



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**CITY OF HOBBS
STATE OF NEW MEXICO**

June 30, 2017



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City of Hobbs

OFFICIAL ROSTER

June 30, 2017

City Commission

Sam Cobb, Mayor

Marshall Newman, City Commissioner

Cynthia Calderon, City Commissioner

Patricia Taylor, City Commissioner

Joseph D Calderon, City Commissioner

Gary A Buie, City Commissioner

Don Gerth, City Commissioner

Administration

J.J. Murphy, City Manager

Toby Spears, CPA, Finance Director

Deborah Corral, Assistant Finance Director

Report of Independent Auditors

City Commission
City of Hobbs, New Mexico
Mr. Wayne Johnson
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of City of Hobbs, New Mexico (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 20, schedule of OPEB funding progress on page 74, schedules of City's proportionate share of net pension liability on pages 75 through 77, schedules of employer contributions on pages 78 through 80 and notes to required supplementary information on page 81 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.

Supplementary 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 schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the supplementary information required by 2.2.2 NMAC as listed in the table of contents as combining balance sheet – nonmajor governmental funds, combining statement of revenues, expenses, and changes in fund balances – nonmajor governmental funds, schedule of deposits, schedule of collateral pledged by depository for public funds, and schedule of changes in fiduciary assets and liabilities – agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

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

Mess Adams LLP

Albuquerque, New Mexico
December 15, 2017

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City of Hobbs

Management's Discussion and Analysis

June 30, 2017

As management of the City of Hobbs, New Mexico (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. Please read in conjunction with the basic financial statements, which follow this section. The discussion and analysis includes comparative data for the prior year.

Financial Highlights

- Total gross receipts tax collections in the current year totaled \$45,151,782.
- The assets of the City exceeded its liabilities at June 30, 2017 by \$267,575,070.
- Restricted net position totaled \$26,064,102 at June 30, 2017. Restricted net position amounts are subject to external restrictions on how they may be used.
- Unrestricted net position totaled \$12,369,040 at June 30, 2017.
- Gross receipts taxes decreased approximately 14% from \$52,711,483 for 2016 to \$45,151,782 for 2017. The decrease is related primarily to the decrease in the economic activity from construction and the oil and gas industry.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include only the City's operations. There are no component units required for separate presentation.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

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

The City maintains one major governmental fund for financial reporting purposes, the general fund. All remaining funds are combined and reported in the column labeled non-major governmental funds. A combining schedule is provided within the financial statements containing the detail of these individual funds.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer system. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the health and workers' compensation insurance activities. Because these services predominantly benefit the governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer joint utility, and the internal service funds.

City of Hobbs

Management's Discussion and Analysis

June 30, 2017

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$214,414,138 at June 30, 2017. Significant reasons for the increase follow the schedule below.

	2017		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS			
Cash and cash equivalents	\$ 84,098,749	\$ 19,639,362	\$ 103,738,111
Receivables	13,508,471	1,554,007	15,062,478
Internal balances	91,281	(91,281)	-
Inventories	133,243	509,408	642,651
Prepaid expenses	1,083,671	-	1,083,671
Restricted cash and investments	-	3,190,634	3,190,634
Capital assets, net of depreciation	211,093,523	71,376,905	282,470,428
Deferred outflows	22,204,165	2,409,927	24,614,092
Total assets and deferred outflows	<u>\$ 332,213,103</u>	<u>\$ 98,588,962</u>	<u>\$ 430,802,065</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Current liabilities	\$ 7,583,999	\$ 6,357,554	\$ 13,941,553
Long-term liabilities due in more than one year	88,010,801	36,260,257	124,271,058
Deferred inflows	781,496	72,529	854,025
Total liabilities and deferred inflows	<u>96,376,296</u>	<u>42,690,340</u>	<u>139,066,636</u>
Net investment in capital assets	211,093,523	41,808,472	252,901,995
Restricted for			
Debt service	-	1,921,489	1,921,489
Capital projects	3,485,948	-	3,485,948
Special revenue	20,656,665	-	20,656,665
Unrestricted	600,671	12,168,661	12,769,332
Total net position	<u>235,836,807</u>	<u>55,898,622</u>	<u>291,735,429</u>
Total liabilities, deferred inflows and net position	<u>\$ 332,213,103</u>	<u>\$ 98,588,962</u>	<u>\$ 430,802,065</u>

City of Hobbs
Management's Discussion and Analysis
June 30, 2017

As of June 30, 2016, assets exceeded liabilities by \$296,046,256. Significant reasons for the increase follow the schedule below.

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS			
Cash and cash equivalents	\$ 95,880,618	\$ 15,953,826	\$ 111,834,444
Receivables	13,082,975	2,220,821	15,303,796
Internal balances	91,281	(91,281)	-
Inventories	133,003	584,763	717,766
Prepaid expenses	1,283,663	-	1,283,663
Restricted cash and investments	-	6,336,285	6,336,285
Capital assets, net of depreciation	195,834,633	69,143,170	264,977,803
Deferred outflows	5,000,455	387,316	5,387,771
Total assets and deferred outflows	<u>\$311,306,628</u>	<u>\$ 94,534,900</u>	<u>\$ 405,841,528</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
Current liabilities	\$ 4,424,389	\$ 3,629,835	\$ 8,054,224
Customer deposits	-	731,254	731,254
Long-term liabilities due within one year	-	1,824,532	1,824,532
Long-term liabilities due in more than one year	63,799,394	35,086,135	98,885,529
Deferred inflows	282,532	17,201	299,733
Total liabilities and deferred inflows	<u>68,506,315</u>	<u>41,288,957</u>	<u>109,795,272</u>
Net investment in capital assets	195,834,633	38,473,245	234,307,878
Restricted for			
Debt service	-	3,492,502	3,492,502
Capital projects	3,827,600	-	3,827,600
Special revenue	31,439,293	-	31,439,293
Unrestricted	11,698,787	11,280,196	22,978,983
Total net position	<u>242,800,313</u>	<u>53,245,943</u>	<u>296,046,256</u>
Total liabilities and net position	<u>\$311,306,628</u>	<u>\$ 94,534,900</u>	<u>\$ 405,841,528</u>

By far the largest portion of the City's net position (87%, or \$252,901,995) reflects its investment in capital assets (e.g., land and land improvements, buildings, equipment and furniture, infrastructure, and utility system), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additionally, approximately 8.9%, or \$26,064,102, of the City's net position is restricted subject to external restrictions on how they may be used, and 4.2%, or \$12,769,332, of the City's net position is available as unrestricted and available for any use the governing body may deem appropriate.

City of Hobbs

Management's Discussion and Analysis

June 30, 2017

Governmental Activities

- Decreased revenues from gross receipts taxes led to lower cash balances at June 30, 2017 compared to June 30, 2016. Gross receipts taxes were \$45,151,782 for the year ended June 30, 2017 compared to \$52,711,483 for the year ended June 30, 2016.
- This year's major capital asset additions for governmental activities included the purchase of various vehicles, buildings, equipment, and numerous street renovations.
- Long-term liabilities increased due to increases in the City's unfunded OPEB liability and the net pension liability which is required to be reported by GASB No. 68.

Business-type Activities

- This year's major capital asset additions for business-type activities included payment for various water and sewer line replacement projects, the meter replacement project and costs associated with the wastewater treatment plant improvement project.
- Overall long term debt decreased due to current year principal payments exceeding the new loan amount.

Net (Expense) Revenue and Changes in Net Position

The City's total revenues for the years ended June 30, 2017 and 2016, respectively, were \$104,744,073 and \$93,537,869. Total expenses were, respectively, \$109,054,900 and \$97,667,811. The effects of these and other changes to net position can be seen in the following schedules.

The following schedules illustrate the items that comprised the changes in the City's net position for the years ended June 30, 2017 and 2016. Reasons for significant changes follow the schedules.

City of Hobbs
Management's Discussion and Analysis
June 30, 2017

<u>Functions/Programs</u>	2017		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Primary Government			
General government	\$ 35,037,413	\$ -	\$ 35,037,413
Public safety	19,430,680	-	19,430,680
Public works	12,443,643	-	12,443,643
Culture and recreation	11,890,898	-	11,890,898
Health and welfare	10,098,025	-	10,098,025
Economic development	820,219	-	820,219
Solid waste sanitation	-	12,845,470	12,845,470
Joint utility enterprise	-	5,940,720	5,940,720
Less charges for services	(14,224,014)	(18,809,091)	(33,033,105)
Less operating grants and contributions	(1,988,969)	-	(1,988,969)
Less capital grants and contributions	(17,030,506)	-	(17,030,506)
Total primary government	<u>\$ 56,477,389</u>	<u>\$ (22,901)</u>	<u>\$ 56,454,488</u>
General Revenues			
Taxes			
Property taxes - general purpose	\$ 2,676,469	\$ -	\$ 2,676,469
Gross receipts taxes	44,117,190	1,034,592	45,151,782
Franchise taxes	1,036,221	-	1,036,221
Other taxes	1,882,557	-	1,882,557
Unrestricted investment earnings	403,503	124,036	527,539
Interest expense	-	(547,832)	(547,832)
Donated capital asset	369,147	-	369,147
Miscellaneous	1,047,778	-	1,047,778
Total general revenues	<u>51,532,865</u>	<u>610,796</u>	<u>52,143,661</u>
Excess (deficiency) before contributions and transfers	<u>(4,944,524)</u>	<u>633,697</u>	<u>(4,310,827)</u>
Internal transfers	<u>(2,018,982)</u>	<u>2,018,982</u>	<u>-</u>
Change in net position	(6,963,506)	2,652,679	(4,310,827)
Net position, beginning of year	<u>242,800,313</u>	<u>53,245,943</u>	<u>296,046,256</u>
Net position, end of year	<u>\$ 235,836,807</u>	<u>\$ 55,898,622</u>	<u>\$ 291,735,429</u>

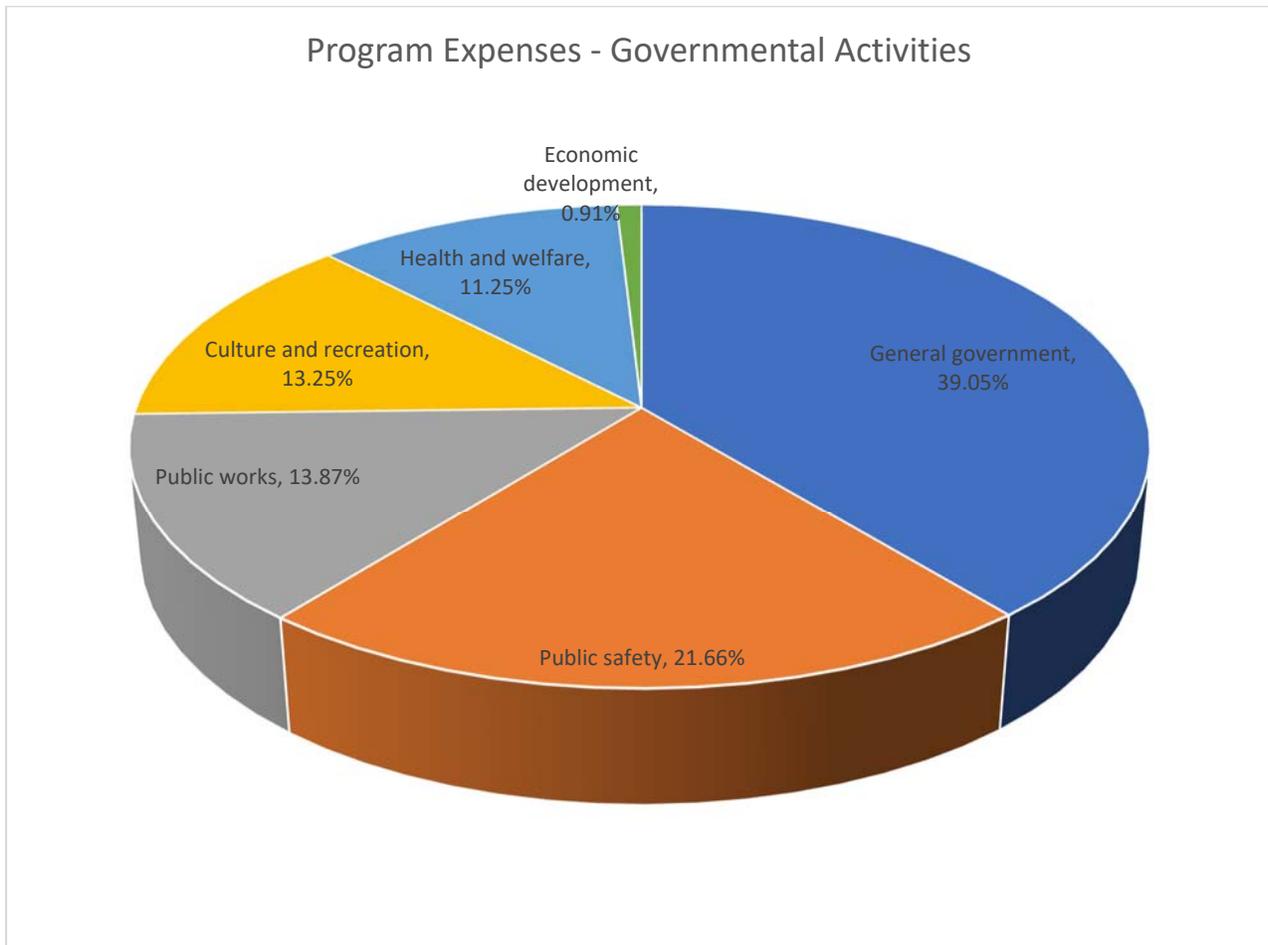
City of Hobbs
Management's Discussion and Analysis
June 30, 2017

Functions/Programs	2016		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary Government			
General government	\$ 18,058,750	\$ -	\$ 18,058,750
Public safety	26,430,464	-	26,430,464
Public works	13,156,172	-	13,156,172
Culture and recreation	12,545,343	-	12,545,343
Health and welfare	7,377,432	-	7,377,432
Economic development	1,244,087	-	1,244,087
Solid waste sanitation	-	5,748,323	5,748,323
Joint utility enterprise	-	13,107,240	13,107,240
Less charges for services	(5,789,987)	(17,981,541)	(23,771,528)
Less operating grants and contributions	(2,566,273)	-	(2,566,273)
Less capital grants and contributions	(5,320,245)	(1,999,061)	(7,319,306)
Total primary government	<u>\$ 65,135,743</u>	<u>\$ (1,125,039)</u>	<u>\$ 64,010,704</u>
General Revenues			
Taxes			
Property taxes - general purpose	\$ 2,687,304	\$ -	\$ 2,687,304
Gross receipts taxes	51,504,139	1207344	52,711,483
Franchise taxes	1,451,849	-	1,451,849
Other taxes	2,016,034	-	2,016,034
Unrestricted investment earnings	443,932	25,123	469,055
Donated capital asset	20,140	-	20,140
Miscellaneous	524,897	-	524,897
Total general revenues	<u>58,648,295</u>	<u>1,232,467</u>	<u>59,880,762</u>
Excess (deficiency) before contributions and transfers	<u>(6,487,448)</u>	<u>2,357,506</u>	<u>(4,129,942)</u>
Internal transfers	<u>(6,468,376)</u>	<u>6,468,376</u>	<u>-</u>
Change in net position	<u>(12,955,824)</u>	<u>8,825,882</u>	<u>(4,129,942)</u>
Net position, beginning of year	<u>255,756,137</u>	<u>44,420,061</u>	<u>300,176,198</u>
Net position, end of year	<u>\$ 242,800,313</u>	<u>\$ 53,245,943</u>	<u>\$ 296,046,256</u>

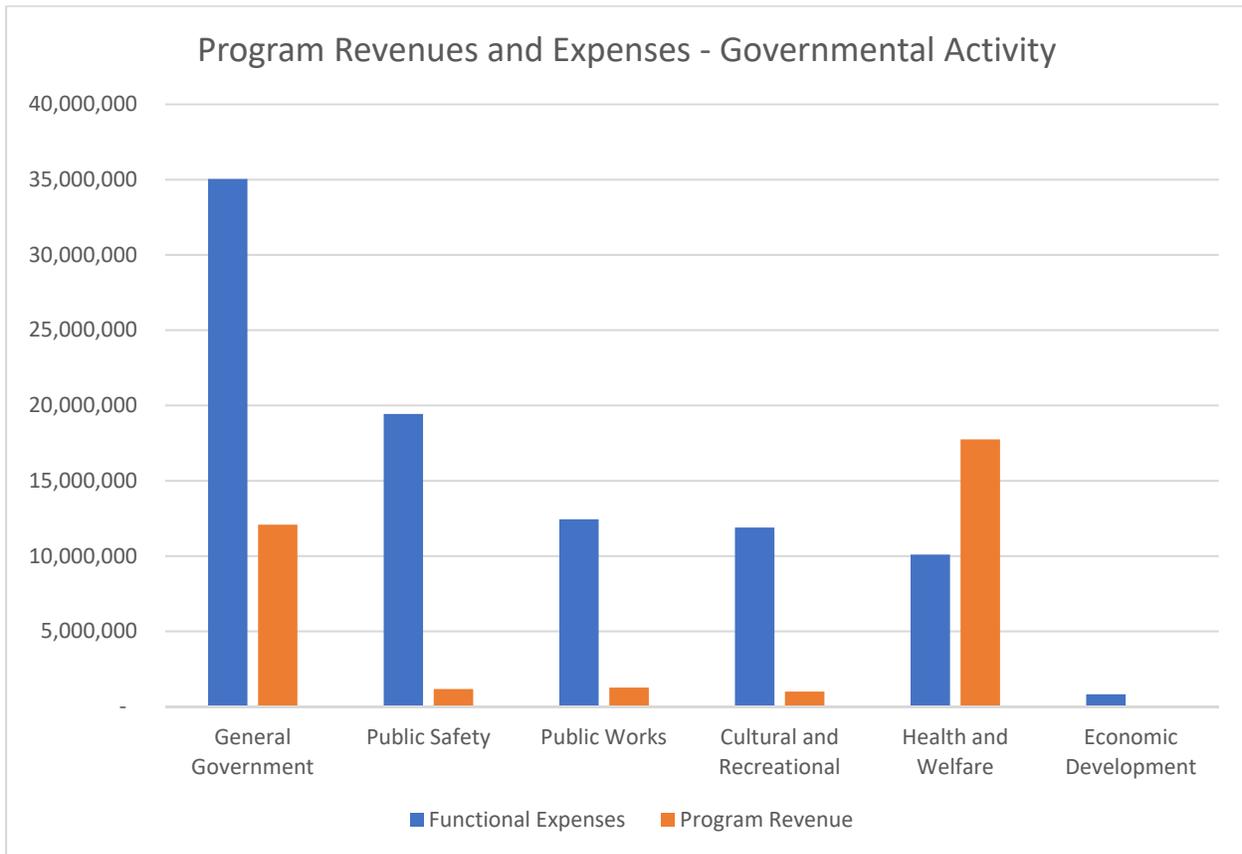
Governmental Activities

The City's governmental activities' change in net position was \$(6,963,506) in the year ended June 30, 2017. The governmental activities' change in net position for the year ended June 30, 2016, was (\$12,955,824). Significant highlights are noted below.

- Decreased revenues from gross receipts taxes led to lower cash balances at June 30, 2017 compared to June 30, 2016. Gross receipts tax was \$45,151,782 for the year ended June 30, 2017 compared to \$52,711,483 for the year ended June 30, 2016.
- Total expenses for fiscal year 2017 were \$89,720,878 compared to \$78,812,248 for fiscal year end 2017.



