



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO  
CITY OF HOBBS**

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

**For the Year Ended June 30, 2018**



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CITY OF HOBBS  
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**STATE OF NEW MEXICO  
CITY OF HOBBS  
Official Roster  
As of June 30, 2018**

**CITY COMMISSION**

<b>NAME</b>	<b>TITLE</b>
Sam D Cobb	Mayor
Marshall Newman	Commissioner - District #1
Christopher Mills	Commissioner - District #2
Patricia Taylor	Commissioner - District #3
Joseph D. Calderon	Commissioner - District #4
Dwayne Penick	Commissioner - District #5
Don R. Gerth	Commissioner - District #6

**ADMINISTRATIVE OFFICIALS**

<b>NAME</b>	<b>TITLE</b>
Manny Gomez	Acting City Manager
Toby Spears, CPA	Finance Director
Deborah Corral	Assistant Finance Director



**INDEPENDENT AUDITOR’S REPORT**

Wayne Johnson  
New Mexico State Auditor  
To the City Commission  
City of Hobbs  
Hobbs, New Mexico

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the City of Hobbs (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

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

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 22 to the financial statements, the 2018 financial statements have been restated due to misstatements. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

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

**Other Information**

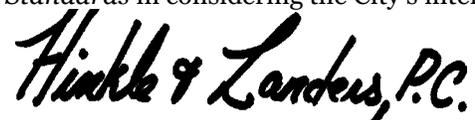
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information, such as the combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the other schedules listed as "other supplementary information" in the table of contents, required by 2.2.2 NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section per the table of contents has not been subjected the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hinkle + Landers, PC  
Albuquerque, New Mexico  
December 10, 2018

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018**

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, 2018. 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 \$56,729,000.
- The assets of the City exceeded its liabilities at June 30, 2018 by \$294,004,000.
- Restricted net position totaled \$10,697,000 at June 30, 2018. Restricted net position amounts are subject to external restrictions on how they may be used.
- Unrestricted net position totaled \$1,451,000 at June 30, 2018.
- Gross receipts taxes increased approximately 25.64% from \$45,152,000 for 2017 to \$56,729,000 for 2018. The increase is related primarily to the increase in the economic activity from 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, and 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.

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**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.

The budgets of each governmental fund are found in this report as noted in the Table of Contents.

**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.

The basic proprietary fund financial statements are found in this report as noted in the Table of Contents.

**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.

The basic fiduciary fund financial statements are found in this report as noted in the Table of Contents.

**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 \$233,403,000 at June 30, 2018. Significant reasons for the decrease follow the schedule below.

By far the largest portion of the City's net position (101%, or \$235,881,000) 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 4%, or \$9,035,000, of the City's net position is restricted subject to external restrictions on how they may be used, and -5.00%, or \$-11,513,000, of the City's net position is

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For the Year Ended June 30, 2018**

available as unrestricted fund balance. It is noted that prior restatements of balances from fiscal year 2017 resulted in a negative unrestricted fund balance.

	Governmental		Business-type		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Current and other assets	\$ 96,263	98,915	26,867	24,802	123,130	123,718
Capital assets, net of accumulated depreciation	235,881	211,094	74,043	71,377	309,925	282,470
Deferred outflows of resources	12,659	22,204	1,518	2,410	14,177	24,614
Total assets and deferred outflows or resources	<u>344,803</u>	<u>332,213</u>	<u>102,428</u>	<u>98,589</u>	<u>447,232</u>	<u>430,802</u>
Current and other liabilities	\$ 6,365	7,584	5,220	6,358	11,585	13,942
Long-term liabilities outstanding	92,555	88,011	35,343	36,260	127,898	124,271
Deferred inflows of resources	12,480	781	1,265	73	13,745	854
Total liabilities and deferred inflows of resources	<u>\$ 111,400</u>	<u>96,376</u>	<u>41,828</u>	<u>42,690</u>	<u>153,228</u>	<u>139,067</u>
Net investment in capital assets	235,881	211,094	45,974	41,808	281,855	252,902
Restricted	9,035	24,143	1,662	1,921	10,697	26,064
Unrestricted	(11,513)	601	12,964	12,169	1,451	12,769
Total net position	<u>\$ 233,403</u>	<u>235,837</u>	<u>60,601</u>	<u>55,899</u>	<u>294,004</u>	<u>291,735</u>

**Governmental Activities**

- Increased revenues from gross receipts taxes, with offsetting capital purchases and increases in local grant receivables led to lower cash balances at June 30, 2018 compared to June 30, 2017. Gross receipts taxes were \$55,432,000 for the year ended June 30, 2018 compared to \$44,117,000 for the year ended June 30, 2017.
- 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 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, 2018 and 2017, respectively, were \$119,883,000 and \$104,744,000. Total expenses were, respectively, \$98,822,000 and \$109,055,000. 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, 2018 and 2017. Reasons for significant changes follow the schedules.

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	Governmental Activities		Business-type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 3,376	14,224	17,769	18,809	21,144	33,033
Operating grants and contributions	11,187	1,989	1,347	-	12,533	1,989
Capital grants and contributions	19,647	17,031	-	-	19,647	17,031
<b>General revenues</b>						
Property taxes	2,759	2,676	-	-	2,759	2,676
Gross receipts taxes	55,432	44,117	1,297	1,035	56,729	45,152
Other taxes	4,110	2,919	-	-	4,110	2,919
Investment income	557	404	257	124	815	528
Other	2,126	1,417	21	-	2,147	1,417
Total revenue	<u>99,193</u>	<u>84,776</u>	<u>20,690</u>	<u>19,968</u>	<u>119,883</u>	<u>104,744</u>
<b>Expenses</b>						
General government	21,556	35,037	-	-	21,556	35,037
Public safety	22,366	19,431	-	-	22,366	19,431
Public works	10,233	12,444	-	-	10,233	12,444
Culture and recreation	13,632	11,891	-	-	13,632	11,891
Health and welfare	12,234	10,098	-	-	12,234	10,098
Economic development	479	820	-	-	479	-
Interest on long-term debt	21	-	-	548	21	548
Joint utility	-	-	12,096	12,845	12,096	12,845
Solid waste	-	-	6,205	5,941	6,205	5,941
Total expenses	<u>80,520</u>	<u>89,721</u>	<u>18,301</u>	<u>19,334</u>	<u>98,822</u>	<u>109,055</u>
Transfers	<u>(1,899)</u>	<u>(2,019)</u>	<u>1,899</u>	<u>2,019</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ 16,774</u>	<u>(6,964)</u>	<u>4,288</u>	<u>2,653</u>	<u>21,062</u>	<u>(4,311)</u>

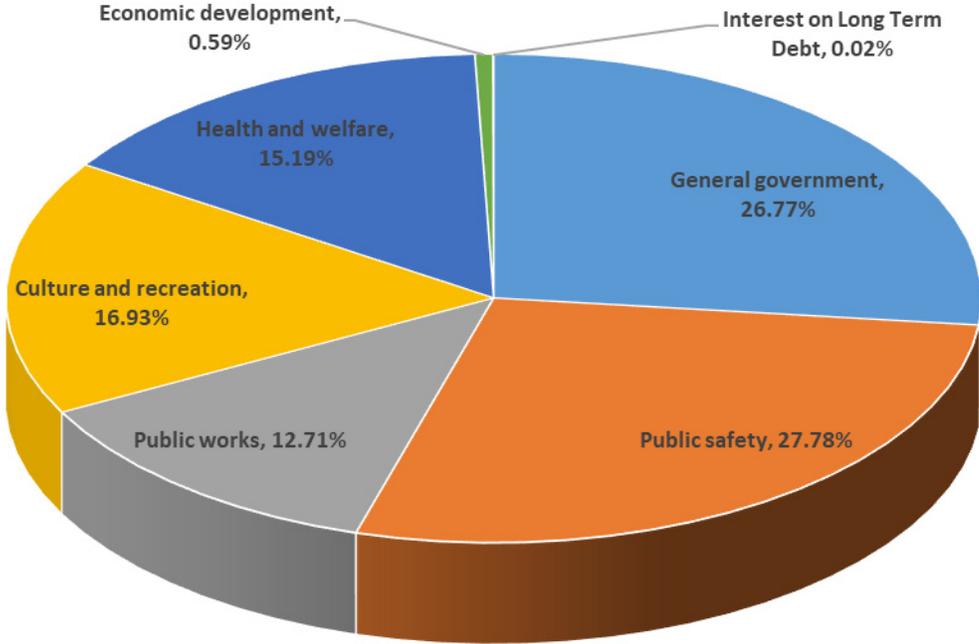
**Governmental Activities**

The City's governmental activities' change in net position was \$16,774,000 in the year ended June 30, 2018. The governmental activities' change in net position for the year ended June 30, 2017, was (\$6,964,000). Significant highlights are noted below.

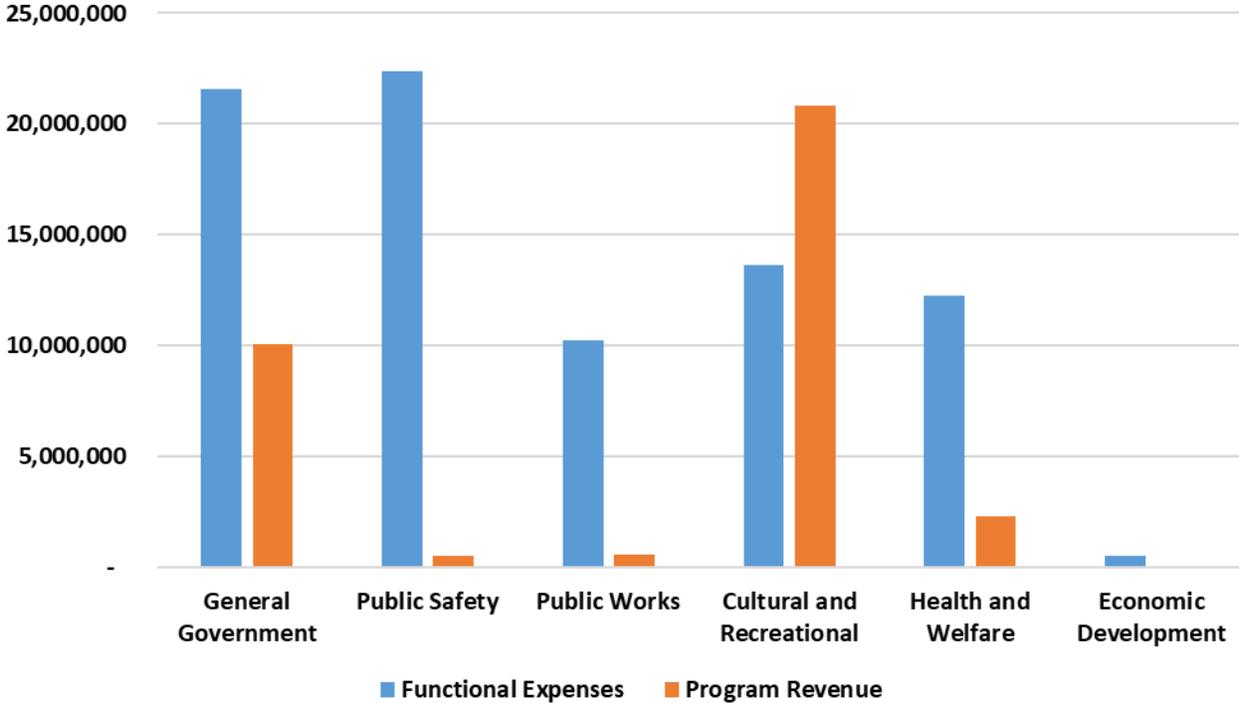
- Increased revenues from gross receipts taxes, with offsetting capital purchases and increases in local grant receivables led to lower cash balances at June 30, 2018 compared to June 30, 2017. Gross receipts tax was \$55,432,000 for the year ended June 30, 2018 compared to \$44,117,000 for the year ended June 30, 2017.
- Total expenses for fiscal year 2018 were \$80,520,000 compared to \$89,721,000 for fiscal year end 2017.

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**Program Expenses - Governmental Activities**



**Program Revenues and Expenses - Governmental Activity**



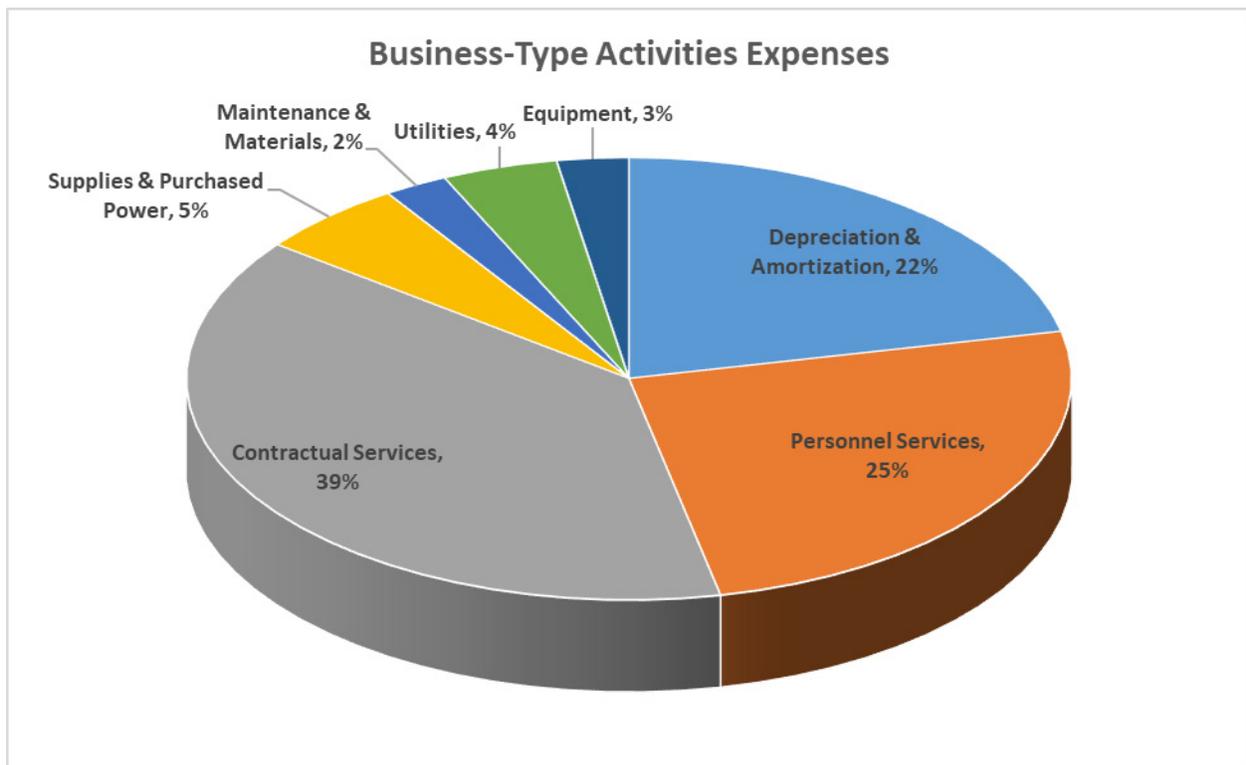
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***Business-Type Activities***

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 \$4,288,000 in the year ended June 30, 2018, compared to the increase of net position of \$2,653,000 for the year ended June 30, 2017. The increase this year was driven by increases in gross receipt taxes recorded in the joint Utility Enterprise fund along with a decrease in operating expenditures.

***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, 2018, unrestricted net position totaled \$12,964,000 in the Joint Utility fund as compared to \$12,169,000 at June 30, 2017. Factors 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.

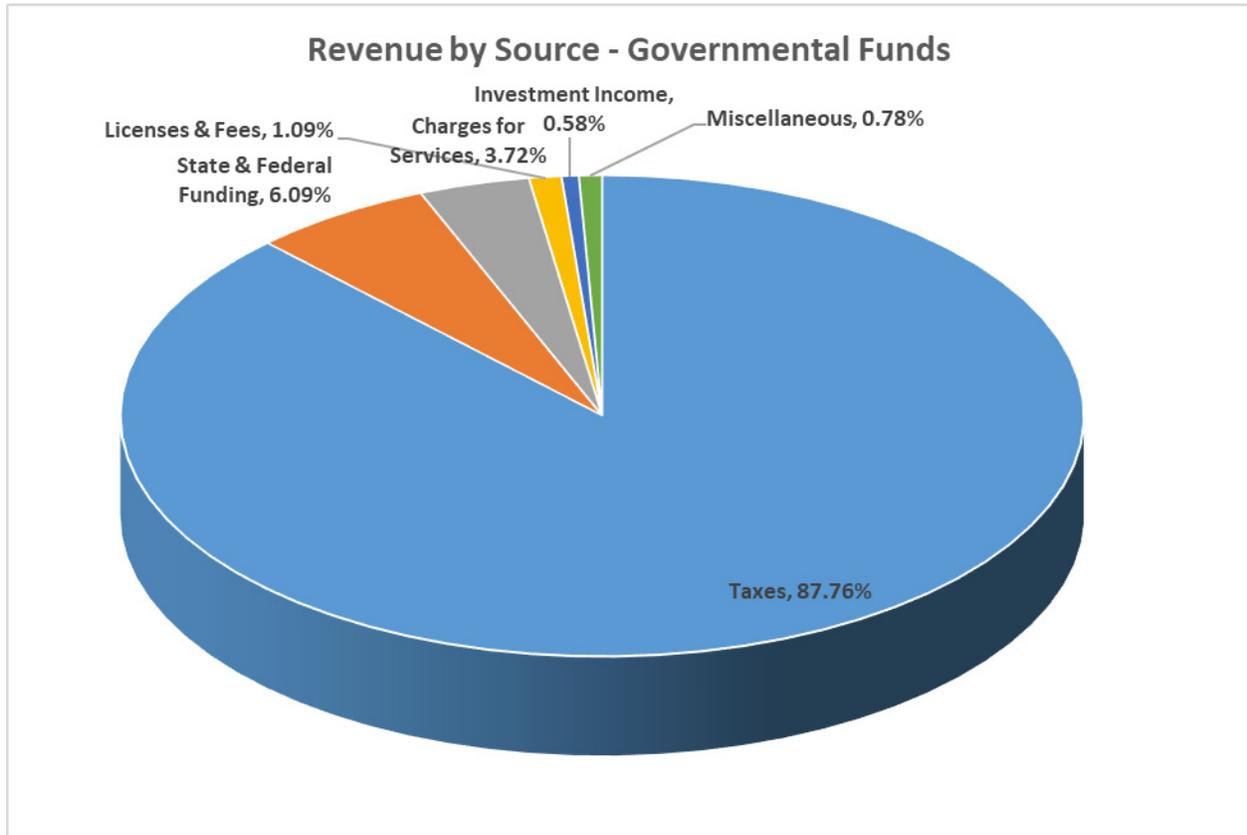
**Governmental funds**

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.

