108,781,109</u> | <u>4,872,896</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, 2020**

| | Business - Type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|---|---|---------------------------------|------------------------------|--------------|--|
| | Joint Water and Sewer Fund (700) | Solid Waste Fund (720) | Other Enterprise Funds | Total | |
| <u>Cash flows from operating activities</u> | | | | | |
| Cash received from customers | \$ 14,660,846 | 6,802,010 | 435 | 21,463,291 | - |
| Internal activity - receipts from other funds | - | - | - | - | 6,912,923 |
| Cash payments to suppliers for goods and services | (3,749,609) | (3,075,425) | (8,661) | (6,833,695) | - |
| Cash payments to employees for services | (5,034,435) | (2,310,476) | - | (7,344,911) | (11,739,158) |
| Net cash provided (used) by operating activities | 5,876,802 | 1,416,109 | (8,226) | 7,284,685 | (4,826,235) |
| <u>Cash flows for non-capital and financing activities</u> | | | | | |
| Cash received from gross receipts taxes | - | 1,429,897 | - | 1,429,897 | - |
| Intergovernmental revenues | - | 111,000 | - | 111,000 | - |
| Utility deposit, grt, and miscellaneous receipts | 134,668 | 12,999 | 5,038 | 152,705 | 99,057 |
| Net transfers in (out) | 18,300,865 | (99,184) | - | 18,201,681 | 997,181 |
| Net cash provided (used) by non-capital and related financing activities | 18,435,533 | 1,454,712 | 5,038 | 19,895,283 | 1,096,238 |
| <u>Cash flows for capital and financing activities</u> | | | | | |
| Acquisition of capital assets | (9,929,001) | (541,584) | - | (10,470,585) | - |
| Principal payments on capital debt | (14,028,160) | (115,203) | - | (14,143,363) | - |
| Interest on capital debt | (981,099) | (10,797) | - | (991,896) | - |
| Net cash (used) by capital and related financing activities | (24,938,260) | (667,584) | - | (25,605,844) | - |
| <u>Cash flows from investing activities</u> | | | | | |
| Investment income | 417,811 | 85,616 | - | 503,427 | 31,371 |
| Purchase of investments | (206,736) | - | - | (206,736) | - |
| Net cash provided (used) by investing activities | 211,075 | 85,616 | - | 296,691 | 31,371 |
| Net increase (decrease) in cash | (414,850) | 2,288,853 | (3,188) | 1,870,815 | (3,698,626) |
| Cash and cash equivalents, beginning of year | 19,754,594 | 10,617,538 | 15,595 | 30,387,727 | 8,644,622 |
| Cash and cash equivalents, end of year | \$ 19,339,744 | 12,906,391 | 12,407 | 32,258,542 | 4,945,996 |
| Displayed as | | | | | |
| Cash | \$ 14,100,003 | 8,687,998 | 12,407 | 22,800,408 | 4,467,125 |
| Restricted cash | 4,999,248 | 4,088,428 | - | 9,087,676 | 478,871 |
| Restricted cash held be fiscal agent | 240,493 | 129,965 | - | 370,458 | - |
| Total cash | \$ 19,339,744 | 12,906,391 | 12,407 | 32,258,542 | 4,945,996 |
| <u>Reconciliation of operating income to net cash provided by operating activities:</u> | | | | | |
| Operating income (loss) | \$ 1,454,171 | 133,012 | (7,779) | 1,579,404 | (4,856,859) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation | 4,201,675 | 808,010 | - | 5,009,685 | - |
| Landfill closure & post closure liability | - | 47,925 | - | 47,925 | - |
| Pension expense | 795,590 | 280,797 | - | 1,076,387 | - |
| OPEB expense/revenue | (170,573) | (60,202) | - | (230,775) | - |
| (Gain)/loss on disposal of capital asset | (3,865) | - | - | (3,865) | - |
| Change in assets and liabilities: | | | | | |
| (Increase) decrease in accounts receivable | (144,071) | 33,007 | - | (111,064) | - |
| (Increase) decrease in inventories | (108,445) | - | - | (108,445) | - |
| Increase (decrease) in accounts payable | (213,144) | 150,725 | (430) | (62,849) | 30,624 |
| Increase (decrease) in accrued salaries | 44,439 | 16,728 | - | 61,167 | - |
| Increase (decrease) in accrued liabilities | (52,746) | (207) | (17) | (52,970) | - |
| Increase (decrease) in compensated absences | 73,771 | 6,314 | - | 80,085 | - |
| Total adjustments | 4,422,631 | 1,283,097 | (447) | 5,705,281 | 30,624 |
| Net cash provided (used) by operating activities | \$ 5,876,802 | 1,416,109 | (8,226) | 7,284,685 | (4,826,235) |

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, 2020

Assets

| | |
|------|------------------|
| Cash | \$ <u>27,753</u> |
|------|------------------|

Liabilities

| | |
|---------------|------------------|
| Due to others | \$ <u>27,753</u> |
|---------------|------------------|

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, 2020**

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

given function or activity, 2) grants and contributions that are restricted to meeting 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

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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.

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* (101,102) 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 City reports the following major business-type funds:

The *Joint Water and Sewer Fund* (700) 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, including, but not

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limited to, administration, operations, maintenance, financing and related debt service, billing, and collection.

The *Solid Waste Fund* (720) 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 City maintains other individual governmental funds that are considered nonmajor funds and which are classified as special revenue funds, capital project funds, and debt service funds. A description of each nonmajor governmental fund is as follows:

Special Revenue Funds

The *Airport Fund* (202) 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 *Sports Complex Fund* (300) accounts for the operation of the City's sports complex. Financing is provided from infrastructure gross receipts tax revenues. The fund is authorized by city council.

The *Local Government Corrections Fund* (350) 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 *Fire Protection Fund* (500) 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 *Emergency Medical Services Fund* (501) 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 24-10A-1 to 24-10A-10, NMSA 1978 provides funds to municipalities for use in the establishment and enhancement of local emergency medical services. Section 24-10A-7, NMSA 1978 restricts expenditures from the fund for only emergency medical services.

The *Law Enforcement Protection Fund* (520) 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 *Municipal Transit Fund* (570) 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 *Community Development Fund* (580) accounts for funds received for community development and improvements funded under New Mexico Community Development Block Grants pursuant to the U.S. Department of Housing and Urban Development Title I grant. The fund is authorized by city council.

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The *Lodgers' Tax Fund* (600,650) 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-IS(E), NMSA 1978, restricts the use of the tax for advertising, publicizing and promoting, establishing and operating tourist-related attractions, facilities, and events.

Capital Project Funds

The *GRT Capital Outlay Fund* (200), 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 *CIEP Fund* (201) 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 *Street System Improvement Fund* (320) 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.

The *Park Improvement Fund* (550) 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.

Debt Service Funds

The *GRT Capital Outlay Fund* (802) 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* (820) 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 Bond Trust Fund* (920) 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* (950) accounts for monies collected and remitted to the U.S. Department of Energy.

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

The *Museum Gift Shop Fund* (750) accounts for the receipts and disbursements of the operations of the museum gift shop. The fund is authorized by city council.

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

The *Disaster Preparedness Fund* (400) 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.

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The *General Insurance Fund* (401,402) accounts for the cost of providing insurance and worker's compensation coverage and liability claims against the City. Such costs are billed to the other departments at actual cost.

The *Group Health Insurance Fund* (420) 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.

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.

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Inventory

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

Prepaid Items

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

Restricted Assets

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

Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balance as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Capital Assets

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

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

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

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

Vacation Pay

Employees of the City may accrue a total of ten to thirty days of vacation per year. A maximum of seventy-five days may be accumulated for managers. A maximum of fifty days of vacation may be accumulated for administration employees compensated on an hourly basis. Union employees (USW, CPOA, & IBEW) compensated on an hourly basis may accumulate up to forty-five days of vacation, while IAFF employees may accumulate up to thirty days of vacation. Executive officers may accrue thirty-one and a half days of paid time off per year with no maximum accumulation. All vacation and time off compensation are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if it has matured.

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Sick Leave

Appointed officers do not accrue sick leave. Executive officers and those employees compensated on an hourly basis may accumulate a total of twelve days of sick leave per year. If the employee has qualified to retire under the state retirement program, employees are paid for one-third portion of the accumulated sick leave on their last day of service to the City. Accordingly, the one-third portion of the sick leave earned is accrued on the government-wide and proprietary fund financials statements. If the employee has not qualified to retire under the state retirement program, employees are not paid for the accumulated sick leave upon termination.

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.

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.

Unavailable Revenue

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

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

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Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities within the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds, using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expense in the year of issuance.

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

Net Position

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

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

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

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

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.

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

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

F. Other Matters

Cash Flows

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

Use of Estimates

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

NOTE 2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

New Mexico state statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited with Financial Institutions

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

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As of June 30, 2020, 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 <u>Institution</u> | Reconciling <u>Items</u> | Per Financial <u>Statements</u> |
|------------------------|---------------------------|-----------------------------|------------------------------------|
| Cash on hand | \$ 7,800 | - | 7,800 |
| Carlsbad National Bank | 13,010,397 | (117,888) | 12,892,509 |
| First American Bank | 4,717,721 | - | 4,717,721 |
| Pioneer Savings Bank | 5,881,403 | - | 5,881,403 |
| Wells Fargo Bank | 53,683,107 | (1,568,520) | 52,114,587 |
| Western Commerce Bank | 14,161,630 | (6,684) | 14,154,946 |
| Cash held by NMFA | <u>867,331</u> | <u>-</u> | <u>867,331</u> |
| Total | <u>\$ 91,462,058</u> | <u>(1,693,092)</u> | <u>89,768,966</u> |

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

| <u>Statement of Net Position</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| Cash | \$ 80,112,725 |
| Restricted | 9,628,488 |
| Restricted - held by NMFA | <u>867,331</u> |
| Total | <u>89,741,213</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.

| | Carlsbad <u>National Bank</u> | First American <u>Bank</u> | Pioneer Savings <u>Bank</u> | Wells Fargo <u>Bank, N.A.</u> | Western <u>Commerce Bank</u> |
|--|----------------------------------|-------------------------------|--------------------------------|----------------------------------|---------------------------------|
| Total deposits in bank | \$ 13,010,397 | 4,717,721 | 5,881,403 | 53,683,107 | 14,161,630 |
| Less FDIC coverage | <u>(250,000)</u> | <u>(250,000)</u> | <u>(250,000)</u> | <u>(250,000)</u> | <u>(500,000)</u> |
| Uninsured public funds | 12,760,397 | 4,467,721 | 5,631,403 | 53,433,107 | 13,661,630 |
| Pledged collateral held by pledging bank's trust, but not in the City's name | <u>8,393,560</u> | <u>2,241,640</u> | <u>3,154,747</u> | <u>31,026,716</u> | <u>8,748,022</u> |
| Uninsured and uncollateralized public funds | <u>4,366,837</u> | <u>2,226,081</u> | <u>2,476,656</u> | <u>22,406,391</u> | <u>4,913,608</u> |
| Total pledged collateral | 8,393,560 | 2,241,640 | 3,154,747 | 31,026,716 | 8,748,022 |
| 50% pledged collateral requirement per state statute | <u>6,380,199</u> | <u>2,233,861</u> | <u>2,815,702</u> | <u>26,716,554</u> | <u>6,830,815</u> |
| Pledged collateral (under) over the requirements | <u>\$ 2,013,362</u> | <u>7,780</u> | <u>339,046</u> | <u>4,310,162</u> | <u>1,917,207</u> |

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

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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, 2020, \$91,625,398 of the City's bank balance of \$93,125,398 was exposed to custodial credit risk as follows:

| | <u>Carlsbad National Bank</u> | <u>First American Bank</u> | <u>Pioneer Savings Bank</u> | <u>Wells Fargo Bank, N.A.</u> | <u>Western Commerce Bank</u> |
|--|-----------------------------------|--------------------------------|---------------------------------|-----------------------------------|----------------------------------|
| Uninsured and collateralized held by pledging bank's trust dept. or agent not in the City name | \$ <u>12,760,397</u> | <u>4,467,721</u> | <u>5,631,403</u> | <u>53,433,107</u> | <u>13,661,630</u> |

NOTE 3. RESTRICTED CASH HELD BY FISCAL AGENT

The City has entered into various loan agreements with the New Mexico Finance Authority. As required by the loan agreements, any unexpended loan proceeds 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, 2020, the NMFA held \$867,331.