City of Hobbs
Management's Discussion and Analysis
June 30, 2017



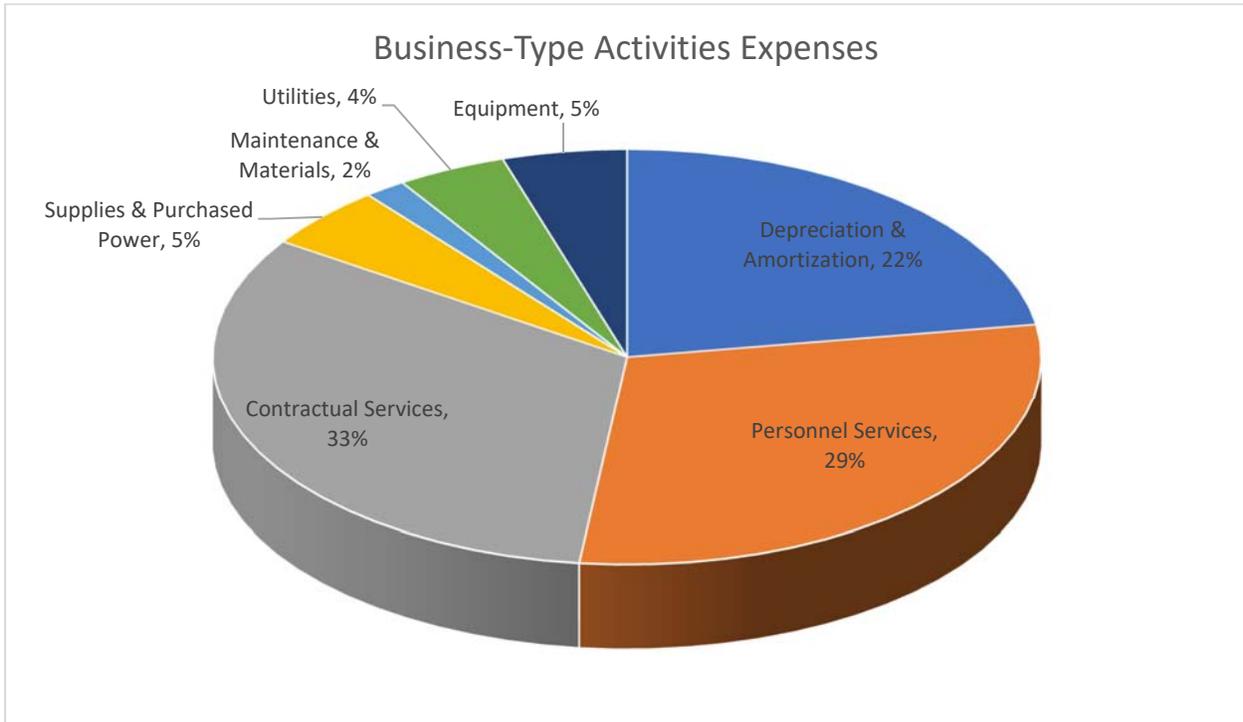
Business-Type Activities

Revenues arise primarily from charges for services and expenses from operational costs. The City maintains a rate structure and pricing policies that call for a periodic review and adjustment of the rates to occur annually. The proprietary fund statements show these activities in greater detail.

The change in net position contributed by the City's business-type activities was \$2,652,679 in the year ended June 30, 2017, compared to the increase of net position of \$8,825,882 for the year ended June 30, 2016. The decrease this year was driven by a decrease in gross receipt taxes recorded in the Joint Utility enterprise fund.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At June 30, 2017, unrestricted net position totaled \$10,447,195 in the Joint Utility fund and \$1,412,455 in the Solid Waste fund. Factor concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



Governmental Funds Financial Analysis

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

Governmental funds

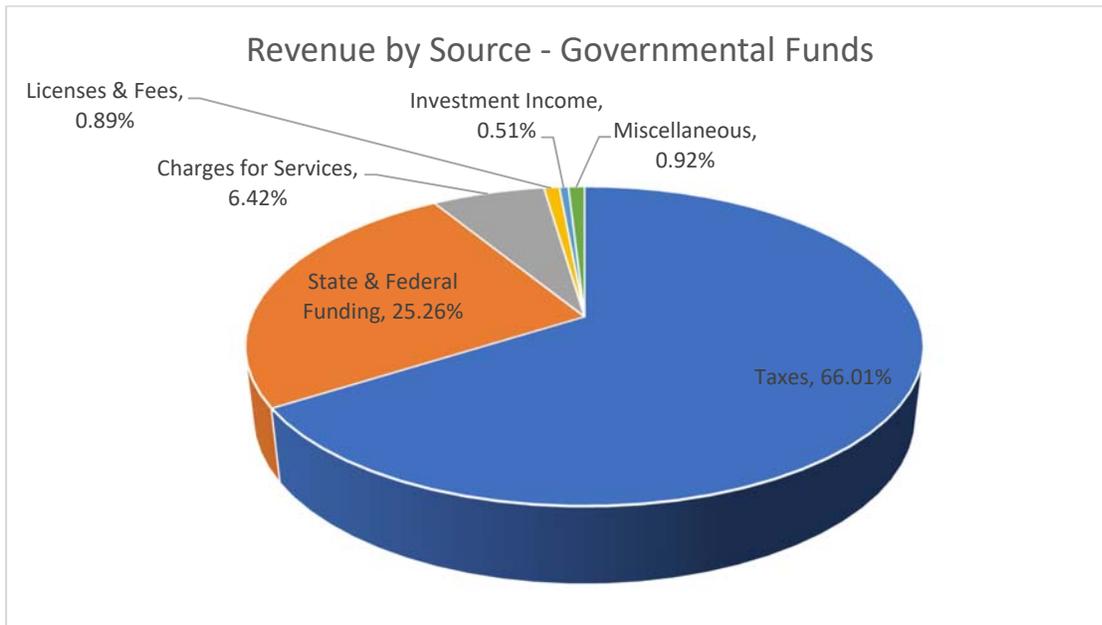
The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted balance may serve as a useful measure of a government's net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

As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$81,218,059, a decrease of \$16,481,174 from the prior year. Of this amount, \$60,561,394 approximately 75% constitutes unassigned fund balance, which is available for spending at the government's discretion. Approximately 11%, or \$6,497,445 of the unrestricted fund balance constitutes fund balance is restricted for minimum fund balance requirements, and approximately 1.33%, or \$1,083,671 is not in spendable form because it is in the form of contracts for prepaid expenses. The remainder of fund balance – \$19,572,994 is restricted for specific purposes.

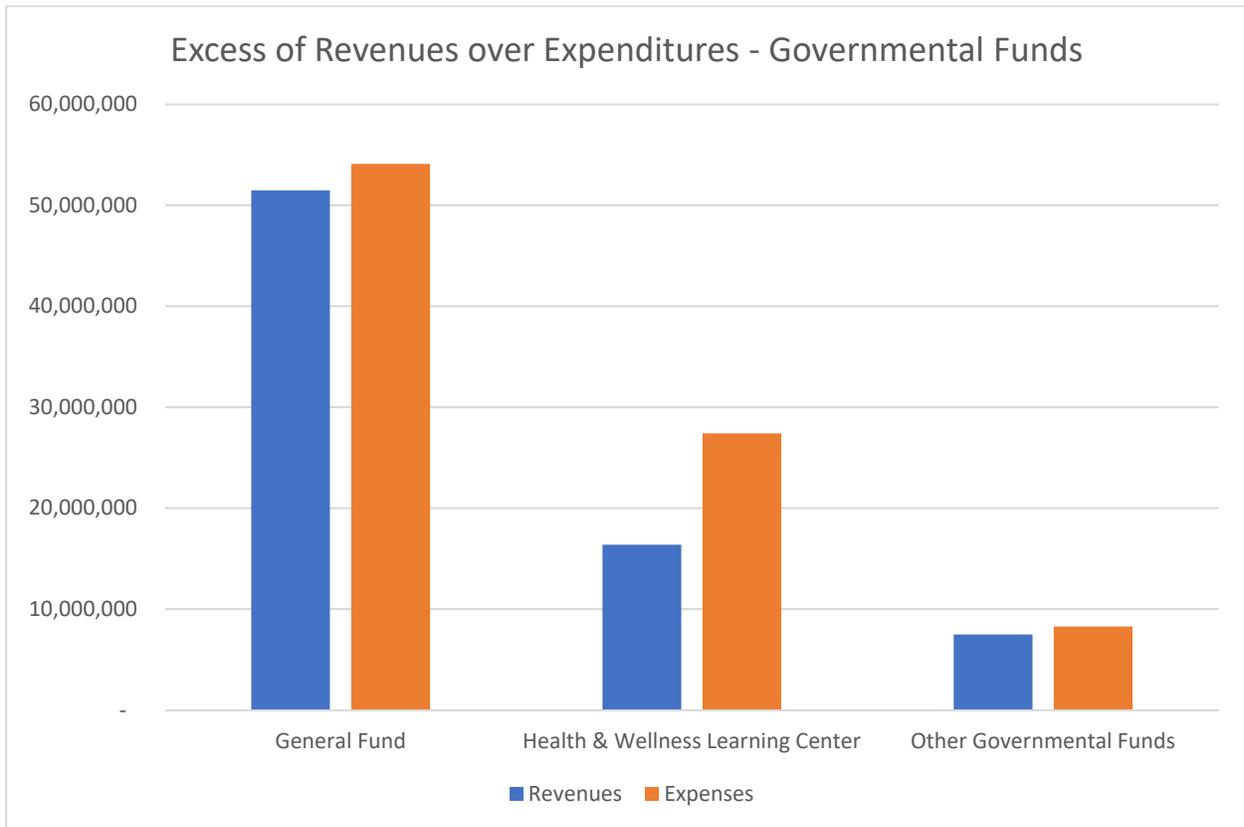
The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$60,651,394. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unassigned fund balance represents 120% of the total general fund expenditures.

The City's general fund balance decreased by \$5,549,357 in the current fiscal year.

City of Hobbs
Management's Discussion and Analysis
June 30, 2017

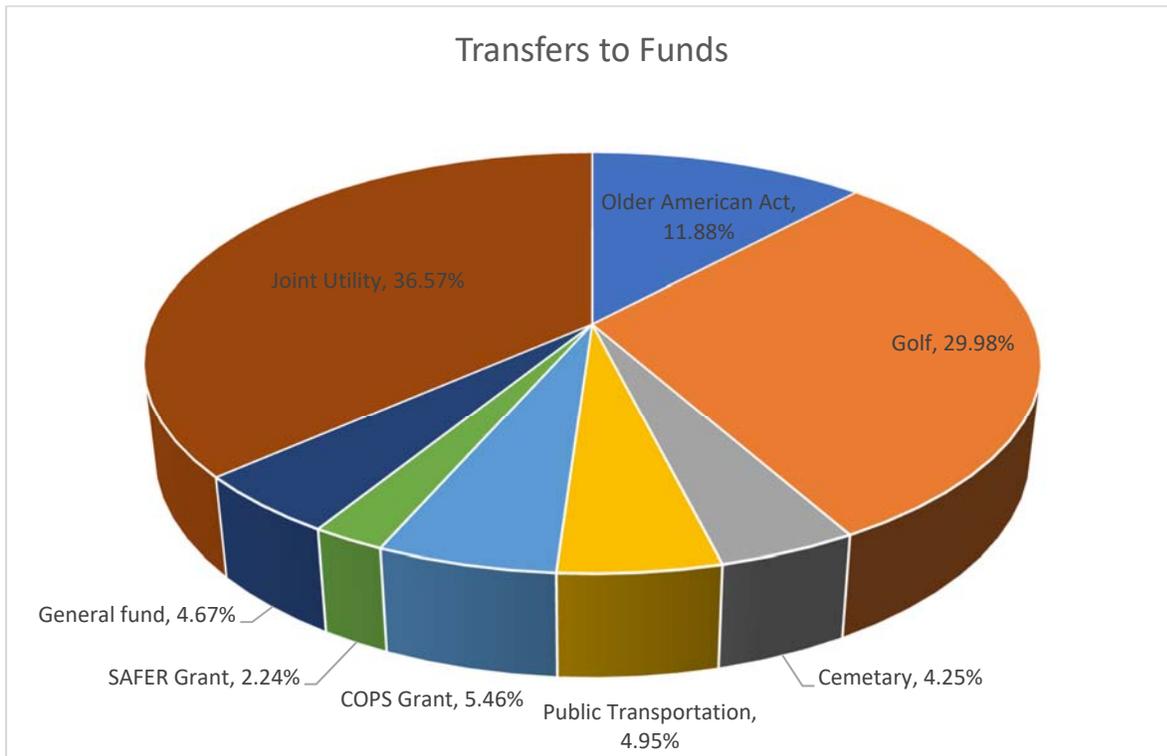


- Taxes include property taxes, franchise taxes, oil and gas production taxes, lodgers' taxes, and municipally-imposed gross receipts taxes.
- Intergovernmental includes grants and state-shared taxes, including a portion of gross receipts tax.
- Charges for services include fees for services and waste collection billing.
- Property tax rates remained unchanged in the current year.



- Short-term deficiencies in revenues over expenditures are absorbed from cash balances accumulated over time within the individual funds.
- Long-term deficiencies in revenues over expenditures are corrected by operating transfers from the general fund.

City of Hobbs
Management's Discussion and Analysis
June 30, 2017



Transfer activity totaled 5,520,731. The graph above details transfers in by fund recipient for the year ended June 30, 2017.

Budgetary Comparisons

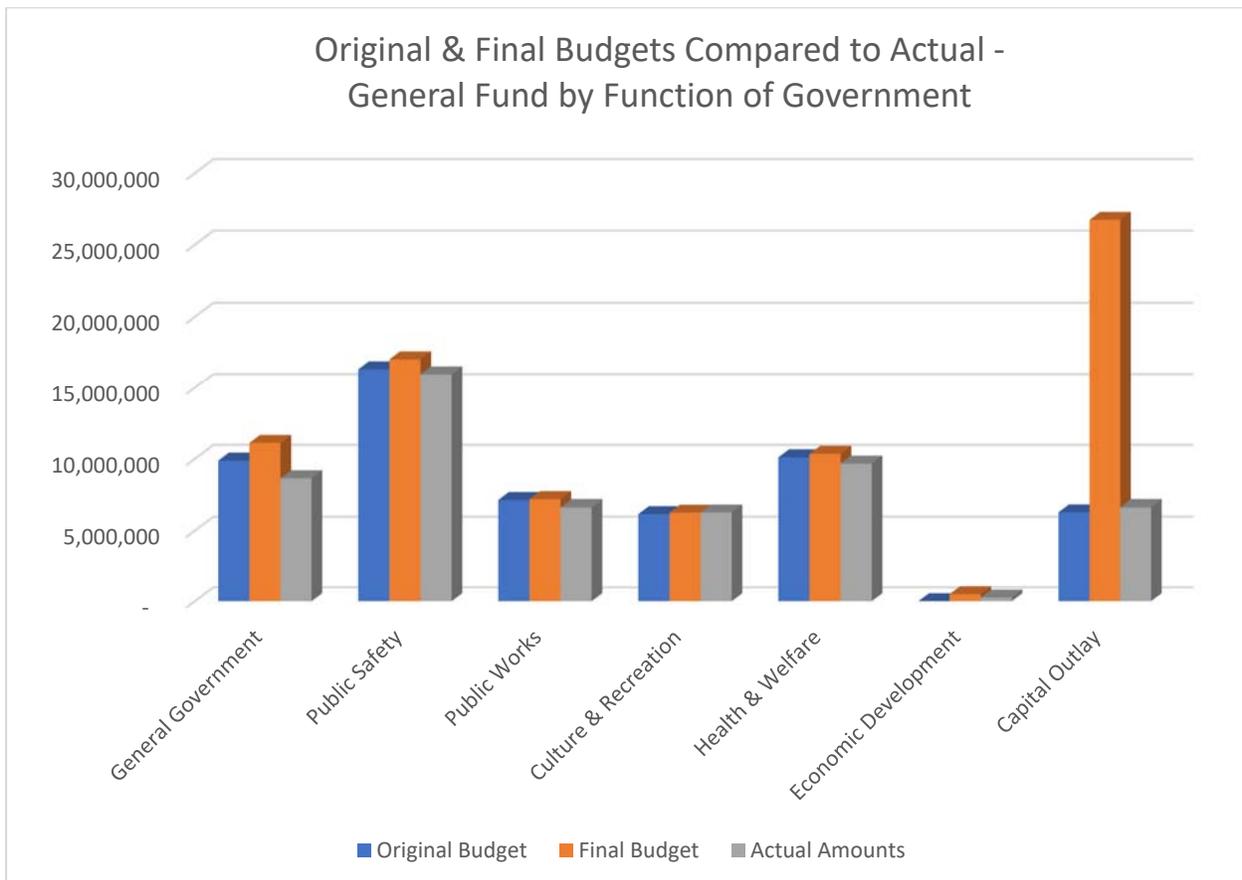
The appropriated general fund budget for the year ended June 30, 2017 was amended by the City Commission throughout the year. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures		
	Original Budget	Final Budget	Actual
General Fund	<u>\$ (6,699,595)</u>	<u>\$ (26,970,476)</u>	<u>\$ (2,641,346)</u>

As required by the Department of Finance and Administration, the City prepared its final budget so that the ending budgeted cash equaled the City's actual ending cash. The City reported no budget variances on the Statements and Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual as a result of preparing its final budget in this manner.

An analysis of significant differences between original and final budget amounts by function of government for the general fund follows.

The graph below displays the variances in the General Fund's functional expenses. As can be seen from this graph, the City experienced significant variances between original and final budget only in the General Government, Public Safety and the Public Works functions. In these cases, final budgeted expenses were less than anticipated originally. This is due to the difficulty in hiring qualified personnel for administrative, police, and firefighting positions.



Current Facts and Future Trends

Mining continues to be the dominant Gross Receipts Tax category in the data supplied to the City by the New Mexico Taxation and Revenue Department. The annual percentage of mining gross receipt taxes is approximately 23% of the total annual gross receipt taxes received. Hobbs is more dependent than any other New Mexico City on mining Gross Receipts Tax Revenue. In other words, the local economy of the City may be less diversified than any other New Mexico City. Due to this situation, the City needs to maintain conservative General Fund reserves and monitor the oil and gas industry closely. The other major categories of gross receipt taxes as a percentage of annual gross receipt taxes are retail trade (24%), services (9%), construction (10%) and wholesale trade (8%). The trending of gross receipts tax from 2017 to 2016 was a decrease from \$53 million to \$45 million, a 15% decrease. Currently, Gross Receipts Tax revenue is trending approximately 43 million in 2018. This represents a 4% decrease from 2017.

City of Hobbs

Management's Discussion and Analysis

June 30, 2017

The National Enrichment Facility is a gas centrifuge uranium enrichment plant located south of the City. The high average wage payroll of the operation of this facility will diversify the local economy. The National Enrichment Facility also has a potential to attract business for related industries.