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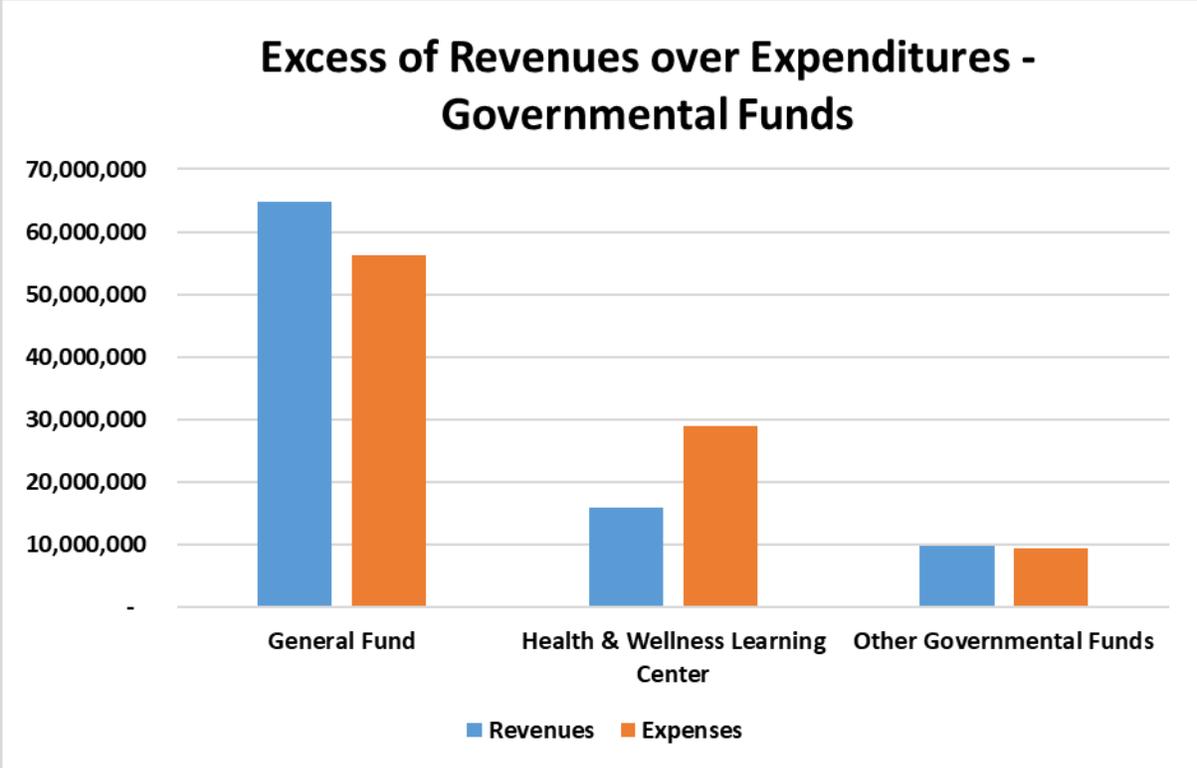
As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$233,403,000, a decrease of \$2,434,000 from the prior year. Of this amount, \$(11,513,000) approximately - 5% constitutes unassigned fund balance, which is available for spending at the government's discretion. Approximately 4%, or \$9,035,000 constitutes fund balance is restricted for minimum fund balance requirements.

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 \$62,562,368. 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 92% of the total general fund expenditures. The City's general fund balance, decreased by \$1,910,974 in the current fiscal year.

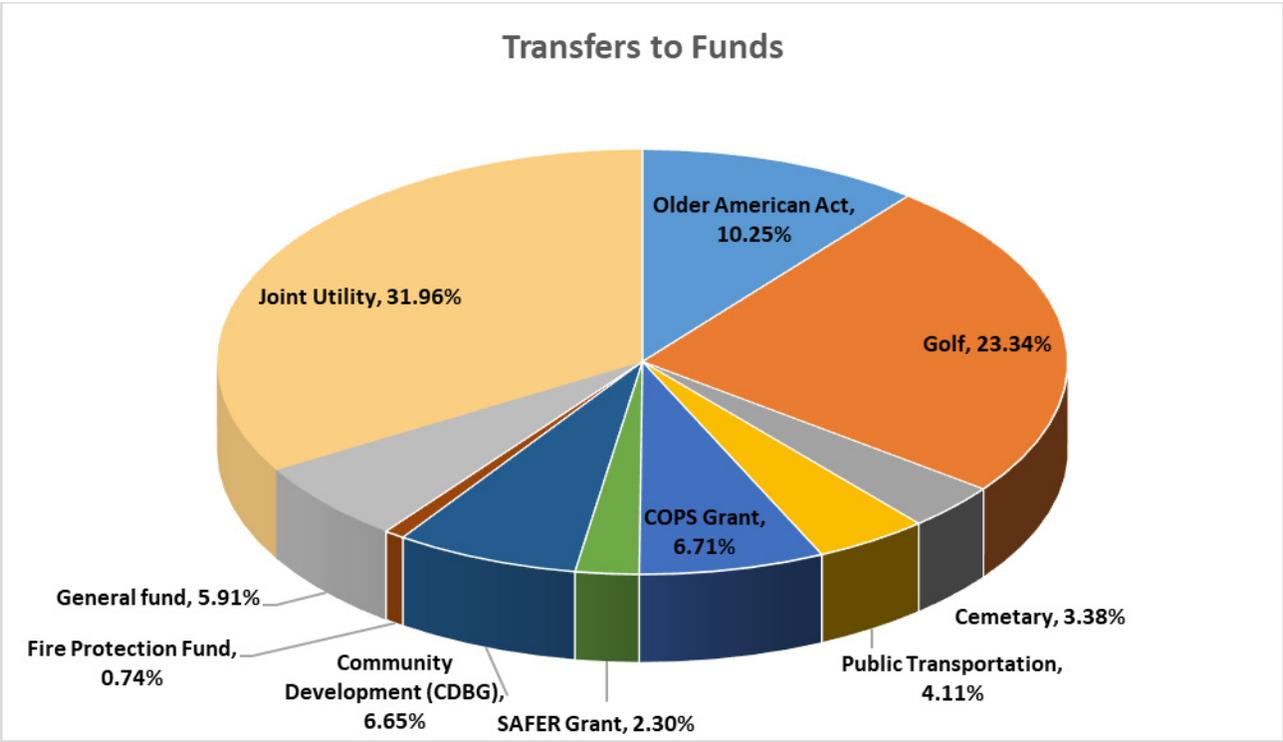


- Taxes include property taxes, franchise taxes, oil and gas production taxes, lodgers' taxes, and municipally-imposed gross receipts taxes.
- Intergovernmental includes grants and state-shared taxes, including a portion of gross receipts tax.
- Charges for services include fees for services and waste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

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- 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.



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Transfer activity totaled 6,793,608. The graph above details transfers in by fund recipient for the year ended June 30, 2018.

**Budgetary Comparisons**

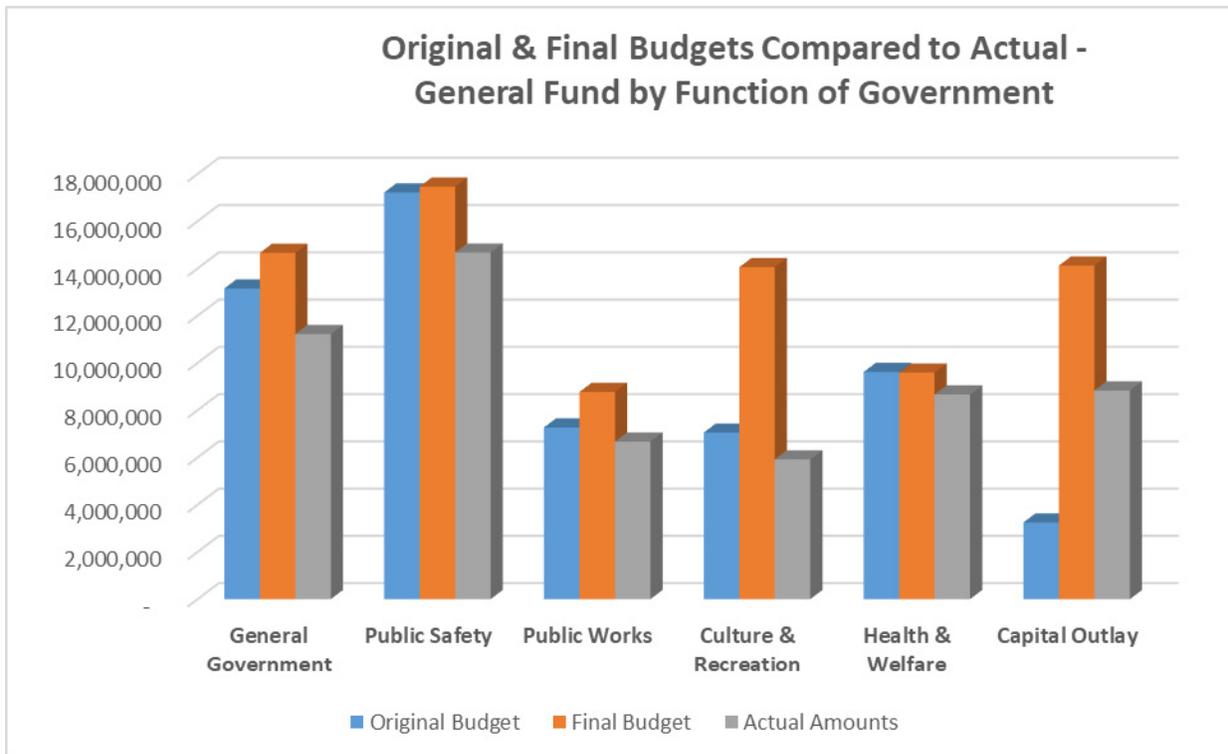
The appropriated general fund budget for the year ended June 30, 2018 was amended by the City Commission throughout the year. These amendments resulted in the following changes:

		Excess (deficiency) of revenues over expenditure	
		Original Budget	Final Budget
		Actual	
General Fund	\$	(9,164,727)	(22,100,336)
		\$	3,566,610

As required by the Department of Finance and Administration, the City prepared its final budget so that the beginning budgeted cash equaled the City's prior fiscal year ending cash.

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.

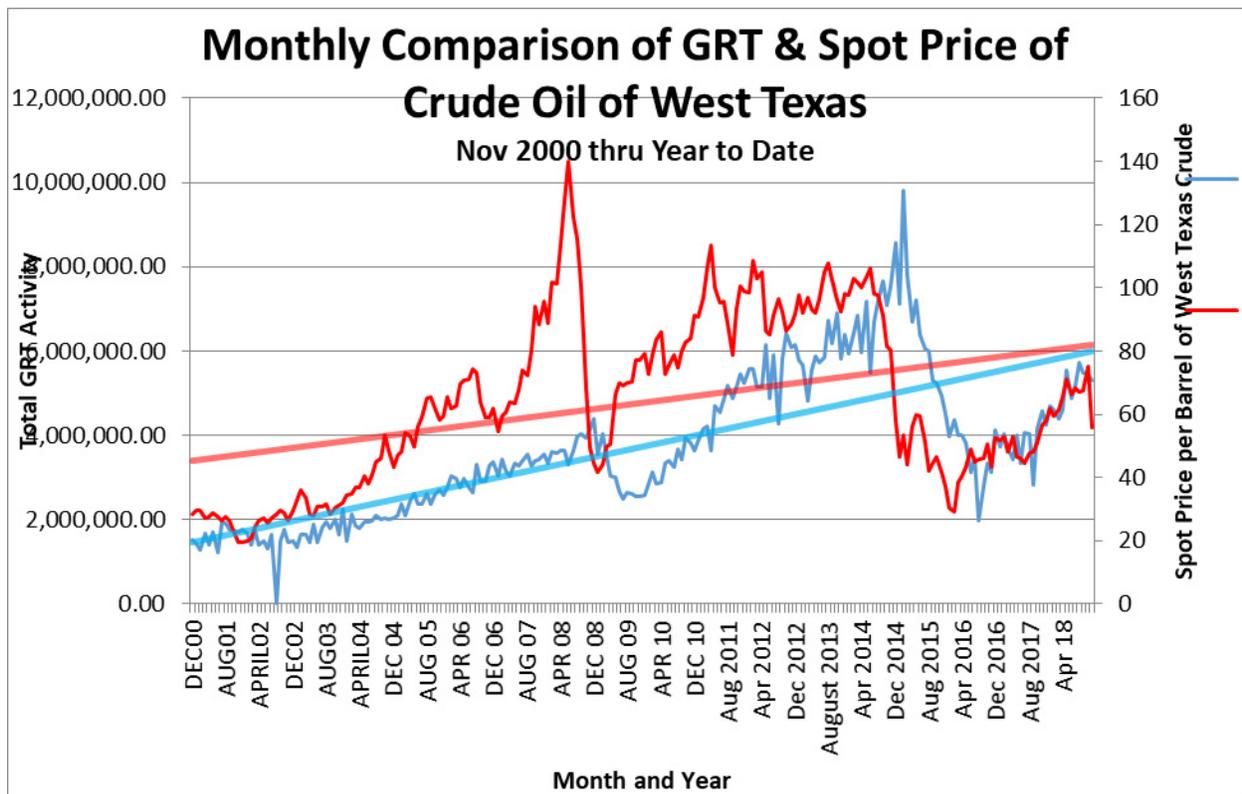


**Current Facts and Future Trends**

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018**

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 (22%), services (9%), construction (8%) and wholesale trade (8%). The trending of gross receipts tax from 2018 to 2017 was an increase from 44 million to 55 million, a 25% increase. Currently, Gross Receipts Tax revenue is trending approximately 55 million in 2019. This represents no anticipated increase from 2018. Trend analysis of gross receipt taxes as compared to a spot price barrel of West Texas Intermediate crude oil by month assists management in developing short term and long-term budget plans. Please see trend analysis below:



Zia Park is the closest gaming facility for approximately 1,000,000 Texas residents and is less than two hours away from a 600,000-population base. Staff estimates the operating of this facility has a 1-2% positive impact on the General Fund revenues. 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 is also to note, 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 at June 30, 2018 to measure the City's unfunded benefits liability as it relates to Retiree Health Insurance. The current unfunded liability as of June 2018 is \$44,645,900 million. In addition, GASB No. 68 (Local Portion of Pension Liabilities with regards to PERA)

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requires the City to recognize the local portion of PERA. The total liability regarding this pension is approximately \$50,616,739 million.

On January 1, 2005, a new .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 28,069,000 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 approximately \$15 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 \$66.7 million dollars. The City is currently under contract with Haydon Construction for construction of this facility. A joint powers agreement 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 \$3.2 million dollars with an estimated revenue generation of \$1.6 million. Subsidies are estimated to be fixed at \$1.6 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.

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Statement of Net Position**  
**As of June 30, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 75,210,008	22,031,968	97,241,976
Receivables:			
Property taxes	135,699	-	135,699
Other taxes	11,432,184	254,557	11,686,741
Interest receivable	141,943	-	141,943
Other receivables	8,405,671	364,861	8,770,532
Due from customers, net	-	1,673,369	1,673,369
Prepaid expenses and other current assets	705,829	-	705,829
Inventory	132,174	477,796	609,970
Internal balances	91,281	(91,281)	-
Total current assets	<u>96,254,789</u>	<u>24,711,270</u>	<u>120,966,059</u>
Noncurrent assets			
Restricted cash	8,211	2,155,725	2,163,936
Land and work in progress	74,075,416	12,362,968	86,438,384
Capital assets, depreciable	283,269,592	135,890,435	419,160,027
Less: accumulated depreciation	(121,463,833)	(74,210,076)	(195,673,909)
Total noncurrent assets	<u>235,889,386</u>	<u>76,199,052</u>	<u>312,088,438</u>
Total assets	<u>332,144,175</u>	<u>100,910,322</u>	<u>433,054,497</u>
<b>Deferred Outflows of Resources</b>			
Pension deferral	12,266,290	1,474,854	13,741,144
OPEB deferral	392,954	43,136	436,090
Total deferred outflows of resources	<u>12,659,244</u>	<u>1,517,990</u>	<u>14,177,234</u>
Total assets and deferred outflows of resources	<u>\$ 344,803,419</u>	<u>102,428,312</u>	<u>447,231,731</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 3,784,480	681,857	4,466,337
Accrued payroll expenses	1,602,461	138,675	1,741,136
Accrued claims payable	353,130	-	353,130
Accrued interest payable	-	411,277	411,277
Unearned revenue	-	1,427,758	1,427,758
Meter deposits	-	493,407	493,407
Compensated absences, current portion	456,763	164,069	620,832
Notes and loans payable, current portion	-	1,902,978	1,902,978
Capital lease payable, current portion	168,160	-	168,160
Total current liabilities	<u>6,364,994</u>	<u>5,220,021</u>	<u>11,585,015</u>
Noncurrent liabilities			
Compensated absences	1,370,289	-	1,370,289
Notes and loans payable	-	26,166,172	26,166,172
Capital lease payable	338,262	-	338,262
Net pension liability	50,616,730	4,760,647	55,377,377
Net OPEB liability	40,229,761	4,416,139	44,645,900
Total noncurrent liabilities	<u>92,555,042</u>	<u>35,342,958</u>	<u>127,898,000</u>
Total liabilities	<u>98,920,036</u>	<u>40,562,979</u>	<u>139,483,015</u>
<b>Deferred Inflows of Resources</b>			
Pension deferral	6,655,086	625,186	7,280,272
OPEB deferral	5,825,156	639,444	6,464,600
Total deferred inflows of resources	<u>12,480,242</u>	<u>1,264,630</u>	<u>13,744,872</u>
<b>Net Position</b>			
Net investment in capital assets	235,881,175	45,974,177	281,855,352
Restricted for:			
Debt service	-	1,662,318	1,662,318
Capital projects	4,725,424	-	4,725,424
Special revenue	4,309,306	-	4,309,306
Unrestricted	(11,512,764)	12,964,208	1,451,444
Total net position	<u>233,403,141</u>	<u>60,600,703</u>	<u>294,003,844</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 344,803,419</u>	<u>102,428,312</u>	<u>447,231,731</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Statement of Activities  
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
General government	\$ 21,556,433	68,525	9,956,904	-	(11,531,004)	-	(11,531,004)
Public safety	22,365,634	18,397	475,806	-	(21,871,431)	-	(21,871,431)
Public works	10,232,705	244,081	-	321,349	(9,667,275)	-	(9,667,275)
Culture and recreation	13,631,995	1,699,630	318,648	18,803,788	7,190,071	-	7,190,071
Health and welfare	12,233,589	1,344,961	435,148	521,470	(9,932,010)	-	(9,932,010)
Economic development	479,306	-	-	-	(479,306)	-	(479,306)
Interest on long-term debt	20,749	-	-	-	(20,749)	-	(20,749)
<i>Total governmental activities</i>	<u>80,520,412</u>	<u>3,375,594</u>	<u>11,186,506</u>	<u>19,646,607</u>	<u>(46,311,705)</u>	<u>-</u>	<u>(46,311,705)</u>
<b>Business-type Activities:</b>							
Joint Utility Fund (600)	12,096,239	11,247,611	1,346,852	-	-	498,224	498,224
Solid Waste (100)	6,205,009	6,521,035	-	-	-	316,026	316,026
<i>Total business-type activities</i>	<u>18,301,248</u>	<u>17,768,646</u>	<u>1,346,852</u>	<u>-</u>	<u>-</u>	<u>814,250</u>	<u>814,250</u>
<i>Total Primary Government</i>	<u>\$ 98,821,660</u>	<u>21,144,240</u>	<u>12,533,358</u>	<u>19,646,607</u>	<u>(46,311,705)</u>	<u>814,250</u>	<u>(45,497,455)</u>
<b>General Revenues:</b>							
Taxes							
Property taxes, levied for general purposes				\$ 2,759,047	-		2,759,047
Gross receipts taxes				55,432,495	1,296,605		56,729,100
Gas taxes				1,139,314	-		1,139,314
Franchise tax				962,109	-		962,109
Lodger's tax				2,008,278	-		2,008,278
Investment income				557,441	257,252		814,693
Licenses and fees				1,728,011	-		1,728,011
Miscellaneous income				397,936	20,746		418,682
Transfers				(1,898,832)	1,898,832		-
Total general revenues and transfers				<u>63,085,799</u>	<u>3,473,435</u>		<u>66,559,234</u>
Change in net position				16,774,094	4,287,685		21,061,779
Net position, beginning				235,836,807	55,898,622		291,735,429
Restatements (Note 22)				(19,207,760)	414,396		(18,793,364)
Net position, beginning restated				<u>216,629,047</u>	<u>56,313,018</u>		<u>272,942,065</u>
Net position, ending				<u>\$ 233,403,141</u>	<u>60,600,703</u>		<u>294,003,844</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Balance Sheet  
Governmental Funds  
As of June 30, 2018**