NOTE 4. RESTRICTED INVESTMENTS

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

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

| <u>Statement of Net Position</u> | |
|----------------------------------|---------------------|
| Restricted investments | \$ <u>6,514,984</u> |

As of June 30, 2020, the restricted investments are composed of the following:

| | |
|-------------------|---------------------|
| US Treasury Notes | \$ 6,329,078 |
| Cash alternatives | <u>185,906</u> |
| Total | \$ <u>6,514,984</u> |

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, 2020.

| <u>Market Value</u> | <u>%</u> | <u>Maturity</u> |
|---------------------|-------------|------------------|
| \$ 2,092,182 | 33% | Less than 1 year |
| 1,228,612 | 19% | 1-2 years |
| 3,008,284 | 48% | 2-5 years |
| <u>-</u> | <u>0%</u> | 5-7 years |
| \$ <u>6,329,078</u> | <u>100%</u> | |

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

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

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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.
- d) 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).

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 | 2020 |
|---------------------|--------------|
| | Level 1 |
| U.S. Treasury Notes | \$ 6,329,078 |
| Cash alternatives | 185,906 |
| Total | \$ 6,514,984 |

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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, 2020, consisted of the following:

| <u>Types of Receivables</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Totals</u> |
|--------------------------------------|------------------------------------|-------------------------------------|-------------------|
| <u>Accounts receivable</u> | | | |
| Charges for services | \$ 466,754 | 3,336,229 | 3,802,983 |
| Other | 49,887 | 367 | 50,254 |
| Allowance for doubtful accounts | <u>(86,789)</u> | <u>(483,564)</u> | <u>(570,353)</u> |
| Total | 429,852 | 2,853,032 | 3,282,884 |
| <u>Taxes receivable</u> | | | |
| Gross receipts taxes | 9,415,135 | 179,341 | 9,594,476 |
| Franchise taxes | 112,650 | - | 112,650 |
| Property taxes | 224,892 | - | 224,892 |
| Lodgers' taxes | 148,011 | - | 148,011 |
| Public service taxes | 58,268 | - | 58,268 |
| Allowance for doubtful accounts | <u>(4,498)</u> | <u>-</u> | <u>(4,498)</u> |
| Total | 9,954,458 | 179,341 | 10,133,799 |
| <u>Intergovernmental receivables</u> | | | |
| Building improvement grants | 133,909 | - | 133,909 |
| Public safety grants | 13,524 | - | 13,524 |
| Infrastructure improvement grants | 134,795 | - | 134,795 |
| Municipal transit grants | <u>170,332</u> | <u>-</u> | <u>170,332</u> |
| Total | <u>452,560</u> | <u>-</u> | <u>452,560</u> |
| Receivables, net | <u>\$ 10,836,870</u> | <u>3,032,373</u> | <u>13,869,243</u> |

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 1". 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 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

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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 2019, was 6.225 per \$1,000 for non-residential and 4.906 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 \$86,789 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 15% of sales. Total allowance as of June 30, 2020, is \$483,564.

NOTE 8. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2020, are as follows:

| <u>Governmental Activities</u> | <u>Balance 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Transfers & Adjustments</u> | <u>Reclassification</u> | <u>Balance 2020</u> |
|---|-------------------------|------------------|------------------|--|-------------------------|-------------------------|
| <i>Non-Depreciable Capital Assets</i> | | | | | | |
| Land | \$ 2,003,789 | - | - | - | 58,760 | 2,062,549 |
| Construction in progress | 3,180,803 | 3,656,962 | - | (3,413,485) | 257,120 | 3,681,400 |
| Total non-depreciable capital assets | 5,184,592 | 3,656,962 | - | (3,413,485) | 315,880 | 5,743,949 |
| <i>Capital Assets Being Depreciated</i> | | | | | | |
| Buildings | 83,773,346 | 2,076,009 | - | 1,636,649 | 1,064,230 | 88,550,234 |
| Improvements | 478,680 | 2,195,344 | - | 264,182 | - | 2,938,206 |
| Infrastructure | 103,349,931 | 8,417,424 | - | 1,205,066 | - | 112,972,421 |
| Equipment | 26,778,963 | 3,726,574 | (156,888) | 307,588 | 740,036 | 31,396,273 |
| Total capital assets being depreciated | 214,380,920 | 16,415,351 | (156,888) | 3,413,485 | 1,804,266 | 235,857,134 |
| <i>Less Accumulated Depreciation For:</i> | | | | | | |
| Buildings | (34,800,551) | (3,047,947) | - | - | (395,184) | (38,243,682) |
| Improvements | (201,501) | (97,204) | - | - | - | (298,705) |
| Utility System & facilities | (37,754,956) | (6,782,990) | - | - | - | (44,537,946) |
| Equipment | (17,649,706) | (2,504,183) | 142,219 | - | (641,107) | (20,652,777) |
| Total accumulated depreciation | (90,406,714) | (12,432,324) | 142,219 | - | (1,036,291) | (103,733,110) |
| Total capital assets being depreciated, net | 123,974,206 | 3,983,027 | (14,669) | 3,413,485 | 767,975 | 132,124,024 |
| Total capital assets, net of depreciation | \$ 129,158,798 | 7,639,989 | (14,669) | - | 1,083,855 | 137,867,973 |

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| <u>Business-type Activities</u> | Balance 2019 | Additions | Deletions | Transfers & Adjustments | Reclassification | Balance 2020 |
|---|-----------------------|------------------|-----------|----------------------------|--------------------|--------------------|
| <i>Non-Depreciable Capital Assets</i> | | | | | | |
| Land and water rights | \$ 1,139,566 | - | - | 98,801 | (58,760) | 1,179,607 |
| Construction in progress | 46,820,774 | 9,528 | - | (46,563,681) | (257,120) | 9,501 |
| | <u>47,960,340</u> | <u>9,528</u> | <u>-</u> | <u>(46,464,880)</u> | <u>(315,880)</u> | <u>1,189,108</u> |
| <i>Capital Assets Being Depreciated</i> | | | | | | |
| Buildings and improvements | 42,925,491 | - | - | 2,061,891 | (1,064,230) | 43,923,152 |
| Equipment | 15,167,982 | 1,534,999 | - | 761,371 | (740,036) | 16,724,316 |
| Utility system | 55,359,800 | 8,929,447 | - | 43,641,618 | - | 107,930,865 |
| Total capital assets being depreciated | 113,453,273 | 10,464,446 | - | 46,464,880 | (1,804,266) | 168,578,333 |
| <i>Less Accumulated Depreciation For:</i> | | | | | | |
| Buildings and improvements | (19,323,727) | (2,063,883) | - | - | 395,184 | (20,992,426) |
| Equipment | (11,193,765) | (1,025,451) | - | - | 641,107 | (11,578,109) |
| Utility system | (21,198,149) | (1,920,351) | - | - | - | (23,118,500) |
| Total accumulated depreciation | (51,715,641) | (5,009,685) | - | - | 1,036,291 | (55,689,035) |
| Total capital assets being depreciated, net | 61,737,632 | 5,454,761 | - | 46,464,880 | (767,975) | 112,889,298 |
| Total capital assets, net of depreciation | \$ <u>109,697,972</u> | <u>5,464,289</u> | <u>-</u> | <u>-</u> | <u>(1,083,855)</u> | <u>114,078,406</u> |

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

Governmental activities

| | |
|----------------------|----------------------|
| General Government | \$ 2,704,334 |
| Public Safety | 3,081,993 |
| Public Works | 3,944,405 |
| Culture & Recreation | 2,625,360 |
| Health & Welfare | 76,232 |
| Total | <u>\$ 12,432,324</u> |

Business-type activities

| | |
|-----------------------|---------------------|
| Solid Waste | \$ 808,010 |
| Joint Water and Sewer | 4,201,675 |
| Total | <u>\$ 5,009,685</u> |

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2020, consisted of the following:

| <u>Description</u> | <u>Governmental Activities</u> | <u>Business Type Activities</u> |
|--------------------|------------------------------------|---|
| State tax payable | \$ 65,214 | 79,596 |
| Court related fees | 8,530 | - |
| Total | <u>\$ 73,744</u> | <u>79,596</u> |

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NOTE 10. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2020, were as follows:

| <u>Governmental Activities</u> | <u>Balance 2019</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclass- ification</u> | <u>Balance 2020</u> | <u>Amounts Due Within One Year</u> |
|----------------------------------|-------------------------|-------------------|---------------------|-------------------------------|-------------------------|--|
| Notes payable | \$ 4,572,809 | 4,020,000 | (874,812) | | 7,717,997 | 754,757 |
| Bonds payable | 3,845,000 | - | (3,845,000) | - | - | - |
| Less net bond premium (discount) | (45,117) | 45,117 | - | - | - | - |
| Compensated absences | 1,994,432 | 2,064,500 | (1,808,618) | 47,904 | 2,298,218 | 839,173 |
| Net pension liability | 57,418,501 | 10,477,564 | (3,219,192) | 954,971 | 65,631,844 | - |
| Net OPEB liability | 23,724,946 | - | (5,808,463) | 548,553 | 18,465,036 | - |
| Total | \$ <u>91,510,571</u> | <u>16,607,181</u> | <u>(15,556,085)</u> | <u>1,551,428</u> | <u>94,113,095</u> | <u>1,593,930</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 \$527,437 for the year ended June 30, 2020. This loan was paid off in FY2020.

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.

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|-----------------|------------------|
| 2021 | \$ 374,757 | 100,979 | 475,736 |
| 2022 | 380,566 | 95,170 | 475,736 |
| 2023 | 387,264 | 88,472 | 475,736 |
| 2024 | 394,854 | 80,882 | 475,736 |
| 2025 | 403,146 | 72,590 | 475,736 |
| 2026-2030 | <u>2,177,410</u> | <u>201,269</u> | <u>2,378,679</u> |
| | \$ <u>4,117,997</u> | <u>639,362</u> | <u>4,757,359</u> |

2009 Public Infrastructure Projects Bonds

On July 28, 2009, the City issued bonds in the amount of \$8,550,000 for the purposes of defraying the cost of public infrastructure projects. The bond bears interest at rates between 2.00% and 4.75% per annum and matures on June 1, 2029. The payment of principal, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from pledged gross receipts tax revenues, which totaled approximately \$73.7 million for the year ended June 30, 2020. This loan was defeased in FY2020 with NMFA Loan # PPRF-5022 in the amount of \$4,020,000. The bond defeasance resulted in total debt service savings of \$1,052,877.