The General Fund revenue base is dominated by Gross Receipts Taxes, whereas General Fund expenditures are dominated by Wages and Benefits. The 2003 Legislature passed the Public Employee Bargaining Act. The labor movement continues to be a factor in the financial planning challenges associated with the General Fund. Hiring qualified employees for the City is an ongoing challenge. The City has implemented various incentive programs for CDL drivers, police, fire, and general personnel. It should also be noted, expenditures related to all three components of the City Insurance program (employee benefits, worker's compensations and liability) increased at more than double the growth rate of General Fund revenues for several years prior to FY 2008. An actuarial study was performed in December 2015 to measure the City's unfunded benefits liability as it relates to Retiree Health Insurance. The current unfunded liability as of June 2017 is \$25,419,278 million. In addition, GASB No. 68 (Local Portion of Pension Liabilities with regards to PERA) requires the City to recognize the local portion of PERA. The total liability regarding this pension is approximately \$66,993,530 million.

On January 1, 2005, a .0625% Environmental Gross Receipts Tax was implemented. The City Commission has dedicated the revenues from this tax to the Waste Water Treatment Plant debt. Currently, this gross receipt tax supplements approximately 80% of the debt service related to the WWTP. The current total debt for the Enterprise Fund is approximately \$29,568,433 million. Future liabilities related to the Enterprise Fund are the dilapidation of concrete sewer lines and the additional infrastructure for an effluent water delivery system. The anticipated future costs for these liabilities are \$11.5 million dollars.

The City has partnered with various local entities to fund, design and develop a Health and Wellness facility to provide enhanced quality of life in the community. Estimated construction funding level for this project is approximately \$62.5 million dollars. The City is currently under contract with Haydon Construction for construction of this facility. A memorandum of understanding has been developed to determine capital contribution levels and ongoing operations of this facility. Funding sources considered for this project are general fund revenues, fees, debt service and restricted donations. Estimated operational expenditures are \$2.8 million dollars with an estimated revenue generation of \$1.1 million. Subsidies are estimated to be fixed at \$1.7 million dollars and will be accounted for in a Special Revenue Fund.

Contact Information

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. Questions regarding this report or desiring additional information may be addressed to Toby Spears, CPA – Finance Director, City of Hobbs, New Mexico, 200 E. Broadway, Hobbs, NM 88240, or by phone at (575) 397-9235.

City of Hobbs
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 84,098,749	\$ 19,639,362	\$ 103,738,111
Property taxes receivable	56,530	-	56,530
Other taxes receivable	8,424,214	189,152	8,613,366
Interest receivable	141,943	-	141,943
Due from customers, net of allowance	-	1,140,642	1,140,642
Other receivables	4,885,784	224,213	5,109,997
Prepaid expenses	1,083,671	-	1,083,671
Inventory	133,243	509,408	642,651
Internal balances	91,281	(91,281)	-
Total current assets	98,915,415	21,611,496	120,526,911
Non-Current Assets			
Restricted cash			
Debt service and reserve requirements	-	1,921,489	1,921,489
Unspent grant proceeds	-	752,131	752,131
Meter deposits	-	517,014	517,014
Capital assets not being depreciated	41,911,227	6,143,129	48,054,356
Capital assets be depreciated	279,496,515	135,775,652	415,272,167
Less accumulated depreciation and amortization	(110,314,219)	(70,541,876)	(180,856,095)
Total non-current assets	211,093,523	74,567,539	285,661,062
Total assets	310,008,938	96,179,035	406,187,973
DEFERRED OUTFLOWS			
Deferred outflows related to pension activity	22,204,165	2,409,927	24,614,092

City of Hobbs
Statement of Net Position (Continued)
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 5,000,014	\$ 2,417,420	\$ 7,417,434
Accrued payroll expenses	1,384,405	137,066	1,521,471
Accrued compensated absences	508,736	225,470	734,206
Accrued claims payable	690,844	-	690,844
Meter deposits	-	517,014	517,014
Unearned revenue	-	752,131	752,131
Accrued interest	-	450,302	450,302
Loans payable	-	1,858,151	1,858,151
Total current liabilities	<u>7,583,999</u>	<u>6,357,554</u>	<u>13,941,553</u>
Non-Current Liabilities			
Accrued compensated absences	1,357,619	-	1,357,619
Accrued OPEB liability	25,419,278	2,790,349	28,209,627
Net pension liability	61,233,904	5,759,626	66,993,530
Loans payable	-	27,710,282	27,710,282
Total non-current liabilities	<u>88,010,801</u>	<u>36,260,257</u>	<u>124,271,058</u>
Total liabilities	<u>95,594,800</u>	<u>42,617,811</u>	<u>138,212,611</u>
DEFERRED INFLOWS			
Deferred inflows related to pension activity	<u>781,496</u>	<u>72,529</u>	<u>854,025</u>
NET POSITION			
Net investment in capital assets	211,093,523	41,808,472	252,901,995
Restricted for			
Debt service	-	1,921,489	1,921,489
Capital projects	3,485,948	-	3,485,948
Special revenue	20,656,665	-	20,656,665
Unrestricted	<u>600,671</u>	<u>12,168,661</u>	<u>12,769,332</u>
Total net position	<u>\$ 235,836,807</u>	<u>\$ 55,898,622</u>	<u>\$ 291,735,429</u>

City of Hobbs
Statement of Activities
Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Primary Government							
General government	\$ 35,037,413	\$ 11,502,398	\$ 576,044	\$ -	\$ (22,958,971)	\$ -	\$ (22,958,971)
Public safety	19,430,680	269,071	887,299	13,149	(18,261,161)	-	(18,261,161)
Public works	12,443,643	254,064	352,666	649,834	(11,187,079)	-	(11,187,079)
Cultural and recreational	11,890,898	1,000,143	-	-	(10,890,755)	-	(10,890,755)
Health and welfare	10,098,025	1,198,338	172,960	16,367,523	7,640,796	-	7,640,796
Economic development	820,219	-	-	-	(820,219)	-	(820,219)
Total governmental activities	89,720,878	14,224,014	1,988,969	17,030,506	(56,477,389)	-	(56,477,389)
Business-Type Activities							
Joint utility	12,845,470	12,693,364	-	-	-	(152,106)	(152,106)
Solid waste	5,940,720	6,115,727	-	-	-	175,007	175,007
Total business-type activities	18,786,190	18,809,091	-	-	-	22,901	22,901
	<u>\$ 108,507,068</u>	<u>\$ 33,033,105</u>	<u>\$ 1,988,969</u>	<u>\$ 17,030,506</u>	<u>(56,477,389)</u>	<u>22,901</u>	<u>(56,454,488)</u>
General Revenues and Transfers							
Taxes							
Property taxes, levied for general purposes					2,676,469	-	2,676,469
Gross receipts taxes					44,117,190	1,034,592	45,151,782
Gasoline and motor vehicle taxes					1,036,221	-	1,036,221
Other taxes					1,882,557	-	1,882,557
Investment income					403,503	124,036	527,539
Interest expense					-	(547,832)	(547,832)
Donated capital assets					369,147	-	369,147
Miscellaneous					1,047,778	-	1,047,778
Internal transfers					(2,018,982)	2,018,982	-
Total general revenues and transfers					<u>49,513,883</u>	<u>2,629,778</u>	<u>52,143,661</u>
CHANGE IN NET POSITION					(6,963,506)	2,652,679	(4,310,827)
NET POSITION							
Beginning of year					<u>242,800,313</u>	<u>53,245,943</u>	<u>296,046,256</u>
End of year					<u>\$ 235,836,807</u>	<u>\$ 55,898,622</u>	<u>\$ 291,735,429</u>

City of Hobbs
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Health and Wellness Learning Center	Other Governmental Funds	Total Governmental
ASSETS				
Cash and cash equivalents	\$ 54,975,731	\$ 12,596,406	\$ 5,206,223	\$ 72,778,360
Receivables				
Property taxes	56,530	-	-	56,530
Other taxes	7,856,306	-	567,908	8,424,214
Interest receivable	141,943	-	-	141,943
Other receivables	78,379	4,512,859	294,546	4,885,784
Prepaid expenses	1,083,671	-	-	1,083,671
Inventory	-	-	133,243	133,243
Total assets	64,192,560	17,109,265	6,201,920	87,503,745
LIABILITIES				
Accounts payable	1,304,930	3,173,154	423,197	4,901,281
Accrued payroll	1,242,565	-	141,840	1,384,405
Total liabilities	2,547,495	3,173,154	565,037	6,285,686
FUND BALANCES				
Nonspendable	1,083,671	-	-	1,083,671
Restricted				
Public safety	-	-	1,363,066	1,363,066
Culture and recreation	-	-	157,460	157,460
Transportation and roads	-	-	285,705	285,705
Health and welfare	-	13,936,111	(33,207)	13,902,904
Economic development	-	-	377,911	377,911
Capital projects	-	-	3,485,948	3,485,948
Unassigned	60,561,394	-	-	60,561,394
Total fund balances	61,645,065	13,936,111	5,636,883	81,218,059
Total liabilities and fund balances	\$ 64,192,560	\$ 17,109,265	\$ 6,201,920	\$ 87,503,745

City of Hobbs
Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Position
June 30, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances - total government funds	\$ 81,218,059
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	211,093,523
--	-------------

Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in funds:	
Deferred outflows related to pension activity	22,204,165
Deferred inflows related to pension activity	(781,496)

The internal service fund is used by management to charge the costs of worker's compensation, health insurance, and other post-employment benefit costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. A portion of the internal service fund's net position is allocated from business-type activities in the statement of net position:

Assets and liabilities included in governmental activities	10,530,812
Allocated to business-type activities	91,281

Certain liabilities, including the accrued other post-employment benefit liability and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absences	(1,866,355)
Accrued OPEB liability	(25,419,278)
Net pension liability	<u>(61,233,904)</u>

Net position of governmental activities	<u>\$ 235,836,807</u>
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City of Hobbs
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Governmental Funds
Year Ended June 30, 2017

	General Fund	Health and Wellness Learning Center	Other Governmental Funds	Total Governmental
REVENUES				
Taxes				
Property	\$ 2,676,469	\$ -	\$ -	\$ 2,676,469
Gross receipts	42,093,996	-	2,023,194	44,117,190
Gasoline and motor vehicle	236,253	-	799,968	1,036,221
Other taxes	921,415	-	961,142	1,882,557
Intergovernmental				
Federal operating grants	29,449	-	859,289	888,738
Federal capital grants	13,149	-	-	13,149
State operating grants	576,044	-	524,190	1,100,234
State capital grants	-	16,367,520	649,834	17,017,354
Charges for services	3,329,191	-	1,505,491	4,834,682
Licenses and fees	663,985	-	3,900	667,885
Investment income	308,327	-	74,369	382,696
Miscellaneous	612,193	-	79,943	692,136
Total revenues	<u>51,460,471</u>	<u>16,367,520</u>	<u>7,481,320</u>	<u>75,309,311</u>
EXPENDITURES				
Current expenditures				
General government	8,646,821	-	-	8,646,821
Public safety	15,966,654	-	864,582	16,831,236
Public works	6,638,170	-	1,104,811	7,742,981
Culture and recreation	6,287,964	22,730	3,459,355	9,770,049
Health and welfare	9,667,559	-	319,135	9,986,694
Economic development	256,351	-	563,868	820,219
Capital outlay	6,638,298	27,374,731	1,960,474	35,973,503
Total expenditures	<u>54,101,817</u>	<u>27,397,461</u>	<u>8,272,225</u>	<u>89,771,503</u>
DEFICIENCY OF REVENUES UNDER				
EXPENDITURES				
	<u>(2,641,346)</u>	<u>(11,029,941)</u>	<u>(790,905)</u>	<u>(14,462,192)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	257,655	-	3,244,094	3,501,749
Transfers out	<u>(3,165,666)</u>	<u>-</u>	<u>(2,355,065)</u>	<u>(5,520,731)</u>
Total other financing sources (uses)	<u>(2,908,011)</u>	<u>-</u>	<u>889,029</u>	<u>(2,018,982)</u>
NET CHANGE IN FUND BALANCES	(5,549,357)	(11,029,941)	98,124	(16,481,174)
FUND BALANCES				
Beginning of year	<u>67,194,422</u>	<u>24,966,052</u>	<u>5,538,759</u>	<u>97,699,233</u>
End of year	<u>\$ 61,645,065</u>	<u>\$ 13,936,111</u>	<u>\$ 5,636,883</u>	<u>\$ 81,218,059</u>

City of Hobbs
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances – Governmental
Funds to the Statement of Activities
Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds \$ (16,481,174)

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 28,568,825
 Depreciation and amortization expense (13,779,753)

Donated capital assets are recorded as general revenues in the statement of activities;
 however, they are not considered financial resources in the governmental
 fund statements 369,147

Internal service funds charge governmental funds an allocated portion of expenses or
 profits as a "look-back adjustment" so that the internal service fund breaks even.
 This is reported in the statement of activities, but not in the governmental
 funds statements 1,339,958

Governmental funds report the City's pension contributions as expenditures. However,
 in the statement of activities, the cost of pension benefits earned net of employee
 contributions are reported as pension expense:

City's pension contributions 4,645,662
 Pension expense (8,146,343)

Expenses in the statement of activities that do not require current financial resources
 are not reported as expenditures in the funds:

Accrued compensated absences 469,742
 Accrual for other post-employment benefits (3,949,570)

Change in net position of governmental activities \$ (6,963,506)

City of Hobbs
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 44,012,383	\$ 42,012,383	\$ 45,928,133	\$ 3,915,750
Intergovernmental	413,218	4,743,798	618,642	(4,125,156)
Charges for services	3,405,350	3,405,350	3,329,191	(76,159)
Licenses and fees	436,000	436,000	663,985	227,985
Investment income	90,000	90,000	308,327	218,327
Miscellaneous	857,220	1,530,456	612,193	(918,263)
Total revenues	49,214,171	52,217,987	51,460,471	(757,516)
EXPENDITURES				
Current				
General government	9,880,302	11,115,876	8,646,821	2,469,055
Public safety	16,322,356	17,022,413	15,966,654	1,055,759
Public works	7,128,540	7,185,777	6,638,170	547,607
Culture and recreation	6,173,828	6,276,353	6,287,964	(11,611)
Health and welfare	10,109,018	10,354,107	9,667,559	686,548
Economic development	-	500,000	256,351	243,649
Capital outlay	6,299,722	26,733,937	6,638,298	20,095,639
Total expenditures	55,913,766	79,188,463	54,101,817	25,086,646
DEFICIENCY OF REVENUES TO EXPENDITURES	(6,699,595)	(26,970,476)	(2,641,346)	(25,844,162)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	3,676,769	257,655	(3,419,114)
Transfers out	(4,389,002)	(14,205,590)	(3,165,666)	11,039,924
Total other financing sources (uses)	(4,389,002)	(10,528,821)	(2,908,011)	7,620,810
NET CHANGE IN FUND BALANCE	(11,088,597)	(37,499,297)	(5,549,357)	-
FUND BALANCE				
Beginning of year	67,194,422	67,194,422	67,194,422	-
End of year	\$ 56,105,825	\$ 29,695,125	\$ 61,645,065	\$ -

City of Hobbs
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Health and Wellness Learning Center Special Revenue Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	36,000,000	38,500,000	16,367,520	(22,132,480)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	36,000,000	38,500,000	16,367,520	(22,132,480)
EXPENDITURES				
Current				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	13,500	22,730	(9,230)
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	-	60,239,151	27,374,731	32,864,420
Total expenditures	-	60,252,651	27,397,461	32,855,190
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	36,000,000	(21,752,651)	(11,029,941)	(54,987,670)
OTHER FINANCING SOURCES (USES)				
Transfers in	41,215	41,215	-	(41,215)
NET CHANGE IN FUND BALANCE	36,041,215	(21,711,436)	(11,029,941)	(55,028,885)
FUND BALANCE				
Beginning of year	24,966,052	24,966,052	24,966,052	-
End of year	\$ 61,007,267	\$ 3,254,616	\$ 13,936,111	\$ -

City of Hobbs
Statement of Net Position – Proprietary Funds
June 30, 2017

	Business-Type Activities			Governmental Activities
	Joint	Solid Waste	Total	Risk Management Internal Service Fund
	Utility	Disposal		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 17,624,808	\$ 2,014,554	\$ 19,639,362	\$ 11,320,389
Accounts receivable (net of allowance for doubtful accounts of \$380,798 and \$181,031, respectively)	773,093	367,549	1,140,642	-
Other taxes receivable	189,152	-	189,152	-
Other receivables	224,213	-	224,213	-
Inventory	509,408	-	509,408	-
Total current assets	<u>19,320,674</u>	<u>2,382,103</u>	<u>21,702,777</u>	<u>11,320,389</u>
Non-Current Assets				
Restricted cash and cash equivalents				
Debt service and reserve requirements	1,921,489	-	1,921,489	-
Unspent grant proceeds	752,131	-	752,131	-
Meter deposits	517,014	-	517,014	-
Capital assets	141,918,781	-	141,918,781	-
Accumulated depreciation and amortization	<u>(70,541,876)</u>	<u>-</u>	<u>(70,541,876)</u>	<u>-</u>
Total non-current assets	<u>74,567,539</u>	<u>-</u>	<u>74,567,539</u>	<u>-</u>
DEFERRED OUTFLOWS				
Pension activities	<u>2,409,927</u>	<u>-</u>	<u>2,409,927</u>	<u>-</u>

City of Hobbs
Statement of Net Position – Proprietary Funds (Continued)
June 30, 2017

	Business-Type Activities			Governmental Activities
	Joint Utility	Solid Waste Disposal	Total	Risk Management Internal Service Fund
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 1,447,772	\$ 969,648	\$ 2,417,420	\$ 98,733
Accrued payroll expense	137,066	-	137,066	-
Accrued compensated absences	225,470	-	225,470	-
Accrued claims payable	-	-	-	690,844
Meter deposits	517,014	-	517,014	-
Unearned revenue	752,131	-	752,131	-
Accrued interest	450,302	-	450,302	-
Loans payable	1,858,151	-	1,858,151	-
Total current liabilities	5,387,906	969,648	6,357,554	789,577
Noncurrent liabilities				
Accrued OPEB liability	2,790,349	-	2,790,349	-
Net pension liability	5,759,626	-	5,759,626	-
Loans payable	27,710,282	-	27,710,282	-
Total noncurrent liabilities	36,260,257	-	36,260,257	-
Total liabilities	41,648,163	969,648	42,617,811	789,577
DEFERRED INFLOWS				
Pension activities	72,529	-	72,529	-
NET POSITION				
Net investment in capital assets	41,808,472	-	41,808,472	-
Restricted	1,921,489	-	1,921,489	-
Unrestricted	10,847,487	1,412,455	12,259,942	10,530,812
Total net position	\$ 54,577,448	\$ 1,412,455	55,989,903	\$ 10,530,812
Adjustment to reflect the consolidation of internal service fund activities for enterprise funds			(91,281)	
Net position of business-type activities			<u><u>\$ 55,898,622</u></u>	

City of Hobbs
Statement of Revenues, Expenses, and Changes
in Net Position – Proprietary Funds
Year Ended June 30, 2017

