



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, 2020

**STATE OF NEW MEXICO
CITY OF HOBBS
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**STATE OF NEW MEXICO
CITY OF HOBBS
OFFICIAL ROSTER
AS OF JUNE 30, 2020**

CITY COMMISSION

NAME	TITLE
Sam D. Cobb	Mayor
Marshall Newman	Commissioner - District #1
Christopher Mills	Commissioner - District #2
Larron B. Fields	Commissioner - District #3
Joseph D. Calderon	Commissioner - District #4
Ron Dwayne Penick	Commissioner - District #5
Don R. Gerth	Commissioner - District #6

ADMINISTRATIVE OFFICIALS

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

INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of Hobbs
and
Mr. Brian Colón, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City of Hobbs (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the City, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, listed in the table of contents as "*Supplemental Information*", is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, listed in the table of contents under the "*Compliance Section*", is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other schedules, as required by 2.2.2 NMAC, listed as "*Other Supplemental Information*" in the table of contents, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hinkle + Landers, PC
Albuquerque, NM
December 10, 2020

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020. 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 (restricted and unrestricted) collections in the current year totaled \$66,272,000.
- The assets of the City exceeded its liabilities at June 30, 2020 by \$311,489,000.
- Restricted net position totaled \$16,135,000 at June 30, 2020. Restricted net position amounts are subject to external restrictions on how they may be used.
- Unrestricted net position totaled \$17,175,000 at June 30, 2020.
- Gross receipts taxes decreased approximately -6.68% from \$71,018,000 for 2019 to \$66,272,000 for 2020. The decrease is directly related to the activity of the global energy industry and the ongoing response to the COVID pandemic.

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 paid time off).

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.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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 \$245,866,000 at June 30, 2020. Significant reasons for the increase follow the schedule below.

By far the largest portion of the City's net position (91.96%, or \$226,098,000) 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 6.0%, or \$14,939,000, of the City's net position is restricted subject to external restrictions on how they may be used, and 1.96%, or \$7,842,055, of the City's net position is available as unrestricted fund balance.

	Net Position (In thousands)					
	Governmental Activities		Business-type Activities		Total	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Current and other assets	\$ 134,662	117,564	26,840	23,070	161,502	140,634
Capital assets, net of accumulated depreciation	226,098	233,235	82,157	81,610	308,255	314,845
Deferred outflows of resources	10,570	16,447	1,322	1,874	11,892	18,321
Total assets and deferred outflows or resources	<u>371,331</u>	<u>367,246</u>	<u>110,319</u>	<u>106,554</u>	<u>481,649</u>	<u>473,800</u>
Current and other liabilities	\$ 6,327	4,657	5,017	5,371	11,344	10,028
Long-term liabilities outstanding	97,234	104,156	37,368	37,694	134,602	141,850
Deferred inflows of resources	21,898	12,712	2,310	1,319	24,208	14,031
Total liabilities and deferred inflows of resources	<u>\$ 125,459</u>	<u>121,525</u>	<u>44,695</u>	<u>44,384</u>	<u>170,154</u>	<u>165,909</u>
Net investment in capital assets	226,098	233,235	52,082	52,291	278,180	285,526
Restricted	14,939	13,360	1,196	1,163	16,135	14,523
Unrestricted	4,835	(874)	12,345	8,716	17,180	7,842
Total net position	<u>\$ 245,872</u>	<u>245,721</u>	<u>65,623</u>	<u>62,170</u>	<u>311,495</u>	<u>307,891</u>

Governmental Activities

- The resulting decrease revenues from gross receipts taxes did not affect cash balance significantly due to the deferment of labor costs and capital purchases in the last quarter of the fiscal year. Also, decreases in grant receivables led to higher cash balances at June 30, 2020 compared to June 30, 2019. Gross receipts taxes (restricted and unrestricted) were \$66,272,000 for the year ended June 30, 2020 compared to \$71,018,000 for the year ended June 30, 2019.
- This year's major capital asset additions for governmental activities included the purchase of various vehicles, buildings renovations, equipment, and numerous street renovations.
- Long-term liabilities decreased due to a two-year valuation assessment required by GASB 68. The overall valuation resulted in an overall decrease to the City's unfunded OPEB liability.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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 scheduled principal payments made from fiscal year 2019 to 2020. No additional long-term debt was incurred.