	<b>(001,002)</b>	<b>(160)</b>		
	<b>General</b>	<b>Health and Wellness</b>	<b>Non-Major</b>	<b>Total</b>
	<b>Fund</b>	<b>Learning</b>	<b>Governmental</b>	
		<b>Center</b>	<b>Funds</b>	
<i>Assets</i>				
Cash and cash equivalents	\$ 54,469,107	75,031	6,858,443	61,402,581
Restricted cash	8,211	-	-	8,211
Receivables:				
Property taxes	135,699	-	-	135,699
GRT receivable	10,366,341	-	509,131	10,875,472
Other taxes	169,957	-	386,755	556,712
Intergovernmental	2,889,160	3,478,948	380,980	6,749,088
Housing incentive receivable	151,441	-	-	151,441
Interest receivable	141,943	-	-	141,943
Accounts receivables, net	1,446,415	-	7,283	1,453,698
Prepaid expenses	705,829	-	-	705,829
Inventory	-	13,245	118,929	132,174
Due from other funds	69,268	-	-	69,268
<i>Total assets</i>	<u>\$ 70,553,371</u>	<u>3,567,224</u>	<u>8,261,521</u>	<u>82,382,116</u>
 <i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ 1,236,186	2,243,053	283,227	3,762,466
Accrued payroll expenses	1,321,892	129,113	151,457	1,602,462
Due to other funds	-	-	69,268	69,268
<i>Total liabilities</i>	<u>2,558,078</u>	<u>2,372,166</u>	<u>503,952</u>	<u>5,434,196</u>
 <i>Deferred inflows of resources</i>				
Deferred inflows - property taxes	48,231	-	-	48,231
<i>Total deferred inflows of resources</i>	<u>48,231</u>	<u>-</u>	<u>-</u>	<u>48,231</u>
 <i>Fund balances</i>				
Nonspendable	705,829	13,245	118,929	838,003
Restricted				
Public safety	-	-	1,209,492	1,209,492
Culture and recreation	-	-	7,276	7,276
Transportation and roads	-	-	285,384	285,384
Health and welfare	-	1,181,813	5,692	1,187,505
Economic development	-	-	1,619,649	1,619,649
Capital projects	-	-	4,725,424	4,725,424
Committed				
Subsequent year's expenditures	4,678,865	-	-	4,678,865
Unassigned	62,562,368	-	(214,277)	62,348,091
<i>Total fund balances</i>	<u>67,947,062</u>	<u>1,195,058</u>	<u>7,757,569</u>	<u>76,899,689</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 70,553,371</u>	<u>3,567,224</u>	<u>8,261,521</u>	<u>82,382,116</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Reconciliation of the Governmental Fund Balance  
to Statement of Net Position  
As of June 30, 2018**

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances - total governmental funds	\$	76,899,689
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet (less Internal Service Funds).		235,881,175
Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position. Internal Service Fund balances not included in other reconciling items:		
Total net position, ending		13,483,728
Allocated to business-type activities		91,281
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore, are not reported in funds:		
Net pension related deferrals		5,611,204
Net OPEB related deferrals		(5,432,202)
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:		
Compensated absences		(1,827,052)
Net pension liability		(50,616,730)
Net OPEB liability		(40,229,761)
Capital lease payable		(506,422)
Revenues not collected within sixty days after year end are considered "available" revenues and are considered to be "unavailable" revenues in the fund financial statements, but are considered revenue in the Statement of Activities:		
Property taxes		48,231
Rounding		-
Net position of governmental activities	\$	<u><u>233,403,141</u></u>

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

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	<b>(001,002)</b>	<b>(160)</b>		
	<b>General</b>	<b>Health and Wellness</b>	<b>Non-Major</b>	<b>Total</b>
	<b>Fund</b>	<b>Learning</b>	<b>Governmental</b>	
	<b>Fund</b>	<b>Center</b>	<b>Funds</b>	<b>Total</b>
<i>Revenues:</i>				
Taxes:				
Property	\$ 2,710,816	-	-	2,710,816
Gross receipts	52,839,144	-	2,593,351	55,432,495
Gasoline and motor vehicle	345,513	-	793,801	1,139,314
Franchise	962,109	-	-	962,109
Lodger's	-	-	2,008,278	2,008,278
Intergovernmental:				
State operating grants	569,642	-	723,479	1,293,121
State capital grants	3,336,547	15,467,241	100,000	18,903,788
Federal operating grants	37,892	-	1,574,802	1,612,694
Federal capital grants	-	-	91,585	91,585
Charges for services	2,407,757	342,872	1,566,666	4,317,295
Licenses and fees	703,291	-	3,480	706,771
Investment income (loss)	374,168	-	143,932	518,100
Miscellaneous	502,292	5,449	71,139	578,880
<i>Total revenues</i>	<u>64,789,171</u>	<u>15,815,562</u>	<u>9,670,513</u>	<u>90,275,246</u>
<i>Expenditures:</i>				
Current:				
General government	11,323,035	-	-	11,323,035
Public safety	14,728,161	-	1,485,570	16,213,731
Public works	6,650,779	-	1,019,721	7,670,500
Culture and recreation	5,743,438	866,329	3,637,992	10,247,759
Health and welfare	8,691,331	-	177,305	8,868,636
Economic development	-	-	479,303	479,303
Capital outlay	9,009,637	28,006,047	2,553,739	39,569,423
Debt service:				
Principal	-	-	-	-
Interest	-	-	20,749	20,749
<i>Total expenditures</i>	<u>56,146,381</u>	<u>28,872,376</u>	<u>9,374,379</u>	<u>94,393,136</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>8,642,790</u>	<u>(13,056,814)</u>	<u>296,134</u>	<u>(4,117,890)</u>
<i>Other financing sources (uses)</i>				
Proceeds from issuance of debt	-	-	292,766	292,766
Transfers in	331,741	315,761	3,904,858	4,552,360
Transfers out	(4,118,949)	-	(2,433,411)	(6,552,360)
<i>Total other financing sources (uses)</i>	<u>(3,787,208)</u>	<u>315,761</u>	<u>1,764,213</u>	<u>(1,707,234)</u>
<i>Net change in fund balance</i>	4,855,582	(12,741,053)	2,060,347	(5,825,124)
<i>Fund balance, - beginning</i>	61,645,065	13,936,111	5,636,883	81,218,059
<i>Restatement</i>	1,446,415	-	60,339	1,506,754
<i>Fund balance - beginning as restated</i>	<u>63,091,480</u>	<u>13,936,111</u>	<u>5,697,222</u>	<u>82,724,813</u>
<i>Fund balance - ending</i>	<u>\$ 67,947,062</u>	<u>1,195,058</u>	<u>7,757,569</u>	<u>76,899,689</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2018**

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

Net change in fund balances - total governmental funds	\$	(5,825,124)
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		32,812,882
Capital expenditures recorded in other expense lines		-
Capital asset transfers from proprietary funds		101,168
Depreciation and amortization expense		(12,297,790)
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		
		65,000
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management to individual funds. The net change of the internal service funds resulting from transactions not recorded with governmental funds.		
		2,823,900
Expenses in the Statement of Activities that do not consume current financial resources are not reported as expenditures in the funds:		
Change in compensated absences		39,303
The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Capital leases, net		(27,514)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Pension expense		(3,925,256)
OPEB expense		2,959,294
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds:		
Change in deferred inflows related to property taxes receivable		<u>48,231</u>
Change in net position of governmental activities	\$	<u><u>16,774,094</u></u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Revenues:</i>				
<i>Taxes:</i>				
Property	\$ 2,801,281	2,984,327	2,679,878	(304,449)
Gross receipts	40,320,000	44,087,892	50,167,428	6,079,536
Gasoline and motor vehicle	248,195	204,832	328,361	123,529
Franchise	937,000	937,000	970,986	33,986
<i>Intergovernmental:</i>				
State operating grants	572,900	657,286	612,556	(44,730)
State capital grants	-	4,150,000	250,000	(3,900,000)
Federal operating grants	32,500	58,100	31,141	(26,959)
Charges for services	2,144,990	2,145,990	2,407,757	261,767
Licenses and fees	647,700	647,700	702,896	55,196
Investment income (loss)	125,000	125,000	647,361	522,361
Miscellaneous	543,339	553,139	738,887	185,748
<i>Total revenues</i>	<u>48,372,905</u>	<u>56,551,266</u>	<u>59,537,251</u>	<u>2,985,985</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	13,149,552	14,656,041	11,218,554	3,437,487
Public safety	17,211,750	17,463,372	14,668,847	2,794,525
Public works	7,266,519	8,770,057	6,668,784	2,101,273
Culture and recreation	7,049,691	14,051,413	5,916,943	8,134,470
Health and welfare	9,614,220	9,591,010	8,662,808	928,202
Capital outlay	3,245,900	14,119,709	8,834,705	5,285,004
<i>Total expenditures</i>	<u>57,537,632</u>	<u>78,651,602</u>	<u>55,970,641</u>	<u>22,680,961</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(9,164,727)</u>	<u>(22,100,336)</u>	<u>3,566,610</u>	<u>(19,694,976)</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	331,741	331,741
Transfers out	-	-	(4,068,949)	(4,068,949)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(3,737,208)</u>	<u>(3,737,208)</u>
<i>Net change in fund balance</i>	<u>(9,164,727)</u>	<u>(22,100,336)</u>	<u>(170,598)</u>	<u>(23,432,184)</u>
Budgeted cash carryover	<u>9,164,727</u>	<u>22,100,336</u>		
<i>Total</i>	<u>\$ -</u>	<u>-</u>		

**RECONCILIATION FROM BUDGET/ACTUAL TO GAAP**

Change in fund balance (Budget Basis)	\$ (170,598)
To adjust applicable revenue accruals and deferrals	5,251,920
To adjust applicable expenditure accruals	(225,740)
Change in fund balance (GAAP basis)	<u>\$ 4,855,582</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Non-GAAP Budgetary Basis)  
Health and Wellness Learning Center  
For the Year Ended June 30, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance Favorable (Unfavorable)</b>
<i>Revenues:</i>				
Intergovernmental:				
State capital grants	\$ 200,000	23,228,008	16,535,604	(6,692,404)
Charges for services	89,803	164,803	308,420	143,617
Miscellaneous	-	-	5,450	5,450
<i>Total revenues</i>	289,803	23,392,811	16,849,474	(6,543,337)
<i>Expenditures:</i>				
Current:				
Culture and recreation	1,033,100	1,345,050	689,864	655,186
Capital outlay	-	35,658,955	28,997,025	6,661,930
<i>Total expenditures</i>	1,033,100	37,004,005	29,686,889	7,317,116
<i>Excess (deficiency) of revenues     over expenditures</i>	(743,297)	(13,611,194)	(12,837,415)	(13,860,453)
<i>Other financing sources (uses)</i>				
Transfers in	-	-	315,761	315,761
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	315,761	315,761
<i>Net change in fund balance</i>	(743,297)	(13,611,194)	(12,521,654)	(13,544,692)
Budgeted cash carryover	743,297	13,611,194		
<i>Total</i>	\$ -	-		

RECONCILIATION FROM BUDGET/ACTUAL TO GAAP

Change in fund balance (Budget Basis)		\$ (12,521,654)
To adjust applicable revenue accruals and deferrals		(1,033,911)
To adjust applicable expenditure accruals		814,512
Change in fund balance (GAAP basis)		\$ (12,741,053)

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Statement of Net Position  
Proprietary Funds  
As of June 30, 2018**

	<b>(600)</b>	<b>(100)</b>		<b>Governmental Activities (640) Risk Management Internal Service Fund</b>
	<b>Joint Utility</b>	<b>Solid Waste Disposal</b>	<b>Total</b>	
<i>Assets</i>				
<i>Current Assets</i>				
Cash and cash equivalents	\$ 20,056,663	1,975,305	22,031,968	13,807,427
Receivables:				
Intergovernmental	364,861	-	364,861	-
Customer receivable, net	1,232,930	440,439	1,673,369	-
GRT receivable	254,557	-	254,557	-
Other receivable	-	-	-	51,445
Inventory	477,796	-	477,796	-
<i>Total current assets</i>	<u>22,386,807</u>	<u>2,415,744</u>	<u>24,802,551</u>	<u>13,858,872</u>
<i>Noncurrent Assets</i>				
Restricted cash - unspent grant proceeds	1,662,318	-	1,662,318	-
Restricted cash - meter deposits	493,407	-	493,407	-
Capital assets	148,253,403	-	148,253,403	-
Less: accumulated depreciation	(74,210,076)	-	(74,210,076)	-
<i>Total noncurrent assets</i>	<u>76,199,052</u>	<u>-</u>	<u>76,199,052</u>	<u>-</u>
<i>Total assets</i>	<u>98,585,859</u>	<u>2,415,744</u>	<u>101,001,603</u>	<u>13,858,872</u>
<i>Deferred Outflows of Resources</i>				
Pension deferral	1,474,854	-	1,474,854	-
OPEB deferral	43,136	-	43,136	-
<i>Total deferred outflows</i>	<u>1,517,990</u>	<u>-</u>	<u>1,517,990</u>	<u>-</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 100,103,849</u>	<u>2,415,744</u>	<u>102,519,593</u>	<u>13,858,872</u>
<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>				
<i>Liabilities</i>				
<i>Current liabilities</i>				
Accounts payable	\$ 156,969	524,888	681,857	22,014
Accrued payroll expenses	138,675	-	138,675	-
Other accrued expenses	-	-	-	353,130
Accrued compensated absences	164,069	-	164,069	-
Meter deposits	493,407	-	493,407	-
Accrued interest	411,277	-	411,277	-
Unearned revenue	1,427,758	-	1,427,758	-
Current portion of long-term debt	1,902,978	-	1,902,978	-
<i>Total current liabilities</i>	<u>4,695,133</u>	<u>524,888</u>	<u>5,220,021</u>	<u>375,144</u>
<i>Noncurrent Liabilities</i>				
Long-term debt	26,166,172	-	26,166,172	-
Net pension liability	4,760,647	-	4,760,647	-
Net OPEB liability	4,416,139	-	4,416,139	-
<i>Total noncurrent liabilities</i>	<u>35,342,958</u>	<u>-</u>	<u>35,342,958</u>	<u>-</u>
<i>Total liabilities</i>	<u>40,038,091</u>	<u>524,888</u>	<u>40,562,979</u>	<u>375,144</u>
<i>Deferred Inflows of Resources</i>				
Pension deferral	625,186	-	625,186	-
OPEB deferral	639,444	-	639,444	-
<i>Total deferred inflows of resources</i>	<u>1,264,630</u>	<u>-</u>	<u>1,264,630</u>	<u>-</u>
<i>Net Position</i>				
Net investment in capital assets	45,974,177	-	45,974,177	-
Restricted	1,662,318	-	1,662,318	-
Unrestricted	11,164,633	1,890,856	13,055,489	13,483,728
<i>Total net position</i>	<u>58,801,128</u>	<u>1,890,856</u>	<u>60,691,984</u>	<u>13,483,728</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 100,103,849</u>	<u>2,415,744</u>	<u>102,519,593</u>	<u>13,858,872</u>
Adjustment to reflect the consolidation of internal service fund activities for enterprise funds			<u>(91,281)</u>	
Net position of business-type activities			<u>60,600,703</u>	