NMFA Loan # PPRF-5022

On October 18, 2019, the City borrowed \$4,020,000 from the New Mexico Finance Authority for the purpose of defeasing 2009 Public Infrastructure Project Bonds. The bond bears a blended interest rate of 1.23% per annum and matures on June 1, 2029. The payment of principal, premium and interest thereon, whether at maturity or on a

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redemption date, are paid with income derived from pledged gross receipts tax revenues, which totaled approximately \$73.7 million for the year ended June 30, 2020.

The annual requirements to amortize the bonds outstanding as of June 30, 2020, including interest payments, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|-----------------|------------------|
| 2021 | \$ 380,000 | 42,833 | 422,833 |
| 2022 | 390,000 | 38,805 | 428,805 |
| 2023 | 390,000 | 32,389 | 422,389 |
| 2024 | 395,000 | 27,993 | 422,993 |
| 2025 | 400,000 | 23,441 | 423,441 |
| 2026-2030 | <u>1,645,000</u> | <u>44,200</u> | <u>1,689,200</u> |
| | <u>\$ 3,600,000</u> | <u>209,659</u> | <u>3,809,659</u> |

Compensated Absences

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

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

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

Business-Type Activities

Changes in the business-type activities obligations during the year ended June 30, 2020, were as follows:

| <u>Business-Type Activities</u> | <u>Balance 2019</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclass- ification</u> | <u>Balance 2020</u> | <u>Amounts Due Within One-Year</u> |
|----------------------------------|-------------------------|------------------|---------------------|-------------------------------|-------------------------|--|
| Notes payable | \$ 35,222,779 | - | (1,699,010) | - | 33,523,769 | 1,730,136 |
| Bonds payable | 12,650,000 | - | (12,650,000) | - | - | - |
| Less net bond premium (discount) | (156,810) | 156,810 | - | - | - | - |
| Landfill closure | 501,287 | 47,925 | - | - | 549,212 | - |
| Compensated absences | 294,543 | 311,055 | (230,970) | (47,904) | 326,724 | 134,418 |
| Net pension liability | 8,274,279 | 1,361,491 | (400,499) | (954,971) | 8,280,300 | - |
| Net OPEB liability | <u>3,702,737</u> | <u>-</u> | <u>(754,773)</u> | <u>(548,553)</u> | <u>2,399,411</u> | <u>-</u> |
| Total | <u>\$ 60,488,815</u> | <u>1,877,281</u> | <u>(15,735,252)</u> | <u>(1,551,428)</u> | <u>45,079,416</u> | <u>1,864,554</u> |

NMED—Note Payable—Wastewater Utility System Improvements

On April 29, 2010, the City entered into a clean water state revolving loan agreement with the New Mexico Environment Department, with a total maximum amount of \$18,000,000. 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

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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 \$16.5 million for the year ended June 30, 2020.

The annual requirements to amortize this note outstanding as of June 30, 2020, including interest payments, are as follows:

| | Principal | Interest | Total |
|------------|---------------|-----------|------------|
| 2021 | \$ 831,306 | 356,004 | 1,187,310 |
| 2022 | 847,932 | 339,378 | 1,187,310 |
| 2023 | 864,891 | 322,419 | 1,187,310 |
| 2024 | 882,189 | 305,121 | 1,187,310 |
| 2025 | 899,833 | 287,477 | 1,187,310 |
| 2026-2030 | 4,776,420 | 1,160,130 | 5,936,550 |
| 2031-2035 | 5,273,554 | 662,996 | 5,936,550 |
| Thereafter | 3,424,063 | 137,867 | 3,561,930 |
| Total | \$ 17,800,188 | 3,571,391 | 21,371,580 |

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 \$16.5 million for the year ended June 30, 2020.

The annual requirements to amortize this note outstanding as of June 30, 2020, including interest payments, are as follows:

| | Principal | Interest | Total |
|------------|---------------|-----------|------------|
| 2021 | \$ 686,376 | 288,174 | 974,550 |
| 2022 | 700,103 | 274,714 | 974,817 |
| 2023 | 714,105 | 260,988 | 975,093 |
| 2024 | 728,387 | 246,986 | 975,373 |
| 2025 | 742,955 | 232,704 | 975,659 |
| 2026-2030 | 3,943,697 | 939,084 | 4,882,781 |
| 2031-2035 | 4,354,158 | 536,668 | 4,890,826 |
| Thereafter | 1,866,018 | 111,596 | 1,977,614 |
| Total | \$ 13,735,799 | 2,890,914 | 16,626,713 |

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 \$16.5 million for the year ended June 30, 2020.

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The annual requirements to amortize the loan outstanding as of June 30, 2020, including interest payments, are as follows:

| | <u>Principal</u> | <u>Admin Fee</u> | <u>Total</u> |
|-----------|-------------------|------------------|----------------|
| 2021 | \$ 15,017 | 417 | 15,434 |
| 2022 | 15,055 | 380 | 15,435 |
| 2023 | 15,092 | 342 | 15,434 |
| 2024 | 15,130 | 305 | 15,435 |
| 2025 | 15,168 | 267 | 15,435 |
| 2026-2030 | <u>76,411</u> | <u>765</u> | <u>77,176</u> |
| Total | <u>\$ 151,873</u> | <u>2,476</u> | <u>154,349</u> |

NMFA # 13—Note Payable—Solid Waste Grapppler Trucks

On March 20, 2015, the City borrowed \$1,165,267 from the New Mexico Finance Authority. The note matures on May 1, 2025 and accrues interest at a rate of 1.449%. The proceeds of the loan were used for the purchase of new solid waste equipment, including grapppler trucks. The payments of principal and interest are paid from the net revenues of the City's solid waste disposal activities, which was approximately \$7.3 million for the year ended June 30, 2020.

The annual requirements to amortize the loan outstanding as of June 30, 2020, including interest payments, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|-------------------|-----------------|----------------|
| 2021 | \$ 116,332 | 9,760 | 126,092 |
| 2022 | 117,705 | 8,271 | 125,976 |
| 2023 | 119,317 | 6,540 | 125,857 |
| 2024 | 121,191 | 4,548 | 125,739 |
| 2025 | <u>123,263</u> | <u>2,354</u> | <u>125,617</u> |
| Total | <u>\$ 597,808</u> | <u>31,473</u> | <u>629,281</u> |

NMFA # 14—Note Payable—Water Storage/Conveyance

On May 1, 2015, the City entered into a water loan and subsidy agreement with the New Mexico Water Trust Board, financed by the New Mexico Finance Authority, with a total amount of \$1,500,000, of which the loan portion of the agreement is a maximum of \$600,000. The note matures on June 1, 2035 and does not accrue interest. The note accrues an administrative fee of .25% per annum. The proceeds of the loan and subsidy agreement will be used for water storage and conveyance. The payments of principal and interest will be paid from net revenues from the City's water and wastewater utility system activities, which was approximately \$16.5 million for the year ended June 30, 2020.

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The annual requirements to amortize the loan outstanding as of June 30, 2020, including interest payments, are as follows:

| | Principal | Interest | Total |
|-----------|------------|----------|---------|
| 2021 | \$ 29,668 | 1,132 | 30,800 |
| 2022 | 29,742 | 1,058 | 30,800 |
| 2023 | 29,816 | 984 | 30,800 |
| 2024 | 29,891 | 909 | 30,800 |
| 2025 | 29,966 | 834 | 30,800 |
| 2026-2030 | 150,956 | 3,044 | 154,000 |
| 2031-2035 | 152,852 | 1,148 | 154,000 |
| Total | \$ 452,891 | 9,109 | 462,000 |

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 \$16.5 million for the year ended June 30, 2020.

The annual requirements to amortize the loan outstanding as of June 30, 2020, including interest payments, are as follows:

| | Principal | Interest | Total |
|-----------|------------|----------|---------|
| 2021 | \$ 51,437 | 1,963 | 53,400 |
| 2022 | 51,566 | 1,834 | 53,400 |
| 2023 | 51,695 | 1,705 | 53,400 |
| 2024 | 51,824 | 1,576 | 53,400 |
| 2025 | 51,954 | 1,446 | 53,400 |
| 2026-2030 | 261,723 | 5,277 | 267,000 |
| 2031-2035 | 265,011 | 1,989 | 267,000 |
| Total | \$ 785,210 | 15,790 | 801,000 |

2009 Advance Refunding Bonds

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

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

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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. This loan was paid in full in FY2020.

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 \$3,899,245 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, 2020. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in state and federal landfill laws and regulations. The estimated remaining site life is approximately 72 years.

The City is required by the state of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs. The following calculation details the current amount recognized for landfill closure and post closure care as of June 30, 2020:

| | | |
|--|----|------------------|
| Estimated landfill closure cost | \$ | 2,600,479 |
| Estimated landfill post-closure care cost | | <u>1,298,766</u> |
| Total estimated closure and post-closure costs | \$ | <u>3,899,245</u> |
| | | |
| FY20 tonnage received | | 121,181 |
| conversion to compacted cubic yards in-place | | <u>2</u> |
| Cubic yards | \$ | <u>242,362</u> |
| | | |
| FY20 capacity used to date | | 3,685,415 |
| FY19 tonnage received/capacity used | | <u>242,362</u> |
| FY19 capacity used to date | \$ | <u>3,927,777</u> |
| | | |
| Total capacity used to date (approximately 3,927,777 gate cubic yards) as a percentage of total capacity (13,943,056 gate cubic yards including expansion) | | <u>28.17%</u> |

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| | |
|---|---------------------|
| Total estimated closure and post-closure costs | 3,899,245 |
| Total capacity used to date | <u>28.17%</u> |
| Estimated closure and post-closure care costs | \$ <u>1,098,422</u> |
| Estimated closure and post-closure care costs | 1,098,422 |
| Prior year liability | <u>1,002,573</u> |
| Decrease in estimated liability | \$ <u>95,849</u> |
| City of Carlsbad's portion (50%) | \$ <u>47,925</u> |
| Prior year liability recognized | 501,287 |
| Increase/decrease in estimated liability | <u>47,925</u> |
| Estimated liability for the fiscal year ended June 30, 2020 | \$ <u>549,212</u> |

NOTE 11. RESTATEMENTS OF NET POSITION AND FUND BALANCES

The following adjustments have been made to the beginning equity amounts of both the government-wide and the individual fund statements. An explanation of the restatements is as follows:

| | Governmental Activities | Business-Type Activities | Individual Funds |
|--|----------------------------|-----------------------------|---------------------|
| <u>Government-Wide Financial Statements</u> | | | |
| Business-type fund (Municipal Transit) converted from proprietary to governmental fund | \$ (198,675) | 198,675 | - |
| <u>Non-Major Funds</u> | | | |
| <u>Municipal Transit Fund (570)</u> | | | |
| Converted from a proprietary to governmental fund | <u>-</u> | <u>-</u> | <u>467,068</u> |
| | \$ <u>(198,675)</u> | <u>198,675</u> | <u>467,068</u> |

NOTE 12. PENSION PLAN—PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

General Information about the Pension Plan

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

Benefits Provided - Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of

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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 postretirement 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 Comprehensive Annual Financial Report for Contribution Provided Description

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – At June 30, 2020, the City reported a liability of \$73,912,144 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2019 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2019. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2019. 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, 2019, the City's proportion was 2.3412%, which was a decrease of 0.2846% from its proportion measured as of June 30, 2018.

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For PERA Fund Division; Municipal General Division, at June 30, 2020, the City reported a liability of \$33,081,310 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 1.9110%, which was a decrease of 0.0456% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized PERA Fund Division; Municipal General Division pension expense of \$6,419,236.