	Business-Type Activities			Governmental Activities Risk Management Internal Service Fund
	Joint Utility	Solid Waste Disposal	Total	
OPERATING REVENUES	\$ 12,693,364	\$ 6,115,727	\$ 18,809,091	\$ 8,721,447
OPERATING EXPENSES				
Depreciation and amortization	4,224,569	-	4,224,569	-
Personnel services	5,514,552	-	5,514,552	-
Contractual services	171,311	5,940,720	6,112,031	7,402,296
Supplies and purchased power	914,373	-	914,373	-
Maintenance and materials	303,688	-	303,688	-
Utilities	803,811	-	803,811	-
Equipment	913,166	-	913,166	-
Total operating expenses	12,845,470	5,940,720	18,786,190	7,402,296
OPERATING INCOME (LOSS)	(152,106)	175,007	22,901	1,319,151
NON-OPERATING REVENUES (EXPENSES)				
Gross receipts taxes	1,034,592	-	1,034,592	-
Interest expense	(547,832)	-	(547,832)	-
Principal	-	-	-	-
Investment income	124,036	-	124,036	20,807
Total non-operating revenues (expenses)	610,796	-	610,796	20,807
INCOME BEFORE TRANSFERS	458,690	175,007	633,697	1,339,958
TRANSFERS IN	2,018,982	-	2,018,982	-
CHANGE IN NET POSITION	2,477,672	175,007	2,652,679	1,339,958
NET POSITION				
Beginning of year	52,099,776	1,237,448	53,337,224	9,190,854
End of year	\$ 54,577,448	\$ 1,412,455	\$ 55,989,903	\$ 10,530,812

City of Hobbs
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2017

	Business-Type Activities			Governmental Activities
	Joint Utility	Solid Waste Disposal	Total	Risk Management Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from user charges	\$ 12,905,629	\$ 6,327,992	\$ 19,233,621	\$ 8,721,447
Cash payments to employees for services	(5,474,349)	-	(5,474,349)	-
Cash payments to suppliers for goods and services	(3,928,636)	(5,463,135)	(9,391,771)	(7,572,288)
Net cash provided by operating activities	<u>3,502,644</u>	<u>864,857</u>	<u>4,367,501</u>	<u>1,149,159</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Gross receipts taxes	1,034,592	-	1,034,592	-
Transfers	2,018,982	-	2,018,982	-
Net cash provided by non-capital financing activities	<u>3,053,574</u>	<u>-</u>	<u>3,053,574</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	124,036	-	124,036	20,807
Net cash provided by investing activities	<u>124,036</u>	<u>-</u>	<u>124,036</u>	<u>20,807</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Acquisition of capital assets	(6,457,394)	-	(6,457,394)	-
Interest paid	(547,832)	-	(547,832)	-
Net cash used by financing activities	<u>(7,005,226)</u>	<u>-</u>	<u>(7,005,226)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(324,972)	864,857	539,885	1,169,966
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>21,140,414</u>	<u>1,149,697</u>	<u>22,290,111</u>	<u>10,150,423</u>
End of year	<u>\$ 20,815,442</u>	<u>\$ 2,014,554</u>	<u>\$ 22,829,996</u>	<u>\$ 11,320,389</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Unrestricted				
Cash and cash equivalents	\$ 17,624,808	\$ 2,014,554	\$ 19,639,362	\$ 11,320,389
Restricted				
Debt service and reserve requirements	1,921,489	-	1,921,489	-
Unspent grant proceeds	752,131	-	752,131	-
Meter deposits	517,014	-	517,014	-
Total cash	<u>\$ 20,815,442</u>	<u>\$ 2,014,554</u>	<u>\$ 22,829,996</u>	<u>\$ 11,320,389</u>

City of Hobbs
Statement of Cash Flows – Proprietary Funds (Continued)
Year Ended June 30, 2017

	Business-Type Activities			Governmental Activities
	Joint Utility	Solid Waste Disposal	Total	Risk Management Internal Service Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (152,106)	\$ 175,007	\$ 22,901	\$ 1,319,151
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,224,569	-	4,224,569	-
Pension expense	562,222	-	562,222	-
Employer pension contributions	(460,436)	-	(460,436)	-
Changes in assets and liabilities				
Accounts receivable	454,549	212,265	666,814	-
Inventory	(75,355)	-	(75,355)	-
Accounts payable	499,823	477,585	977,408	37,281
Accrued payroll expenses	26,557	-	26,557	-
Accrued compensated absences	13,646	-	13,646	-
OPEB liability	447,947	-	447,947	-
Loans payable	(1,824,532)	-	(1,824,532)	-
Accrued claims payable	-	-	-	(207,273)
Meter deposits	(214,240)	-	(214,240)	-
Net cash provided by operating activities	<u>\$ 3,502,644</u>	<u>\$ 864,857</u>	<u>\$ 4,367,501</u>	<u>\$ 1,149,159</u>

City of Hobbs
Statement of Fiduciary Assets and Liabilities – Agency Funds
June 30, 2017

ASSETS

Cash and cash equivalents	<u>\$ 438,045</u>
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LIABILITIES

Deposits held in trust for others	<u>\$ 438,045</u>
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Note 1 – Summary of Significant Accounting Policies

The City of Hobbs, New Mexico (the City) was incorporated in 1929 under provisions of Chapter 3, Article 2, NMSA, 1978 as amended. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public improvements; planning and zoning; and general administrative services.

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

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

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

During the year ended June 30, 2017, the City adopted GASB Statement No. 77, Tax Abatement Disclosures (GASB No. 77). GASB No. 77 requires new financial statement disclosures about tax abatement agreements between a government and an individual or entity in which the government promises to forego tax revenues and the individual or entity promises to take a specific action that contributes to the economic development or otherwise benefits the government or its citizens.

A. Financial reporting entity

The more significant of the City's accounting policies are described below.

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

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14 as amended by No. 39 and No 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the City does not have any component units required to be reported under GASB Statements No. 14, No. 39 and No. 61.

B. Government-wide and fund financial statements

The government-wide financial statements (statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services provided.

The statement of net position and the statement of activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB No. 33, Accounting and Financial Reporting for Non-Exchange Transactions.

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the statement of fiduciary assets and liabilities. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions should be recognized when the related purpose restriction, eligibility requirement or time requirement is met in accordance with GASB No. 33 and GASB No. 65. Property taxes are recognized as revenues, net of estimated refunds and estimated uncollectible amounts, in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenue, to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

The government-wide full accrual basis property tax receivables recognize revenues net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied, even if they are not available. All other revenue items are considered to be measurable and available only when cash is received by the City. Unavailable revenue is classified as deferred inflow.

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

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Governmental funds are used to account for the City's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

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

The City reports the following major governmental funds:

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

Note 1 – Summary of Significant Accounting Policies (continued)

The Health and Wellness Learning Center Special Revenue Fund was authorized by City resolution 6338 on August 25, 2015 to account for the revenues and expenditures associated with the design, construction, operation, and joint use of a health wellness and learning center (HWLC) with the New Mexico Junior College (NMJC), the Board of Education of Hobbs Municipal School District (District), and Lea County (County) pursuant to a memorandum of understanding entered into on September 4, 2015.

The City reports its proprietary funds as major funds. Proprietary funds include:

The Joint Utility Fund accounts for fees generated from charges for utilities.

The Solid Waste Disposal Fund accounts for fees generated from charges for garbage collection, construction, or renovation of major capital facilities, as well as for maintenance of facilities.

Additionally, the City reports the following fund types:

Nonmajor Special Revenue Funds are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

Nonmajor Capital Projects Funds are used to account for financial resources to be used for the acquisition.

The Internal Service Fund is used to account for employer and employee contributions to a minimum premium medical insurance program, employer contributions to a minimum premium workers' compensation insurance program, and employer and retiree contributions for the other post-employment benefit retiree health care plan. The unexpended balance at the policy year end is retained in the fund to reduce subsequent year contributions.

Fiduciary Funds are used to account for monies held by the City in a capacity as an agent for various organizations and other outside parties. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

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

D. Assets, Liabilities, Deferred Outflows, Deferred Inflows, and Net Position

Deposits and Investments – The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The composition of investments and fair values are presented in Note 3.

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied.

Property taxes are levied on November 1st based on the assessed value of property as listed on the previous January 1st and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent, and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the City.

Accounts receivable for utility services in the Joint Utility Fund and waste services in the Solid Waste Disposal Fund are recognized as they are earned. An allowance has been provided for estimated uncollectible accounts.

Water and sewer service charges are recognized as earned when billed. Estimated unbilled receivables are recorded at year end for reporting purposes in the proprietary funds.

Interest on investments is recorded as revenue for the year in which it is earned. This reporting method is used for all funds.

Gross receipts tax revenues are collected by the State of New Mexico on the City's behalf. Amounts held by the State on behalf of the City on June 30, 2017 are recognized as revenue because they are remitted in time to be used as resources for payment of obligations incurred during the year ended June 30, 2017.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined primarily by the average cost method. The costs of governmental fund-type inventory items are recorded as expenditures when purchased and are not recorded as assets in these funds. Inventory is adjusted annually utilizing the consumption method.

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items – Payments made to vendors that will benefit periods beyond June 30, 2017 are recorded as prepaid expenses. These payments consist of prepaid annual rental expense for ambulances, prepaid housing assistance incentive payments to certified police officers and various prepaid insurance premiums.

Restricted Assets – Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. Certain cash investment balances in the Joint Utility Fund are classified as restricted assets on the statement of net position because they are set aside for debt service requirements and as a reserve for customer deposits. In addition, the City has pledged a Treasury bill investment to secure a line of credit with a local bank.

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government and by Section 12-6-10 NMSA 1978 as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information technology equipment, including software, is capitalized in accordance with NMAC 2.20.1.9 C (5). Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives of the assets are not capitalized.

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

Assets	Years
Buildings	20 - 40
Equipment	5 - 15
Land improvements	10 - 20
Infrastructure	30 - 50
Intangible assets	5 - 50

Accrued Expenses – Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through June 30, 2017.

Compensated Absences – Qualified employees are entitled to accumulate paid time off (PTO) in the amount of 320 hours. PTO cap for all fire department shift employees and police shift employees is 456 hours. At the end of each calendar year any employee who is over his/her PTO cap shall be paid for every hour over his/her PTO cap subject to applicable income tax withholding requirements.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

In the event the City's general fund cash reserve dips below 20% at the end of a fiscal year, the City may elect to increase PTO Cap until the following year in which the general fund cash reserve is above 20%. Employees shall not forfeit any earned PTO.

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

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

Deferred Inflows of Resources – In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. These deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City has deferred inflows of resources on the statement of net position for both the governmental and business-type activities, which arise due to the implementation of GASB No. 68 and related pension activities. These amounts are reported as a deferred inflow and amortized into pension expense over the average remaining service life of employees.

Deferred Outflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate deferred outflows of resources represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City reports deferred outflows in both governmental and business-type activities. Accordingly, employer contributions made to PERA subsequent to the measurement date has been reported as a deferred outflow of resources. These amounts will directly reduce the net pension liability in the next fiscal year. Other deferred outflows represent other pension activities which arise under GASB No. 68 and are amortized into pension expense over five years or the average remaining service life of employees.

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term Obligations – In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Fund Balance Classification Policies and Procedures – For committed fund balance, the City's highest level of decision-making authority is the City Commission. The formal action that is required to be taken to establish a fund balance commitment is a resolution of the City Commission.

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

For the classification of fund balances, the City considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance – Nonspendable fund balances represent prepaid expense balances.

Restricted Fund Balance – Restricted fund balances represent balances restricted for various City operations by enabling legislation.

Minimum Fund Balance Policy – The City's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the City holds cash reserves of 1/12th of the General Fund final budgeted expenditures. A minimum fund balance policy represents a plan to accumulate resources as opposed to a limitation on purpose for which resources are to be expended. As such a minimum fund balance policy does not affect the classification fund balance and is reported as unassigned.

Government-wide Statements – Net position is reported in the government-wide statements in three components:

- a. Net investment in capital assets: Net position invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position: All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City's financial statements include the useful lives of depreciable capital assets, allowance for uncollectible accounts in the joint utility and solid waste funds, and actuarial estimates included in the calculation of the unfunded OPEB liability and the net pension liability.

Note 2 – Stewardship, Compliance and Accountability

Annual budgets of the City are prepared prior to June 1st and must be approved by resolution of the City Commissioners, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the City Commissioners and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

These budgets are prepared on the Non-GAAP budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, and Proprietary Funds.

The accompanying statements of revenues, expenditures and changes in fund balance-budget (non-GAAP budgetary basis) and actual and statement of revenues, expenses and changes in net position (non-GAAP budgetary basis) and actual present comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented.

Note 3 – Deposits and Investments

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the City properly followed State of New Mexico investment requirements as of June 30, 2017.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States or 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.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

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

The collateral pledged is listed in the supplementary information. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

Custodial credit risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2017, \$3,388,009, of the City's bank balances of \$3,638,009 was exposed to custodial credit risk, however all of the amount exposed was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the City's name. None of the City's deposits were uninsured and uncollateralized.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 3 – Deposits and Investments (continued)

Deposits	\$ 203,988
Repurchase agreements	3,434,021
FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>3,388,009</u>

Collateralized by securities held by trust pledging institutions or by its trust department or agency in other than the City's name	<u>3,388,009</u>
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Uninsured and uncollateralized	<u><u>\$ -</u></u>
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Collateral requirement - deposits (50% of uninsured funds)	\$ -
Collateral requirement - repurchase agreement (102% of uninsured funds)	3,502,701
Pledged collateral	<u>3,502,701</u>

Over (under) collateralized	<u><u>\$ -</u></u>
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New MexiGROW Local Government Investment Pool (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(1) through 6-10-10(P) and Sections 6-10-10.1(A) and (E), NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.(F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

As of June 30, 2017, the City's investment in the LGIP was rated as AAA by Standard & Poor's.

As of June 30, 2017, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
New MexiGROW LGIP	WAM (F) 77 day	\$ 48,605,119	AAA
U.S. Treasury securities	659 days	\$ 55,410,337	AA+

Note 3 – Deposits and Investments (continued)

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

As of June 30, 2017, investments include balances in the LGIP totaling \$48,605,119 and U.S. Treasury Bills totaling \$55,410,337.

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

- Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2** Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets.
 - Quoted prices for identical or similar assets or liabilities in inactive markets.
 - Inputs other than quoted prices that are observable for the asset or liability.
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 3 – Deposits and Investments (continued)

The following table sets forth by level within the fair value hierarchy, the City's assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury securities	\$ 55,410,337	\$ -	\$ -	\$ 55,410,337
	<u>\$ 55,410,337</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 55,410,337
Investments measured at NAV -practical expedient				<u>48,605,119</u>
Investments at fair value				<u>\$ 104,015,456</u>

Reconciliation to the Statement of Net Position – The carrying amount of deposits and investments shown above are included in the City's Statement of Net position as follows:

Cash and cash equivalents	\$ 103,738,111
Restricted cash and cash equivalents	
Debt service and reserve requirements	1,921,489
Unspent grant proceeds	752,131
Agency funds cash	<u>438,045</u>
Total cash and cash equivalents	<u>106,849,776</u>
Outstanding checks	1,279,047
Deposits in transit and other reconciling items	(228,942)
LGIP balances held by the New Mexico State Treasure	(48,605,119)
U.S. agencies, treasury notes and cash held with U.S. Bank	<u>(55,410,337)</u>
Bank balance of deposits	<u>\$ 3,884,425</u>

Note 4 – Receivables

Receivables as of June 30, 2017, including the applicable allowances for uncollectible accounts, are as follows:

<u>Governmental-Type Activities</u>	<u>General</u>	<u>Health and Wellness Learning Center</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property taxes	\$ 56,530	\$ -	\$ -	\$ 56,530
Other taxes				
Gross receipts tax	7,694,625	-	378,310	8,072,935
Gasoline and oil taxes	17,037	-	98,836	115,873
Franchise and lodgers taxes	144,644	-	90,762	235,406
Interest receivable	141,943	-	-	141,943
Intergovernmental grants				
State	78,379	-	10,760	89,139
Local	-	4,512,859	-	4,512,859
Federal	-	-	283,785	283,785
Total	<u>\$ 8,133,158</u>	<u>\$ 4,512,859</u>	<u>\$ 862,453</u>	<u>\$ 13,508,470</u>

The above receivables are deemed 100% collectible.

<u>Business-Type Activities</u>	<u>Utility</u>	<u>Waste</u>	<u>Total</u>
Utility fees	\$ 1,153,891	\$ 548,580	\$ 1,702,471
Allowance for uncollectible accounts	(380,798)	(181,031)	(561,829)
Other taxes receivable			
Gross receipts tax	189,152	-	189,152
Other receivables			
State	224,213	-	224,213
Total	<u>\$ 1,186,458</u>	<u>\$ 367,549</u>	<u>\$ 1,554,007</u>

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 5 – Interfund Receivables, Payables and Transfers

Operating transfers, made to close out funds and to supplement other funding sources in the normal course of operations, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Older American Act	\$ 656,108
General Fund	Golf Fund	1,576,492
General Fund	Cemetery	234,682
General Fund	Public Transportation	273,062
General Fund	COPS Grants Fund	301,578
General Fund	Safer Grant Fund	123,744
Lodgers Tax Promotional	Golf Fund	78,428
Lodgers Tax Promotional	General Fund	257,655
City Commission Improvements	Joint Utility Fund	<u>2,018,982</u>
Total		<u>\$ 5,520,731</u>

The allocation of internal service fund revenues and expenses to governmental and business activities resulted in a net amount due to the business-type activities from the governmental activities of \$91,281.