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended June 30, 2018**

	<b>(600) Joint Utility</b>	<b>(100) Solid Waste Disposal</b>	<b>Total</b>	<b>Governmental Activities (640) Risk Management Internal Service Fund</b>
<i>Operating revenues:</i>				
Charges for services	\$ 11,247,611	6,521,035	17,768,646	8,765,520
State operating grants	1,346,852	-	1,346,852	-
<i>Total operating revenues</i>	<u>12,594,463</u>	<u>6,521,035</u>	<u>19,115,498</u>	<u>8,765,520</u>
<i>Operating expenses:</i>				
Personnel services	4,469,452	-	4,469,452	-
Contractual services	678,914	6,205,009	6,883,923	5,980,960
Supplies expense	971,153	-	971,153	-
Repairs and maintenance	415,000	-	415,000	-
Utilities	751,914	-	751,914	-
Equipment	458,412	-	458,412	-
Miscellaneous	8,642	-	8,642	-
Depreciation and amortization	3,839,991	-	3,839,991	-
<i>Total operating expenses</i>	<u>11,593,478</u>	<u>6,205,009</u>	<u>17,798,487</u>	<u>5,980,960</u>
<i>Operating income (loss)</i>	<u>1,000,985</u>	<u>316,026</u>	<u>1,317,011</u>	<u>2,784,560</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts and other taxes	1,296,605	-	1,296,605	-
Investment income	257,252	-	257,252	39,340
Interest expense	(502,761)	-	(502,761)	-
Gain/(loss) on sale of capital assets	-	-	-	-
Miscellaneous income	20,746	-	20,746	-
<i>Total non-operating revenues (expenses)</i>	<u>1,071,842</u>	<u>-</u>	<u>1,071,842</u>	<u>39,340</u>
Transfers	1,898,832	-	1,898,832	-
Federal capital grants	-	-	-	-
State capital grants	-	-	-	-
<i>Net capital grants and transfers</i>	<u>1,898,832</u>	<u>-</u>	<u>1,898,832</u>	<u>-</u>
<i>Change in net position</i>	3,971,659	316,026	4,287,685	2,823,900
<i>Net position, beginning of year</i>	54,577,448	1,412,455	55,989,903	10,530,812
<i>Restatement</i>	252,021	162,375	414,396	129,016
<i>Beginning net position, as restated</i>	<u>54,829,469</u>	<u>1,574,830</u>	<u>56,404,299</u>	<u>10,659,828</u>
<i>Net position, end of year</i>	<u>\$ 58,801,128</u>	<u>1,890,856</u>	<u>60,691,984</u>	<u>13,483,728</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Major Proprietary Funds  
Statement of Cash Flows  
For The Year Ended June 30, 2018**

	<b>(600)</b>	<b>(100)</b>		<b>Governmental</b>
	<b>Joint</b>	<b>Solid Waste</b>		<b>Activities</b>
	<b>Utility</b>	<b>Disposal</b>	<b>Total</b>	<b>(640)</b>
				<b>Risk Management</b>
				<b>Internal</b>
				<b>Service Fund</b>
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 12,580,593	6,448,145	19,028,738	8,647,016
Payments to employees	(4,484,751)	-	(4,484,751)	-
Payments to suppliers	(1,663,874)	(6,487,394)	(8,151,268)	(6,199,318)
Other receipts/(payments)	-	-	-	-
<i>Net cash provided (used) by operating activities</i>	<u>6,431,968</u>	<u>(39,249)</u>	<u>6,392,719</u>	<u>2,447,698</u>
<b>Cash flows from non-capital financing activities</b>				
Gross receipts and other taxes	1,296,605	-	1,296,605	-
Miscellaneous revenue	20,746	-	20,746	-
Transfers to other funds	1,898,832	-	1,898,832	-
<i>Net cash provided (used) by noncapital financing activities</i>	<u>3,216,183</u>	<u>-</u>	<u>3,216,183</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(6,607,581)	-	(6,607,581)	-
Transfer out of capital assets	101,168	-	101,168	-
Proceeds from issuance of debt	124,307	-	124,307	-
Principal payments	(1,623,590)	-	(1,623,590)	-
Interest payments	(502,761)	-	(502,761)	-
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(8,508,457)</u>	<u>-</u>	<u>(8,508,457)</u>	<u>-</u>
<b>Cash flows from investing activities</b>				
Proceeds from sale of investments	-	-	-	-
Purchases of investments, net	-	-	-	-
Investment income	257,252	-	257,252	39,340
<i>Net cash provided (used) by investing activities</i>	<u>257,252</u>	<u>-</u>	<u>257,252</u>	<u>39,340</u>
Net increase (decrease) in cash and cash equivalents	1,396,946	(39,249)	1,357,697	2,487,038
Balances - beginning of year	20,815,442	2,014,554	22,829,996	11,320,389
Balances - end of year	<u>\$ 22,212,388</u>	<u>1,975,305</u>	<u>24,187,693</u>	<u>13,807,427</u>
<b>Reconciliation of cash and cash equivalents</b>				
Unrestricted				
Cash and cash equivalents	20,056,663	1,975,305	22,031,968	13,807,427
Restricted				
Unspent grant proceeds	1,662,318	-	1,662,318	-
Meter deposits	493,407	-	493,407	-
Total cash	<u>\$ 22,212,388</u>	<u>1,975,305</u>	<u>24,187,693</u>	<u>13,807,427</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Nonmajor Proprietary Funds  
Statement of Cash Flows  
For The Year Ended June 30, 2018**

	(600) Joint Utility	(100) Solid Waste Disposal	Total	<b>Governmental Activities</b> <b>(640)</b> <b>Risk Management Internal Service Fund</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,000,985	316,026	1,317,011	2,784,560
<i>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</i>				
Depreciation expense	3,839,991	-	3,839,991	-
Pension expense	369,345	-	369,345	-
OPEB expense	(324,851)	-	(324,851)	-
Restatement	2,918,375	162,375	3,080,750	129,016
(Increase) decrease in:				
Accounts receivable	(665,890)	(72,890)	(738,780)	(118,504)
Inventory	31,612	-	31,612	-
Prepays	-	-	-	-
(Decrease) increase in:				
Accounts payable	(1,290,801)	(444,760)	(1,735,561)	(9,660)
Accrued payroll and related	1,609	-	1,609	-
Customer deposits	(23,607)	-	(23,607)	-
Unearned revenue	675,627	-	675,627	-
Compensated absences	(61,402)	-	(61,402)	-
Other liabilities	(39,025)	-	(39,025)	(337,714)
<i>Net cash provided (used) by operating activities</i>	\$ 6,431,968	(39,249)	6,392,719	2,447,698

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

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**As of June 30, 2018**

ASSETS

Cash and cash equivalents	\$ <u>372,090</u>
<i>Total assets</i>	\$ <u><u>372,090</u></u>

LIABILITIES

Deposits payable	\$ <u>372,090</u>
<i>Total liabilities</i>	\$ <u><u>372,090</u></u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Notes to the Financial Statements  
For the Year Ended June 30, 2018**

**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.

***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.

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Notes to the Financial Statements  
For the Year Ended June 30, 2018**

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.

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.

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2018**

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.

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 (001,002) 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.

The Health and Wellness Learning Center Special Revenue Fund(160) was authorized by City resolution 6338 on August 25, 2015 to account for the revenues and expenditures associated

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Notes to the Financial Statements  
For the Year Ended June 30, 2018**

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 (600) accounts for fees generated from charges for utilities.

The Solid Waste Disposal Fund (100) 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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.

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.

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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 Lea County 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, 2018 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, 2018.

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.

Prepaid Items

Payments made to vendors that will benefit periods beyond June 30, 2018 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

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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 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:

<u>Asset Type</u>	<u>Years</u>
Building and improvements	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, 2018.

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.

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/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Plan (RHP) and additions to/deductions from the City's RHP's fiduciary net position have been determined on the same basis as they are reported by the City's RHP. For this purpose, the City's RHP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred Outflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has the following deferred outflows of resources during fiscal year 2018:

<b><u>Deferred Outflows of Resources - GW</u></b>	
Pension deferrals	\$ 13,741,144
OPEB deferrals	<u>436,090</u>
Total deferred outflows of resources	<u>\$ 14,177,234</u>

<b><u>Deferred Outflows of Resources - Fund Financials</u></b>	
Pension deferrals	\$ 1,474,854
OPEB deferrals	<u>43,136</u>
Total deferred inflows of resources	<u>\$ 1,517,990</u>

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue. The City has the following deferred inflows of resources during fiscal year 2018:

<b><u>Deferred Inflows of Resources - GW</u></b>	
Pension deferrals	\$ 7,280,272
OPEB deferrals	<u>6,464,600</u>
Total deferred inflows of resources	<u>\$ 13,744,872</u>

<b><u>Deferred Inflows of Resources - Fund Financials</u></b>	
Property tax revenue	\$ 48,231
Pension deferrals	625,186
OPEB deferrals	<u>639,444</u>
Total deferred inflows of resources	<u>\$ 1,312,861</u>

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.

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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 and inventory 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 1/12<sup>th</sup> 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".

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

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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, 2018 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, 2018.

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.

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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, 2018, \$5,484,823 of the City's bank balances of \$5,734,823 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.

Deposits	\$	824,728
Repurchase agreements		4,910,095
FDIC coverage		<u>(250,000)</u>
Total uninsured public funds		5,484,823
Collateralized by securities held by trust pledging institutions or by its trust department or agency in other than the City's name		5,484,823
Uninsured and uncollateralized	\$	<u>          -</u>
Collateral requirement - deposits (50% of uninsured funds)		287,364
Collateral requirement - repurchase agreements (102% of uninsured funds)		<u>5,008,297</u>
Pledged collateral		5,008,297
Over (under) collateralized	\$	<u>          -</u>

New Mexico 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, 2018, the City's investment in the LGIP was rated as AAAM by Standard & Poor's.

As of June 30, 2018, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
	[50] day WAM (R);		
New Mexico LGIP	[100] day WAM (F) \$	39,221,119	AAAm
U.S. Treasury Securities	659 days \$	55,696,941	AA+

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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).

The investments are listed on page 78 of this report. The New Mexico LGIP fund totaling \$39,221,119 is reported as cash equivalents on the Statement of Net Position. They are considered an investment for disclosure purposes. Treasury Bills U.S. Securities totaling \$55,696,941 are reported as cash on the Statement of Net Position. They are considered an investment for disclosure purposes.

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.

The following table sets forth by level within the fair value hierarchy, the City's assets at fair value as of June 30, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Treasury Securities	\$ 55,696,941	-	-	55,696,941
Investments (LGIP) measured at NAV - practical expedient				39,221,119
Investments at fair value				<u>94,918,060</u>

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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:

<u>Cash and investments</u>	<u>Amount</u>
Cash and cash equivalents	
Cash on hand	\$ 25,099
Cash	187,106
Repurchase agreement	4,910,095
NMFA Cash	1,662,318
Reconciling items	<u>(2,562,298)</u>
Subtotal cash and cash equivalents	<u>4,222,320</u>
Investments	
State Treasurer's Investment Pool	39,221,119
Certificates of deposit - maturities > 90 days	637,622
US Agency Securities	<u>55,696,941</u>
Subtotal investments	<u>95,555,682</u>
Total cash and investments	<u>\$ 99,778,002</u>
<u>Cash and investments by fund type</u>	<u>Amount</u>
Governmental funds	
Internal service funds	<u>13,807,427</u>
Subtotal governmental activities	75,218,219
Business-type activities	24,187,693
Fiduciary funds	<u>372,090</u>
Total cash and investments	<u>\$ 99,778,002</u>

**NOTE 4 – RECEIVABLES**

Receivables as of June 30, 2018, including the applicable allowances for uncollectible accounts, are as follows:

<u>Governmental Funds</u>	<u>(001,002) General Fund</u>	<u>(160) Health and Wellness Learning Center</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Property tax	\$ 135,699	-	-	135,699
Other Taxes				
Gross receipts taxes	10,366,341	-	509,131	10,875,472
Gas and oil taxes	34,189	-	140,527	174,716
Franchise and lodgers taxes	135,768	-	246,228	381,996
Interest receivable	141,943	-	-	141,943
Intergovernmental				
Federal	5,949	-	380,980	386,929
State	36,664	-	-	36,664
Local	2,846,547	3,478,948	-	6,325,495
Housing incentive	151,441	-	-	151,441
Accounts				
Ambulance	1,243,749	-	-	1,243,749
Weed mowing	96,427	-	-	96,427
Court fines	563,219	-	-	563,219
Other	-	-	7,283	7,283
Subtotal	<u>15,757,936</u>	<u>3,478,948</u>	<u>1,284,149</u>	<u>20,521,033</u>
Less: Allowance for uncollectibles	<u>(456,980)</u>	<u>-</u>	<u>-</u>	<u>(456,980)</u>
Net receivables	<u>\$ 15,300,956</u>	<u>3,478,948</u>	<u>1,284,149</u>	<u>20,064,053</u>

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<b>Business-Type Funds</b>	<b>(600) Joint Utility</b>	<b>(100) Solid Waste Disposal</b>	<b>Total Business-Type</b>	<b>Internal Service Funds</b>
Water fees	\$ 859,873	-	859,873	-
Sewer fees	646,041	-	646,041	-
Solid waste fees	-	459,095	459,095	-
Other taxes				
Gross receipts tax	254,557	-	254,557	-
Intergovernmental				
State	364,861	-	364,861	-
Other	-	-	-	51,445
Subtotal	2,125,332	459,095	2,584,427	51,445
Less: Allowance for uncollectibles	(272,984)	(18,656)	(291,640)	-
Net receivables	\$ 1,852,348	440,439	2,292,787	51,445

**NOTE 5 – INTERFUND BALANCES AND TRANSFERS**

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

<b>Transfers Out</b>	<b>Transfers In</b>	<b>Amount</b>
Lodger's Tax fund (230)	General fund (001)	\$ 220,728
Recreational Expendable fund (760)	General fund (001)	111,013
General fund (001)	Safer Grant fund (140)	156,215
General fund (001)	COPS Grant fund (150)	456,031
General fund (001)	H and W Learning Center (160)	252,915
Lodger's Tax fund (230)	H and W Learning Center (160)	62,846
General fund (001)	Older American fund (170)	696,204
General fund (001)	Golf fund (180)	1,546,765
Lodger's Tax fund (230)	Golf fund (180)	38,824
General fund (001)	Cemetery fund (190)	229,678
General fund (001)	Public Transportation fund (270)	279,277
General fund (001)	Fire Protection fund (280)	50,000
General fund (001)	Community Dev fund (370)	451,864
City Comm. Impr. (490)	Joint utility fund (600)	2,000,000
Government-wide fixed asset transfer	Business-type fixed asset transfer	70,040
Business-type fixed asset transfer	Government-wide fixed asset transfer	171,208
		<u>\$ 6,793,608</u>
<b>Due from other funds</b>	<b>Due to other funds</b>	<b>Amount</b>
General Fund (001)	Public Transportation (270)	\$ 69,268

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.

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**NOTE 6 – CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended June 30, 2018:

**Primary Government**

<i>Governmental Activities includes</i>	Balance					Balance
<i>Internal Service Funds</i>	June 30, 2017	Additions	Restatement	Deletions	Transfers	June 30, 2018
Capital assets not being depreciated:						
Land	\$ 8,004,305	-	-	-	-	8,004,305
Construction in progress	33,906,922	28,623,833	3,540,357	-	-	66,071,112
Total capital assets not being depreciated	<u>41,911,227</u>	<u>28,623,833</u>	<u>3,540,357</u>	<u>-</u>	<u>-</u>	<u>74,075,417</u>
Capital assets being depreciated:						
Buildings and improvements	56,248,131	-	-	-	-	56,248,131
Equipment	42,322,562	3,888,029	760,280	(1,342,422)	(70,040)	45,558,409
Land improvements	66,784,880	304,809	-	-	-	67,089,689
Infrastructure	111,533,814	61,211	-	-	171,208	111,766,233
Total capital assets being depreciated	<u>276,889,387</u>	<u>4,254,049</u>	<u>760,280</u>	<u>(1,342,422)</u>	<u>101,168</u>	<u>280,662,462</u>
Total capital assets	<u>318,800,614</u>	<u>32,877,882</u>	<u>4,300,637</u>	<u>(1,342,422)</u>	<u>101,168</u>	<u>354,737,879</u>
Amortizable assets						
Intangible assets	2,607,128	-	-	-	-	2,607,128
Total amortizable assets	<u>2,607,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,607,128</u>
Less accumulated depreciation:						
Buildings and improvements	(28,823,129)	(2,501,567)	-	-	-	(31,324,696)
Equipment	(27,960,188)	(2,501,394)	(194,245)	1,342,422	-	(29,313,405)
Land improvements	(10,991,568)	(2,571,598)	-	-	-	(13,563,166)
Infrastructure	(40,284,866)	(4,564,408)	-	-	-	(44,849,274)
Total accumulated depreciation	<u>(108,059,751)</u>	<u>(12,138,967)</u>	<u>(194,245)</u>	<u>1,342,422</u>	<u>-</u>	<u>(119,050,541)</u>
Less accumulated amortization						
Intangible assets	(2,254,468)	(158,823)	-	-	-	(2,413,291)
Total accumulated amortization	<u>(2,254,468)</u>	<u>(158,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,413,291)</u>
Capital assets, net	<u>\$ 211,093,523</u>	<u>20,580,092</u>	<u>4,106,392</u>	<u>-</u>	<u>101,168</u>	<u>235,881,175</u>

Depreciation and amortization expense for the year ended June 30, 2018 was charged to governmental activities as follows:

Governmental activities:		
General government	\$ 2,587,053	
Public safety	3,714,885	
Public works	1,699,631	
Culture and recreation	2,264,246	
Health and welfare	2,031,974	
Total	<u>12,297,790</u>	
Internal Service Fund	-	
Total governmental activities	<u>\$ 12,297,790</u>	

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<i>Business-Type Activities</i>	Balance June 30, 2017	Additions	Restatement	Deletions	Transfers	Balance June 30, 2018
Capital assets not being depreciated:						
Land	\$ 12,473	-	-	-	-	12,473
Construction in progress	6,130,656	4,953,963	1,265,876	-	-	12,350,495
Total capital assets not being depreciated	<u>6,143,129</u>	<u>4,953,963</u>	<u>1,265,876</u>	<u>-</u>	<u>-</u>	<u>12,362,968</u>
Capital assets being depreciated:						
Buildings and improvements	28,445,723	-	-	(12,598)	-	28,433,125
Equipment	43,867,907	153,204	-	(159,193)	70,040	43,931,958
Land improvements	2,252,333	-	-	-	-	2,252,333
Infrastructure	61,204,689	234,538	-	-	(171,208)	61,268,019
Total capital assets being depreciated	<u>135,770,652</u>	<u>387,742</u>	<u>-</u>	<u>(171,791)</u>	<u>(101,168)</u>	<u>135,885,435</u>
Total capital assets	<u>141,913,781</u>	<u>5,341,705</u>	<u>1,265,876</u>	<u>(171,791)</u>	<u>(101,168)</u>	<u>148,248,403</u>
Amortizable assets						
Intangible assets	5,000	-	-	-	-	5,000
Total amortizable assets	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Less accumulated depreciation:						
Buildings and improvements	(15,008,653)	(917,797)	-	12,598	-	(15,913,852)
Equipment	(35,993,894)	(992,003)	-	159,193	-	(36,826,704)
Land improvements	(1,307,538)	(42,582)	-	-	-	(1,350,120)
Infrastructure	(18,230,906)	(1,887,484)	-	-	-	(20,118,390)
Total accumulated depreciation	<u>(70,540,991)</u>	<u>(3,839,866)</u>	<u>-</u>	<u>171,791</u>	<u>-</u>	<u>(74,209,066)</u>
Less accumulated amortization						
Intangible assets	(885)	(125)	-	-	-	(1,010)
Total accumulated amortization	<u>(885)</u>	<u>(125)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,010)</u>
Total capital assets net of depreciation \$	<u>71,376,905</u>	<u>1,501,714</u>	<u>1,265,876</u>	<u>-</u>	<u>(101,168)</u>	<u>74,043,327</u>