At June 30, 2020, the City reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

| <u>Municipal General Division</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 991,840 | 357,866 |
| Changes of assumptions | 1,475,078 | 81,478 |
| Net difference between projected and actual earnings on pension plan investments | 1,114,750 | - |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 684,263 | 562,307 |
| The City contributions subsequent to the measurement date | <u>1,829,342</u> | <u>-</u> |
| Total | <u>\$ 6,095,273</u> | <u>1,001,651</u> |

\$1,829,342 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2021 | \$ 1,795,828 |
| 2022 | 902,053 |
| 2023 | 382,992 |
| 2024 | 183,407 |
| 2025 | - |
| Thereafter | <u>-</u> |
| | <u>\$ 3,264,280</u> |

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For PERA Fund Division; Municipal Police Division, at June 30, 2020, the City reported a liability of \$16,207,137 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 2.1941%, which was an increase of 0.2064% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized PERA Fund Division; Municipal Police Division pension expense of \$3,142,013.

At June 30, 2020, 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:

| <u>Municipal Police Division</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 677,087 | 690,398 |
| Changes of assumptions | 919,310 | 41,234 |
| Net difference between projected and actual earnings on pension plan investments | 506,101 | |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 992,107 | 257,743 |
| The City contributions subsequent to the measurement date | <u>921,389</u> | <u>-</u> |
| Total | <u>\$ 4,015,994</u> | <u>989,375</u> |

\$921,389 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2021 | \$ 743,448 |
| 2022 | 743,315 |
| 2023 | 535,408 |
| 2024 | 83,059 |
| 2025 | - |
| Thereafter | <u>-</u> |
| | <u>\$ 2,105,230</u> |

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For PERA Fund Division; Municipal Fire Division, at June 30, 2020, the City reported a liability of \$24,623,697 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 3.5830%, which was an increase of 0.3122% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized PERA Fund Division; Municipal Fire Division pension expense of \$3,593,789.

At June 30, 2020, 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:

| <u>Municipal Fire Division</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 418,205 | 778,128 |
| Changes of assumptions | 675,584 | 38,961 |
| Net difference between projected and actual earnings on pension plan investments | 393,777 | - |
| Change in proportion and differences between the City contributions and proportionate share of contributions | 1,572,854 | 354,563 |
| The City contributions subsequent to the measurement date | <u>1,044,420</u> | <u>-</u> |
| Total | <u>\$ 4,104,840</u> | <u>1,171,652</u> |

\$1,044,420 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2021 | \$ 500,843 |
| 2022 | 668,588 |
| 2023 | 655,068 |
| 2024 | 64,269 |
| 2025 | - |
| Thereafter | <u>-</u> |
| | <u>\$ 1,888,768</u> |

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Actuarial assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| PERA Fund | |
|----------------------------|--|
| Actuarial Valuation Date | June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Period | Level Percentage of Pay |
| Asset Valuation Method | Solved for based on statutory rates |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.25% annual rate, net of investment expense |
| Projected benefit payment | 100 years |
| Payroll Growth | 3.00% |
| Projected Salary increases | 3.25% to 13.50% annual rate |
| Includes Inflation at | 2.50% |
| | 2.75% all other years |
| Mortality Assumption | The mortality assumptions are based on the RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups. |
| Experience study dates | July 1, 2008 to June 30, 2017 (demographic) and July 1, 2013 through June 30, 2017 (economic) |

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2019. These assumptions were adopted by the Board use in the June 30, 2018 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 | 42.33% | 7.48% |
| Risk Reduction & Mitigation | 21.37% | 2.37% |
| Credit Oriented Fixed Income | 15.00% | 5.47% |
| Real Assets to include Real Estate Equity | 20.00% | 6.48% |
| Multi-Risk Allocation | 1.30% | |
| Total | <u>100.0%</u> | |

Discount rate – A single discount rate of 7.25% was used to measure the total pension liability as of June 30, 2019. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's

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fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

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

| <u>PERA Fund Division -</u> | <u>1% Decrease (6.25%)</u> | <u>Current Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|-----------------------------|--------------------------------|--|--------------------------------|
| Municipal General Division | \$ 50,033,486 | \$ 33,081,310 | \$ 19,055,655 |
| Municipal Police Division | \$ 24,526,546 | \$ 16,207,137 | \$ 9,420,066 |
| Municipal Fire Division | \$ 32,634,079 | \$ 24,623,697 | \$ 18,059,007 |

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

Payable to the pension plan - At June 30, 2020, the City reported a payable of \$150,202 for outstanding contributions due to NMPERA for the year ended June 30, 2020.

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:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--------------------|-------------|-------------|-------------|
| City Contributions | \$ 605,827 | \$ 567,564 | \$ 539,021 |

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

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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.

Employees covered by benefit terms – At June 30, 2019, the Fund’s measurement date, the following employees were covered by the benefit terms:

| | |
|--|----------------|
| <u>Plan membership</u> | |
| Current retirees and surviving spouses | 52,179 |
| Inactive and eligible for deferred benefit | 10,916 |
| Current active members | <u>91,082</u> |
| | <u>154,177</u> |
| <u>Active membership</u> | |
| State general | 17,097 |
| State police and corrections | 1,830 |
| Municipal general | 17,538 |
| Municipal police | 3,159 |
| Municipal FTRE | 1,966 |
| Educational Retirement Board | <u>49,492</u> |
| | <u>91,082</u> |

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the City were \$605,827 for the year ended June 30, 2020.

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB – At June 30, 2020, the City reported a liability of \$20,864,447 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019. At June 30, 2019, the City’s proportion was 0.64349 percent.

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For the year ended June 30, 2020, the City recognized OPEB income of \$1,400,914. At June 30, 2020 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | 5,250,555 |
| Changes of assumptions | - | 6,734,035 |
| Net difference between actual and projected earnings on OPEB plan investments | - | 193,987 |
| Change in proportion | 855,989 | - |
| Contributions subsequent to the measurement date | <u>605,827</u> | <u>-</u> |
| Total | <u>\$ 1,461,816</u> | <u>12,178,577</u> |

Deferred outflows of resources totaling \$605,827 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|--------------------------------|-----------------|
| 2021 | \$ (3,098,380) |
| 2022 | (3,098,380) |
| 2023 | (2,680,021) |
| 2024 | (1,583,142) |
| 2025 | (862,665) |
| Thereafter | <u>-</u> |
| Total | \$ (11,322,588) |

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

| | |
|-----------------------------|---|
| Actuarial valuation date | June 30, 2019 |
| 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, 2.50% for PERA |
| Projected payroll increases | 3.25% to 13.50%, based on years of service, including inflation |
| 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 and medical plans |
| Mortality | ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members : RP-2014 Combined Healthy Mortality |

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

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

| <u>Asset Class</u> | <u>Long-Term Rate of Return</u> |
|-------------------------------|-------------------------------------|
| U.S. core fixed income | 2.10% |
| U.S. equity - large cap | 7.10% |
| Non U.S. - emerging markets | 10.20% |
| Non U.S. - developed equities | 7.80% |
| Private equity | 11.80% |
| Credit and structured finance | 5.30% |
| Real estate | 4.90% |
| Absolute return | 4.10% |
| U.S. equity - small/mid cap | 7.10% |
| Total | <u>100.0%</u> |

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 4.16% as of June 30, 2019. 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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2039. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2039. The index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher was used beyond 2039, resulting in a blended discount rate of 4.16%.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.16 percent) or 1-percentage-point higher (5.16 percent) than the current discount rate:

| 1% Decrease (3.16%) | Current Discount (4.16%) | 1% Increase (5.16%) |
|------------------------|-----------------------------|------------------------|
| \$ 25,522,248 | \$ 20,864,447 | \$ 17,202,978 |

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 |
|---------------|-----------------------|---------------|
| \$ 17,370,997 | \$ 20,864,447 | \$ 23,661,449 |

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, 2019.

Payable Changes in the Net OPEB Liability. At June 30, 2020, the City reported a payable of \$23,898 for outstanding contributions due to NMRHCA for the year ended June 30, 2020.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 15. COMMITMENTS

The City has the following construction projects, which are evidenced by contractual arrangements with construction contractors, as of June 30, 2020:

Commitments of Governmental-type Activities

| <u>Project</u> | <u>Contract Amount</u> | <u>Spent to Date</u> | <u>Commitment Remaining</u> | <u>Percentage Complete</u> |
|---|------------------------|----------------------|-----------------------------|----------------------------|
| FY20 - City Clerk - Document Management | \$ 160,000 | 17,926 | 142,074 | 11% |
| FY20 - Exterior Paint/Construction-Rec | 99,010 | 6,459 | 92,551 | 7% |
| FY20 - Ambulance | 270,000 | 17,504 | 252,496 | 6% |
| FY20 - A-1/PFA Remodel-Garage | 75,000 | 31,448 | 43,552 | 42% |
| FY20 - Fire Station 2 Remodel | 60,000 | 12,917 | 47,083 | 22% |
| FY20 - Driving Range Lighting | 50,000 | 20,074 | 29,926 | 40% |
| FY20 - Beack Parking Lot | 13,000 | 10,121 | 2,879 | 78% |
| FY20 - Hard Stands on Ramp - Airport | 160,000 | 7,268 | 152,732 | 5% |
| FY20 - Tyler Intergov | 600,000 | 178,874 | 421,126 | 30% |
| FY20 - Mobile Cemetery Web Services | 50,000 | 23,725 | 26,275 | 47% |
| CO - Fire Station | 1,485,000 | 1,338,031 | 146,969 | 90% |
| FY20 - Fence Drainage Pond | 17,000 | 13,163 | 3,837 | 77% |
| FY20 - Beack Parking Lot Upgrades | 200,000 | 50,065 | 149,935 | 25% |
| FY20 - Council Chamber Remodel | 165,000 | 1,927 | 163,073 | 1% |
| CO - Fire Station | 400,000 | 400,000 | - | 100% |
| FY20 - Street Projects | 202,668 | 202,668 | - | 100% |
| FY20 - Storm Drain - Riverside Dr. | 150,000 | 30,154 | 119,846 | 20% |
| CO - Health Facility | 1,033,460 | 740,572 | 292,888 | 72% |
| CO - Electrical Upgrade at the Beach | 100,000 | 28,896 | 71,104 | 29% |
| CO - Fire Station | 882,285 | 450,827 | 431,458 | 51% |
| FY20 - PRV Kitchen Remodel | 40,300 | 4,183 | 36,117 | 10% |
| FY20 - PRV Boat Dock | 148,385 | 1,615 | 146,770 | 1% |
| FY20 - Cavern Theater | 3,041,430 | 18,117 | 3,023,313 | 1% |
| CO - Potash Park Museum | 203,097 | 64,024 | 139,073 | 32% |
| CO - Cascade Sign | 60,000 | 8,328 | 51,672 | 14% |
| CO - Covered Shelter - PRV | 24,000 | 2,514 | 21,486 | 10% |
| | <u>\$ 9,689,635</u> | <u>3,681,400</u> | <u>6,008,235</u> | |

Commitments of Business-type Activities

| <u>Project</u> | <u>Contract Amount</u> | <u>Spent to Date</u> | <u>Commitment Remaining</u> | <u>Percentage Complete</u> |
|-------------------|------------------------|----------------------|-----------------------------|----------------------------|
| CO - Reservoir #2 | \$ 133,404 | 9,501 | 123,903 | 93% |

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 2023. Total operating lease expense for the year ended June 30, 2020 was approximately \$392,336 and was apportioned between governmental and business type activities.

| Year Ended June 30, | Amount |
|------------------------|------------|
| 2021 | \$ 259,566 |
| 2022 | 100,917 |
| 2023 | 5,158 |
| 2024 | - |
| 2025 | - |
| | \$ 365,641 |

NOTE 16. RISK MANAGEMENT

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

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

NOTE 17. CONTINGENT LIABILITIES

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

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

NOTE 18. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

1. Deficit Fund Balance/Net Position of Individual Funds:
There were no deficit fund balances for the year ended June 30, 2020.
2. Excess of Expenditures Over Appropriations
There were no funds that exceeded approved budgetary authority for the year ended June 30, 2020.