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

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 6 – Capital Assets

The following is a summary of capital assets and changes occurring during the year ended June 30, 2017:

Governmental Activities	Balance June 30, 2016	Additions	Decreases	Transfers	Balance June 30, 2017
Capital assets not being depreciated					
Land	\$ 7,143,925	\$ 860,380	\$ -	\$ -	\$ 8,004,305
Construction in progress	11,729,172	28,403,089	-	(6,225,339)	33,906,922
	<u>18,873,097</u>	<u>29,263,469</u>	<u>-</u>	<u>(6,225,339)</u>	<u>41,911,227</u>
Capital assets being depreciated					
Buildings	56,228,020	78,815	58,704	-	56,248,131
Equipment	45,164,409	284,868	4,497,678	1,370,963	42,322,562
Land improvements	66,879,080	47,026	141,226	-	66,784,880
Infrastructure	106,679,438	-	-	4,854,376	111,533,814
	<u>274,950,947</u>	<u>410,709</u>	<u>4,697,608</u>	<u>6,225,339</u>	<u>276,889,387</u>
Amortizable assets					
Intangible assets	2,580,626	73,986	47,484	-	2,607,128
	<u>2,580,626</u>	<u>73,986</u>	<u>47,484</u>	<u>-</u>	<u>2,607,128</u>
Total capital assets	<u>296,404,670</u>	<u>29,748,164</u>	<u>4,745,092</u>	<u>-</u>	<u>321,407,742</u>
Accumulated depreciation					
Buildings	25,673,826	3,201,370	52,067	-	28,823,129
Equipment	28,962,850	2,762,178	3,764,840	-	27,960,188
Land improvements	8,530,258	2,565,155	103,845	-	10,991,568
Infrastructure	35,354,346	4,930,520	-	-	40,284,866
	<u>98,521,280</u>	<u>13,459,223</u>	<u>3,920,752</u>	<u>-</u>	<u>108,059,751</u>
Less accumulated amortization					
Intangible assets	1,956,336	320,530	22,398	-	2,254,468
	<u>1,956,336</u>	<u>320,530</u>	<u>22,398</u>	<u>-</u>	<u>2,254,468</u>
Capital assets, net	<u>\$195,927,054</u>	<u>\$ 15,968,411</u>	<u>\$ 801,942</u>	<u>\$ -</u>	<u>\$211,093,523</u>

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 6 – Capital Assets (continued)

Depreciation and amortization expense for governmental activities totaled \$13,779,753 for year ended June 30, 2017. Depreciation and amortization expense for the year ended June 30, 2017 was charged to governmental activities as follows:

General government	\$ 4,247,467
Public safety	2,599,444
Public works	4,700,662
Culture and recreation	2,120,849
Health and welfare	111,331
	<u>13,779,753</u>
Total	<u>\$ 13,779,753</u>

Business-Type Activities	Balance June 30, 2016	Additions	Decreases	Balance June 30, 2017
Capital assets not being depreciated				
Land	\$ 12,473	\$ -	\$ -	\$ 12,473
Construction in progress	1,571,206	4,559,450	-	6,130,656
	<u>1,583,679</u>	<u>4,559,450</u>	<u>-</u>	<u>6,143,129</u>
Capital assets being depreciated				
Buildings	28,466,513	-	20,790	28,445,723
Equipment	44,768,434	150,490	1,051,017	43,867,907
Land improvements	2,281,438	-	29,105	2,252,333
Infrastructure	59,686,654	1,747,454	229,419	61,204,689
	<u>135,203,039</u>	<u>1,897,944</u>	<u>1,330,331</u>	<u>135,770,652</u>
Amortizable assets				
Intangible assets	13,500	-	8,500	5,000
Total amortizable assets	<u>13,500</u>	<u>-</u>	<u>8,500</u>	<u>5,000</u>
Total capital assets	<u>136,800,218</u>	<u>6,457,394</u>	<u>1,338,831</u>	<u>141,918,781</u>
Accumulated depreciation				
Buildings	14,078,244	942,017	11,608	15,008,653
Equipment	35,688,419	1,075,341	769,866	35,993,894
Land improvements	1,289,716	42,582	24,760	1,307,538
Infrastructure	16,590,499	1,833,913	193,506	18,230,906
Total accumulated depreciation	<u>67,646,878</u>	<u>3,893,853</u>	<u>999,740</u>	<u>70,540,991</u>
Less accumulated amortization				
Intangible assets	9,260	125	8,500	885
Total accumulated amortization	<u>9,260</u>	<u>125</u>	<u>8,500</u>	<u>885</u>
Total capital assets, net	<u>\$ 69,144,080</u>	<u>\$ 2,563,416</u>	<u>\$ 330,591</u>	<u>\$ 71,376,905</u>

Depreciation and amortization expense for business-type activities for the year ended June 30, 2017 were \$3,893,978. The entire amounts were recorded in the Joint Utility Fund.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 7 – Long-term Debt

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the government-wide statement of net position:

Governmental Activities

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Unfunded OPEB Liability	\$ 21,469,708	\$ 5,260,965	\$ 1,311,395	\$ 25,419,278	\$ -
Compensated absences	2,336,097	38,994	508,736	1,866,355	508,736
Total long-term debt	\$ 23,805,805	\$ 5,299,959	\$ 1,820,131	\$ 27,285,633	\$ 508,736

Proprietary Funds

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
NMFA and NMED loans	\$ 31,392,965	\$ -	\$ 1,824,532	\$ 29,568,433	\$ 1,858,151
Unfunded OPEB liability	2,342,402	596,399	148,452	2,790,349	-
Compensated absences	211,824	22,707	9,060	225,471	225,470
Total long-term debt	\$ 33,947,191	\$ 619,106	\$ 1,982,044	\$ 32,584,253	\$ 2,083,621

The Joint Utility fund has incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment.

As of June 30, 2017, balances of NMFA and NMED loans are as follows:

Description	Date of Issue	Due Date	Interest Rate	Original Amount of Issue	Balance June 30, 2017
NMED Wastewater Loan	03/07/11	07/21/30	2.00%	\$ 31,419,101	\$ 23,262,025
NMFA Clean Drinking Water Loan	05/13/05	05/01/23	1.75%	5,226,750	3,484,004
NMFA Water Project Loan	3/22/13	06/01/32	0.25%	1,319,488	996,243
NMFA WTB Effluent Refuse Project	6/12/15	06/01/35	0.25%	1,280,000	1,156,578
NMFA WTB Effluent Refuse Project	6/12/16	06/01/36	0.25%	723,040	669,583
					\$ 29,568,433

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 7 – Long-term Debt (continued)

The City entered into a loan agreement with the New Mexico Finance Authority on May 13, 2005 for a total commitment of \$5,226,750. The loan has an interest rate of 1.75% with an administration fee of .25%. The principal and interest is payable from the net system revenues of the City's joint water and wastewater system, and money derived from the City's state share gross receipts tax revenue. The proceeds will be used for the renovation and expansion of the City's water system including but not necessarily limited to repairs of its elevated storage tanks, construction of new storage tanks, and installation of an automated meter reading system.

The City entered into a loan agreement with the New Mexico Environment Department on March 7, 2011, in order to obtain funds through the provisions of Section 74-6a-I NMSA 1078, as amended and hereafter amended (the Wastewater Facility Construction Loan Act) and the New Mexico Quality Control Commission Regulations. The purpose of the loan is to finance a project to acquire, construct, modify, and otherwise improve the wastewater facilities of the City's joint water and sewer system. The loan has an interest rate of 2% and the principal amount of the loan is not to exceed \$20,000,000. The loan agreement was amended on January 10, 2008, to increase the total available under the loan to \$35,000,000. The loan will be payable and collectible solely from the net revenues to be derived from the operation of the joint water and sewer system.

The City entered into a loan agreement with the New Mexico Finance Authority on March 22, 2013 to assist in financing a water conservation, treatment, recycling project which will include construction of the initial phase of the City's Effluent Reuse Project. The total loan amount is \$1,319,488 and the interest rate of .25% over the term of the loan. The loan matures on June 1, 2032 and will be payable and collectible solely from the net revenues to be derived from the operation of the joint water and sewer system.

The City entered into a loan/grant agreement with the New Mexico Finance Authority on June 12, 2015 to finance a water conservation and recycling project. The total grant amount totaled \$1,920,000 and the loan amount totaled \$1,280,000. The loan has an interest rate of .25% and is payable and collectible solely from the net revenues to be derived from the operation of the joint water and sewer system.

The City entered into a loan/grant agreement with the New Mexico Finance Authority on June 12, 2016 to finance a water conservation and recycling project. The total grant amount totaled \$1,084,560 and the loan amount totaled \$723,040. The loan has an interest rate of .25% and is payable and collectible solely from the net revenues to be derived from the operation of the joint water and sewer system.

Note 7 – Long-term Debt (continued)

The aggregated debt service payments required on the outstanding debt of the proprietary funds is as follows:

Year Ending June 30,	Principal	Interest	Total Debt Service
2018	\$ 1,858,151	\$ 541,977	\$ 2,400,128
2019	1,892,433	507,694	2,400,127
2020	1,927,393	472,732	2,400,125
2021	1,963,048	437,079	2,400,127
2022	1,999,406	400,720	2,400,126
2023-2027	10,568,124	1,432,504	12,000,628
2028-2032	9,049,786	415,341	9,465,127
2033-2038	310,092	1,552	311,644
	<u>\$ 29,568,433</u>	<u>\$ 4,209,599</u>	<u>\$ 33,778,032</u>

Note 8 – Line-of-Credit

On December 7, 2016, the City established a \$634,000 irrevocable letter of credit with Lea County State Bank at .051% in order to meet an insurance requirement. There was no balance outstanding on the line-of-credit as of June 30, 2017. The City authorized the insurance carrier (Liberty Mutual) to draw upon the account. The line-of-credit is secured by a U.S. Treasury bill with a par value of \$634,000 and a maturity date of December 7, 2017.

Note 9 – Conduit Debt Obligations

From time to time, the City issues Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The following outstanding industrial revenue bonds were issued in the City's name:

Recipient	Date of Issue	Retirement Date	Amount Issued	Amount Outstanding June 30, 2017	Purpose
RMS Foods, Inc.	2005	2035	\$ 7,775,000	\$ 5,000	Acquire land and acquire, construct and equip a facility in the City of Hobbs

City of Hobbs

Notes to Financial Statements

June 30, 2017

Note 10 – Operating Leases

The City leases ambulances under operating leases expiring during the year ended June 30, 2018. Although renewal and purchase options are available on these leases, the City considers these to be operating leases as they contain a non-appropriation termination clause. As of June 30, 2017, future minimum lease payments applicable to the operating leases total \$75,000.

Note 11 – Risk Management

Blue Cross Blue Shield of New Mexico has been retained as the City's medical insurer. Under the plan, the City is fully covered under a commercial health insurance policy. The City accounts for the medical plan in the Risk Management Internal Service Fund. The City is exposed to various risks of loss related to torts; theft of, or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City maintains a large deductible workers' compensation policy, which is also accounted for in the Risk Management Internal Service Fund. Claims exceeding \$250,000 per occurrence up to \$1,000,000 annually are covered by commercial insurance. Claims are paid monthly as reported. An estimate for claims incurred but not paid is calculated by the third party administrator of the policy. This estimated liability was calculated to be \$690,844 at June 30, 2017 and is reported as a liability on the financial statements.

The City's risk management activities are accounted for in the Risk Management Internal Service Fund, which includes health insurance, workers' compensation insurance, and retiree health insurance activities.

Insurance settlements have not exceeded insurance coverage for any of the past three fiscal years. There have been no significant reductions in insurance coverage from the prior year.

Note 12 – Pension Plan

Plan Description – The New Mexico Public Employees Retirement Fund (PERA 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 Officer, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage. 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 PERA 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-IIA-1 to 10-IIA-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-8, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://www.nmpera.org>.

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

Benefits Provided – For a description of the benefits provided see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2016 available at <http://www.nmpera.org>.

Contributions – The contribution requirements of defined benefit plan members and the Agency are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY16 annual audit report at <http://www.nmpera.org>.

The PERA coverage options that apply to the City are the following: Municipal General Division, Municipal Police Division and Municipal Fire Division.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The net pension liability and sensitivity information were based on an actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the measurement year ended June 30, 2016 using generally accepted actuarial principles. The City's allocated portions of the net pension liability and other pension amounts were established as of the measurement date of June 30, 2016.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members.

The City's proportion of the net pension liability for each membership group that the employer participates in is based on the City's contributing percentage of each membership group's total employer contributions for the measurement year ended June 30, 2016. This methodology was used to determine the allocation percentages among all the participating employers.

City of Hobbs
Notes to Financial Statements
June 30, 2017

City of Hobbs – Overall – As of June 30, 2017, the City reported a liability of \$66,993,530 for its proportionate share of the net pension liability of the City overall. For the year ended June 30, 2017, the City recognized overall pension expense of \$8,146,343. As of June 30, 2017, City of Hobbs reported PERA deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 2,516,388	\$ -
Differences between expected and actual experience	3,749,529	248,228
Net difference between projected and actual earnings on pension plan investments	9,729,622	-
Changes of assumption	3,972,691	605,797
City of Hobb's contributions subsequent to the measurement date	<u>4,645,862</u>	<u>-</u>
	<u>\$ 24,614,092</u>	<u>\$ 854,025</u>

Contributions reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date at June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (4,881,300)
2019	(4,881,300)
2020	(6,833,798)
2021	<u>(2,517,803)</u>
Total	<u>\$ (19,114,201)</u>

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

Municipal General Division – As of June 30, 2017, the City reported a liability of \$25,434,803 for its proportionate share of the net pension liability of the Municipal General Division. For the year ended June 30, 2017, the City recognized Municipal General Division pension expense of \$3,145,018. As of June 30, 2017, City of Hobbs reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 1,177,383	\$ -
Differences between expected and actual experience	1,270,828	248,229
Net difference between projected and actual earnings on pension plan investments	4,679,955	-
Changes of assumption	1,491,453	4,229
City of Hobb's contributions subsequent to the measurement date	1,818,549	-
	\$ 10,438,168	\$ 252,458

Contributions reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date at June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (2,007,838)
2019	(2,007,838)
2020	(3,146,828)
2021	(1,204,657)
Total	\$ (8,367,161)

Municipal Police Division – As of June 30, 2017, the City reported a liability of \$21,213,343 for its proportionate share of the net pension liability. For the year ended June 30, 2017, the City recognized Municipal Police Division pension expense of \$3,135,890. At June 30, 2017, the City reported Municipal Police Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes in proportion	\$ 1,201,774	\$ -
Differences between expected and actual experience	1,557,368	-
Net difference between projected and actual earnings on pension plan investments	3,355,012	-
Changes of assumption	1,405,053	382,578
City of Hobb's contributions subsequent to the measurement date	<u>1,690,531</u>	<u>-</u>
	<u><u>\$ 9,209,738</u></u>	<u><u>\$ 382,578</u></u>

Contributions reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date at June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (1,860,135)
2019	(1,860,135)
2020	(2,535,743)
2021	<u>(880,613)</u>
Total	<u><u>\$ (7,136,626)</u></u>

Municipal Fire Division – As of June 30, 2017, the City reported a liability of \$20,345,267 for its proportionate share of the net pension liability. For the year ended June 30, 2017, the City recognized Municipal Fire Division pension expense of \$2,587,113. At June 30, 2017, the City reported Municipal Fire Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 137,230	\$ -
Differences between expected and actual experience	921,333	-
Net difference between projected and actual earnings on pension plan investments	1,694,655	-
Changes of assumption	1,076,185	218,990
City of Hobb's contributions subsequent to the measurement date	1,136,782	-
	\$ 4,966,185	\$ 218,990

Contributions reported as deferred outflows of resources resulting from the City's contributions subsequent to the measurement date at June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (1,013,327)
2019	(1,013,327)
2020	(1,151,227)
2021	(432,533)
Total	\$ (3,610,415)

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

Actuarial assumptions – As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by PERA for use in the actuarial valuation.

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization assumptions:	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	3.50% annual rate
Projected salary increases	3.50 to 14.25% annual rate
Includes inflation at	3.00% annual rate
Mortality assumptions	RP-200 mortality tables (combined table for healthy post-retirements, employee table for active members, and disabled table for disabled retirees before retirement age) with projections to 2018 using scale AA.
Experience study date	July 2008 to June 30, 2013

The long-term expected rate of return on pension plan investments was determined using a statistical analysis 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 asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

All Funds - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets	20.00%	7.35%
	100.00%	

Note 12 – Pension Plan – Public Employees Retirement Association (continued)

Discount rate – The discount rate used to measure the total pension liability was 7.48%. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB No. 67. Therefore, the 7.48% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present City's net pension liability in each PERA Fund Division that the City participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

<u>City of Hobbs - Overall</u>	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
City of Hobb's proportionate share of the net pension liability	<u>\$ 95,742,627</u>	<u>\$ 66,993,413</u>	<u>\$ 43,313,477</u>
<u>PERA Fund Municipal General Division</u>	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
City of Hobb's proportionate share of the net pension liability	<u>\$ 37,921,029</u>	<u>\$ 25,434,803</u>	<u>\$ 15,078,099</u>
<u>PERA Fund Municipal Police Division</u>	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
City of Hobb's proportionate share of the net pension liability	<u>\$ 31,210,094</u>	<u>\$ 21,213,343</u>	<u>\$ 13,037,171</u>
<u>PERA Fund Municipal Fire Division</u>	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
City of Hobb's proportionate share of the net pension liability	<u>\$ 26,611,504</u>	<u>\$ 20,345,267</u>	<u>\$ 15,198,207</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 PERA financial report. The report is available at <http://www.nmpera.org>.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 13 – Post-Employment Benefits

Plan description – The City administers a single-employer defined benefit healthcare plan, the "Retiree Health Plan." The plan provides life, medical, and dental insurance benefits to participating retirees, spouses, children, and survivors. In a June 14, 1991 memorandum, the City Manager informed all city employees that the City Commission "unanimously approved" a Retiree Group Insurance Program during the annual budget process. During the fiscal years ended June 30, 2009 and 2011, the City Commission passed resolutions amending the Retiree Group Insurance Program. The Retiree Health Plan does not issue a financial report available to the public.

The Retiree Health Plan has 213 retirees receiving benefits and a total of 393 active participants.

Funding policy – Changes to the Retiree Health Plan must be instigated through City Commission resolution with the necessary budget adjustments. The City pays a service-based portion of the premium for the coverage, while retirees, spouses, and survivors pay the remainder of the premium for their coverage. In the fiscal years ended June 30, 2017, 2016 and 2015 respectively, plan members' contributions totaled \$640,284, \$549,524, and \$547,548. The City contributes 2% to 3% of premiums for each year of service, up to a maximum of 30 years of service or 90% of the cost of premiums for retirees eligible for benefits who have 30 years of service with the City of Hobbs. Employees retiring with between 25 and 30 years of service will receive a subsidy of 2.5% of premiums for every year of service, and employees retiring with between 10 and 25 years of service will receive a subsidy of 2% of premiums for every year of service. Employees with fewer than 10 years of service with the City of Hobbs are not eligible for benefits. For the fiscal years ended June 30, 2017, 2016 and 2015 respectively, the City contributed \$434,445, \$417,734, and \$364,924 to the plan. The plan is financed on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation – The City's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the Retiree Health Plan:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution (ARC)	\$ 4,298,525	\$ 487,293	\$ 4,785,818
Interest on net OPEB obligation	962,440	109,105	1,071,545
Adjustment to annual required contribution	<u>(920,995)</u>	<u>(104,407)</u>	<u>(1,025,402)</u>
Annual OPEB cost (expense)	4,339,970	491,991	4,831,961
Annual contribution	<u>(390,400)</u>	<u>(44,045)</u>	<u>(434,445)</u>
Increase in net OPEB obligation	3,949,570	447,946	4,397,516
Net OPEB obligation - beginning of year	21,469,708	2,342,403	23,812,111
Net OPEB obligation - end of year	<u>\$ 25,419,278</u>	<u>\$ 2,790,349</u>	<u>\$ 28,209,627</u>

Note 13 – Post-Employment Benefits (continued)

Funded Status and Funding Progress – The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation
6/30/2017	\$ 4,831,961	\$ 434,445	8.99%	\$ 28,209,627
6/30/2016	4,823,425	417,737	8.66%	23,812,111
6/30/2015	4,331,520	364,927	8.42%	19,406,420

As of January 1, 2015, the projected actuarial accrued liability (AAL) for benefits for the fiscal 2017 year was \$46,569,802, all of which was unfunded. The covered payroll (the annual payroll of active employees covered by the plan) was \$25,578,544, and the unfunded actuarial accrued liability (UAAL) was 182.07% percent of the covered payroll.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of the occurrence of future events. Amounts used in the determination of the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents trend information indicating whether the actuarial value of plan assets is increasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of a short-term perspective on the calculations. The following simplifying assumptions were made:

In the January 1, 2015 actuarial valuation, the project unit cost method was used. A discount rate of 4.50% was applied, and the plan was assumed to be unfunded. Annual initial healthcare cost trend rate of 6.90% for pre-65 and 8.00% for post-65 was used for medical costs and 4% for dental costs and; this rate is reduced by decrements to an ultimate rate of 5.0% and 4.0% respectively after 9 years. Additional actuarial assumptions included mortality rates, retirement rates, withdrawal rates, disability rates, age differences, medical plans, health care claims costs, spouse and child coverage, participation rates, retiree contributions, and trends in retiree costs.

City of Hobbs

Notes to Financial Statements

June 30, 2017

Note 14 – Contingent Liabilities

The City is party to various claims and lawsuits in the normal course of business. Management and the City's attorney are unaware of any material pending or threatened litigation, claims or assessments against the City which are not covered by the City's insurance.

Note 15 – Federal and State Grants

In the normal course of operations, the City receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management believes any liability resulting from these audits would be immaterial.