Depreciation and amortization expense for the year ended June 30, 2018 was charged to business-type activities as follows:

Business type activities:		
Joint Utility	\$	3,839,991
Solid waste disposal		-
Total business-type activities	\$	<u>3,839,991</u>

**NOTE 7 – LONG-TERM DEBT**

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the government- wide statement of net position:

Governmental Activities

<b>Governmental Activities:</b>	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Restatements</b>	<b>Balance June 30, 2018</b>	<b>Due Within One Year</b>
Capital lease	\$ -	292,766	(265,252)	478,908	506,422	168,160
Compensated Absences	1,866,355	913,941	(953,244)	-	1,827,052	456,763
Net pension liability	61,233,904	-	(10,617,174)	-	50,616,730	-
Net OPEB liability	25,419,278	-	(2,270,915)	17,081,398	40,229,761	-
Total long-term debt	<u>\$ 88,519,537</u>	<u>1,206,707</u>	<u>(14,106,585)</u>	<u>17,560,306</u>	<u>93,179,965</u>	<u>624,923</u>

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As of June 30, 2018, balances of capital leases are as follows:

<u>Capital Leases</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Balance June 30, 2018</u>
Ambulance	3/24/2014	2/15/2018	3.60%	\$ 281,504	-
Ambulance	4/1/2017	5/1/2020	2.97%	478,776	282,448
Ambulance	10/20/2017	5/20/2021	3.82%	292,766	223,974
				<u>\$ 1,053,046</u>	<u>506,422</u>

The aggregated capital lease payments required on the outstanding capital lease payable of the governmental funds is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 168,160	17,197	185,357
2020	248,560	22,642	271,202
2021	89,702	3,513	93,215
2022	-	-	-
2023	-	-	-
	<u>\$ 506,422</u>	<u>43,352</u>	<u>549,774</u>

Proprietary Funds

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
<b>Business-Type Activities:</b>						
NMFA and NMED loans	\$ 29,568,433	124,307	(1,858,150)	234,560	28,069,150	1,902,978
Compensated Absences	225,471	87,609	(149,011)	-	164,069	164,069
Net pension liability	5,759,626	-	(998,979)	-	4,760,647	-
Net OPEB liability	2,790,349	-	(249,285)	1,875,075	4,416,139	-
Total long-term debt	<u>\$ 38,343,879</u>	<u>211,916</u>	<u>(3,255,425)</u>	<u>2,109,635</u>	<u>37,410,005</u>	<u>2,067,047</u>

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, 2018, balances of NMFA and NMED loans are as follows:

<u>NMFA and NMED Notes Payable</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>June 30, 2018</u>
NMED Wastewater Loan	3/7/2011	7/21/2030	2.00%	\$ 31,419,101	\$ 21,805,777
NMFA Clean Drinking Water Loan	5/13/2005	5/1/2023	1.75%	5,226,750	3,246,679
NMFA Water Project Loan	3/22/2013	6/1/2032	0.25%	1,319,488	930,981
NMFA WTB Effluent Refuse Project	6/12/2015	6/1/2035	0.25%	1,280,000	1,093,678
NMFA WTB Effluent Refuse Project	6/12/2016	6/1/2036	0.25%	723,040	633,168
NMFA WTB#8 Water Project	10/14/2016	6/1/2038	0.25%	234,560	234,560
NMED CWSRF o64	10/16/2017	10/31/2038	1.20%	6,143,300	124,307
				<u>\$ 46,346,239</u>	<u>\$ 28,069,150</u>

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 are 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-1 NMSA 1078, as amended and hereafter

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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.

The City entered into a grant/loan agreement with the New Mexico Finance Authority on October 14, 2016 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 grant portion of the agreement is \$351,840 and the total loan amount is \$234,560 with an interest rate of .25% over the term of the loan. The loan matures on June 1, 2038 and will be payable and collectible solely from the net revenues to be derived from the operation of the joint water and sewer system.

NMFA has subsequently notified the City that the project will expire on October 14, 2018. As of the end of the year, the City's project had a full balance of \$586,400 remaining of the 2016 award. Any funds not drawn prior to the expiration date of October 14, 2018, will revert to the original funding source.

The City entered into a revolving loan agreement with the New Mexico Environment Department on October 26, 2017, in order to obtain funds through the provisions of Section 74-6a-1 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 1.20% and the principal amount of the loan is not to exceed \$6,143,300. 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 aggregated debt service payments required on the outstanding debt of the proprietary funds is as follows:

<b>Fiscal Year</b>		<b>Principal</b>	<b>Interest</b>	<b>Total Debt</b>
<b>Ending June 30,</b>				<b>Service</b>
2019	\$	1,902,978	509,236	2,412,214
2020		1,938,920	473,292	2,412,212
2021		1,974,604	435,092	2,409,696
2022		2,010,991	401,222	2,412,213
2023		2,048,098	364,114	2,412,212
2024-2028		10,823,340	1,238,171	12,061,511
2029-2033		6,978,944	285,378	7,264,322
Thereafter		391,275	560	391,835
	\$	<u>28,069,150</u>	<u>3,707,065</u>	<u>31,776,215</u>

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**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, 2018. 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 6, 2018.

**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:

<u>Recipient</u>	<u>Date of Issue</u>	<u>Retirement Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding June 30, 2018</u>	<u>Purpose</u>
RMS Foods, Inc.	2005	2035	\$ 7,775,000	\$ 5,000	Acquire land and acquire, construct, and equip a facility in the City of Hobbs

**NOTE 10 – OPERATING LEASES**

The City did not have any new or existing operating lease agreements at June 30, 2018.

**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 \$353,130 at June 30, 2018 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**

**General Information about the Pension Plan**

**Plan Description** - *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as

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defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

**Benefits Provided** - Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

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

**Contributions** – See PERA's compressive annual financial report for Contribution provided description.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At June 30, 2018, the City of Hobbs reported a liability of \$55,377,377 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City of Hobbs's proportion was 7.5030%, which was a decrease of 0.0139% from its proportion measured as of June 30, 2016.

**For PERA Fund Division; Municipal General Division**, at June 30, 2018, the City reported a liability of \$22,136,502 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was 1.6110%, which was a decrease of 0.0190% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the City of Hobbs recognized pension expense of \$3,177,084. At June 30, 2018, the City of Hobbs reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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<b><u>Municipal General Division</u></b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 869,814	1,133,766
Changes of assumptions	1,020,822	228,751
Net difference between projected and actual earnings on pension plan investments	1,816,166	-
Change in proportion and differences between the City contributions and proportionate share of contributions	898,751	-
The City contributions subsequent to the measurement date	<u>1,538,840</u>	<u>-</u>
Total	<u>\$ 6,144,393</u>	<u>1,362,517</u>

\$1,538,840 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	Amount
<u>June 30:</u>	<u>Amount</u>
2019	\$ 1,126,333
2020	2,280,865
2021	366,603
2022	(530,765)
2023	-
Thereafter	-

**Municipal Police Division** - At June 30, 2018, the City of Hobbs reported a liability of \$15,745,839 for its proportionate share of the net pension liability. At June 30, 2017, the City of Hobbs's proportion was 2.8342%, which was a decrease of 0.0409% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City of Hobbs recognized pension expense of \$2,323,018. At June 30, 2018, the City of Hobbs reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b><u>Municipal Police Division</u></b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 956,325	2,941,956
Changes of assumptions	936,824	366,143
Net difference between projected and actual earnings on pension plan investments	1,268,112	-
Change in proportion and differences between the City contributions and proportionate share of contributions	758,278	161,184
The City contributions subsequent to the measurement date	<u>969,107</u>	<u>-</u>
Total	<u>\$ 4,888,646</u>	<u>3,469,283</u>

\$969,107 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year Ended June 30:	Amount
2019	\$ 326,749
2020	990,598
2021	(496,312)
2022	(370,779)
2023	-
Thereafter	-

**Municipal Fire Division** - At June 30, 2018, the City of Hobbs reported a liability of \$17,495,036 for its proportionate share of the net pension liability. At June 30, 2017, the City of Hobbs's proportion was 3.0578%, which was an increase of 0.0080% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City of Hobbs recognized pension expense of \$1,983,195. At June 30, 2018, the City of Hobbs reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Municipal Fire Division</b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 571,247	2,190,667
Changes of assumptions	691,649	109,686
Net difference between projected and actual earnings on pension plan investments	656,747	-
Change in proportion and differences between the City contributions and proportionate share of contributions	108,086	148,119
The City contributions subsequent to the measurement date	680,376	-
Total	\$ 2,708,105	2,448,472

\$680,376 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount
2019	\$ 36,562
2020	174,945
2021	(443,031)
2022	(189,219)
2023	-
Thereafter	-

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

<b>Actuarial valuation date</b>	June 30, 2016
<b>Actuarial cost method</b>	Entry Age Normal
<b>Amortization method</b>	Level Percent of Pay, Open
<b>Amortization period</b>	Solved for based on statutory rates
<b>Asset valuation method</b>	4 Year Smoothed Market Value
<b>Actuarial assumptions</b>	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 9 years, then 3.25 annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	Includes inflation at 2.25% for the first 10 years and 2.75% thereafter
Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic)

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

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

<u>All Funds - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Total	<u>100.00%</u>	

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

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

**Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate.** - The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the City’s proportionate share of the net pension

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liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

<b>PERA Fund Division</b>	<b>1% Decrease (6.51%)</b>	<b>Current Discount Rate (7.51%)</b>	<b>1% Increase (8.51%)</b>
Municipal General Division	\$ 34,695,211	22,136,502	11,692,190
Municipal Police Division	\$ 25,110,245	15,745,839	8,060,958
Municipal Fire Division	\$ 23,447,876	17,495,036	12,589,352

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

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**General Information about the OPEB Plan**

**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.

**Benefits Provided** – The plan provides life, medical, and dental insurance benefits to participating retirees, spouses, children, and survivors.

**Employees covered by benefit terms** – At June 30, 2018, the following employees were covered by the benefit terms:

Active plan members	569
Inactive plan members or beneficiaries currently receiving benefit payments	118
	<u>687</u>

**Contributions** – 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. 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. The plan is financed on a pay-as-you-go basis. The following table details the contributions made as of June 30:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
City contributions	\$ 436,090	434,445	417,734
Employee contributions	652,464	640,284	549,524
	<u>\$ 1,088,554</u>	<u>1,074,729</u>	<u>967,258</u>

**Net OPEB Liability**

The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 01, 2017.

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**Actuarial assumptions** – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<b>Actuarial method</b>	Entry Age Normal – Level % of Salary Method
<b>Measurement date</b>	Last day of the fiscal year (i.e. – June 30, 2018)
<b>Measurement period</b>	July 1, 2017 to June 30, 2018
<b>Valuation date</b>	First day of the fiscal year (i.e. - July 1, 2017)
<b>Census data</b>	As of July 1, 2018
<b>Service cost</b>	Determined for each active employee as the Actuarial Present Value of benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the Plan’s benefit formula. This allocation is based on each individual’s service between the date of hire and the expected date of retirement.
<b>Discount rates</b>	For the Fiscal Year Ending June 30, 2018: 3.58% For the Fiscal Year Ending June 30, 2017: 2.85% For the Fiscal Year Ending June 30, 2016: 3.80%
<b>Municipal bon rate basis</b>	Bond Buyer General Obligation 20-Bond Municipal Bond Index
<b>CPI</b>	2.50%
<b>Life insurance administrative load</b>	10.0% (applied only to pre-Medicare retiree life insurance amounts)
<b>Salary scale</b>	3.00%
<b>Health benefits participation</b>	95% of future retirees are assumed to elect participation in the healthcare plan.
<b>Life insurance participation</b>	100% of future retirees are assumed to participate in the life insurance plan.
<b>Spouse age difference &amp; marriage percentage</b>	Future Retiree male participants were 3 years older than spouses and active female participants were 2 years younger than spouses. 65% of future retirees are assumed to have spouses. Actual data is used for current retirees
<b>Healthy mortality</b>	RP-2006 Headcount-Weighted Healthy Employee Male / Female Mortality Table with Fully Generational Mortality Improvement Projections from the central year using Scale MP-2017
<b>Disabled mortality</b>	RP-2006 Headcount-Weighted Disabled Male / Female Mortality Table with Fully Generational Improvement Projections from the central year using Scale MP-2017

**Discount rate** – The discount rate used to measure the total OPEB liability was 3.58 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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**Changes in the Net OPEB Liability**

	<b>Increase/(Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
<b>June 30, 2017</b>	\$ 47,166,100	-	47,166,100
Changes recognized for the fiscal year			
Service cost	4,329,000	-	4,329,000
Interest on total OPEB liability	1,452,400	-	1,452,400
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	(7,226,900)	-	(7,226,900)
Benefit payments	(1,074,700)	(1,074,700)	-
Contributions from the employer	-	434,400	(434,400)
Contributions from the employee	-	640,300	(640,300)
Net investment income	-	-	-
Administrative expense	-	-	-
Net changes	(2,520,200)	-	(2,520,200)
<b>June 30, 2018</b>	\$ 44,645,900	-	44,645,900

***Sensitivity of the net OPEB liability to changes in the discount rates*** – The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentagepoint higher than the current discount rate:

	<b>1% Decrease (2.58%)</b>	<b>Current Discount Rate (3.58%)</b>	<b>1% Increase (4.58%)</b>
Net OPEB liability \$	\$ 54,779,300	\$ 44,645,900	\$ 37,011,400

***Sensitivity of the net OPEB liability to changes in the health-care cost trend rates*** – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1 percentage-point higher than the current health care cost trend rates:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
Net OPEB liability \$	\$ 36,449,100	\$ 44,645,900	\$ 55,780,100

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the City recognized OPEB expense of \$5,019,100. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b><u>Municipal General Division</u></b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	-
Changes of assumptions	-	6,464,600
Net difference between expected and actual earnings on OPEB plan investments	-	-
The City contributions made after the measurement date	436,090	-
Total	\$ 436,090	6,464,600

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended	
June 30:	Amount
2019	\$ (762,300)
2020	(762,300)
2021	(762,300)
2022	(762,300)
2023	(762,300)
Thereafter	(2,653,100)

**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 Estacado 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, publicly 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.

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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.

**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.

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**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.

**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.

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**Justice Assistance Grant Edward Byre** – 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) and the Board of Education of Hobbs Municipal School District (District). The total estimated cost of the design and construction of the HWLC is \$61,000,000. Once the HWLC is completed, the parties will share in the cost of utilities and maintenance of the HWLC and the use of the HWLCC 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 \$1,300,000 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. Commencing on July 1, 2018, and on the first day of July thereafter.

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. The City of Hobbs is the fiscal agent for the HWLC project and there were \$55,300,209 in design and construction costs incurred since the inception of the project through fiscal year ending June 30, 2018. Reimbursement owed to the City by the Maddox Foundation totaled \$3,244,496 at June 30, 2018. All funding for design and construction costs have been received from NMJC and Hobbs Municipal School District as of June 30, 2018. Audit responsibility rest with each individual party described above.

**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, 2018:

<u>Fund</u>	<u>Fund Type</u>	<u>Amount</u>
Old American Act fund (170)	Special revenue	\$ (39,382)
Golf fund (180)	Special revenue	(96,442)
Cemetery fund (190)	Special revenue	(11,481)
Public Transportation fund (270)	Special revenue	(32,789)
Community Development fund (370)	Special revenue	(34,183)
		\$ <u>(214,277)</u>

- B. Excess of expenditures over appropriations. The City's Airport fund exceeded approved budgetary authority in the amount of \$15,200 for the year ended June 30, 2018.
- C. Designated cash appropriations in excess of available balances. No funds exceeded approved budgetary authority for the year ended June 30, 2018.

**NOTE 18 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

The City had outstanding construction commitments for construction and infrastructure projects of \$7,763,838 as of June 30, 2018.

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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 \$61,000,000.

The City has committed \$50,000,000 toward the cost to design, construct, and equip the Wellness center which consists of \$25,000,000 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. \$50,000 of the bond proceeds must be spent 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. NMJC will also contribute to the ongoing maintenance and repair of the HWLC.

The District has committed \$1,000,000 of local bond funds towards the costs to design and construct the HWLC. The District will also contribute to the ongoing maintenance and repair of the HWLC.

Once the HWLC is completed, the parties will share in the cost of utilities and maintenance of the HWLC and the use of the HWLCC 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 \$1,300,000. 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.

The City has prepaid housing incentive commitments related to the above program totaling \$438,941 at June 30, 2018 which relates to 10 police officers and 7 firefighters/ems.

**NOTE 19 – CONCENTRATION**

As of June 30, 2018, 72 of the City's 707 employees (10%) 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 47 of their 707 employees (7%) that were part of a fire union agreement. This agreement was approved on November 3, 2014 and expires on June 30, 2019.

**NOTE 20 - EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the statement of financial position/balance sheet date but before the financial statements are issued. The City recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position/balance sheet, including the estimates inherent in the process of preparing the financial statements. The City's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position/balance sheet but arose after the statement of financial position/balance sheet date and before financial statements are available to be issued. The City has evaluated subsequent events through December 10, 2018, which is the date the financial statements were available to be issued.

**NOTE 21 – TAX ABATEMENTS**

The City of Hobbs negotiates property tax abatements on an individual basis. The City has tax abatement agreements with two entities as of June 30, 2018. Each agreement was negotiated under the State of New Mexico Article 32, Industrial Revenue Bonds (IRB'S) allowing local municipal governments to abate

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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. In addition to Note 9 information related to the reduction of property tax abatements affecting the City of Hobbs for fiscal year ended June 30, 2018 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	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

The City's entire disclosure as an abating agency is presented in the Schedule of Tax Abatements, as stated in the table of contents.