**STATE OF NEW MEXICO
CITY OF CARLSBAD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

3. Designated Cash Appropriations

There were no funds that exceeded approved designated cash appropriations for the year ended June 30, 2020.

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.

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|----------------------|----------------------|
| General Fund | \$ 1,440,280 | (13,319,474) |
| Solid Waste Fund | 1,065,816 | (1,165,000) |
| Joint Water & Sewer Fund | 24,996,539 | (6,695,674) |
| Other Governmental Funds | 7,716,651 | (15,036,319) |
| Other Enterprise Funds | - | - |
| Internal Service Funds | <u>2,725,000</u> | <u>(1,727,819)</u> |
| Total | <u>\$ 37,944,286</u> | <u>(37,944,286)</u> |

NOTE 20. DUE TO/FROM

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

| | <u>Due to</u> | <u>Due from</u> |
|------------------|-------------------|-----------------|
| General Fund | \$ - | 2,598 |
| Park Improvement | <u>(2,598)</u> | - |
| Total | <u>\$ (2,598)</u> | <u>2,598</u> |

NOTE 21. GASB 77 DISCLOSURE

The City has no tax abatement agreements as of June 30, 2020, and therefore no disclosures under GASB 77 are required.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEETS
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020**

| | Special Revenue Funds | | | | | | | | | Total Special Revenue Funds |
|--|--------------------------|------------------------------------|---|-------------------------------------|---|---|---------------------------------------|---|-----------------------------------|--------------------------------------|
| | Airport Fund (202) | Sports Complex Fund (300) | Local Government Corrections Fund (350) | Fire Protection Fund (500) | Emergency Medical Services Fund (501) | Law Enforcement Protection Fund (520) | Municipal Transit Fund (570) | Community Development Fund (580) | Lodgers' Tax Fund (600,650) | |
| <u>Assets</u> | | | | | | | | | | |
| Cash | \$ 640,905 | 3,259,143 | 1,011,101 | 598,675 | 28,651 | 6,549 | 145,953 | - | 5,376,154 | 11,067,131 |
| Receivables, net | 135,196 | 358,693 | - | - | - | - | 170,658 | 5,000 | 148,011 | 817,558 |
| Restricted assets: | | | | | | | | | | |
| Restricted cash | - | - | - | - | - | - | - | 61,940 | - | 61,940 |
| Cash held by fiscal agent | - | 318,322 | - | - | - | - | - | - | - | 318,322 |
| Total assets | \$ 776,101 | 3,936,158 | 1,011,101 | 598,675 | 28,651 | 6,549 | 316,611 | 66,940 | 5,524,165 | 12,264,951 |
| <u>Liabilities</u> | | | | | | | | | | |
| Accounts payable | \$ 394,645 | 14,483 | 17,100 | 168,341 | - | - | 11,175 | - | 95,521 | 701,265 |
| Accrued salaries | - | 24,076 | - | - | - | - | 37,739 | - | - | 61,815 |
| Accrued liabilities | - | - | 8,530 | - | - | - | - | - | - | 8,530 |
| Unearned revenue | 50,463 | - | - | - | - | - | - | - | - | 50,463 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 445,108 | 38,559 | 25,630 | 168,341 | - | - | 48,914 | - | 95,521 | 822,073 |
| <u>Fund Balances</u> | | | | | | | | | | |
| Restricted for: | | | | | | | | | | |
| Public safety | 330,993 | - | 985,471 | - | - | 6,549 | - | 66,940 | - | 1,389,953 |
| Sports complex activities | - | 3,897,599 | - | - | - | - | - | - | - | 3,897,599 |
| State mandated per statutes | - | - | - | 430,334 | 28,651 | - | - | - | 5,428,644 | 5,887,629 |
| Public works | - | - | - | - | - | - | 267,697 | - | - | 267,697 |
| Assigned | - | - | - | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - | - | - | - |
| Total fund balances | 330,993 | 3,897,599 | 985,471 | 430,334 | 28,651 | 6,549 | 267,697 | 66,940 | 5,428,644 | 11,442,878 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 776,101 | 3,936,158 | 1,011,101 | 598,675 | 28,651 | 6,549 | 316,611 | 66,940 | 5,524,165 | 12,264,951 |

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

**STATE OF NEW MEXICO
CITY OF CARLSBAD
COMBINING BALANCE SHEETS
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020**

| | Capital Project Funds | | | | | Debt Service Fund | | | Total Other Gov't Funds |
|--|-----------------------------------|-----------------------|---|--------------------------------------|--------------------------------------|--|----------------------------|-----------------------------|----------------------------------|
| | GRT Capital Outlay (200) | CIEP Fund (201) | Street System Improvement Fund (320) | Park Improvement Fund (550) | Total Capital Project Funds | GRT Capital Outlay Fund (802) | NMFA Loan Fund (820) | Total Debt Service Funds | |
| <u>Assets</u> | | | | | | | | | |
| Cash | \$ 848,758 | 5,260,038 | 1,471,586 | - | 7,580,382 | 495,808 | - | 495,808 | 19,143,321 |
| Receivables, net | 668,054 | - | 56,069 | 6,848 | 730,971 | - | - | - | 1,548,529 |
| Restricted assets: | | | | | - | | | | |
| Restricted cash | - | - | - | - | - | - | - | - | 61,940 |
| Cash held by fiscal agent | - | - | - | - | - | - | 178,551 | 178,551 | 496,873 |
| Total assets | <u>\$ 1,516,812</u> | <u>5,260,038</u> | <u>1,527,655</u> | <u>6,848</u> | <u>8,311,353</u> | <u>495,808</u> | <u>178,551</u> | <u>674,359</u> | <u>21,250,663</u> |
| <u>Liabilities</u> | | | | | | | | | |
| Accounts payable | \$ - | 377,191 | 80,223 | - | 457,414 | - | - | - | 1,158,679 |
| Accrued salaries | - | - | - | - | - | - | - | - | 61,815 |
| Accrued interest payable | - | - | - | - | - | - | - | - | 8,530 |
| Unearned revenue | - | - | - | - | - | - | - | - | 50,463 |
| Due to other funds | - | - | - | 2,598 | 2,598 | - | - | - | 2,598 |
| Total liabilities | <u>-</u> | <u>377,191</u> | <u>80,223</u> | <u>2,598</u> | <u>460,012</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,282,085</u> |
| <u>Fund Balances</u> | | | | | | | | | |
| Restricted for: | | | | | | | | | |
| Public safety | - | - | - | - | - | - | - | - | 1,389,953 |
| Sports complex activities | - | - | - | - | - | - | - | - | 3,897,599 |
| State mandated per statutes | - | - | - | - | - | - | - | - | 5,887,629 |
| Construction and improvements | - | - | - | - | - | - | - | - | 267,697 |
| Assigned | 1,516,812 | 4,882,847 | 1,447,432 | 4,250 | 7,851,341 | 495,808 | 178,551 | 674,359 | 8,525,700 |
| Unassigned | - | - | - | - | - | - | - | - | - |
| Total fund balances | <u>1,516,812</u> | <u>4,882,847</u> | <u>1,447,432</u> | <u>4,250</u> | <u>7,851,341</u> | <u>495,808</u> | <u>178,551</u> | <u>674,359</u> | <u>19,968,578</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,516,812</u> | <u>5,260,038</u> | <u>1,527,655</u> | <u>6,848</u> | <u>8,311,353</u> | <u>495,808</u> | <u>178,551</u> | <u>674,359</u> | <u>21,250,663</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, 2020**

| | Special Revenue Funds | | | | | | | | | Total Special Revenue Funds |
|--|--------------------------|------------------------------------|---|-------------------------------------|---|---|---------------------------------------|---|-----------------------------------|--------------------------------------|
| | Airport Fund (202) | Sports Complex Fund (300) | Local Government Corrections Fund (350) | Fire Protection Fund (500) | Emergency Medical Services Fund (501) | Law Enforcement Protection Fund (520) | Municipal Transit Fund (570) | Community Development Fund (580) | Lodgers' Tax Fund (600,650) | |
| Revenues | | | | | | | | | | |
| Gross receipts taxes | \$ - | 2,859,859 | - | - | - | - | - | - | - | 2,859,859 |
| Lodgers' taxes | - | - | - | - | - | - | - | 3,390,469 | - | 3,390,469 |
| Public service taxes | - | - | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | | | |
| Federal | 1,940,815 | - | - | - | 28,448 | - | 450,637 | 5,000 | - | 2,424,900 |
| State | 166,311 | - | - | 527,437 | 20,000 | 69,000 | - | - | - | 782,748 |
| Charges for services | 14,292 | 7,082 | - | - | - | - | 47,761 | - | - | 69,135 |
| Donations | - | - | - | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - | - | - | - |
| Fines and forfeitures | - | - | 910,733 | - | - | - | - | - | - | 910,733 |
| Interest | - | 6,659 | - | - | - | - | - | - | - | 6,659 |
| Miscellaneous | - | 130 | - | - | - | - | - | - | - | 130 |
| Total revenues | <u>2,121,418</u> | <u>2,873,730</u> | <u>910,733</u> | <u>527,437</u> | <u>48,448</u> | <u>69,000</u> | <u>498,398</u> | <u>5,000</u> | <u>3,390,469</u> | <u>10,444,633</u> |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - | - |
| Public safety | 14,851 | - | 226,678 | 4,919 | - | 61,436 | - | - | - | 307,884 |
| Public works | - | - | - | - | - | - | 1,165,522 | - | - | 1,165,522 |
| Culture and recreation | - | 1,032,586 | - | - | - | - | - | - | 1,618,473 | 2,651,059 |
| Capital outlay | 2,387,159 | 297,581 | - | 470,472 | 19,994 | - | - | 38,160 | 1,961,576 | 5,174,942 |
| Debt service: | | | | | | | | | | |
| Principal | - | - | - | - | - | - | - | - | - | - |
| Interest and other charges | - | - | - | - | - | - | - | - | - | - |
| Total expenditures | <u>2,402,010</u> | <u>1,330,167</u> | <u>226,678</u> | <u>475,391</u> | <u>19,994</u> | <u>61,436</u> | <u>1,165,522</u> | <u>38,160</u> | <u>3,580,049</u> | <u>9,299,407</u> |
| Excess (deficiency) of revenues over expenditures | (280,592) | 1,543,563 | 684,055 | 52,046 | 28,454 | 7,564 | (667,124) | (33,160) | (189,580) | 1,145,226 |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers in | 850,000 | 29,430 | - | - | - | - | 693,428 | 100,000 | - | 1,672,858 |
| Transfers (out) | - | (475,736) | - | (87,048) | - | - | (27,000) | - | - | (589,784) |
| Note payable proceeds | - | - | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>850,000</u> | <u>(446,306)</u> | <u>-</u> | <u>(87,048)</u> | <u>-</u> | <u>-</u> | <u>666,428</u> | <u>100,000</u> | <u>-</u> | <u>1,083,074</u> |
| Special item | | | | | | | | | | |
| Proceeds from sale of assets | - | - | - | - | - | - | - | - | - | - |
| Net change in fund balance | <u>569,408</u> | <u>1,097,257</u> | <u>684,055</u> | <u>(35,002)</u> | <u>28,454</u> | <u>7,564</u> | <u>(696)</u> | <u>66,840</u> | <u>(189,580)</u> | <u>2,228,300</u> |
| Fund balance, beginning of year | (238,415) | 2,800,342 | 301,416 | 465,336 | 197 | (1,015) | (198,675) | 100 | 5,618,224 | 8,747,510 |
| Restatement | - | - | - | - | - | - | 467,068 | - | - | 467,068 |
| Fund balance, beginning of year, restated | <u>(238,415)</u> | <u>2,800,342</u> | <u>301,416</u> | <u>465,336</u> | <u>197</u> | <u>(1,015)</u> | <u>268,393</u> | <u>100</u> | <u>5,618,224</u> | <u>9,214,578</u> |
| Fund balance, end of year | <u>\$ 330,993</u> | <u>3,897,599</u> | <u>985,471</u> | <u>430,334</u> | <u>28,651</u> | <u>6,549</u> | <u>267,697</u> | <u>66,940</u> | <u>5,428,644</u> | <u>11,442,878</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, 2020