Note 16 – Joint Powers Agreements and Memorandums of Understanding

Estacado Library Information Network – The City entered into a joint powers agreement on December 1, 1997 with the City of Lovington, College of the Southwest, New Mexico Junior College, and the Jal Public Library Fund, all of which operate libraries in Lea County, New Mexico to form the Estacada Library Information Network (ELIN). The purpose of the ELIN is to provide access to the combined collections of the participating libraries and to provide access to the emerging networked digital information world. The New Mexico Junior College serves as the fiscal agent. Audit responsibility lies with the New Mexico Junior College.

Lea County Solid Waste Authority – The City entered into a joint powers agreement on March 6, 1995 with all of the municipalities in Lea County to form the Lea County Solid Waste Authority (Authority). It was the desire of the parties to form a solid waste disposal authority in order to collectively address the immediate and future solid waste disposal needs of the citizens of Lea County. Lea County (the County) serves as the fiscal agent for the Authority and accounts for the Authority's receipts and disbursements in an agency fund. The County also issues a separate, publically available audited financial report for the Authority. The audited financial report for the Authority may be obtained by writing to Lea County, 100 North Main, Suite 11, Lovington, NM 88260.

Hobbs Municipal Schools – The City entered into a joint powers agreement on February 20, 1974 with the Hobbs Municipal Schools to provide for joint use of recreational facilities, such as an indoor swimming pool, gymnasium complex and handball courts owned by the Hobbs Municipal Schools. The purpose of the agreement is to promote the physical fitness of students and promote physical fitness and community recreational opportunities for all other residents in the community. During the time the City has use of the facilities it shall be opened and used for supervised swimming, gymnasium and handball purposes by persons other than students, and shall be under the supervision of the City. This agreement shall continue for a period of five years, and thereafter as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

The City entered into a joint powers agreement on November 20, 1972 with the Hobbs Municipal Schools to erect two little league baseball fields at Jefferson Elementary. The fields will be used for sports activities sponsored by the Parks and Recreation Department, and furthering athletic and recreational programs in the Hobbs Municipal Schools. This agreement shall continue as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

Note 16 – Joint Powers Agreements and Memorandums of Understanding (continued)

The City entered into a joint powers agreement on August 5, 1975 with the Hobbs Municipal Schools to unify their resources in the development of neighborhood parks on school land at Sanger, Mills, and Coronado Elementary schools to be used by the citizens of the City, both adults and students, in enhancing community recreational programs. This agreement is to continue for 25 years, and thereafter as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

The City entered into a joint powers agreement on April 21, 1986 with the Hobbs Municipal Schools to unify their resources in the development of neighborhood parks on school land at College Lane and Stone Elementary schools to be used by the citizens of the City, both adults and students, in enhancing community recreational programs. This agreement is to continue for 25 years, and thereafter as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

The City entered into a joint powers agreement on December 18, 1975 with the Hobbs Municipal Schools to jointly develop tennis courts on property owned by the Hobbs Municipal Schools. The City will pay power costs for operating and maintaining lights adequate for illuminating the tennis courts for nighttime activities. The City and the Hobbs Municipal Schools will jointly and equally bear the expenses for maintaining the tennis courts. This agreement is to continue for 25 years, and thereafter as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

The City entered into a joint powers agreement on February 2, 2015 with Hobbs Municipal Schools regarding field turf at Veteran's Memorial Park. This agreement is to continue indefinitely as mutually agreeable by both parties. Audit responsibility lies with the Hobbs Municipal Schools.

New Mexico Energy, Minerals and Natural Resources Department – The City entered into a joint powers agreement on May 15, 2000 with the State of New Mexico Energy, Minerals and Natural Resources Department (EMNRD) to mutually establish, implement and maintain a Resource Mobilization Plan (RMP) and associated procedures for the mobilization of wildland fire protection resources. The RMP will establish 1) personnel and equipment standards for City resources that may be made available to EMNRD for wildfire suppression and management; 2) procedures by which EMNRD can request, mobilize, coordinate and demobilize City resources used for wildfire protection and management; 3) rates, specific procedures, and administrative methods by which EMNRD will reimburse the City for the services of qualified and requested resources. This agreement may be terminated by either party upon 30 days written notice. Audit responsibility lies with the City of Hobbs.

The City entered into a joint powers agreement on April 17, 2000 with the State of New Mexico Energy, Minerals and Natural Resources Department (EMNRD) for the control of timber, grass, and woodland fires in and adjacent to suburban areas to establish an effective fire control program. The City and EMNRD agree to maintain, in accordance with the Program, a fire protection system covering any or all private, county, non-municipal, and state lands within or adjacent to the City. This agreement may be terminated by either party upon 60 days written notice. Audit responsibility lies with the City of Hobbs.

The City entered into an agreement with the State of New Mexico Energy, Minerals and Natural Resources Department (EMNRD) for Wildland Fire Protection and Suppression setting terms for reimbursements of expenses incurred with fighting wildland fires in the region. The agreement provides for up to \$10,000 in reimbursement per year. The agreement may be terminated by either party upon 90 days written notice. Audit responsibility lies with the City of Hobbs.

City of Hobbs
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June 30, 2017

Note 16 – Joint Powers Agreements and Memorandums of Understanding (continued)

Eddy-Lea Energy Alliance – The City established a joint powers agreement with the Eddy-Lea Energy Alliance (ELEA) on October 30, 2006. The goal of this agreement is to evaluate a site for use by the Global Nuclear Energy Partnership and the United States Department of Energy. This is hoped to bring new, higher-wage jobs to the area and strengthen the economic base of the region. The agreement is perpetual, but may be terminated with the written consent of all voting members. Audit responsibility lies with each individual agency.

City of Lovington and Lea County – On June 18, 2007, the City of Hobbs entered into a joint powers agreement with the City of Lovington, New Mexico, and Lea County for the operation and maintenance of an EDACS radio system. The agreement may be terminated by any party with one year written notice. Audit responsibility lies with each individual agency.

Lea County-Emergency Operations Center – On July 13, 2009, the City of Hobbs entered into a joint powers agreement with all of the municipalities in Lea County to establish an emergency communications district and to operate an emergency dispatch center for Lea County. The facility will also house a Lea County Sheriff's Substation and Hobbs Fire Department Station. The City is providing real property located at 3710 W. College Lane for an Emergency Operations Center ("EOC"), a Lea County Sheriff's Substation, and a four bay Hobbs Fire Department Station. The City and County will share equally in the costs of the architecture, planning and construction of the EOC. The County will pay its prorated costs for the design and construction of the Fire Department Facility. The City will receive a fifty percent credit for the cost of the real property and its acquisition cost. The joint powers agreement provides for the creation of an Authority, managed by a Board of directors. The City and County will each provide fifty percent of the funds necessary for administrative and operational expenses of the Authority and the EOC. The County will act as the fiscal agent for the Authority and all employees of the EOC will be County employees. Audit responsibility lies with the County.

On March 14, 2011, the joint powers agreement with all of the municipalities in Lea County establishing an emergency communications district and for operation of an emergency dispatch center for Lea County was amended and restated to include an Emergency Operations Center ("EOC"), housing a Lea County Sheriff's Substation and a Hobbs Fire Department Station. The City is providing real property for the EOC, and the City and the County will share equally in the costs of the architecture, planning, and construction of the EOC. The County will pay its prorated cost for the design and construction of the Sheriff's Substation and the City will pay its prorated cost for design and construction of the Fire Department Facility. The City will receive a fifty percent (50%) credit for the cost of the real property and its acquisition cost. The City and County will each provide fifty percent (50%) of the funds necessary for administrative and operational expenses of the Authority and the EOC. The County will act as the fiscal agent for the EOC and all employees of the EOC will be County employees. Audit responsibility lies with the County.

Lea County and the New Mexico Junior College – On July 6, 2010, the City of Hobbs, Lea County, and the New Mexico Junior College entered into a memorandum of understanding to jointly provide training to police officers, deputies, corrections officers, civilian police employees, crime scene analysts, and parole and probation officers in and around the Lea County area. The City agreed to provide initial funding of \$10,000 to pay presenters' fees for the training. The College agreed to provide the location for the training and to be responsible for registration and the collection of registration fees, and to reimburse the City the amount of the initial funding or the amount of registration fees collected, whichever is less. In the event that the registration fees are less than the initial funding, the County agreed to reimburse the City for one-half of the difference between the refunded amount and the initial funding. The College acted as the fiscal agent for the expenditure of the funds and audit responsibility lies with the College.

Note 16 – Joint Powers Agreements and Memorandums of Understanding (continued)

Lea County Detention Center – On May 7, 2012, the City authorized the Mayor to execute an agreement with Lea County to house Lea County Detention Facility Prisoners in the Hobbs Detention Facility. In exchange Lea County will pay Hobbs the sum of \$65.50 per day, pro-rated for partial days, from the date of incarceration through the date of release for housing and board and related services rendered at the center. Audit responsibility lies with both Lea County and the City.

DWI Program – On July 2, 2012, the City of Hobbs entered into a Memorandum of Understanding with Lea County, City of Lovington, City of Jal, City of Eunice, Town of Tatum and New Mexico State Police regarding the Community DWI Prevention Program. The purpose of the agreement is to combine funds and resources in achieving a common goal of removing the DWI from the streets and highways of Lea County thus reducing highway traffic accidents that are alcohol related. Lea County is the fiscal agent and there is no requirement for matching funds for the City. There is no audit responsibility. There were no contributions for fiscal year 2017.

Prisoner Housing Reciprocal Agreement – On July 1, 2013, the City executed an agreement with Lea County to house Hobbs City Jail prisoners in the Lea County Detention Facility and for the Lea County to House Prisoners in the Hobbs City Jail. The estimated costs to house a prisoner is \$32.75 for 0-12 hours and \$65.50 for 12-24 hours and does not include medical cost associated with the incarceration. Lea County and Hobbs have the option of renewing the contract at the end of every year. There is no audit responsibility incorporated into the terms of this specific agreement.

Justice Assistance Grant Edward Byrne – On July 15, 2013, the City executive an agreement with Lea County regarding application for the Edward Byrne Memorial Justice Assistance Grant program. Under the terms of the agreement, the funding from the grant in the amount of \$17,582 will be distributed to the City of Hobbs Police Department. The City will act as the fiscal agent and the agreement will remain in effect until the project is completed. There is no audit responsibility incorporated into the terms of this specific agreement.

Health and Wellness Learning Center (HWLC) – On September 4, 2015, the City entered into a MOU for the design, construction, operation, and joint use of a health wellness and learning center (HWLC) with the New Mexico Junior College (NMJC), the Board of Education of Hobbs Municipal School District (District), and Lea County (County). The total estimated cost of the design and construction of the HWLC is \$63,500,000. Once the HWLC is completed, the parties will share in the cost of utilities and maintenance of the HWLC and the use of the HWLC will be shared by the parties in accordance with the MOU. The costs of the programs and activities that the City, NMJC, and the District conduct at the HWLC will be paid by the sponsoring entity and will not be shared.

The parties project that initially, the annual costs of the utilities, maintenance, repairs and replacements for the HWLC will be \$1,600,000 Facility costs include the direct costs of utilities (electricity, gas, water, sewer and telephone), janitorial service, maintenance, repairs and will be funded by the parties as indicated below:

NMJC will contribute \$300,000 annually towards facility costs. The County originally were to contribute \$300,000 towards facility costs but was dependent on the implementation of an Equine Center. As of June 30, 2017, the County did not fund the project. The District will contribute \$100,000 toward facility costs. The City will contribute \$900,000 toward facility costs. The funding for the HWLC is slated to begin on July 1, 2018, and on the first day of July thereafter.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 16 – Joint Powers Agreements and Memorandums of Understanding (continued)

NMJC, the Districts' and the City's facility contribution shall be increased by the percentage increase in the CPI from the prior July 1st, but in no event greater than 5% in any one year.

Note 17 – Other Required Individual Fund Disclosures

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

- A. Deficit fund balance of individual funds. The following funds reported a deficit fund balance as of June 30, 2017:

Older American Act Special Revenue Fund	\$ 25,239
Cemetery Special Revenue Fund	13,448
- B. Excess of expenditures over appropriations. No funds exceeded approved budgetary authority for the year ended June 30, 2017.
- C. Designated cash appropriations in excess of available balances. No funds exceeded approved budgetary authority for the year ended June 30, 2017.

Note 17 – Construction and Other Significant Commitments

The City had outstanding construction commitments for construction and infrastructure projects of \$9,025,718 as of June 30, 2017.

The City has entered into a MOU for the design, construction, operation, and joint use of a health wellness and learning center (HWLC) with the New Mexico Junior College (NMJC), the Board of Education of Hobbs Municipal School District (District), and Lea County (County). The total estimated cost of the design and construction of the HWLC is \$63,500,000.

The City has committed \$52,500,000 toward the cost to design, construct, and equip the Wellness center which consists of \$27,500,000 of private grant funds from the Maddox Foundation. The City will also contribute to the ongoing maintenance and repair of the HWLC.

NMJC has committed \$5,000,000 for the proceeds of the general obligation bonds approved by the voters in New Mexico in November of 2015, subject to approval of the contributions by the New Mexico Higher Education Department towards the cost to design and construction of HWLC. The \$50,000 of the bond proceeds must be in Art in Public Places. An additional \$5,000,000 was committed towards the cost of design and construction of the HWLC from mill levy funds. All capital commitments with the exception of the Art in Public Places have been satisfied as of June 30, 2017. In addition, NMJC will also contribute to the ongoing maintenance and repair of the HWLC once opened.

The District has committed \$1,000,000 of local bond funds towards the costs to design and construct the HWLC. All capital commitments have been satisfied as of June 30, 2017. In addition, the District will also contribute to the ongoing maintenance and repair of the HWLC once opened.

Note 17 – Construction and Other Significant Commitments (continued)

The County was originally committed to contribute to the ongoing maintenance and repair of the HWLC, however the commitment was qualified to the establishment of an Equine Center. As of June 30, 2017, the County has yet to establish an Equine Center. The County is not contributing any funds to the capital costs for the HWLC because it is leading and funding other quality of life initiatives in Lea County.

Once the HWLC is completed, the parties will share in the cost of utilities and maintenance of the HWLC and the use of the HWLC, will be shared by the parties in accordance with the MOU. The costs of the programs and activities that the City, NMJC, and the District conduct at the HWLC, will be paid by the sponsoring entity and will not be shared.

The parties project that initially, the annual costs of the utilities, maintenance, repairs and replacements for the HWLC will be \$1,600,000. Facility costs include the direct costs of utilities (electricity, gas, water, sewer and telephone), janitorial service, maintenance, repairs and will be funded by the parties as indicated below:

NMJC will contribute \$300,000 annually towards facility costs.

The District will contribute \$100,000 toward facility costs.

The City will contribute \$900,000 toward facility costs.

Note 18 – Prepaid Housing Incentives

The City has prepaid housing incentive commitments related to the above program totaling \$615,000 at June 30, 2017 which relates to 25 police officers and the city manager.

Note 19 – Concentration

As of June 30, 2017, 90 of the City's 653 employees (14%) are police union employees who work under a collective bargaining agreement approved on June 15, 2015. The term of the agreement expires on June 15, 2020. In addition, the City had 42 of their 653 employees (7%) that were part of a fire union agreement. This agreement was approved on November 3, 2014 and expires on June 30, 2019.

City of Hobbs
Notes to Financial Statements
June 30, 2017

Note 20 – Tax Abatements

The City of Hobbs negotiates property tax abatements on an individual basis. The City has tax abatement agreements two entities as of June 30, 2017. Each agreement was negotiated under the State of New Mexico Article 32, Industrial Revenue Bonds (IRB'S) allowing local municipal governments to abate property taxes and other state taxes such as investment tax credits (ITC's) for a variety of economic development purposes. The taxable value is 1/3 of this amount and the rate for the City of Hobbs is reported. Personal property tax abatement for equipment purchased with IRB's is reported by the recipient. Information related to the reduction of property tax abatements affecting the City of Hobbs for fiscal year ended June 30, 2017 is:

	Lea County's Assessed Value	1/3rd Taxable Value	(Non-Residential) City of Hobbs Property Tax Rate	City of Hobbs Property Tax Abated per year	Maturity year of IRB/Bond
RMS Foods - Industrial Revenue Bonds (See Note 9 of 2016 Financial Report page 80)	545,514	181,838	0.005555	1,010	2035
Washington Place Apartments - Low Income Housing Tax Credit Bonds	1,151,253	383,751	0.005555	2,132	2020

Required Supplementary Information

City of Hobbs
Schedule of OPEB Funding Progress
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets <u>a</u>	Actuarial Accrued Liability AAL - Entry Age <u>b</u>	Unfunded Actuarial Accrued Liability AAL - UAAL <u>b-a</u>	Funded Ratio <u>a/b</u>	Covered Payroll <u>c</u>	UAAL as a Percentage of Covered Payroll <u>(b-a)/c</u>
June 30, 2017	\$ -	\$ 46,569,802	\$ 46,569,802	\$ -	\$ 25,578,544	182.07%
June 30, 2016	-	42,172,285	42,172,285	-	24,928,159	167.27%
June 30, 2015	-	37,766,594	37,766,594	-	23,152,024	151.50%
Fiscal Year Ended	Annual OPEB Cost		Actual Employer Contributions		Percentage Contributed	
June 30, 2017	\$ 4,831,961		\$ 434,445		8.99%	
June 30, 2016	4,823,425		417,734		8.66%	
June 30, 2015	4,331,520		364,924		8.42%	

City of Hobbs
Schedule of City of Hobb's Proportionate Share of the
Net Pension Liability of PERA Municipal General Division
Public Employees Retirement Association (PERA) Plan
June 30, 2017

	2017 Measurement Date as of and for the Year Ended June 30, 2016	2016 Measurement Date as of and for the Year Ended June 30, 2015	2015 Measurement Date as of and for the Year Ended June 30, 2014
City of Hobb's proportion of the net pension liability	1.5920%	1.5029%	1.4202%
City of Hobb's proportionate share of the net pension liability \$	25,434,803	\$ 15,323,368	\$ 11,079,084
City of Hobb's covered payroll	\$ 14,553,082	\$ 12,460,381	\$ 11,528,643
City of Hobb's proportionate share of the net pension liability as a percentage of its covered payroll	174.77%	122.98%	96.10%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

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

City of Hobbs
Schedule of City's Proportionate Share of the
Net Pension Liability of PERA Municipal Police Division
Public Employees Retirement Association (PERA) Plan
June 30, 2017

	2017 Measurement Date as of and for the Year Ended June 30, 2016	2016 Measurement Date as of and for the Year Ended June 30, 2015	2015 Measurement Date as of and for the Year Ended June 30, 2014
City of Hobb's proportion of the net pension liability	2.8751%	2.6591%	2.4840%
City of Hobb's proportionate share of the net pension liability	\$ 21,213,343	\$ 12,786,444	\$ 8,097,570
City of Hobb's covered payroll	\$ 6,973,544	\$ 5,215,611	\$ 4,783,820
City of Hobb's proportionate share of the net pension liability as a percentage of its covered payroll	304.20%	245.16%	169.27%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

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

City of Hobbs
Schedule of City's Proportionate Share of the
Net Pension Liability of PERA Municipal Fire Division
Public Employees Retirement Association (PERA) Plan
June 30, 2017

	2017 Measurement Date as of and for the Year Ended June 30, 2016	2016 Measurement Date as of and for the Year Ended June 30, 2015	2015 Measurement Date as of and for the Year Ended June 30, 2014
City of Hobb's proportion of the net pension liability	3.0498%	3.1095%	3.5300%
City of Hobb's proportionate share of the net pension liability \$	20,345,267	\$ 16,048,695	\$ 12,743,202
City of Hobb's covered payroll	\$ 4,051,918	\$ 3,407,308	\$ 3,400,537
City of Hobb's proportionate share of the net pension liability as a percentage of its covered payroll	502.11%	471.01%	374.74%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

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

City of Hobbs
Schedule of Employer Contributions
Public Employees Retirement Association (PERA) Plan
PERA Municipal General Division
June 30, 2017

	Year Ended June 30,		
	2017	2016	2015
Contractually required contributions	\$ 1,818,549	\$ 1,393,180	\$ 1,707,154
Contributions in relation to the contractually required contributi	<u>(1,818,549)</u>	<u>(1,393,180)</u>	<u>(1,707,154)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Hobb's covered-employee payroll	\$ 14,553,082	\$ 13,136,395	\$ 12,460,381
Contributions as a percentage of covered-employee payroll	12%	11%	14%

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

City of Hobbs
Schedule of Employer Contributions
Public Employees Retirement Association (PERA) Plan
PERA Municipal Police Division
June 30, 2017

	Year Ended June 30,		
	2017	2016	2015
Contractually required contributions	\$ 1,690,531	\$ 1,070,700	\$ 1,350,091
Contributions in relation to the contractually required contributions	<u>(1,690,531)</u>	<u>(1,070,700)</u>	<u>(1,350,091)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Hobbs's covered-employee payroll	\$ 6,973,544	\$ 6,214,741	\$ 5,215,611
Contributions as a percentage of covered-employee payroll	24%	17%	26%

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

City of Hobbs
Schedule of Employer Contributions
Public Employees Retirement Association (PERA) Plan
PERA Municipal Fire Division
June 30, 2017

	Year Ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 1,136,782	\$ 629,241	\$ 1,050,436
Contributions in relation to the contractually required contributions	<u>(1,136,782)</u>	<u>(629,241)</u>	<u>(1,050,436)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Hobb's covered-employee payroll	\$ 4,051,918	\$ 3,555,033	\$ 3,407,308
Contributions as a percentage of covered-employee payroll	28%	18%	31%

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

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at <http://www.nmpera.org>.