**NOTE 22 – RESTATEMENTS**

Restatements made were as follows:

<u>Fund Description</u>	<u>Fund</u>	<u>Reason</u>	<u>Amount</u>
General fund	001	Correction of ambulance receivables/allowance	\$ 932,812
		Correction of weed mowing receivables/allowance	40,499
		Correction of court fines receivables/allowance	473,105
Street Improvement	480	Correction of fuel tax receivable	60,338
Internal Service	720	Correction of contract receivable account	129,016
		Total governmental funds restatements	<u>1,635,770</u>
Government-wide	N/A	Net pension liability restatement	(1,269,034)
		Restatement of fixed assets due to capital lease, net	87,127
		Net OPEB liability restatement	(23,201,980)
		Capitalize previously expensed CIP	3,540,357
		Total government-wide restatements	<u>(20,843,530)</u>
		Total governmental activities restatements	<u>(19,207,760)</u>
Joint Utility	600	Correction of NMFA cash	273,331
		Correction of NMFA debt	(234,560)
		Net pension liability restatement	(119,406)
		Correction of sewer receivables	684,445
		Correction of water receivables	929,283
		Net OPEB liability restatement	(2,546,948)
		Capitalize previously expenses CIP	1,265,876
Solid Waste	100	Correction of sewer receivables/allowance	162,375
		Total proprietary (business-type) funds	<u>414,396</u>
		Total restatements \$	<u>(18,793,364)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY OF HOBBS' PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN  
LAST 10 FISCAL YEARS\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	Measurement Date as of			
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
The City's proportion of the net pension liability (asset) (%)				
Municipal General	1.6110%	1.5920%	1.5029%	1.4202%
Municipal Police	2.8342%	2.8751%	2.6591%	2.4840%
Municipal Fire	3.0578%	3.0498%	3.1095%	3.5300%
	<u>7.5030%</u>	<u>7.5169%</u>	<u>7.2715%</u>	<u>7.4342%</u>
The City's proportionate share of the net pension liability (asset) (\$)				
Municipal General	\$ 22,136,502	25,434,803	15,323,368	11,079,084
Municipal Police	15,745,839	21,213,343	12,786,444	8,097,570
Municipal Fire	17,495,036	20,345,267	16,048,695	12,743,202
	<u>\$ 55,377,377</u>	<u>66,993,413</u>	<u>44,158,507</u>	<u>31,919,856</u>
The City's covered payroll				
Municipal General	\$ 14,553,082	13,136,395	12,460,381	11,528,643
Municipal Police	6,973,544	6,214,741	5,215,611	4,783,820
Municipal Fire	4,051,918	3,555,033	3,407,308	3,400,537
	<u>\$ 25,578,544</u>	<u>22,906,169</u>	<u>21,083,300</u>	<u>19,713,000</u>
The City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll				
Municipal General	152.11%	193.62%	122.98%	96.10%
Municipal Police	225.79%	341.34%	245.16%	169.27%
Municipal Fire	431.77%	572.29%	471.01%	374.74%
Plan fiduciary net position as a percentage of the total pension liability				
Municipal General	73.74%	69.18%	76.99%	81.29%
Municipal Police	73.74%	69.18%	76.99%	81.29%
Municipal Fire	73.74%	69.18%	76.99%	81.29%

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution				
Municipal General	\$ 1,538,840	1,818,549	1,393,180	1,707,154
Municipal Police	969,107	1,690,531	1,070,700	1,350,091
Municipal Fire	680,376	1,136,782	629,241	1,050,436
	<u>\$ 3,188,323</u>	<u>4,645,862</u>	<u>3,093,121</u>	<u>4,107,681</u>
Contributions in relation to the contractually required contribution				
Municipal General	\$ 1,538,840	1,818,549	1,393,180	1,707,154
Municipal Police	969,107	1,690,531	1,070,700	1,350,091
Municipal Fire	680,376	1,136,782	629,241	1,050,436
	<u>\$ 3,188,323</u>	<u>4,645,862</u>	<u>3,093,121</u>	<u>4,107,681</u>
Contribution deficiency (excess)				
Municipal General	\$ -	-	-	-
Municipal Police	-	-	-	-
Municipal Fire	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

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

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
SCHEDULE OF CHANGES IN THE  
CITY'S NET OPEB LIABILITY AND RELATED RATIOS  
LAST 10 FISCAL YEARS\***

	<b>2018</b>
	Measurement Date as of
	July 01, 2017
<b>Total OPEB liability</b>	
Service cost	\$ 4,329,000
Interest	1,452,400
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(7,226,900)
Benefit payments	(1,074,700)
Net change in total OPEB liability	(2,520,200)
Total OPEB liability - beginning	47,166,100
<b>Total OPEB liability - ending</b>	\$ 44,645,900
<b>Plan fiduciary net position</b>	
Contributions - employer**	\$ 434,400
Contributions - member**	640,300
Net investment income	-
Benefit payments	(1,074,700)
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
<b>Plan fiduciary net position - ending</b>	\$ -
<b>City's net OPEB liability - ending</b>	\$ 44,645,900
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0.00%
<b>Covered-employee payroll</b>	24,015,100
<b>City's net OPEB liability as a percentage of covered-employee payroll</b>	185.91%

\*Governmental Accounting Standards Board Statement 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the City is not available prior to fiscal year 2018, the year the statement's requirements became effective.

\*\*Employer benefit payments, employer and employee contributions were provided by the City.

**Notes to Schedule**

**Changes of Benefit Terms:** Amounts presented reflect an no increase in the retirees' share of health insurance premiums from 2017 to 2018.

**Changes of Assumptions:** The \$7,981,600 increase in the liability from June 30, 2016 to June 30, 2017 is due to the decrease in the assumed discount rate from 3.80% as of June 30, 2015 to 2.85% as of June 30, 2016. The \$7,226,900 decrease in the liability from June 30, 2017 from June 30, 2018 is due to the increase in the assumed discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

**STATE OF NEW MEXICO  
CITY OF HOBBS  
SCHEDULE OF CITY CONTRIBUTIONS  
LAST 10 FISCAL YEARS\***

		<b>2018</b>
Actuarially determined contribution	\$	1,088,600
Contributions in relation to the actuarially determined contribution		1,088,600
Contribution deficiency (excess)	\$	-
 Covered-employee payroll	 \$	 24,015,100
 Contributions as a percentage of covered-employee payroll		 4.53%

\*Governmental Accounting Standards Board Statement 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the County is not available prior to fiscal year 2018, the year the statement's requirements became effective.

**Notes to Schedule**

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Valuation Date		July 1, 2018
Methods and assumptions used to determine contribution rates:		
Actuarial cost method		Entry Age Normal - Level % of Salary
Asset valuation method		N/A
Salary increases		3.00%
Investment rate of return		N/A
Retirement age**		59
Mortality		RP-2006 headcount- weighted mortality table for healthy and disabled lives with fully generational mortality improvement projections from the central year using Scale MP-2017

\*\*Weighted average retirement age based on July 1, 2018 census data and retirement rates provided in the "Actuarial Assumptions and Methods" section of the report

## **SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Non-Major Funds  
For the Year Ended June 30, 2018**

**NONMAJOR SPECIAL REVENUE FUNDS**

**Local Government Corrections (110)** – 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 (120)** – 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 (130)** - 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 (140)** – 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 (150)** - 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 (170)** - 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 (180)** – 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 (190)** - 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 (200)** – 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 (230)** - 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.

**Public Transportation (270)** – 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 (280)** - 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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Non-Major Funds  
For the Year Ended June 30, 2018**

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 (290)** - 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 (370)** - 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 (760)** – To account for contributions from private sources restricted to use by the City for recreation equipment. The fund was authorized by City resolution.

**Library (770)** - 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 (790)** – 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 (800)** – To account for contributions from private sources restricted to use by the City for parks improvements. The fund was authorized by City resolution.

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Non-Major Funds  
For the Year Ended June 30, 2018**

**NONMAJOR CAPITAL PROJECTS FUNDS**

**Capital Projects Fund (460)** - 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 (480)** – 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 (490)** - 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.

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Combining Balance Sheet  
Non-Major Governmental Funds  
As of June 30, 2018**

	<b>Special Revenue Funds</b>	<b>Capital Projects Funds</b>	<b>Total</b>
<i>Assets</i>			
Cash and cash equivalents	\$ 2,782,677	4,075,766	6,858,443
Inventory	118,929	-	118,929
Receivables:			
GRT receivable	-	509,131	509,131
Other taxes	246,228	140,527	386,755
Due from other governments	380,980	-	380,980
Accounts receivables, net	7,283	-	7,283
<i>Total assets</i>	\$ 3,536,097	4,725,424	8,261,521
 <i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 283,227	-	283,227
Accrued payroll expenses	151,457	-	151,457
Due to other funds	69,268	-	69,268
<i>Total liabilities</i>	503,952	-	503,952
 <i>Deferred inflows of resources</i>			
Deferred inflows - property taxes	-	-	-
<i>Total deferred inflows of resources</i>	-	-	-
 <i>Fund balances</i>			
Nonspendable	118,929	-	118,929
Restricted			
Public safety	1,209,492	-	1,209,492
Culture and recreation	7,276	-	7,276
Transportation and roads	285,384	-	285,384
Health and welfare	5,692	-	5,692
Economic development	1,619,649	-	1,619,649
Capital projects	-	4,725,424	4,725,424
Unassigned	(214,277)	-	(214,277)
<i>Total fund balances</i>	3,032,145	4,725,424	7,757,569
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>	\$ 3,536,097	4,725,424	8,261,521

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

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For The Year Ended June 30, 2018**

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
<i>Revenues:</i>			
Taxes:			
Gross receipts	\$ -	2,593,351	2,593,351
Gasoline and motor vehicle	-	793,801	793,801
Lodger's	2,008,278	-	2,008,278
Intergovernmental:			
State operating grants	723,479	-	723,479
State capital grants	-	100,000	100,000
Federal operating grants	1,574,802	-	1,574,802
Federal capital grants	62,987	28,598	91,585
Charges for services	1,566,666	-	1,566,666
Licenses and fees	3,480	-	3,480
Investment income (loss)	84,012	59,920	143,932
Miscellaneous	71,139	-	71,139
<i>Total revenues</i>	<u>6,094,843</u>	<u>3,575,670</u>	<u>9,670,513</u>
<i>Expenditures:</i>			
Current:			
Public safety	1,485,570	-	1,485,570
Public works	1,019,721	-	1,019,721
Culture and recreation	3,637,992	-	3,637,992
Health and welfare	177,305	-	177,305
Economic development	479,303	-	479,303
Capital outlay	2,157,206	396,533	2,553,739
Debt service:			
Principal	-	-	-
Interest	20,749	-	20,749
<i>Total expenditures</i>	<u>8,977,846</u>	<u>396,533</u>	<u>9,374,379</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(2,883,003)</u>	<u>3,179,137</u>	<u>296,134</u>
<i>Other financing sources (uses)</i>			
Proceeds from issuance of debt	292,766	-	292,766
Transfers in	3,904,858	-	3,904,858
Transfers out	(433,411)	(2,000,000)	(2,433,411)
<i>Total other financing sources (uses)</i>	<u>3,764,213</u>	<u>(2,000,000)</u>	<u>1,764,213</u>
<i>Net change in fund balance</i>	881,210	1,179,137	2,060,347
<i>Fund balance, - beginning</i>	2,150,935	3,485,948	5,636,883
<i>Restatement</i>	-	60,339	60,339
<i>Fund balance - beginning as restated</i>	<u>2,150,935</u>	<u>3,546,287</u>	<u>5,697,222</u>
<i>Fund balance - ending</i>	<u>\$ 3,032,145</u>	<u>4,725,424</u>	<u>7,757,569</u>

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

STATE OF NEW MEXICO  
CITY OF HOBBS  
NON-MAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
AS OF JUNE 30, 2018

	(110) Local Government Corrections Fund	(120) Police Protection Fund	(130) Police Narcotics Fund	(140) Safer Fund	(150) COPS Grant Fund
<i>Assets</i>					
Cash and cash equivalents	\$ 559,796	87,000	1,919	1,000	1,000
Inventory	-	-	-	-	-
Receivables:					
Other taxes	-	-	-	-	-
Intergovernmental	-	-	-	87,351	80,001
Accounts receivables, net	-	-	-	-	-
<i>Total assets</i>	<u>\$ 559,796</u>	<u>87,000</u>	<u>1,919</u>	<u>88,351</u>	<u>81,001</u>
<i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>					
<i>Liabilities</i>					
Accounts payable	\$ -	6,318	-	-	-
Accrued payroll expenses	-	-	-	20,054	26,361
Due to other funds	-	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>6,318</u>	<u>-</u>	<u>20,054</u>	<u>26,361</u>
<i>Deferred inflows of resources</i>					
Deferred inflows - property taxes	-	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>					
Nonspendable	-	-	-	-	-
Restricted					
Public safety	559,796	80,682	1,919	68,297	54,640
Culture and recreation	-	-	-	-	-
Tranportation and roads	-	-	-	-	-
Health and welfare	-	-	-	-	-
Economic development	-	-	-	-	-
Unassigned	-	-	-	-	-
<i>Total fund balances</i>	<u>559,796</u>	<u>80,682</u>	<u>1,919</u>	<u>68,297</u>	<u>54,640</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 559,796</u>	<u>87,000</u>	<u>1,919</u>	<u>88,351</u>	<u>81,001</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
NON-MAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
AS OF JUNE 30, 2018**

	<b>(170)</b>	<b>(180)</b>	<b>(190)</b>	<b>(200)</b>	<b>(230)</b>
	<b>Older American Act Fund</b>	<b>Golf Fund</b>	<b>Cemetary Fund</b>	<b>Airport Fund</b>	<b>Lodger's Tax Promotional Fund</b>
<i>Assets</i>					
Cash and cash equivalents	\$ 1,000	397	1,000	288,518	1,382,921
Inventory	-	118,929	-	-	-
Receivables:					
Other taxes	-	-	-	-	246,228
Intergovernmental	22,722	-	-	-	-
Accounts receivables, net	-	7,283	-	-	-
<i>Total assets</i>	<u>\$ 23,722</u>	<u>126,609</u>	<u>1,000</u>	<u>288,518</u>	<u>1,629,149</u>
<i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>					
<i>Liabilities</i>					
Accounts payable	\$ 40,344	53,197	3,952	3,134	9,500
Accrued payroll expenses	22,760	50,925	8,529	-	-
Due to other funds	-	-	-	-	-
<i>Total liabilities</i>	<u>63,104</u>	<u>104,122</u>	<u>12,481</u>	<u>3,134</u>	<u>9,500</u>
<i>Deferred inflows of resources</i>					
Deferred inflows - property taxes	-	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>					
Nonspendable	-	118,929	-	-	-
Restricted					
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Tranportation and roads	-	-	-	285,384	-
Health and welfare	-	-	-	-	-
Economic development	-	-	-	-	1,619,649
Unassigned	(39,382)	(96,442)	(11,481)	-	-
<i>Total fund balances</i>	<u>(39,382)</u>	<u>22,487</u>	<u>(11,481)</u>	<u>285,384</u>	<u>1,619,649</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 23,722</u>	<u>126,609</u>	<u>1,000</u>	<u>288,518</u>	<u>1,629,149</u>

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

STATE OF NEW MEXICO  
CITY OF HOBBS  
NON-MAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
AS OF JUNE 30, 2018

	(270) Public Transportation Fund	(280) Fire Protection Fund	(290) Emergency Medical Services Fund	(370) Community Development Fund	(760) Recreational Expendable Trust Fund
<i>Assets</i>					
Cash and cash equivalents	\$ -	444,158	11	1,000	-
Inventory	-	-	-	-	-
Receivables:					
Other taxes	-	-	-	-	-
Intergovernmental	61,142	-	-	129,764	-
Accounts receivables, net	-	-	-	-	-
<i>Total assets</i>	<u>\$ 61,142</u>	<u>444,158</u>	<u>11</u>	<u>130,764</u>	<u>-</u>
<i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>					
<i>Liabilities</i>					
Accounts payable	\$ 1,835	-	-	164,947	-
Accrued payroll expenses	22,828	-	-	-	-
Due to other funds	69,268	-	-	-	-
<i>Total liabilities</i>	<u>93,931</u>	<u>-</u>	<u>-</u>	<u>164,947</u>	<u>-</u>
<i>Deferred inflows of resources</i>					
Deferred inflows - property taxes	-	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>					
Nonspendable	-	-	-	-	-
Restricted					
Public safety	-	444,158	-	-	-
Culture and recreation	-	-	-	-	-
Transportation and roads	-	-	-	-	-
Health and welfare	-	-	11	-	-
Economic development	-	-	-	-	-
Unassigned	(32,789)	-	-	(34,183)	-
<i>Total fund balances</i>	<u>(32,789)</u>	<u>444,158</u>	<u>11</u>	<u>(34,183)</u>	<u>-</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 61,142</u>	<u>444,158</u>	<u>11</u>	<u>130,764</u>	<u>-</u>

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

STATE OF NEW MEXICO  
CITY OF HOBBS  
NON-MAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
AS OF JUNE 30, 2018

	(770) Library Expendable Trust Fund	(790) Cemetery Expendable Trust Fund	(800) Community Parks Expendable Trust Fund	Total Special Revenue Funds
<i>Assets</i>				
Cash and cash equivalents	\$ 5,756	5,681	1,520	2,782,677
Inventory	-	-	-	118,929
Receivables:				
Other taxes	-	-	-	246,228
Intergovernmental	-	-	-	380,980
Accounts receivables, net	-	-	-	7,283
<i>Total assets</i>	<u>\$ 5,756</u>	<u>5,681</u>	<u>1,520</u>	<u>3,536,097</u>
<i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	-	-	283,227
Accrued payroll expenses	-	-	-	151,457
Due to other funds	-	-	-	69,268
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,952</u>
<i>Deferred inflows of resources</i>				
Deferred inflows - property taxes	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>				
Nonspendable	-	-	-	118,929
Restricted				
Public safety	-	-	-	1,209,492
Culture and recreation	5,756	-	1,520	7,276
Tranportation and roads	-	-	-	285,384
Health and welfare	-	5,681	-	5,692
Economic development	-	-	-	1,619,649
Unassigned	-	-	-	(214,277)
<i>Total fund balances</i>	<u>5,756</u>	<u>5,681</u>	<u>1,520</u>	<u>3,032,145</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 5,756</u>	<u>5,681</u>	<u>1,520</u>	<u>3,536,097</u>