| | Capital Project Funds | | | | Debt Service Funds | | | | |
|---|-----------------------------------|-----------------------|---|--------------------------------------|--------------------------------------|--|----------------------------|-----------------------------|----------------------------------|
| | GRT Capital Outlay (200) | CIEP Fund (201) | Street System Improvement Fund (320) | Park Improvement Fund (550) | Total Capital Project Funds | GRT Capital Outlay Fund (802) | NMFA Loan Fund (820) | Total Debt Service Funds | Total Other Gov't Funds |
| <u>Revenues</u> | | | | | | | | | |
| Gross receipts taxes | \$ 5,173,849 | - | - | - | 5,173,849 | - | - | - | 8,033,708 |
| Lodgers' taxes | - | - | - | - | - | - | - | - | 3,390,469 |
| Public service taxes | - | - | 793,377 | - | 793,377 | - | - | - | 793,377 |
| Intergovernmental: | | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - | 2,424,900 |
| State | - | 419,579 | 177,393 | 16,400 | 613,372 | - | - | - | 1,396,120 |
| Charges for services | - | - | - | - | - | - | - | - | 69,135 |
| Donations | - | - | 30,000 | - | 30,000 | - | - | - | 30,000 |
| Licenses and permits | - | - | 98,759 | - | 98,759 | - | - | - | 98,759 |
| Fines and forfeitures | - | - | - | - | - | - | - | - | 910,733 |
| Interest | 290 | 9,674 | 2,014 | - | 11,978 | - | 5,216 | 5,216 | 23,853 |
| Miscellaneous | - | - | - | - | - | - | - | - | 130 |
| Total revenues | 5,174,139 | 429,253 | 1,101,543 | 16,400 | 6,721,335 | - | 5,216 | 5,216 | 17,171,184 |
| <u>Expenditures</u> | | | | | | | | | |
| Current: | | | | | | | | | |
| General government | 155,217 | 1,000,000 | - | - | 1,155,217 | - | - | - | 1,155,217 |
| Public safety | - | - | - | - | - | - | - | - | 307,884 |
| Public works | - | - | 7,906 | - | 7,906 | - | - | - | 1,173,428 |
| Culture and recreation | - | - | - | 40,568 | 40,568 | - | - | - | 2,691,627 |
| Capital outlay | 469,670 | 5,693,079 | 1,184,615 | - | 7,347,364 | - | - | - | 12,522,306 |
| Debt service: | | | | | | | | | |
| Principal | - | - | - | - | - | - | 4,719,812 | 4,719,812 | 4,719,812 |
| Interest and other charges | - | - | - | - | - | 41,049 | 262,826 | 303,875 | 303,875 |
| Total expenditures | 624,887 | 6,693,079 | 1,192,521 | 40,568 | 8,551,055 | 41,049 | 4,982,638 | 5,023,687 | 22,874,149 |
| Excess (deficiency) of revenues over expenditures | 4,549,252 | (6,263,826) | (90,978) | (24,168) | (1,829,720) | (41,049) | (4,977,422) | (5,018,471) | (5,702,965) |
| <u>Other financing sources (uses)</u> | | | | | | | | | |
| Transfers in | 3,000,000 | 1,500,000 | - | - | 4,500,000 | 496,535 | 1,047,258 | 1,543,793 | 7,716,651 |
| Transfers (out) | (9,446,535) | (5,000,000) | - | - | (14,446,535) | - | - | - | (15,036,319) |
| Note payable proceeds | - | - | - | - | - | - | 4,020,000 | 4,020,000 | 4,020,000 |
| Total other financing sources (uses) | (6,446,535) | (3,500,000) | - | - | (9,946,535) | 496,535 | 5,067,258 | 5,563,793 | (3,299,668) |
| <u>Special item</u> | | | | | | | | | |
| Proceeds from sale of assets | - | 90,000 | - | - | 90,000 | - | - | - | 90,000 |
| Net change in fund balance | (1,897,283) | (9,673,826) | (90,978) | (24,168) | (11,686,255) | 455,486 | 89,836 | 545,322 | (8,912,633) |
| Fund balance, beginning of year | 3,414,095 | 14,556,673 | 1,538,410 | 28,418 | 19,537,596 | 40,322 | 88,715 | 129,037 | 28,414,143 |
| Restatement | - | - | - | - | - | - | - | - | 467,068 |
| Fund balance, beginning of year, restated | 3,414,095 | 14,556,673 | 1,538,410 | 28,418 | 19,537,596 | 40,322 | 88,715 | 129,037 | 28,881,211 |
| Fund balance, end of year | \$ 1,516,812 | 4,882,847 | 1,447,432 | 4,250 | 7,851,341 | 495,808 | 178,551 | 674,359 | 19,968,578 |

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, 2020**

| | Museum Gift Shop Fund (750) | Total |
|--|--------------------------------------|--------|
| <u>Assets</u> | | |
| Current assets | | |
| Cash | \$ 12,407 | 12,407 |
| Receivables, net | - | - |
| Total current assets | 12,407 | 12,407 |
| Noncurrent assets | | |
| Capital assets: | | |
| Land and construction in progress | - | - |
| Other capital assets, net of accumulated depreciation | - | - |
| Total noncurrent assets | - | - |
| Total assets and deferred outflow of resources | \$ 12,407 | 12,407 |
| <u>Liabilities</u> | | |
| Current liabilities | | |
| Accounts payable | \$ - | - |
| Total current liabilities | - | - |
| Noncurrent liabilities | | |
| Compensated absences | - | - |
| Total noncurrent liabilities | - | - |
| Total liabilities and deferred inflows of resources | - | - |
| <u>Net Position</u> | | |
| Net investment in capital assets | - | - |
| Unrestricted | 12,407 | 12,407 |
| Total net position | 12,407 | 12,407 |
| Total liabilities, deferred inflows of resources, and net position | \$ 12,407 | 12,407 |

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, 2020**

| | Museum Gift Shop Fund (750) | Total |
|---|--------------------------------------|---------------|
| <u>Operating Revenues</u> | | |
| Charges for services | \$ 452 | 452 |
| <u>Operating Expenses</u> | | |
| Personnel services | - | - |
| Utilities | - | - |
| Contractual services | 16 | 16 |
| Repairs and maintenance | - | - |
| Insurance claims and expenses | - | - |
| Other operating expenses | 8,215 | 8,215 |
| Depreciation expense | - | - |
| Total operating expenses | <u>8,231</u> | <u>8,231</u> |
| Operating income (loss) | (7,779) | (7,779) |
| <u>Non-operating revenues (expenses)</u> | | |
| Intergovernmental | - | - |
| Miscellaneous | 5,038 | 5,038 |
| Gain (loss) on sale of assets | - | - |
| Total non-operating revenues (expenses) | <u>5,038</u> | <u>5,038</u> |
| Income (loss) before capital contributions and transfers | (2,741) | (2,741) |
| <u>Capital contributions and transfers</u> | | |
| Transfers in | - | - |
| Transfers (out) | - | - |
| Total capital contributions and transfers | <u>-</u> | <u>-</u> |
| Change in net position | (2,741) | (2,741) |
| Net position, beginning of year | <u>15,148</u> | <u>15,148</u> |
| Net position, end of year | <u>\$ 12,407</u> | <u>12,407</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, 2020**

| | <u>Museum Gift Shop Fund (750)</u> | <u>Total</u> |
|--|--|----------------|
| <u>Cash flows from operating activities</u> | | |
| Cash received from customers | \$ 435 | 435 |
| Cash payments to suppliers for goods and services | (8,661) | (8,661) |
| Cash payments to employees for services | - | - |
| Net cash (used) by operating activities | <u>(8,226)</u> | <u>(8,226)</u> |
| <u>Cash flows for non-capital and financing activities</u> | | |
| Miscellaneous revenues | 5,038 | 5,038 |
| Net transfers in (out) | - | - |
| Net cash provided by non-capital and financing activities | <u>5,038</u> | <u>5,038</u> |
| <u>Cash flows from capital and related financing activities</u> | | |
| Acquisition of capital assets | - | - |
| Net cash (used) by capital and related financing activities | <u>-</u> | <u>-</u> |
| Net increase (decrease) in cash | (3,188) | (3,188) |
| Cash and cash equivalents, beginning of year | <u>15,595</u> | <u>15,595</u> |
| Cash and cash equivalents, end of year | <u>\$ 12,407</u> | <u>12,407</u> |
| <u>Reconciliation of operating income to net cash provided by operating activities</u> | | |
| Operating (loss) | \$ (7,779) | (7,779) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | - | - |
| Change in assets and liabilities: | | |
| Increase (decrease) in accounts payable | (430) | (430) |
| Increase (decrease) in accrued liabilities | (17) | (17) |
| Total adjustments | <u>(447)</u> | <u>(447)</u> |
| Net cash (used) by operating activities | <u>\$ (8,226)</u> | <u>(8,226)</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, 2020**

| | General Insurance Fund (401, 402) | Group Health Insurance Fund (420) | Disaster Preparedness Fund (400) | Total |
|------------------------------------|--|---|---|------------------|
| <u>Assets</u> | | | | |
| Current assets | | | | |
| Cash | \$ 1,526,008 | 1,693,559 | 1,247,558 | 4,467,125 |
| Receivables, net | - | - | - | - |
| Total current assets | 1,526,008 | 1,693,559 | 1,247,558 | 4,467,125 |
| Noncurrent assets | | | | |
| Restricted cash | 478,871 | - | - | 478,871 |
| Total assets | <u>\$ 2,004,879</u> | <u>1,693,559</u> | <u>1,247,558</u> | <u>4,945,996</u> |
| <u>Liabilities</u> | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 73,100 | - | - | 73,100 |
| <u>Net position</u> | | | | |
| Unrestricted | 1,931,779 | 1,693,559 | 1,247,558 | 4,872,896 |
| Total liabilities and net position | <u>\$ 2,004,879</u> | <u>1,693,559</u> | <u>1,247,558</u> | <u>4,945,996</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, 2020**