Changes of assumptions. The PERA Annual Actuarial Valuation as of June 30, 2016 is available at <http://www.nmpera.org>.

Changes in assumptions resulted in a decrease of \$91.8 million to the total pension liability for the PERA Fund and an increase of 0.42% to the funded ratio for the year ended June 30, 2015. See more details of actuarial methods and assumptions in PERA's Schedule of Employer Allocations and Pension amounts at <http://www.nmpera.org>.

Supplementary Information

City of Hobbs

Nonmajor Governmental Fund Descriptions

June 30, 2017

SPECIAL REVENUE FUNDS

Local Government Corrections – To account for the cost of constructing, operating or maintaining the municipal jail or for paying the cost of housing municipal prisoners in the County jail. Financing is provided by \$10 fees collected from any person violating a motor vehicle ordinance. The fund was authorized by State law which requires a special revenue fund.

Police Protection – To account for an annual grant issued by the State of New Mexico under the Law Enforcement Grant Act. This grant is used to purchase equipment and supplies not otherwise budgeted for police personnel protection. The fund was authorized by the State of New Mexico Law Enforcement Grant Act.

Police Narcotics – To account for the receipt of money through the drug enforcement program and to account for the distribution of funds directly related to education and enforcement of the drug program. The City has designated the fund as a special revenue fund by resolution.

SAFER Fund – To account for house salary expenses and grant reimbursement on a 7 firefighter 2-year federal grant under the SAFER (Staffing for Adequate Fire and Emergency Response) program issued by the US Department of Homeland Security (DHS), the Federal Emergency Management Agency (FEMA), and Grants Programs Directorate (GPD) under the Fire Prevention and Control Act of 1974.

COPS Grant Fund – To account for a federal grant awarded through the U.S. Department of Justice Office of Community Oriented Policing Services (COPS). The grant was awarded to help supplement officers hired. The fund was authorized by City resolution.

Older American Act – To account for the operation of the Senior Center, the related meal program and "Meals on Wheels." The funding is primarily through the Area Agency on Aging Grants (both State and Federal), user donations, and City funding designated specifically for senior citizen activities. The fund was authorized by City resolution.

Golf – To account for operations of the City's golf course. Financing is provided by fees charged to the users of the golf course facilities. The funds have been designated a special revenue fund by City resolution, the revenues are restricted to golf course operations.

Cemetery – To account for operation and maintenance of the cemetery. The fund has been designated a special revenue fund by City resolution, and the revenues are restricted to operation and maintenance expenditures of the cemetery.

Airport – To account for operations and maintenance of City owned facilities at the Hobbs Industrial Airport Park. Financing is provided by rental of facilities at the industrial complex. The City by resolution has designated the fund a special revenue fund, and all revenues are restricted to airport operations.

Lodger's Tax Promotional – To account for expenditures for advertising, publicizing and promoting certain recreational and tourist activities in the area. Financing is provided by a specific tax on taxable rent for lodging. The fund has been designated a special revenue fund by City ordinance.

SPECIAL REVENUE FUNDS (continued)

Public Transportation – To account for expenditures of a public transportation system within the City. The City has designated the fund a special revenue fund by resolution, and all revenues are restricted to public transportation uses.

Fire Protection – To account for operations and maintenance of the Fire Department. Financing is provided by a State allotment. Also to account for the proceeds and debt service for the loan from the New Mexico Finance Authority used to acquire, construct, design, equip and furnish a fire protection facility and to acquire an aerial ladder fire truck. The fund was authorized by State law and requires the allotment to be used only for fire related purposes.

Emergency Medical Services – To account for the annual grant under the EMS Fund Act distributed by the New Mexico Health and Environment Department, to provide educational opportunities and special equipment for the most modern and efficient statewide program available. EMS grant funds are to be used exclusively for the EMS/Ambulance programs. The fund balance may be carried over for qualified and approved projects only. The fund was authorized by the New Mexico Health and Environment Department EMS Fund Act.

Community Development – To account for expenditures of Federal and State community development funds. The grants are shown as a special revenue fund due to legal restriction of expenditures for specific purposes approved by the Department of Housing and Urban Development.

Expendable Trust Funds:

Recreation – To account for contributions from private sources restricted to use by the City for recreation equipment. The fund was authorized by City resolution.

Library – To account for contributions from private sources restricted to use by the library for materials and projects. The fund was authorized by City resolution.

Cemetery – To account for contributions from private sources restricted to use by the City Cemetery for various projects. The fund was authorized by City resolution.

Community Parks – To account for contributions from private sources restricted to use by the City for parks improvements. The fund was authorized by City resolution.

City of Hobbs
Nonmajor Governmental Fund Descriptions
June 30, 2017

CAPITAL PROJECTS FUNDS

Capital Projects Fund – To account for the financing of any capital project or street improvement project through transfers to those funds. Funding is provided by the proceeds from a mortgage revenue bond refunding. The fund was authorized by City resolution.

Street Improvements Fund – To account for the financing of street improvements and expansions. Funding is to be provided by gasoline tax revenues, general fund transfers and federal and state participating funds.

City Commission Improvement Fund – To account for the gross receipts tax within the City of Hobbs collected through enactment of two 1/16th municipal gross receipts tax increments effective January 1, 2003. This tax is dedicated for projects designated by the City Commission. Also, to account for the proceeds and debt service for the loan from the New Mexico Finance Authority to be used for beautification projects, community signage projects, parks improvement projects, roof replacement to public buildings, and water and sewer line extensions. The fund was authorized by City resolution.

City of Hobbs
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Special Revenue Funds			
	Local Government Corrections	Police Protection	Police Narcotics	Safer Grant
ASSETS				
Cash and cash equivalents	\$ 376,040	\$ 101,793	\$ 1,919	\$ 1,000
Receivables				
Other taxes	-	-	-	-
Other receivables	-	-	-	82,050
Inventory	-	-	-	-
	<u>\$ 376,040</u>	<u>\$ 101,793</u>	<u>\$ 1,919</u>	<u>\$ 83,050</u>
Total assets				
LIABILITIES				
Accounts payable	\$ -	\$ 19,972	\$ -	\$ -
Accrued payroll expenses	-	-	-	17,923
	<u>-</u>	<u>19,972</u>	<u>-</u>	<u>17,923</u>
Total liabilities				
FUND BALANCES				
Nonspendable				
Inventory	-	-	-	-
Spendable				
Restricted for				
Public safety	376,040	81,821	1,919	65,127
Culture and recreation	-	-	-	-
Transportation and roads	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
	<u>376,040</u>	<u>81,821</u>	<u>1,919</u>	<u>65,127</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 376,040</u>	<u>\$ 101,793</u>	<u>\$ 1,919</u>	<u>\$ 83,050</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Balance Sheet (Continued)
June 30, 2017

	Special Revenue Funds			
	Older American Act	Golf	Cemetery	Airport
ASSETS				
Cash and cash equivalents	\$ 1,000	\$ 396	\$ 1,000	\$ 292,892
Receivables				
Other taxes	-	-	-	-
Other receivables	17,899	1	-	-
Inventory	-	133,243	-	-
	<u>\$ 18,899</u>	<u>\$ 133,640</u>	<u>\$ 1,000</u>	<u>\$ 292,892</u>
LIABILITIES				
Accounts payable	\$ 24,954	\$ 39,353	\$ 6,966	\$ 7,187
Accrued payroll expenses	19,184	55,021	7,482	-
	<u>44,138</u>	<u>94,374</u>	<u>14,448</u>	<u>7,187</u>
FUND BALANCES				
Nonspendable				
Spendable				
Restricted for				
Public safety	-	-	-	-
Culture and recreation	-	39,266	-	-
Transportation and roads	-	-	-	285,705
Health and welfare	(25,239)	-	(13,448)	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
	<u>(25,239)</u>	<u>39,266</u>	<u>(13,448)</u>	<u>285,705</u>
Total fund balances	<u>(25,239)</u>	<u>39,266</u>	<u>(13,448)</u>	<u>285,705</u>
Total liabilities and fund balances	<u>\$ 18,899</u>	<u>\$ 133,640</u>	<u>\$ 1,000</u>	<u>\$ 292,892</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Balance Sheet (Continued)
June 30, 2017

	Special Revenue Funds			
	Lodger's Tax Promotional	Public Transportation	Fire Protection	Emergency Medical Services
ASSETS				
Cash and cash equivalents	\$ 267,251	\$ 1,000	\$ 794,917	\$ 11
Receivables				
Other taxes	90,762.00	-	-	-
Other receivables	-	53,875	-	-
Inventory	-	-	-	-
Total assets	<u>\$ 358,013</u>	<u>\$ 54,875</u>	<u>\$ 794,917</u>	<u>\$ 11</u>
LIABILITIES				
Accounts payable	\$ 14,572	\$ -	\$ 3,630	\$ -
Accrued payroll expenses	-	20,854	-	-
Total liabilities	<u>14,572</u>	<u>20,854</u>	<u>3,630</u>	<u>-</u>
FUND BALANCES				
Nonspendable				
Spendable				
Restricted for				
Public safety	-	-	791,287	-
Culture and recreation	-	-	-	-
Transportation and roads	-	-	-	-
Health and welfare	-	-	-	11
Economic development	343,441	34,021	-	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>343,441</u>	<u>34,021</u>	<u>791,287</u>	<u>11</u>
Total liabilities and fund balances	<u>\$ 358,013</u>	<u>\$ 54,875</u>	<u>\$ 794,917</u>	<u>\$ 11</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Balance Sheet (Continued)
June 30, 2017

	Special Revenue Funds				
	Community Development	Recreational Expendable Trust	Library Expendable Trust	Cemetery Expendable Trust	Community Parks Expendable Trust
ASSETS					
Cash and cash equivalents	\$ 449	\$ 111,013	\$ 5,718	\$ 5,469	\$ 1,463
Receivables					
Other taxes	-	-	-	-	-
Other receivables	-	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 449</u>	<u>\$ 111,013</u>	<u>\$ 5,718</u>	<u>\$ 5,469</u>	<u>\$ 1,463</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll expenses	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable					
Spendable					
Restricted for					
Public safety	-	-	-	-	-
Culture and recreation	-	111,013	5,718	-	1,463
Transportation and roads	-	-	-	-	-
Health and welfare	-	-	-	5,469	-
Economic development	449	-	-	-	-
Capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>449</u>	<u>111,013</u>	<u>5,718</u>	<u>5,469</u>	<u>1,463</u>
Total liabilities and fund balances	<u>\$ 449</u>	<u>\$ 111,013</u>	<u>\$ 5,718</u>	<u>\$ 5,469</u>	<u>\$ 1,463</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Balance Sheet (Continued)
June 30, 2017

	Capital Projects			Total Nonmajor Governmental Funds
	Capital Projects	Street Improvements	City Commission Improvement	
ASSETS				
Cash and cash equivalents	\$ 1,709,056	\$ 1,483,101	\$ 49,735	\$ 5,206,223
Receivables				
Other taxes	-	98,836	378,310	567,908
Other receivables	-	73,473	-	294,546
Inventory	-	-	-	133,243
Total assets	<u>\$ 1,709,056</u>	<u>\$ 1,655,410</u>	<u>\$ 428,045</u>	<u>\$ 6,201,920</u>
LIABILITIES				
Accounts payable	\$ -	\$ 306,563	\$ -	423,197
Accrued payroll expenses	-	-	-	141,840
Total liabilities	<u>-</u>	<u>306,563</u>	<u>-</u>	<u>565,037</u>
FUND BALANCES				
Nonspendable				
Spendable				
Restricted for				
Public safety	-	-	-	1,363,066
Culture and recreation	-	-	-	157,460
Transportation and roads	-	-	-	285,705
Health and welfare	-	-	-	(33,207)
Economic development	-	-	-	377,911
Capital projects	1,709,056	1,348,847	428,045	3,485,948
Unassigned	-	-	-	-
Total fund balances	<u>1,709,056</u>	<u>1,348,847</u>	<u>428,045</u>	<u>5,636,883</u>
Total liabilities and fund balances	<u>\$ 1,709,056</u>	<u>\$ 1,655,410</u>	<u>\$ 428,045</u>	<u>\$ 6,201,920</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended June 30, 2017

	Special Revenue Funds			
	Local Government Corrections	Police Protection	Police Narcotics	Safer Grant
REVENUES				
Taxes				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	-	-	-	124,184
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	269,071	-	-	-
Licenses and fees	-	-	-	-
Investment income	6,648	-	-	-
Miscellaneous	-	-	-	-
	<u>275,719</u>	<u>-</u>	<u>-</u>	<u>124,184</u>
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	107,697	69,060	-	182,801
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	-	-	-	-
	<u>107,697</u>	<u>69,060</u>	<u>-</u>	<u>182,801</u>
Excess (deficiency) of revenues over expenditures	168,022	(69,060)	-	(58,617)
Other financing sources (uses)				
Transfer in	-	-	-	123,744.00
Transfer out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,744.00</u>
Net change in fund balances	168,022	(69,060)	-	65,127
Fund balances, beginning of year	<u>208,018</u>	<u>150,881</u>	<u>1,919</u>	<u>-</u>
Fund balances, end of year	<u>\$ 376,040</u>	<u>\$ 81,821</u>	<u>\$ 1,919</u>	<u>\$ 65,127</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
Year Ended June 30, 2017

	Special Revenue Funds			
	Older American Act	Golf	Cemetery	Airport
REVENUES				
Taxes				
Gross receipts	\$ -	\$ (46,090)	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental				
Federal operating grants	172,963	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	1,000,087	162,420	34,892
Licenses and fees	-	-	3,900	-
Investment income	-	-	-	6,192
Miscellaneous	60,119	189	-	-
Total revenues	233,082	954,186	166,320	41,084
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	344,209	-
Culture and recreation	874,125	2,585,230	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	47,000
Capital outlay	14,365	26,684	36,598	-
Total expenditures	888,490	2,611,914	380,807	47,000
Excess (deficiency) of revenues over expenditures	(655,408)	(1,657,728)	(214,487)	(5,916)
Other financing sources (uses)				
Transfer in	656,108	1,654,920	234,682	-
Transfer out	-	-	-	-
Total other financing sources (uses)	656,108	1,654,920	234,682	-
Net change in fund balances	700	(2,808)	20,195	(5,916)
Fund balances, beginning of year	(25,939)	42,074	(33,643)	291,621
Fund balances, end of year	<u>\$ (25,239)</u>	<u>\$ 39,266</u>	<u>\$ (13,448)</u>	<u>\$ 285,705</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
Year Ended June 30, 2017

	Special Revenue Funds			
	Lodger's	Public	Fire	Emergency
	Tax			
	Promotional	Transportation	Protection	Services
REVENUES				
Taxes				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	961,142	-	-	-
Intergovernmental				
Federal operating grants	-	352,666	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	497,825	26,365
State capital grants	-	-	-	-
Charges for services	-	39,021	-	-
Licenses and fees	-	-	-	-
Investment income	7,484	-	19,161	-
Miscellaneous	-	10,000	-	-
	<u>968,626</u>	<u>401,687</u>	<u>516,986</u>	<u>26,365</u>
Total revenues				
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	759,636	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	292,770	26,365
Economic development	516,868	-	-	-
Capital outlay	-	5,782	-	-
	<u>516,868</u>	<u>765,418</u>	<u>292,770</u>	<u>26,365</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	451,758	(363,731)	224,216	-
Other financing sources (uses)				
Transfer in	-	273,062	-	-
Transfer out	(336,083)	-	-	-
	<u>(336,083)</u>	<u>273,062</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balances	115,675	(90,669)	224,216	-
Fund balances, beginning of year	<u>227,766</u>	<u>124,690</u>	<u>567,071</u>	<u>11</u>
Fund balances, end of year	<u>\$ 343,441</u>	<u>\$ 34,021</u>	<u>\$ 791,287</u>	<u>\$ 11</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
Year Ended June 30, 2017

	Special Revenue Funds				
	Community Development	Recreation Expendable Trust	Library Expendable Trust	Cemetery Expendable Trust	Community Parks Expendable Trust
REVENUES					
Taxes					
Gross receipts	\$ -	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-	-
Other	-	-	-	-	-
Intergovernmental					
Federal operating grants	-	-	-	-	-
Federal capital grants	-	-	-	-	-
State operating grants	-	-	-	-	-
State capital grants	-	-	-	-	-
Charges for services	-	-	-	-	-
Licenses and fees	-	-	-	-	-
Investment income	-	-	-	115	31
Miscellaneous	-	7,980	1,655	-	-
Total revenues	-	7,980	1,655	115	31
EXPENDITURES					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	966	-	-
Culture and recreation	-	-	-	-	-
Health and welfare	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	551	-	-	-	-
Total expenditures	551	-	966	-	-
Excess (deficiency) of revenues over expenditures	(551)	7,980	689	115	31
Other financing sources (uses)					
Transfer in	-	-	-	-	-
Transfer out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(551)	7,980	689	115	31
Fund balances, beginning of year	1,000	103,033	5,029	5,354	1,432
Fund balances, end of year	<u>\$ 449</u>	<u>\$ 111,013</u>	<u>\$ 5,718</u>	<u>\$ 5,469</u>	<u>\$ 1,463</u>

City of Hobbs
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
Year Ended June 30, 2017