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**STATE OF NEW MEXICO  
CITY OF HOBBS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>(110) Local Government Corrections Fund</b>	<b>(120) Police Protection Fund</b>	<b>(130) Police Narcotics Fund</b>	<b>(140) Safer Fund</b>	<b>(150) COPS Grant Fund</b>
<i>Revenues:</i>					
Taxes:					
Lodger's	\$ -	-	-	-	-
Intergovernmental:					
State operating grants	-	87,000	-	-	-
Federal operating grants	-	-	-	378,562	344,084
Federal capital grants	-	-	-	-	-
Charges for services	239,589	-	-	-	-
Licenses and fees	-	-	-	-	-
Investment income (loss)	17,644	-	-	-	-
Miscellaneous	-	-	-	-	-
<i>Total revenues</i>	<u>257,233</u>	<u>87,000</u>	<u>-</u>	<u>378,562</u>	<u>344,084</u>
<i>Expenditures:</i>					
Current:					
Public safety	73,477	88,139	-	531,607	792,347
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Health and welfare	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<i>Total expenditures</i>	<u>73,477</u>	<u>88,139</u>	<u>-</u>	<u>531,607</u>	<u>792,347</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>183,756</u>	<u>(1,139)</u>	<u>-</u>	<u>(153,045)</u>	<u>(448,263)</u>
<i>Other financing sources (uses)</i>					
Proceeds from issuance of debt	-	-	-	-	-
Transfers in	-	-	-	156,215	456,031
Transfers out	-	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,215</u>	<u>456,031</u>
<i>Net change in fund balance</i>	183,756	(1,139)	-	3,170	7,768
<i>Fund balance, - beginning</i>	376,040	81,821	1,919	65,127	46,872
<i>Restatement</i>	-	-	-	-	-
<i>Fund balance - beginning as restated</i>	<u>376,040</u>	<u>81,821</u>	<u>1,919</u>	<u>65,127</u>	<u>46,872</u>
<i>Fund balance - ending</i>	<u>\$ 559,796</u>	<u>80,682</u>	<u>1,919</u>	<u>68,297</u>	<u>54,640</u>

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**STATE OF NEW MEXICO  
CITY OF HOBBS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(170) Older American Act Fund	(180) Golf Fund	(190) Cemetary Fund	(200) Airport Fund	(230) Lodger's Tax Promotional Fund
<i>Revenues:</i>					
Taxes:					
Lodger's	\$ -	-	-	-	2,008,278
Intergovernmental:					
State operating grants	95,009	-	-	-	-
Federal operating grants	71,823	-	-	-	-
Federal capital grants	-	-	-	-	-
Charges for services	-	1,116,645	139,867	33,695	-
Licenses and fees	-	-	3,480	-	-
Investment income (loss)	-	-	-	11,131	24,484
Miscellaneous	62,466	1,500	-	-	-
<i>Total revenues</i>	<u>229,298</u>	<u>1,118,145</u>	<u>143,347</u>	<u>44,826</u>	<u>2,032,762</u>
<i>Expenditures:</i>					
Current:					
Public safety	-	-	-	-	-
Public works	-	-	293,000	-	-
Culture and recreation	939,645	2,698,347	-	-	-
Health and welfare	-	-	-	-	-
Economic development	-	-	-	45,147	434,156
Capital outlay	-	22,166	78,058	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<i>Total expenditures</i>	<u>939,645</u>	<u>2,720,513</u>	<u>371,058</u>	<u>45,147</u>	<u>434,156</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(710,347)</u>	<u>(1,602,368)</u>	<u>(227,711)</u>	<u>(321)</u>	<u>1,598,606</u>
<i>Other financing sources (uses)</i>					
Proceeds from issuance of debt	-	-	-	-	-
Transfers in	696,204	1,585,589	229,678	-	-
Transfers out	-	-	-	-	(322,398)
<i>Total other financing sources (uses)</i>	<u>696,204</u>	<u>1,585,589</u>	<u>229,678</u>	<u>-</u>	<u>(322,398)</u>
<i>Net change in fund balance</i>	(14,143)	(16,779)	1,967	(321)	1,276,208
<i>Fund balance, - beginning</i>	(25,239)	39,266	(13,448)	285,705	343,441
<i>Restatement</i>	-	-	-	-	-
<i>Fund balance - beginning as restated</i>	<u>(25,239)</u>	<u>39,266</u>	<u>(13,448)</u>	<u>285,705</u>	<u>343,441</u>
<i>Fund balance - ending</i>	<u>\$ (39,382)</u>	<u>22,487</u>	<u>(11,481)</u>	<u>285,384</u>	<u>1,619,649</u>

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**STATE OF NEW MEXICO  
CITY OF HOBBS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>(270) Public Transportation Fund</b>	<b>(280) Fire Protection Fund</b>	<b>(290) Emergency Medical Services Fund</b>	<b>(370) Community Development Fund</b>	<b>(760) Recreational Expendable Trust Fund</b>
<i>Revenues:</i>					
Taxes:					
Lodger's	\$ -	-	-	-	-
<i>Intergovernmental:</i>					
State operating grants	-	521,470	20,000	-	-
Federal operating grants	650,569	-	-	129,764	-
Federal capital grants	-	-	-	62,987	-
Charges for services	36,870	-	-	-	-
Licenses and fees	-	-	-	-	-
Investment income (loss)	-	30,484	-	-	-
Miscellaneous	6,500	-	-	-	-
<i>Total revenues</i>	<u>693,939</u>	<u>551,954</u>	<u>20,000</u>	<u>192,751</u>	<u>-</u>
<i>Expenditures:</i>					
<i>Current:</i>					
Public safety	-	-	-	-	-
Public works	726,086	-	-	-	-
Culture and recreation	-	-	-	-	-
Health and welfare	-	157,305	20,000	-	-
Economic development	-	-	-	-	-
Capital outlay	313,940	1,063,795	-	679,247	-
<i>Debt service:</i>					
Principal	-	-	-	-	-
Interest	-	20,749	-	-	-
<i>Total expenditures</i>	<u>1,040,026</u>	<u>1,241,849</u>	<u>20,000</u>	<u>679,247</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(346,087)</u>	<u>(689,895)</u>	<u>-</u>	<u>(486,496)</u>	<u>-</u>
<i>Other financing sources (uses)</i>					
Proceeds from issuance of debt	-	292,766	-	-	-
Transfers in	279,277	50,000	-	451,864	-
Transfers out	-	-	-	-	(111,013)
<i>Total other financing sources (uses)</i>	<u>279,277</u>	<u>342,766</u>	<u>-</u>	<u>451,864</u>	<u>(111,013)</u>
<i>Net change in fund balance</i>	(66,810)	(347,129)	-	(34,632)	(111,013)
<i>Fund balance, - beginning</i>	34,021	791,287	11	449	111,013
<i>Restatement</i>	-	-	-	-	-
<i>Fund balance - beginning as restated</i>	<u>34,021</u>	<u>791,287</u>	<u>11</u>	<u>449</u>	<u>111,013</u>
<i>Fund balance - ending</i>	<u>\$ (32,789)</u>	<u>444,158</u>	<u>11</u>	<u>(34,183)</u>	<u>-</u>

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**STATE OF NEW MEXICO  
CITY OF HOBBS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(770) Library Expendable Trust Fund	(790) Cemetery Expendable Trust Fund	(800) Community Parks Expendable Trust Fund	Total Special Revenue Funds
<i>Revenues:</i>				
Taxes:				
Lodger's	\$ -	-	-	2,008,278
Intergovernmental:				
State operating grants	-	-	-	723,479
Federal operating grants	-	-	-	1,574,802
Federal capital grants	-	-	-	62,987
Charges for services	-	-	-	1,566,666
Licenses and fees	-	-	-	3,480
Investment income (loss)	-	212	57	84,012
Miscellaneous	673	-	-	71,139
<i>Total revenues</i>	<u>673</u>	<u>212</u>	<u>57</u>	<u>6,094,843</u>
<i>Expenditures:</i>				
Current:				
Public safety	-	-	-	1,485,570
Public works	635	-	-	1,019,721
Culture and recreation	-	-	-	3,637,992
Health and welfare	-	-	-	177,305
Economic development	-	-	-	479,303
Capital outlay	-	-	-	2,157,206
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	20,749
<i>Total expenditures</i>	<u>635</u>	<u>-</u>	<u>-</u>	<u>8,977,846</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>38</u>	<u>212</u>	<u>57</u>	<u>(2,883,003)</u>
<i>Other financing sources (uses)</i>				
Proceeds from issuance of debt	-	-	-	292,766
Transfers in	-	-	-	3,904,858
Transfers out	-	-	-	(433,411)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,764,213</u>
<i>Net change in fund balance</i>	38	212	57	881,210
<i>Fund balance, - beginning</i>	5,718	5,469	1,463	2,150,935
<i>Restatement</i>	-	-	-	-
<i>Fund balance - beginning as restated</i>	<u>5,718</u>	<u>5,469</u>	<u>1,463</u>	<u>2,150,935</u>
<i>Fund balance - ending</i>	<u>\$ 5,756</u>	<u>5,681</u>	<u>1,520</u>	<u>3,032,145</u>

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

STATE OF NEW MEXICO  
CITY OF HOBBS  
NON-MAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEETS  
AS OF JUNE 30, 2018

	(460) Capital Projects Fund	(480) Street Improvements Fund	(490) City Commission Improvement Fund	Total Capital Projects Funds
<i>Assets</i>				
Cash and cash equivalents	\$ 1,538,850	2,024,651	512,265	4,075,766
Receivables:				
GRT receivable	-	-	509,131	509,131
Other taxes	-	140,527	-	140,527
<i>Total assets</i>	<u>\$ 1,538,850</u>	<u>2,165,178</u>	<u>1,021,396</u>	<u>4,725,424</u>
 <i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	-	-	-
Accrued payroll expenses	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <i>Deferred inflows of resources</i>				
Deferred inflows - property taxes	-	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <i>Fund balances</i>				
Nonspendable	-	-	-	-
Restricted				
Capital projects	1,538,850	2,165,178	1,021,396	4,725,424
<i>Total fund balances</i>	<u>1,538,850</u>	<u>2,165,178</u>	<u>1,021,396</u>	<u>4,725,424</u>
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>	 <u>\$ 1,538,850</u>	 <u>2,165,178</u>	 <u>1,021,396</u>	 <u>4,725,424</u>

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>(460) Capital Projects Fund</b>	<b>(480) Street Improvements Fund</b>	<b>(490) City Commission Improvement Fund</b>	<b>Total Capital Projects Funds</b>
<i>Revenues:</i>				
<i>Taxes:</i>				
Gross receipts	\$ -	-	2,593,351	2,593,351
Gasoline and motor vehicle	-	793,801	-	793,801
<i>Intergovernmental:</i>				
State capital grants	-	100,000	-	100,000
Federal capital grants	-	28,598	-	28,598
Investment income (loss)	-	59,920	-	59,920
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>982,319</u>	<u>2,593,351</u>	<u>3,575,670</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Capital outlay	170,206	226,327	-	396,533
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>170,206</u>	<u>226,327</u>	<u>-</u>	<u>396,533</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(170,206)</u>	<u>755,992</u>	<u>2,593,351</u>	<u>3,179,137</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	(2,000,000)	(2,000,000)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>
<i>Net change in fund balance</i>	(170,206)	755,992	593,351	1,179,137
<i>Fund balance, - beginning</i>	1,709,056	1,348,847	428,045	3,485,948
<i>Restatement</i>	-	60,339	-	60,339
<i>Fund balance - beginning as restated</i>	<u>1,709,056</u>	<u>1,409,186</u>	<u>428,045</u>	<u>3,546,287</u>
<i>Fund balance - ending</i>	<u>\$ 1,538,850</u>	<u>2,165,178</u>	<u>1,021,396</u>	<u>4,725,424</u>

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**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Cash, Investments, and Pledged Collateral  
By Bank and Account  
As of June 30, 2018**

Account Name	Account Type	Lea County State Bank	US Bank	New Mexico Finance Authority	NM Local Government Investment Pool	Petty cash	Reconciling Items	Book Balance
Cash, cash equivalents, and investments								
City of Hobbs - Motor Vehicle Department	Checking	\$ 47,668	-	-	-	-	(26,088)	21,580
City of Hobbs - Investment for Line of Credit	Certificate of Deposit	634,000	-	-	-	-	-	634,000
City of Hobbs Savings	Repurchase	4,910,095	-	-	-	-	(2,536,210)	2,373,885
Inmate Trust Account	Checking	8,211	-	-	-	-	-	8,211
Hobbs Police Dept. - Evidence Trust	Checking	131,227	-	-	-	-	-	131,227
HPD - Crime Prevention	Certificate of Deposit	3,622	-	-	-	-	-	3,622
City of Hobbs - Taxable Bonds	Investment	-	55,687,162	-	-	-	-	55,687,162
City of Hobbs - Treasury Bills	Investment	-	9,779	-	-	-	-	9,779
Local Government Investment Pool	Investment	-	-	-	39,221,119	-	-	39,221,119
NMFA-Phase II Effluent Refuse Project-Hobbs 5	Trust	-	-	1,662,318	-	-	-	1,662,318
Petty cash	Petty Cash	-	-	-	-	25,099	-	25,099
Subtotal cash and investments		<u>5,734,823</u>	<u>55,696,941</u>	<u>1,662,318</u>	<u>39,221,119</u>	<u>25,099</u>	<u>(2,562,298)</u>	<u>99,778,002</u>
Total amount of deposit in bank		5,734,823	55,696,941	1,662,318	39,221,119	25,099		
FDIC coverage		<u>(250,000)</u>	<u>(55,696,941)</u>	<u>(1,662,318)</u>	<u>(39,221,119)</u>	<u>(25,099)</u>		
Total uninsured public funds		5,484,823	-	-	-	-		
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		287,364	-	-	-	-		
102% Collateral Requirement (Section 6-10-10(H) NMSA 1978)		<u>5,008,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
		5,295,661	-	-	-	-		
Pledged security at:								
Lea County State Bank 1.5% - 912828P79 2/28/2023		4,248,986	-	-	-	-		
Lea County State Bank 1.98% - 3133EHU84 11/22/2021		2,923,722	-	-	-	-		
Lea County State Bank 4.00% - 013595LM3 08/01/2022		513,260	-	-	-	-		
Lea County State Bank 3.7% - 189414HN8 08/01/2025		350,224	-	-	-	-		
Lea County State Bank 4.00% - 364028EU0 08/01/2020		255,880	-	-	-	-		
Lea County State Bank 3.00% - 470143AF5 10/01/2021		310,419	-	-	-	-		
Lea County State Bank 4.00% - 521513AH4 07/15/2018		<u>585,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Total collateral		<u>9,188,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Amount over/(under) collateralized		<u>\$ 3,892,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Amount over/(under) collateralized & insured		<u>\$ 4,142,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Total book balance		<u>\$ 3,172,525</u>	<u>55,696,941</u>	<u>1,662,318</u>	<u>39,221,119</u>	<u>25,099</u>		

\*Note all bank accounts are interest bearing

See independent auditor's report.  
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**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Tax Abatements - Abating Agency  
As of June 30, 2018**

Agency Number	6086
Agency Name	City of Hobbs
Agency Type	Municipal Government
Tax Abatement Agreement Name	RMS Foods, Inc. \$7,775,000 Tax-Exempt Industrial Revenue Bonds
Recipient(s) of tax abatement	RMS Foods, Inc.
Parent company(ies) of recipient(s) of tax abatement	RMS Foods, Inc.
Tax abatement program (name and brief description)	RMS Foods, Inc. - Industrial Revenue Bond Project (manufacturing of food products)
Specific Tax(es) Being Abated	Property Tax on real property and personal property used in business
Legal authority under which tax abatement agreement was entered into	State of New Mexico Statutes/Section 3-32-1 through 3-22-16 and Sections 6-18-1 to 6-18-16
Criteria that make a recipient eligible to receive a tax abatement	See attached City of Hobbs Ordinance # 940
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	Tax-exempt property taxes (assessed values/tangible equip) through the life of the IRB
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	Abatement is determined by applying current tax year property rates for the City of Hobbs against the assessed value as determined by the County Assessor
Are there provisions for recapturing abated taxes? (Yes or No)	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	Not applicable
List each specific commitment made by the recipient of the abatement.	IRB project for RMS Foods, Inc. where industrial revenue bonds are issued and sold in order to provide funds for equipping, construction and expansion of RMS Foods, Inc.
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	1,010
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment	Not applicable
For any Payments in Lieu of Taxes (PILOTs) or similar payments <u>receivable by your agency</u> in association with the foregone tax revenue, list the amount of payments received in the current fiscal year	not applicable
For any Payments in Lieu of Taxes (PILOTs) or similar payments <u>receivable by a different agency</u> in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year	Not applicable
List each specific commitment made by your agency or any other government, other than the tax abatement.	RMS Food, Inc. will continuously operate the project property to the expiration of the term of the IRB's. Once IRB's mature, property taxes will commence being assessed.
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	No
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Not applicable
In the report disclosure is this abatement aggregated?	No
Threshold amount for aggregation	Not applicable

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Tax Abatements - Abating Agency  
As of June 30, 2018**

Agency Number	6086
Agency Name	City of Hobbs
Agency Type	Municipal Government
Tax Abatement Agreement Name	Washington Place Apartments - \$6,500,000 NM Multifamily Housing Revenue Bonds
Recipient(s) of tax abatement	Washington Place Apartments - \$6,500,000
Parent company(ies) of recipient(s) of tax abatement	Washington Place Apartments
Tax abatement program (name and brief description)	Washington Place Apartments - rehabilitation, improvement and equipping a 76 unit multifamily housing project
Specific Tax(es) Being Abated	Property Tax on real property and personal property used in business
Legal authority under which tax abatement agreement was entered into	State of New Mexico Revenue Bond Act, Sections 3-31-1 through 3-31-12 NMSA 1978 and Municipal Housing Law Act, Section 3-45-1 through 3-45-25 NMSA 1978
Criteria that make a recipient eligible to receive a tax abatement	See attached City of Hobbs Ordinance # 1087
How are the tax abatement recipient's taxes reduced? (For example: through a reduction of assessed value)	Tax-exempt property taxes (assessed values/tangible equip) through the life of the revenue bonds
How is the amount of the tax abatement determined? For example, this could be a specific dollar amount, a percentage of the tax liability, etc.	Abatement is determined by applying current tax year property rates for the City of Hobbs against the assessed value as determined by the County Assessor
Are there provisions for recapturing abated taxes? (Yes or No)	No
If there are provisions for recapturing abated taxes, describe them, including the conditions under which abated taxes become eligible for recapture.	Not applicable
List each specific commitment made by the recipient of the abatement.	NM Multifamily Housing Revenue Bonds project for Washington Place Apartments where housing revenue bonds are issued and sold in order to provide funds for rehabilitating, improving and equipping a 76 unit housing project.
Gross dollar amount, on an accrual basis, by which the government's tax revenues were reduced during the reporting period as a result of the tax abatement agreement.	2,132
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency or another agency in association with the foregone tax revenue, list the authority for and describe the payment, including the agency that is supposed to receive the payment	Not applicable
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by your agency in association with the foregone tax revenue, list the amount of payments received in the current fiscal year	Not applicable
For any Payments in Lieu of Taxes (PILOTs) or similar payments receivable by a different agency in association with the foregone tax revenue, list the name of the agency and the amount of payments received in the current fiscal year	Not applicable
List each specific commitment made by your agency or any other government, other than the tax abatement.	Washington Place Apartments will continuously operate the project property to the expiration of the term of the Multifamily Housing Revenue Bonds. Once bonds mature, property taxes will commence being assessed.
Are any other governments affected by this tax abatement agreement? (Yes or No) If yes, list each affected agency and complete an intergovernmental disclosure for each such agency.	No
If your agency is omitting any information required in this spreadsheet or by GASB 77, cite the legal basis for such omission.	Not applicable
In the report disclosure is this abatement aggregated?	No
Threshold amount for aggregation	Not applicable