| | General Insurance Fund (401, 402) | Group Health Insurance Fund (420) | Disaster Preparedness Fund (400) | Total |
|--|--|---|---|-------------------|
| <u>Operating revenues</u> | | | | |
| Charges for services | \$ - | 6,912,923 | - | 6,912,923 |
| <u>Operating expenses</u> | | | | |
| Contractual services | - | - | 3,562,617 | 3,562,617 |
| Insurance claims and expenses | - | 6,329,387 | - | 6,329,387 |
| Other supplies and expenses | 1,877,778 | - | - | 1,877,778 |
| Depreciation and amortization | - | - | - | - |
| Total operating expenses | <u>1,877,778</u> | <u>6,329,387</u> | <u>3,562,617</u> | <u>11,769,782</u> |
| Operating (loss) | (1,877,778) | 583,536 | (3,562,617) | (4,856,859) |
| <u>Non-operating revenues (expenses)</u> | | | | |
| Miscellaneous revenue | 90,306 | 8,751 | - | 99,057 |
| Investment income | 22,522 | 8,849 | - | 31,371 |
| Income (loss) before transfers | (1,764,950) | 601,136 | (3,562,617) | (4,726,431) |
| <u>Transfers</u> | | | | |
| Transfers in | 1,625,000 | - | 1,100,000 | 2,725,000 |
| Transfers (out) | - | (1,727,819) | - | (1,727,819) |
| Total transfers | <u>1,625,000</u> | <u>(1,727,819)</u> | <u>1,100,000</u> | <u>997,181</u> |
| Change in net position | (139,950) | (1,126,683) | (2,462,617) | (3,729,250) |
| Net position, beginning of year | <u>2,071,729</u> | <u>2,820,242</u> | <u>3,710,175</u> | <u>8,602,146</u> |
| Net position, end of year | <u>\$ 1,931,779</u> | <u>1,693,559</u> | <u>1,247,558</u> | <u>4,872,896</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, 2020**

| | General Insurance Fund (401, 402) | Group Health Insurance Fund (420) | Disaster Preparedness Fund (400) | Total |
|--|--|---|---|--------------|
| <u>Cash flows from operating activities</u> | | | | |
| Internal activity - receipts from other funds | \$ - | 6,912,923 | - | 6,912,923 |
| Cash payments to suppliers for goods and services | (1,805,541) | (6,371,000) | (3,562,617) | (11,739,158) |
| Net cash provided (used) by operating activities | (1,805,541) | 541,923 | (3,562,617) | (4,826,235) |
| <u>Cash flows from non-capital activities</u> | | | | |
| Miscellaneous revenue | 90,306 | 8,751 | - | 99,057 |
| Net transfers in (out) | 1,625,000 | (1,727,819) | 1,100,000 | 997,181 |
| <u>Cash flows from investing activities</u> | | | | |
| Investment income | 22,522 | 8,849 | - | 31,371 |
| Net increase (decrease) in cash | (67,713) | (1,168,296) | (2,462,617) | (3,698,626) |
| Cash and cash equivalents, beginning of year | 2,072,592 | 2,861,855 | 3,710,175 | 8,644,622 |
| Cash and cash equivalents, end of year | \$ 2,004,879 | 1,693,559 | 1,247,558 | 4,945,996 |
| Displayed as | | | | |
| Cash | \$ 1,526,008 | 1,693,559 | 1,247,558 | 4,467,125 |
| Restricted cash | 478,871 | - | - | 478,871 |
| Total cash | \$ 2,004,879 | 1,693,559 | 1,247,558 | 4,945,996 |
| <u>Reconciliation of operating income to net cash provided by operating activities</u> | | | | |
| Operating (loss) | (1,877,778) | 583,536 | (3,562,617) | (4,856,859) |
| Adjustment to reconcile operating income to net cash provided by operating activities | | | | |
| None | | | | |
| Change in assets and liabilities | | | | |
| (Increase) decrease in accounts receivable | - | - | - | - |
| Increase (decrease) in accounts payable | 72,237 | (41,613) | - | 30,624 |
| Total adjustments | 72,237 | (41,613) | - | 30,624 |
| Net cash (used) by operating activities | \$ (1,805,541) | 541,923 | (3,562,617) | (4,826,235) |

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, 2020**

| | Balance <u>June 30, 2019</u> | Increases / <u>Receipts</u> | Decreases / <u>Disbursements</u> | Balance <u>June 30, 2020</u> |
|---|---------------------------------|--------------------------------|-------------------------------------|---------------------------------|
| <u>Municipal Court Bond Trust Fund</u> | | | | |
| Cash | \$ 39,710 | 44,970 | 57,027 | 27,653 |
| Due to others | \$ 39,710 | 44,970 | 57,027 | 27,653 |
| <u>U.S. Department of Energy Fund (WIPP Acceleration)</u> | | | | |
| Cash | \$ 100 | - | - | 100 |
| Note receivable | 90,000 | - | 90,000 | - |
| Total assets | 90,100 | - | 90,000 | 100 |
| Due to others | \$ 90,100 | - | 90,000 | 100 |
| <u>Combined Agency Funds</u> | | | | |
| Cash | \$ 39,810 | 44,970 | 57,027 | 27,753 |
| Note receivable | 90,000 | - | 90,000 | - |
| Total assets | 129,810 | 44,970 | 147,027 | 27,753 |
| Due to others | \$ 129,810 | 44,970 | 147,027 | 27,753 |

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

REQUIRED SUPPLEMENTARY INFORMATION

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Measurement Date as of | | | | | |
| | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| The City's proportion of the net pension liability (asset) (%) | | | | | | |
| Municipal General | 1.9110% | 1.9566% | 1.8488% | 1.8910% | 1.8023% | 1.6672% |
| Municipal Police | 2.1941% | 1.9877% | 2.0794% | 2.0286% | 1.8730% | 1.7809% |
| Municipal Fire | 3.5830% | 3.2708% | 3.3918% | 3.3058% | 3.0425% | 2.8478% |
| | <u>2.3412%</u> | <u>2.6258%</u> | <u>2.2391%</u> | <u>2.2391%</u> | <u>2.1366%</u> | <u>2.0150%</u> |
| The City's proportionate share of the net pension liability (asset) (\$) | | | | | | |
| Municipal General | \$ 33,081,310 | 31,195,445 | 25,404,076 | 30,211,818 | 18,376,011 | 13,005,949 |
| Municipal Police | 16,207,137 | 13,562,162 | 11,552,430 | 14,967,615 | 9,006,434 | 5,805,215 |
| Municipal Fire | 24,623,697 | 20,935,172 | 19,405,998 | 22,053,047 | 15,702,896 | 11,886,699 |
| | <u>\$ 73,912,144</u> | <u>65,692,779</u> | <u>56,362,504</u> | <u>67,232,480</u> | <u>43,085,341</u> | <u>30,697,863</u> |
| The City's covered payroll | | | | | | |
| Municipal General | \$ 17,577,843 | 16,503,581 | 16,622,262 | 16,151,288 | 14,920,209 | 16,001,413 |
| Municipal Police | 4,473,582 | 4,200,180 | 4,285,593 | 4,056,254 | 3,670,508 | 4,645,008 |
| Municipal Fire | 4,426,818 | 4,156,273 | 4,110,199 | 3,853,487 | 3,465,760 | 4,339,740 |
| | <u>\$ 26,478,242</u> | <u>24,860,034</u> | <u>25,018,053</u> | <u>24,061,029</u> | <u>22,056,477</u> | <u>24,986,161</u> |
| The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | | | | | | |
| Municipal General | 188.20% | 189.02% | 152.83% | 187.06% | 123.16% | 81.28% |
| Municipal Police | 362.29% | 322.89% | 269.56% | 369.00% | 245.37% | 124.98% |
| Municipal Fire | 556.24% | 503.70% | 472.14% | 572.29% | 453.09% | 273.90% |
| Plan fiduciary net position as a percentage of the total pension liability | | | | | | |
| Municipal General | 70.52% | 71.13% | 73.74% | 69.18% | 76.99% | 81.29% |
| Municipal Police | 70.52% | 71.13% | 73.74% | 69.18% | 76.99% | 81.29% |
| Municipal Fire | 70.52% | 71.13% | 73.74% | 69.18% | 76.99% | 81.29% |

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

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 CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|------------------|------------------|------------------|------------------|------------------|
| Statutory required contribution | | | | | | |
| Municipal General | \$ 1,829,342 | 1,678,684 | 1,576,092 | 1,587,426 | 1,542,448 | 1,424,880 |
| Municipal Police | 921,389 | 845,507 | 793,834 | 809,977 | 766,632 | 693,726 |
| Municipal Fire | 1,044,420 | 958,406 | 899,833 | 889,858 | 834,280 | 750,337 |
| | <u>\$ 3,795,151</u> | <u>3,482,597</u> | <u>3,269,759</u> | <u>3,287,261</u> | <u>3,143,360</u> | <u>2,868,943</u> |
| Contributions in relation to the statutorily required contribution | | | | | | |
| Municipal General | \$ 1,829,342 | 1,678,684 | 1,576,092 | 1,587,426 | 1,542,448 | 1,424,880 |
| Municipal Police | 921,389 | 845,507 | 793,834 | 809,977 | 766,632 | 693,726 |
| Municipal Fire | 1,044,420 | 958,406 | 899,833 | 889,858 | 834,280 | 750,337 |
| | <u>\$ 3,795,151</u> | <u>3,482,597</u> | <u>3,269,759</u> | <u>3,287,261</u> | <u>3,143,360</u> | <u>2,868,943</u> |
| Contribution deficiency (excess) | | | | | | |
| Municipal General | \$ - | - | - | - | - | - |
| Municipal Police | - | - | - | - | - | - |
| Municipal Fire | - | - | - | - | - | - |
| | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <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, 2020

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

Changes of Assumptions: The Public Employee Retirement Association of New Mexico Annual Actuarial Valuations as of June 2019 report is available at <http://www.nmpera.org/>

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

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

| | 2020 | 2019 | 2018 |
|---|-------------------------|---------------|---------------|
| | Measurement Date as of: | | |
| | June 30, 2019 | June 30, 2018 | June 30, 2017 |
| The City's proportion of the net OPEB liability (%) | 0.64349% | 0.63076% | 0.62294% |
| The City's proportionate share of OPEB liability (\$) | \$ 20,864,447 | 27,427,683 | 28,229,604 |
| The City's covered payroll | \$ 26,852,378 | 27,063,494 | 25,949,484 |
| The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 77.70% | 101.35% | 108.79% |
| Plan fiduciary net position as a percentage of the total pension liability | 18.92% | 13.14% | 11.34% |

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2020

Changes in benefit provisions . In the June 30, 2019 actuarial valuation, changes in assumptions and differences between expected and actual experience include adjustments resulting from an increase in the discount rate from 4.08% to 4.16%, decrease in expected participation rates for future retirees from 75% to 60%, and a decrease in the spousal coverage rate for future male retirees from 55% to 35%.

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

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

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|---------------|---------------|----------------|
| Contractually required contribution | \$ 569,594 | 985,668 | 1,978,127 |
| Contributions in relation to the contractually required contribution | 569,594 | 973,633 | 992,799 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>12,035</u> | <u>985,328</u> |
| The City's covered payroll | \$ 26,867,642 | 27,063,494 | 25,949,484 |
| Contributions as a percentage of covered payroll | 2.12% | 3.60% | 3.83% |

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2020**

Changes in benefit provisions. In the June 30, 2019 actuarial valuation, changes in assumptions and differences between expected and actual experience include adjustments resulting from an increase in the discount rate from 4.08% to 4.16%, decrease in expected participation rates for future retirees from 75% to 60%, and a decrease in the spousal coverage rate for future male retirees from 55% to 35%.