	Capital Projects Funds			Total Nonmajor Governmental Funds
	Capital Projects	Street Improvements	City Commission Improvement	
REVENUES				
Taxes				
Gross receipts	\$ -	\$ -	\$ 2,069,284	\$ 2,023,194
Gasoline and motor vehicle	-	799,968.00	-	799,968
Other	-	-	-	961,142
Intergovernmental				
Federal operating grants	-	-	-	859,289
Federal capital grants	-	-	-	-
State operating grants	-	-	-	524,190
State capital grants	-	649,834	-	649,834
Charges for services	-	-	-	1,505,491
Licenses and fees	-	-	-	3,900
Investment income	-	34,738	-	74,369
Miscellaneous	-	-	-	79,943
Total revenues	-	1,484,540	2,069,284	7,481,320
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	864,582
Public works	-	-	-	1,104,811
Culture and recreation	-	-	-	3,459,355
Health and welfare	-	-	-	319,135
Economic development	-	-	-	563,868
Capital outlay	17,293	1,859,201	-	1,960,474
Total expenditures	17,293	1,859,201	-	8,272,225
Excess (deficiency) of revenues over expenditures	(17,293)	(374,661)	2,069,284	(790,905)
Other financing sources (uses)				
Transfer in	-	-	-	3,244,094
Transfer out	-	-	(2,018,982)	(2,355,065)
Total other financing sources (uses)	-	-	(2,018,982)	889,029
Net change in fund balances	(17,293)	(374,661)	50,302	98,124
Fund balances, beginning of year	1,726,349	1,723,508	377,743	5,538,759
Fund balances, end of year	<u>\$ 1,709,056</u>	<u>\$ 1,348,847</u>	<u>\$ 428,045</u>	<u>\$ 5,636,883</u>

City of Hobbs
Schedule of Deposits
June 30, 2017

Bank Name/Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Reconciled Balance
Lea County State Bank					
City of Hobbs - Motor Vehicle Department	Checking	\$ 27,323	\$ -	\$ 7,731	\$ 19,592
City of Hobbs - Investment Account	Money Market	28,293	-	-	28,293
City of Hobbs	Checking	1	228,942	1,279,047	(1,050,104)
City of Hobbs Savings	Repurchase	3,433,311			3,433,311
Inmate Trust Account	Checking	12,448	-	-	12,448
Inmate Trust Account #2	Checking				-
Hobbs Police Dept. - Evidence Trust	Checking	128,882	-	-	128,882
HPD - Crime Prevention	CD	2,409	-	-	2,409
Total Lea County State Bank		<u>3,632,667</u>	<u>228,942</u>	<u>1,286,778</u>	<u>2,574,831</u>
US Bank					
City of Hobbs - Taxable Bonds	Investment	55,359,172	-	-	55,359,172
City of Hobbs - Treasury Bills	Investment	51,164	-	-	51,164
Total US Bank		<u>55,410,336</u>	<u>-</u>	<u>-</u>	<u>55,410,336</u>
New Mexico State Treasurer					
Local Government Investment Pool	Investment	48,605,119	-	-	48,605,119
New Mexico Finance Authority					
Phase II Effluent Refuse Project-Hobbs 5	Trust	752,131	-	-	752,131
Total all banks		<u>\$ 108,400,253</u>	<u>\$ 228,942</u>	<u>\$ 1,286,778</u>	<u>\$ 107,342,417</u>
Plus: Petty cash					\$ 24,373
Less: restricted cash and cash equivalents					
Debt service and reserve requirements					(1,921,489)
Unspent grant proceeds					(752,131)
Unspent loan proceeds					-
Meter deposits					(517,014)
Less: agency cash					<u>(438,045)</u>
Cash and cash equivalents					<u>\$ 103,738,111</u>

*Note all bank accounts are interest bearing

City of Hobbs
Schedule of Collateral Pledged by
Depository for Public Funds
June 30, 2017

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Type of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>FMV Value June 30, 2017</u>	<u>Name and Location of Safekeeper</u>
Lea County State Bank						
	Albuquerque MSD 4%	Muni	8/1/22	013595LM3	\$ 528,010	1st Security Bank, Salt Lake City, Utah
	Clovis NM SD 3.7%	Muni	8/1/25	189414HN8	363,963	1st Security Bank, Salt Lake City, Utah
	Gallup NM 4%	Muni	8/1/20	364028EU0	261,268	1st Security Bank, Salt Lake City, Utah
	Jal NM PSD 3%	Muni	10/1/21	470143AF5	320,703	1st Security Bank, Salt Lake City, Utah
	Lea Cnty NM PSD 4%	Muni	7/15/18	521513AH4	586,334	1st Security Bank, Salt Lake City, Utah
	US Treasury	T-Bill	3/31/2018	91828QB9	<u>3,502,701</u>	1st Security Bank, Salt Lake City, Utah
Total pledged collateral					<u>\$ 5,562,979</u>	

City of Hobbs
Schedule of Changes in Fiduciary
Assets and Liabilities Agency Funds
June 30, 2017

	Balance as of <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance as of <u>June 30, 2017</u>
Motor Vehicle				
ASSETS				
Cash and cash equivalents	\$ 8,146	3,312,821	3,294,229	\$ 26,738
LIABILITIES				
Deposits held in custody for others	\$ 8,146	\$ 3,312,821	\$ 3,294,229	\$ 26,738
Municipal Judge				
ASSETS				
Cash and cash equivalents	\$ 173,589	\$ 308,106	\$ 310,649	\$ 171,046
LIABILITIES				
Deposits held in custody for others	\$ 173,589	\$ 308,106	\$ 310,649	\$ 171,046
Crime Lab				
ASSETS				
Cash and cash equivalents	\$ 74,571	\$ 118,105	\$ 118,826	\$ 73,850
LIABILITIES				
Deposits held in custody for others	\$ 74,571	\$ 118,105	\$ 118,826	\$ 73,850

City of Hobbs
Schedule of Changes in Fiduciary
Assets and Liabilities Agency Funds (Continued)
June 30, 2017

	Balance as of <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance as of <u>June 30, 2017</u>
Senior Citizen				
ASSETS				
Cash and cash equivalents	\$ 8,053	\$ 1,686	\$ 1,274	\$ 8,465
LIABILITIES				
Deposits held in custody for others	\$ 8,053	\$ 1,686	\$ 1,274	\$ 8,465
Hobbs Beautiful				
ASSETS				
Cash and cash equivalents	\$ 22,684	\$ 486	\$ -	\$ 23,170
LIABILITIES				
Deposits held in custody for others	\$ 22,684	\$ 486	\$ -	\$ 23,170
City Agency				
ASSETS				
Cash and cash equivalents	\$ 5,247	\$ 1,342	\$ 767	\$ 5,822
LIABILITIES				
Deposits held in custody for others	\$ 5,247	\$ 1,342	\$ 767	\$ 5,822

City of Hobbs
Schedule of Changes in Fiduciary
Assets and Liabilities Agency Funds (Continued)
June 30, 2017

	Balance as of <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance as of <u>June 30, 2017</u>
Evidence Fund				
ASSETS				
Cash and cash equivalents	<u>\$ 122,465</u>	<u>\$ 16,538</u>	<u>\$ 10,121</u>	<u>\$ 128,882</u>
LIABILITIES				
Deposits held in custody for others	<u>\$ 122,465</u>	<u>\$ 16,538</u>	<u>\$ 10,121</u>	<u>\$ 128,882</u>
Foreclosure Trust				
ASSETS				
Cash and cash equivalents	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72</u>
LIABILITIES				
Deposits held in custody for others	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72</u>
Total - All Agency Funds				
ASSETS				
Cash and cash equivalents	<u>\$ 414,827</u>	<u>\$ 3,759,084</u>	<u>\$ 3,735,866</u>	<u>\$ 438,045</u>
LIABILITIES				
Deposits held in custody for others	<u>\$ 414,827</u>	<u>\$ 3,759,084</u>	<u>\$ 3,735,866</u>	<u>\$ 438,045</u>

Report of Independent Auditors 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*

City Commission
City of Hobbs, New Mexico
Mr. Wayne Johnson
New Mexico State Auditor

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of City of Hobbs, New Mexico (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. We identified a deficiency in internal control, described in the accompanying schedule of findings and questions costs as item 2017-001, that we consider to be a significant deficiency.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Mess Adams LLP

Albuquerque, New Mexico
December 15, 2017

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

City Commission
City of Hobbs, New Mexico
Mr. Wayne Johnson
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited City of Hobbs, New Mexico (the 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 program for the year ended June 30, 2017. The City's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

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 opinions on compliance for major federal programs. 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 major program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

Mess Adams LLP

Albuquerque, New Mexico
December 15, 2017

City of Hobbs
Schedule of Expenditures
of Federal Awards
June 30, 2017

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Federal Grantors Number	Expenditures	Funds Provided to Subrecipients	Noncash Assistance
U.S. Department of Justice					
Bulletproof Vest Partnership Program	16.607		\$ 3,150	\$ -	\$ -
Bulletproof Vest Partnership Program	16.607		9,999	-	-
Public Safety Partnership and Community Police Grants	16.710	2015UMWX0051	173,994	-	-
Public Safety Partnership and Community Police Grants	16.710	2016UMWX0189	35,482	-	-
Total U.S. Department of Justice			<u>222,625</u>	<u>-</u>	<u>-</u>
U.S. Department of Agriculture					
Emergency Food Assistance Program (Food Commodities)	10.569	2015-16	487	-	-
Emergency Food Assistance Program (Food Commodities)	10.569	2015-16	2,222	-	-
Emergency Food Assistance Program (Food Commodities)	10.569	2016-17	58,828	-	-
Emergency Food Assistance Program (Food Commodities)	10.569	2016-17	32,990	-	-
Total Child Nutrition Cluster			<u>94,527</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>94,527</u>	<u>-</u>	<u>-</u>
U.S. Department of Transportation					
Passed through NM Department of Transportation					
Highway Planning and Construction	20.205	CN2100310	178,613	-	-
Highway Planning and Construction	20.205	CN: 2100590	19,867	-	-
Highway Planning and Construction	20.205	CN: 2100840	158,064	-	-
Total Highway Planning and Construction Cluster			<u>356,544</u>	<u>-</u>	<u>-</u>
Formula Grants for Rural Areas	20.509	MOA FY16	(6,408)	-	-
Formula Grants for Rural Areas	20.509	MOA FY17	285,996	-	-
Bus and Bus Facilities Formula Program	20.526	MOA FY16	73,078	-	-
State and Community Highway Safety	20.600	16-DS-EE-045	4,946	-	-
State and Community Highway Safety	20.600	16-DD-02-045	6,441	-	-
Total Highway Safety Cluster			<u>11,387</u>	<u>-</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	16-AL-64-045	1,511	-	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	17-AL-64-045	11,748	-	-
Total U.S. Department of Transportation			<u>733,855</u>	<u>-</u>	<u>-</u>
U.S. Department of Homeland Security					
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00163	124,184	-	-
Total Federal Financial Assistance			<u>\$ 1,175,191</u>	<u>\$ -</u>	<u>\$ -</u>

City of Hobbs
Notes to the Schedule of Expenditures
of Federal Awards
June 30, 2017

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Hobbs (the City) and is presented on a cash basis of accounting, which is a different basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2 – Loans

The City did not expend federal awards related to loans guarantees during the year.

Note 3 – 10% de minimus Indirect Cost Rate

The City did not elect to use the allowed 10% indirect cost rate.

Note 4 – Federally Funded Insurance

The City has no federally funded insurance

City of Hobbs
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor’s report issued on compliance for major federal programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
20.509	Formula Grants for Rural Areas	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

Finding 2017–001 Financial Close and Reporting Process Significant Deficiency in Internal Controls

Criteria – In order to provide timely and accurate financial reports and prepare financial statements in accordance with generally accepted accounting principles (GAAP), the general ledger accounts of the City should be adjusted to a GAAP reporting basis at year end as part of the financial close process. The adjusting entries and reconciliations performed by accounting and finance staff should be approved by supervisory personnel and supported with proper documentation.

A strong system of internal controls ensures that accurate and complete financial statements are prepared in accordance with GAAP, including all required disclosures. This can be achieved by producing the financial statements in house, or by outsourcing the function, but if outsourced, management retains the responsibility to ensure the statements are accurate, complete, and in accordance with GAAP.

Condition – While the financial statements present fairly, in all material respects, the financial position and respective changes in financial position of the City received an unmodified audit report, the City does not have an adequate control system in place to ensure that the general ledger accurately reflects the account balances of the City on an annual basis and significant audit adjustments were necessary.

Cause – The City’s accounts are maintained on a cash basis throughout the year without a closing process at year end to include accruals and non-cash current and long-term assets, liabilities, and deferred outflows and inflows of resources in accordance with GAAP.

Effect – The City’s accounts are not adjusted to a GAAP reporting basis reconciled and the City is not able to produce accurate and timely financial statements without assistance. Certain general ledger accounts require numerous proposed adjustments by the auditor.

Recommendation – We recommend that the City implement a formal close process of the general ledger that accurately captures all accruals, management estimates, and significant transactions. Closing entries and adjustments should be recorded in the City’s accounting system. However, if the City elects to maintain internal reporting on a cash basis, management could maintain a spreadsheet that documents cash-to-accrual adjustments (debits and credits) required to adjust cash-basis internal balances to GAAP-based financial statement balances.

Management Response – As a government entity, the City of Hobbs is required by the State to maintain its records on a cash basis. While the City of Hobbs maintains its records in our current accounting system on a cash basis only, we do recognize that the annual audit report must be presented on a modified accrual/accrual basis. It has been our long time practice to provide auditors with a cash basis trial balance and all of the required supporting documentation to move the presentation basis from cash to modified and/or full accrual as needed. This practice is documented in our prior year audits by stating that the auditors have prepared the GAAP-basis financial statements and footnotes from the original books and records provided to them by the management of the City. The Finance Director and Assistant Finance Director will prepare supporting documentation on a modified and/or full accrual basis as part of the City’s annual financial close process.

City of Hobbs
Schedule of Findings and Responses
Year Ended June 30, 2017

Section II – Financial Statement Findings (continued)

Finding 2017–001 Financial Close and Reporting Process Significant Deficiency in Internal Controls (continued)

Management of the City of Hobbs will take under consideration the recommendation made by Moss Adams to maintain internal GAAP-based financial statement balances, however, due to staffing and other cost considerations, it will also balance the need to continue to maintain good financial records on a cash basis with the auditor recommendation. Our current plan for corrective action includes researching additional modules available to us to house the GAAP-based balances in within our current central accounting system and weighing that cost against the time constraints and additional staff hours that may be required to maintain such a system. We further note that we know of no requirement to maintain GAAP based balances in our accounting system.

Section III – Federal Award Findings and Questioned Costs

None

City of Hobbs
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017

FS 2015-002 Payroll Internal Controls (Compliance and Other Matters) – RESOLVED

Condition: During testwork of internal controls surrounding the City's payroll processes, the prior auditor noted the following conditions:

- 2 out of 40 payroll transmittal sheets (used to transmit employee hours to payroll) tested did not agree to the approved time card (see check number 58310 and 58766).
 - In the first instance the transmittal sheet was 1 hour less than what the approved time card indicated. The dollar amount associated with the missing hour was \$16.
 - In the second instance the time card showed 9 hours, but the transmittal sheet showed the employee was paid for 10 hours. In addition, the paid time off (PTO) hours were not transferred from the time card to the transmittal sheet correctly. The time cards indicated 8 PTO hours were taken by the employee; however, the transmittal sheet shows zero PTO hours were paid. The dollar amount associated with the hour's discrepancies totaled \$155.
- 2 out of 40 employee pay rates tested (see check number 61101) did not reflect merit increases that were effective in July of 2014.
 - In one instance the pay rate paid was \$17.98 but the correct pay rate should have been \$18.34. The dollar amount associated with the pay rate variance totaled \$28.80
 - In the other instance the actual pay rate was \$28.13 but the pay rate should have been \$28.97. The dollar amount associated with pay rate variance totaled \$67.20
- 1 out of 40 employee time cards reviewed was missing the supervisor's signature (see check number (66626). The dollar amount of gross pay associated with the time card totaled \$486.08.

2015-004 Golf Course Cash Receipts Not Reconciled Daily (Compliance and Other Matters) – RESOLVED

Condition: During the course of audit fieldwork, the Finance Director notified the prior auditor that the City's golf course was not counting and reconciling actual cash on hand to cash reported per the EZ Links accounting system daily resulting in multiple variances throughout the year between the daily cash deposit and the deposit per EZ Links. Some of the variance were identifiable and could be attributed to valid reconciling items while others could not. As part of follow-up procedures, the prior auditor looked at the entire Golf Course Annual Deposit Log noting 12 instances in which actual deposits were not reconciled to the EZ Links accounting system with an associated dollar amount of \$2,165.

NM 2016-001 Purchase of K-9 Police Dog Without an Approved Purchase Order in Place- (Compliance and Other Matters) – RESOLVED

Condition: The Finance Director notified the prior auditor of one instance in which a Dual Purpose Police Service Dog-German Shepard (K9) was purchased without an approved purchase order. In October 2015, the police officer returned from training in Kansas with the K9 police dog that cost the City \$10,660.

City of Hobbs
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017

NM 2016-002 Quotes Obtained After Meters and Radio Equipment Were Purchased (Compliance and Other Matter) – RESOLVED

Condition: The Finance Director notified the prior auditor of an instance in which quotes from multiple vendors were obtained after meters and radio equipment were purchased from the vendor. The initial purchase order was authorized on July 7, 2015 in the amount of \$13,806 to a single vendor for the purchase of meters and radios. Since the initial purchase was below \$20,000 no quotes were obtained. A second purchase order was authorized on August 6, 2016 in the amount of \$19,731 for meters and radio equipment. Quotes from multiple vendors were then obtained from three vendors as the total purchase had exceeded \$20,000 on August 6, 2016.

NM 2016-003 Golf Course Inventory Received in the Purchasing System Prior to Actual Receipt (Compliance and Other Matter) – RESOLVED

Condition: The Finance Director notified the prior auditor of an instance in which the City's Rockwinds Golf Course received goods in City's purchasing system prior to the actual receipt date. The cost of the goods were \$818 and was received in the City's purchasing system on June 30, 2016; however, the UPS tracking detail indicated the goods were actually delivered to the Golf Course on July 1, 2016.

NM 2016-004 Golf Course Purchase Missing Purchase Order (Compliance and Other Matter) – RESOLVED

Condition: The Finance Director notified the prior auditor of an instance in which an invoice was received from a vendor without an approved purchase order. The City's Rockwinds Golf Course received an invoice totaling \$1,187 for custom fitting wedges on May 24, 2016; however, there was not purchase order in place to process the invoice.

NM 2016-005 Purchases from Elected Officials or Employees (Compliance and Other Matter) – RESOLVED

Condition: The Finance Director notified the prior auditor that the City was doing business with vendors who were owned by City Commission members. There were 32 invoices noted in Fiscal 2016 with an associated dollar amount of \$40,502. The prior auditor determined that the transactions were handled at arm's length and no procurement issues were noted.

City of Hobbs
Exit Conference
Year Ended June 30, 2017

An exit conference was held on December 14, 2017, in a closed session, with the following in attendance:

City of Hobbs:

Sam Cobb	Mayor
Manny Gomez	Interim City Manager
Toby Spears	Finance Director
Deborah Corral	Assistant Finance Director

Moss Adams LLP:

Kory Hoggan, CPA	Engagement Leader
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The financial statements have been prepared with the assistance of Moss Adams LLP from the original books and records provided to them by the management of the City. The responsibility for the financial statements remains with the City.