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
For the Year Ended June 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>MOTOR VEHICLE</b>				
<b>700</b>				
Assets				
Cash and cash equivalents	\$ 26,738	4,811,727	(4,809,973)	28,492
Total assets	<u>26,738</u>	<u>4,811,727</u>	<u>(4,809,973)</u>	<u>28,492</u>
Liabilities				
Deposits payable	26,738	4,811,727	(4,809,973)	28,492
Total liabilities	<u>\$ 26,738</u>	<u>4,811,727</u>	<u>(4,809,973)</u>	<u>28,492</u>
<b>MUNICIPAL JUDGE</b>				
<b>710</b>				
Assets				
Cash and cash equivalents	\$ 171,046	-	(69,473)	101,573
Total assets	<u>171,046</u>	<u>-</u>	<u>(69,473)</u>	<u>101,573</u>
Liabilities				
Deposits payable	171,046	-	(69,473)	101,573
Total liabilities	<u>\$ 171,046</u>	<u>-</u>	<u>(69,473)</u>	<u>101,573</u>
<b>CRIME LAB</b>				
<b>730</b>				
Assets				
Cash and cash equivalents	73,850	100,437	(101,637)	72,650
Total assets	<u>\$ 73,850</u>	<u>100,437</u>	<u>(101,637)</u>	<u>72,650</u>
Liabilities				
Deposits payable	73,850	100,437	(101,637)	72,650
Total liabilities	<u>\$ 73,850</u>	<u>100,437</u>	<u>(101,637)</u>	<u>72,650</u>

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

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Schedule of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>FORECLOSURE TRUST</b>				
<b>750</b>				
Assets				
Cash and cash equivalents	\$ 72	-	-	72
Total assets	<u>72</u>	<u>-</u>	<u>-</u>	<u>72</u>
Liabilities				
Deposits payable	72	-	-	72
Total liabilities	<u>\$ 72</u>	<u>-</u>	<u>-</u>	<u>72</u>
<b>SENIOR CITIZEN</b>				
<b>780</b>				
Assets				
Cash and cash equivalents	\$ 8,465	1,784	(1,161)	9,088
Total assets	<u>8,465</u>	<u>1,784</u>	<u>(1,161)</u>	<u>9,088</u>
Liabilities				
Deposits payable	8,465	1,784	(1,161)	9,088
Total liabilities	<u>\$ 8,465</u>	<u>1,784</u>	<u>(1,161)</u>	<u>9,088</u>
<b>EVIDENCE FUND</b>				
<b>820</b>				
Assets				
Cash and cash equivalents	\$ 128,882	2,355	-	131,237
Total assets	<u>128,882</u>	<u>2,355</u>	<u>-</u>	<u>131,237</u>
Liabilities				
Deposits payable	128,882	2,355	-	131,237
Total liabilities	<u>\$ 128,882</u>	<u>2,355</u>	<u>-</u>	<u>131,237</u>

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

**STATE OF NEW MEXICO**  
**CITY OF HOBBS**  
**Schedule of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2018**

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>HOBBS BEAUTIFUL</b>				
<b>830</b>				
Assets				
Cash and cash equivalents	\$ 23,170	900	-	24,070
Total assets	<u>23,170</u>	<u>900</u>	<u>-</u>	<u>24,070</u>
Liabilities				
Deposits payable	23,170	900	-	24,070
Total liabilities	<u>\$ 23,170</u>	<u>900</u>	<u>-</u>	<u>24,070</u>
<b>CITY AGENCY</b>				
<b>860</b>				
Assets				
Cash and cash equivalents	\$ 5,822	845	(1,759)	4,908
Total assets	<u>5,822</u>	<u>845</u>	<u>(1,759)</u>	<u>4,908</u>
Liabilities				
Deposits payable	5,822	845	(1,759)	4,908
Total liabilities	<u>\$ 5,822</u>	<u>845</u>	<u>(1,759)</u>	<u>4,908</u>
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets				
Cash and cash equivalents	\$ 438,045	4,918,048	(4,984,003)	372,090
Total assets	<u>438,045</u>	<u>4,811,727</u>	<u>(4,809,973)</u>	<u>372,090</u>
Liabilities				
Deposits payable	438,045	4,918,048	(4,984,003)	372,090
Total liabilities	<u>\$ 438,045</u>	<u>4,918,048</u>	<u>(4,984,003)</u>	<u>372,090</u>

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



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

Wayne Johnson  
New Mexico State Auditor  
City Commission  
Hobbs, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of the City of Hobbs, (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 2018.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2018-005.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2018-001, 2018-002, and 2018-003.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items; 2018-003 and 2018-004.

**The City's Response to the 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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of This Report**

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



Hinkle + Landers, P.C.  
Albuquerque, NM 87102  
December 10, 2018



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

Wayne Johnson  
New Mexico State Auditor  
City Commission  
Hobbs, New Mexico

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

We have audited the City of Hobbs’ (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2018. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

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

**Auditor’s Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

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

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

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

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



Hinkle + Landers, P.C.  
Albuquerque, NM  
December 10, 2018

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Project/ Pass-Through Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grants	14.228	16-C-NR-1-01-G-03	\$ 192,751
<b>Total U.S. Department of Housing and Urban Development</b>			<u>192,751</u>
<b>U.S. Department of Transportation</b>			
Passed through New Mexico Department of Transportation			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	18-AL-64-045	14,925
Highway Planning and Construction	20.205	CN: 2100590	28,598
Formula Grants for Rural Areas	* 20.509	MOA FY17	121,471
Formula Grants for Rural Areas	* 20.509	MOA FY18	278,218
DOT Federal Aviation	20.526	MOA FY17	<u>250,880</u>
<b>Total U.S. Department of Transportation</b>			<u>694,092</u>
<b>U.S. Department of Justice</b>			
Bulletproof Vest Partnership Program	16.607		101
Bulletproof Vest Partnership Program	16.607		6,001
Public Safety Partnership and Community Police Grants	16.710	2015UMWX0051	177,689
Public Safety Partnership and Community Police Grants	16.710	2016UMWX0189	<u>166,395</u>
<b>Total U.S. Department of Justice</b>			<u>350,186</u>
<b>U.S. Department of Homeland Security</b>			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2015-FH-00163	<u>378,561</u>
<b>Total U.S. Department of Homeland Security</b>			<u>378,561</u>
<b>U.S. Department of Health and Human Services</b>			
Direct			
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	2017-18	35,725
Nutrition Services Incentive Program	93.053	2016-17	1,201
Nutrition Services Incentive Program	93.053	2017-18	34,898
Passed through NM Department of Health			
Mosquito Grant	93.323	MOA 18/665.0300.21188	<u>16,865</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>88,689</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,704,279</u>

\* = Denotes major program

**Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**

Federal grant revenue per fund financials	\$ 1,704,279
Federal expenditures per SEFA	<u>1,704,279</u>
Difference - not all grants are reimbursement based	<u>\$ -</u>

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

**Note 1 - Basis of Presentation**

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

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

No non-cash federal assistance was received during the year ended June 30, 2018.

**Note 3 - Subrecipients**

The City did not provide federal awards to subrecipients during the year.

**Note 4 - Federal Insurance**

The City has no federally funded insurance.

**Note 5 - Indirect Cost Rate**

The City did not use the 10 percent de minimis indirect cost rate.

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

**A. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements:*

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

*Federal Awards:*

- |   |            |
|---|------------|
| 1. Internal control over major programs:  |            |
| a. Material weaknesses identified?  | No         |
| b. Significant deficiencies identified not considered to be material weaknesses?                                      | No         |
| 2. Type of auditor's report issued on compliance for major programs   | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a)? | None       |

4. Identification of major programs:

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
20.509	Formula Grants for Rural Areas	U.S. Department of Transportation

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

<b>Reference #</b>	<b>Finding</b>	<b>Status of Current and Prior Year Findings</b>	<b>Type of Finding*</b>
<b>Prior Year Findings</b>			
2017-001	FINANCIAL CLOSE AND REPORTING PROCESS	<b>Resolved</b>	B
<b>Current Year Findings</b>			
2018-001	REVIEW OF PAYROLL TRANSACTION CYCLE	Current	B
2018-002	SEGREGATION OF DUTIES - UTILITY MANAGER	Current	B
2018-003	INTERNAL CONTROLS - CASH RECEIPTS	Current	B, G
2018-004	BUDGET CONTROLS	Current	G
2018-005	RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	Current	A

\* Legend for Type of Findings

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

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

**PRIOR YEAR FINDINGS**

None

STATE OF NEW MEXICO  
CITY OF HOBBS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**CURRENT YEAR FINDINGS**

**2018-001 - REVIEW OF PAYROLL TRANSACTION CYCLE**

**Type of Finding: B**

**Statement of Condition**

During our process of understanding the entity and its environment, we noted the following:

- Members of the City's payroll department can override wage rates in the City's payroll module independent of the City's HR department or management.

**Criteria**

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its Exhibit B require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board.

Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

**Effect**

Erroneous or fraudulent adjustments to pay rates could be made resulting in an increased risk of the possibility of misstated financial statements due to a loss from error or fraud.

**Cause**

While it appears the City's payroll and HR functions are adequately segregated, the accounting system allows for an override via the 'job salary' function.

**Recommendation**

The City should consult with its IT department or the support team from the accounting system to restrict the payroll department's ability to override wage rates. If that is not possible, we recommend that the City develop and implement a process to review changes to the employee master file monthly. Additionally, we recommend that an annual review of employee pay rates be performed to ensure that pay increases performed in the accounting system reconcile to the City's approved pay adjustments.

**View of Responsible Officials and Corrective Action Plan**

Management has contacted software support and obtained from them a plan of action to remove the edit functionality for wage rates that was discovered outside the normal workflow process. Timeline for the correction is immediate and the correction has been completed.

Management further agrees that an annual review of employee pay rates would be beneficial will work with the City's HR department to explore options for this additional control. The Finance Department will reach out to the HR department. A review process will be in place by June 2019.

**Corrective Action Plan Timeline**

Timeline for the correction is immediate and the correction has been completed.

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

Finance Director and Assistance Finance Director

**2018-002 – SEGREGATION OF DUTIES – UTILITY MANAGER**

**Type of Finding: B**

**Statement of Condition**

During our process of understanding the entity and its environment, we determined the following weakness was present in relation to the utility department:

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The Utility Manager does, or has the opportunity to do, the following:

- Collect cash
- Post cash receipts against receivables previously created or as revenue
- Adjust and/or write-off receivables balances without any authorization
- Discretion to file liens against delinquent accounts

**Criteria**

An essential element of any preventative control system is a segregation of functions in such a manner that no single individual can perpetrate an error or misappropriation or illegal act without the error being discovered in a timely manner. Three general categories of functions which should be separated to achieve internal controls are:

- Functions involving custody of assets (e.g. accepting/handling cash, physical control of blank check stock),
- Functions involving recording transactions (e.g. bookkeeping, preparation of bank reconciliations, recording pledges and payments in donor database software) and
- Functions involving authorization (e.g. authority to sign checks, approve purchases, process payroll payments).

When segregation of duties is not practical due to limitations inherent in office environments, compensating controls may be established to mitigate, but not eliminate, deficiencies.

**Effect**

Organizational objectives and assets are at risk when adequate segregation of duties and internal controls are not in place.

**Cause**

The City had not previously been alerted to the need for segregation of duties in relation to the utility department.

**Recommendation**

The City should develop a formal review and approval process for any adjustments and write offs made by the Utility manager.

**View of Responsible Officials and Corrective Action Plan**

Management has put in place a process in which daily adjustments made in the Utility Department are sent via email the following day in a report to the Finance Department. This report is review and any unusual or large items are questioned. Timeline for this correction is immediate as it has been in place as of July 2018.

**Corrective Action Plan Timeline**

Timeline for this correction is immediate as it has been in place as of July 2018.

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

Finance Director and Assistance Finance Director

**2018-003—INTERNAL CONTROLS – CASH RECEIPTS**

**Type of Finding: B, G**

**Statement of Condition**

During our process of understanding the entity and its environment, it was determined that several of the City's cash collection sites do not issue customer receipts upon intake of cash. As a result, we are unable to determine if:

- All cash collected is deposited into City's bank accounts
- The City is in compliance with the State's 24-hour deposit rule.

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**Criteria**

Controls over the intake of revenue should be designed to minimize the risk of errors and improve the safeguarding of assets. Additionally, NMSA 1978, Sections 6-10-3 requires that deposits be made the next business day after receipt.

**Effect**

Lack of adequate internal controls over current cash deposit processes increases the risk that a loss or misappropriation of public funds may occur and not be detected in a timely manner. Additionally, untimely deposits are a direct violation of State statute.

**Cause**

The City had not previously been alerted to the need for issuance of customer receipts for intake of cash at all collection sites.

**Recommendation**

We recommend the following:

- All cash collected should be recorded via a prenumbered receipt and copies of receipts should be provided to customers
- Cash receipt numbers should be tracked and periodically reconciled against cash deposits by members of Finance
- To reduce the risk of cash receipts being “skimmed” and not collected by the City, we recommend a sign be posted at sites where currency and checks are collected that informs the customer that they must receive a receipt and if there are any questions to contact a member of finance
  - Recommended verbiage on sign:
  - Customers must receive a receipt. For any problems or discrepancies with your transaction, please contact the finance department directly at (575)-XXX-XXXX” or xxxxxx@hobbsnm.org.

**View of Responsible Officials and Corrective Action Plan**

Management has procured three part receipt books that have the City of Hobbs logo on them and are sequentially numbered. Management additionally intends to have signs printed for posting at each location that utilizes manual receipts. These pre-numbered receipts will be issued to departments by Finance on an as needed basis and will be audited as part of the Finance department’s quarterly surprise cash audit. Timeline for completion is June 2019.

**Corrective Action Plan Timeline**

Timeline for completion is June 2019.

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

Finance Director and Assistance Finance Director

**2018-004—BUDGET CONTROLS**

**Type of Finding: G**

**Statement of Condition**

Actual expenditures exceeded budgeted expenditures in the Airport fund by \$15,200.

**Criteria**

Chapter 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of New Mexico Department of Finance and Administration to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies. Sections 6-6-6 through 6-6-11 NMSA 1978 Compilation prohibits local governments from making expenditures in excess of the approved budget. The LGD interprets Section 6-6-6 to apply to a fund’s total budget; if the fund’s total budget is overspent, the fund is not in compliance with Section 6-6-6.

**Effect**

The City is in violation of budget controls established for local governments of the State of New Mexico.

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**Cause**

Oversight of Airport Fund utilities line item detail as it relates to review of quarterly expenditures to budget.

**Recommendation**

We recommend that the City improve controls to prevent the over-expenditure of fund resources.

**View of Responsible Officials and Corrective Action Plan**

Management understands the cause and will put an additional review process in place to ensure that budget is not overspent. The Airport fund rolls up with other funds when reporting to the DFA on a quarterly basis, because the funds it rolls up with were not over budget as a whole, Finance overlooked the single fund with a line item over budget. An additional fund level budget review before rollups will be performed on a quarterly basis to ensure that any necessary budget adjustments are made within the fiscal year. Timeline for completion is June 2019.

**Corrective Action Plan Timeline**

Timeline for completion is June 2019.

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

Finance Director and Assistance Finance Director

**2018-005 – RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

**Type of Finding: A**

**Statement of Condition**

The identification, recording, and reconciliation process related to utility and other receivables, including respective allowance for doubtful accounts, is not well established and documented. During the current year, material journal entries were required as follows:

Ambulance AR	\$ 1,243,748
Ambulance doubtful accounts	(310,937)
Weed Mowing AR	96,427
Weed Mowing doubtful accounts	(55,927)
Court Fines AR	563,219
Court Fines doubtful accounts	90,115
Water AR	859,873
Water doubtful accounts	69,410
Sewer AR	646,041
Sewer doubtful accounts	38,404
Solid Waste AR	459,095
Solid Waste doubtful accounts	(162,375)
Net adjustments	<u>\$ 3,537,093</u>

**Criteria**

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

**Effect**

The lack of reconciliation and review has caused deficiencies that increase the risk of errors and inaccurate or incomplete financial reporting.

**Cause**

No formal policy and standard operating procedures as it relates to accounts receivable and allowance for doubtful accounts.

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**Recommendation**

The City should establish and document formal reconciliation and reporting processes over utility and other receivables, including allowance for doubtful accounts.

**View of Responsible Officials and Corrective Action Plan**

Management understands the need to establish an all-encompassing accounts receivable policy and procedures inclusive of allowance for doubtful accounts. The policy will detail out procedures as it relates to daily departmental procedures, monthly reconciliations, adjustments, allowance for doubtful accounts and write-offs. This policy will be submitted at a future Commission meeting for approval. Timeline for this correction would be submitted to Commission meeting in June 2019 with an effective start date July 1, 2019.

**Corrective Action Plan Timeline**

Timeline for this correction would be submitted to Commission meeting in June 2019 with an effective start date July 1, 2019.

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

Finance Director and Assistance Finance Director

**STATE OF NEW MEXICO  
CITY OF HOBBS  
Exit Conference  
For the Year Ended June 30, 2018**

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

The accompanying financial statements are the responsibility of the City and are based on information from the City's financial records. Assistance was provided by Hinkle + Landers, PC to the City in preparing the financial statements.

**B. EXIT CONFERENCE**

**City of Hobbs**

An exit conference was held in closed session on December 10, 2018, at the City's offices in Hobbs New Mexico. The following individuals were in attendance.

City of Hobbs Officials

Sam Cobb

Manny Gomez

Toby Spears, CPA

Deborah Corral

Mayor

Acting City Manager

Finance Director

Assistant Finance Director

Hinkle + Landers, P.C.

Farley Vener, CPA, CFE, CGMA

Maclen Enriquez, CPA

President & Managing Shareholder

Senior Audit Manager