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

OTHER SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020**

| 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 | \$ 1,409,380 | 284,178 | 1,693,558 |
| Payroll Account | Checking | 400,301 | (388,991) | 11,310 |
| Debt Service Account | Checking | 3,698,498 | - | 3,698,498 |
| Municipal Court | Checking | 30,413 | (2,761) | 27,652 |
| Worker's Compensation | Checking | 18,894 | (8,894) | 10,000 |
| CDBG Cash | Checking | 63,361 | (1,420) | 61,941 |
| General Operating | Certificate of Deposit | 566,530 | - | 566,530 |
| General Operating | Certificate of Deposit | 210,739 | - | 210,739 |
| General Operating | Certificate of Deposit | 4,000,000 | - | 4,000,000 |
| Sandpoint Closure Reserve | Certificate of Deposit | 1,299,639 | - | 1,299,639 |
| Worker's Compensation | Certificate of Deposit | 1,003,625 | - | 1,003,625 |
| Water & Sewer | Certificate of Deposit | 309,017 | - | 309,017 |
| | | <u>\$ 13,010,397</u> | <u>(117,888)</u> | <u>12,892,509</u> |
| First American Bank 303 W. Main Artesia, NM 88210 | | | | |
| General | Certificate of Deposit | 4,717,721 | - | 4,717,721 |
| | | <u>4,717,721</u> | <u>-</u> | <u>4,717,721</u> |
| Pioneer Savings Bank P.O. Box 130 Roswell, New Mexico 88202-0130 | | | | |
| General Operating | Certificate of Deposit | \$ 467,091 | - | 467,091 |
| General Operating | Certificate of Deposit | 427,971 | - | 427,971 |
| General Operating | Certificate of Deposit | 427,971 | - | 427,971 |
| General Operating | Certificate of Deposit | 693,945 | - | 693,945 |
| General Operating | Certificate of Deposit | 2,000,535 | - | 2,000,535 |
| Sandpoint Closure Reserve | Certificate of Deposit | 213,985 | - | 213,985 |
| Sandpoint Closure Reserve | Certificate of Deposit | 957,049 | - | 957,049 |
| Worker's Compensation | Certificate of Deposit | 213,985 | - | 213,985 |
| Worker's Compensation | Certificate of Deposit | 264,886 | - | 264,886 |
| Water & Sewer | Certificate of Deposit | 213,985 | - | 213,985 |
| | | <u>\$ 5,881,403</u> | <u>-</u> | <u>5,881,403</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, 2020**

| 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 | \$ 52,257,855 | (1,568,520) | 50,689,335 |
| City Fund Investment | Money Market | 1,425,252 | - | 1,425,252 |
| | | <u>\$ 53,683,107</u> | <u>(1,568,520)</u> | <u>52,114,587</u> |
| Western Commerce Bank P.O. Drawer 1358 Carlsbad, New Mexico 88221-1358 | | | | |
| Construction Account | Checking | \$ 7,615,063 | (6,684) | 7,608,379 |
| Federal Projects | Checking | 100 | - | 100 |
| General Operating | Certificate of Deposit | 313,805 | - | 313,805 |
| General Operating | Certificate of Deposit | 285,064 | - | 285,064 |
| General Operating | Certificate of Deposit | 4,000,000 | - | 4,000,000 |
| General Operating | Certificate of Deposit | 640,000 | - | 640,000 |
| Sandpoint Closure Reserve | Certificate of Deposit | 947,442 | - | 947,442 |
| Water & Sewer | Certificate of Deposit | 360,156 | - | 360,156 |
| | | <u>\$ 14,161,630</u> | <u>(6,684)</u> | <u>14,154,946</u> |
| New Mexico Finance Authority 207 Shelby Street Santa Fe, New Mexico 87501 | | | | |
| Carlsbad 11 | Reserve | \$ 240,493 | - | 240,493 |
| Carlsbad 13 | Reserve | 13 | - | 13 |
| Carlsbad 13 | Reserve | 121,143 | - | 121,143 |
| Carlsbad 13 | Program Funds | 8,809 | - | 8,809 |
| Carlsbad 15 | Reserve | 90,047 | - | 90,047 |
| Carlsbad 15 | Program Funds | 318,322 | - | 318,322 |
| Carlsbad 22 | Program Funds | 52,110 | - | 52,110 |
| Carlsbad 22 | Reserve | 36,394 | - | 36,394 |
| | | <u>\$ 867,331</u> | <u>-</u> | <u>867,331</u> |
| Totals | | <u>\$ 92,321,589</u> | <u>(1,693,092)</u> | <u>90,628,497</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, 2020**

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 | \$ 953,373 |
| FHLMC POOL#C91366 | 3128P7QT3 | 04/01/31 | 575,045 |
| FNMA POOL #MA1029 | 31418AEB0 | 04/01/32 | 523,585 |
| FHLMC POOL #C91758 | 3128P755T6 | 04/01/34 | 936,509 |
| FNR 2012-55 PD | 3136A53R5 | 05/25/42 | 522,069 |
| GNMAII POOL#4668 | 36202FFH4 | 04/20/25 | 524,139 |
| FNMA POOL#MA7076 | 3138EP2J2 | 08/01/32 | 689,064 |
| FNR 2012-127 DH | 3136A9B31 | 11/25/27 | 163,192 |
| FHLMC POOL#C91864 | 3128P8B91 | 02/01/36 | 1,419,687 |
| FHLMC POOL#G07957 | 3128NAE62 | 01/01/45 | 1,102,344 |
| GNMAII POOL#MA5976 | 36179UT93 | 06/20/49 | 984,553 |
| | | | <u>\$ 8,393,560</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 |
|----------------------|-----------------|------------------|---------------------|
| FHLM PC Gold | 3128MMVV2 | 01/01/32 | \$ 569,593 |
| FHLM ASSN PARTN CTF | 31295NW53 | 09/01/32 | 13,378 |
| FHLB 22 | 313380GJ0 | 09/09/22 | 623,220 |
| FHLMC PARTN CTF | 31349S4E0 | 07/01/34 | 12,462 |
| FNMA | 3138ASYU0 | 10/01/26 | 192,061 |
| FNMA | 31390KQK7 | 06/01/32 | 22,706 |
| FNMA | 31391BES2 | 09/01/32 | 4,752 |
| FNMA | 31403VWN5 | 01/01/34 | 40,644 |
| FNMA | 31404V6W3 | 06/01/34 | 18,640 |
| FNMA | 3140X4HB5 | 01/01/32 | 1,280,030 |
| FNMA | 31416YYA0 | 08/01/26 | 313,304 |
| GNMA II 080418 | 36225CPC4 | 06/20/30 | 34,607 |
| GNMA II 080477 | 36225CQ74 | 12/20/30 | 4,202 |
| GNMA II 080540 | 36225CS64 | 09/20/31 | 14,458 |
| GNMA II 080562 | 36225CTU0 | 12/20/31 | 10,690 |
| | | | <u>\$ 3,154,747</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.

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, 2020**

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

| Security Description | CUSIP Number | Maturity Date | Market Value |
|----------------------|-----------------|------------------|----------------------|
| FN BN7765 | 3140JQTX1 | 09/01/49 | \$ 31,026,716 |
| | | | <u>\$ 31,026,716</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 |
|------------------------------|-----------------|------------------|---------------------|
| FHLMC #G08534 | 3128MJSY7 | 06/01/43 | \$ 1,061,630 |
| FHLMC #J22899 | 31307BGG9 | 03/01/28 | 419,676 |
| FNMA #AA5840 | 31416PP27 | 06/01/39 | 159,110 |
| FNMA #MA2956 | 31418CJA3 | 04/01/47 | 1,591,508 |
| SBAP SERIES 2013-20B CLASS 1 | 83162CVH3 | 02/01/33 | 1,074,344 |
| SBAP SERIES 2013-20J CLASS 1 | 83162CVV2 | 10/01/33 | 954,017 |
| SBAP SERIES 2015-20D CLASS 1 | 83162CWY5 | 04/01/35 | 1,158,183 |
| SBAP SERIES 2016-20H CLASS 1 | 83162CXY4 | 08/01/36 | 719,965 |
| SBAP SERIES 2017-20I CLASS 1 | 83162CYW7 | 09/01/37 | 1,609,590 |
| | | | <u>\$ 8,748,022</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 |
|----------------------------|-----------------|------------------|---------------------|
| GADSDEN NM INDEP SCH NM 25 | 362550NC5 | 08/15/25 | \$ 674,180 |
| ALAMOGORDO MUNI SD#1 NM 2 | 011464KU7 | 08/01/29 | 271,417 |
| GNMA II 15YR | 3622AAEL4 | 05/20/34 | 1,296,043 |
| | | | <u>\$ 2,241,640</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 \$ 53,564,685

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

COMPLIANCE SECTION

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

| Federal Grantor/Pass Through Grantor/ Program Title | CFDA Number | Contract/Grant Project/State Number | Federal Expenditures |
|---|----------------|--|-------------------------|
| U.S. Department of Transportation | | | |
| <i>Direct</i> | | | |
| Airport Improvement Program | (1) 20.106 | 3-35-0007-026-2018 | \$ 1,451,839 |
| Airport Improvement Program | (1) 20.106 | 3-35-0007-027-2019 | 488,976 |
| <i>Passed through New Mexico Department of Transportation</i> | | | |
| Formula Grants for Rural Areas | 20.509 | M01465 | 450,637 |
| ENDWI | 20.608 | 19-AL-64-013 | 14,959 |
| ENDWI | 20.608 | 20-AL-64-013 | 19,350 |
| Total U.S. Department of Transportation | | | <u>2,425,761</u> |
| U.S. Department of Health and Human Services | | | |
| Public Health and Social Services Emergency Fund for Provider Relief (Covid-19) | 93.498 | 2014-H3941-NM-DJ | 28,448 |
| Total U.S. Department of Health and Human Services | | | <u>28,448</u> |
| U.S. Department of Housing and Urban Development | | | |
| CDBG Grants | 14.228 | 18-C-NR-I-01-G-12 | 5,000 |
| Total Department of Housing and Urban Development | | | <u>5,000</u> |
| U.S. Department of Homeland Security and Emergency Management | | | |
| Assistance to Firefighters Grant | 97.044 | EMW-2018-FO-05558 | 133,909 |
| Total U.S. Department of Homeland Security and Emergency Management | | | <u>133,909</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 2,593,118</u> |
| <i>(1) Denotes Major Program</i> | | | |
| <u>Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance</u> | | | |
| Federal expenditures per SEFA | | | \$ 2,593,118 |
| Total federal grant revenue - governmental funds | | | 2,599,868 |
| Difference | | | 6,750 |
| Less: non-cost reimbursable grant revenue from NMHC in excess of expenditures | | | (6,750) |
| Net 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, 2020.

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.

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

**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***

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

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, the general 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, 2020, 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, 2020.

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 financial statements. 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*.

December 14, 2020

Purpose of This Report

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

Hinkle & Landers, P.C.

Hinkle + Landers, P.C.
Albuquerque, New Mexico
December 14, 2020



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Carlsbad’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, 2020. 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, 2020.

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, 2020

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION I -SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

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

Federal Awards:

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. 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)? | None |

4. Identification of major programs:

| CFDA Numbers Funding Source | Name of Federal Programs | Funding Source |
|--------------------------------|-----------------------------|--------------------------------------|
| 20.106 | Airport Improvement Program | U.S. Department of Transportation |

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

**STATE OF NEW MEXICO
CITY OF CARLSBAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION II -SUMMARY OF AUDITOR FINDINGS

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

* 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, 2020**

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, 2020. The following individuals were in attendance:

City of Carlsbad Officials

Edward T. Rodriguez

John Lowe

Wendy Austin

Kenneth Cass

Melissa Salcido

Mayor Pro Tem

City Administrator

Deputy City Administrator

Deputy City Administrator

Director of Finance

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA

Maclen Enriquez, CPA

President

Senior Audit Manager