Net (Expense) Revenue and Changes in Net Position

The City's total revenues for the years ended June 30, 2020 and 2019, were \$118,606,000 and \$121,729,000. Total expenses were, respectively, \$115,007,000 and \$106,624,000. 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, 2020 and 2019. Reasons for significant changes follow the schedules.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

Statement of Activities
(In thousands)

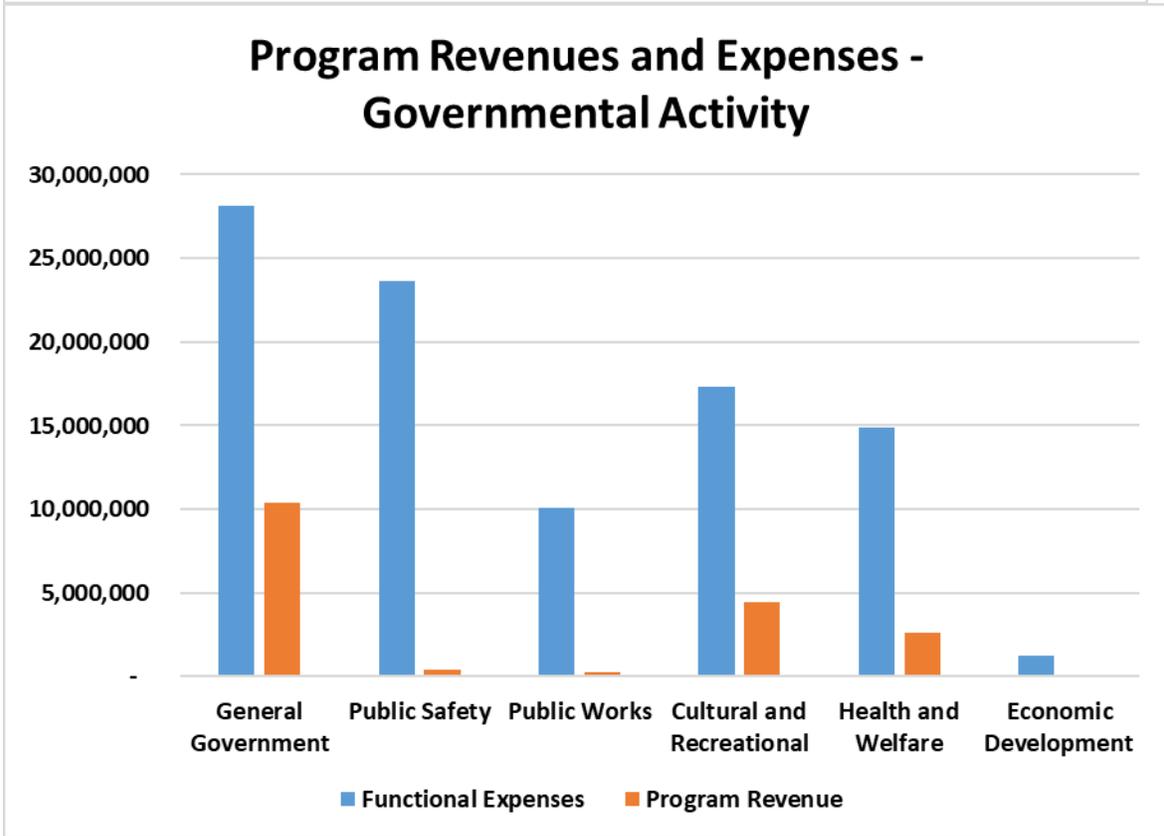
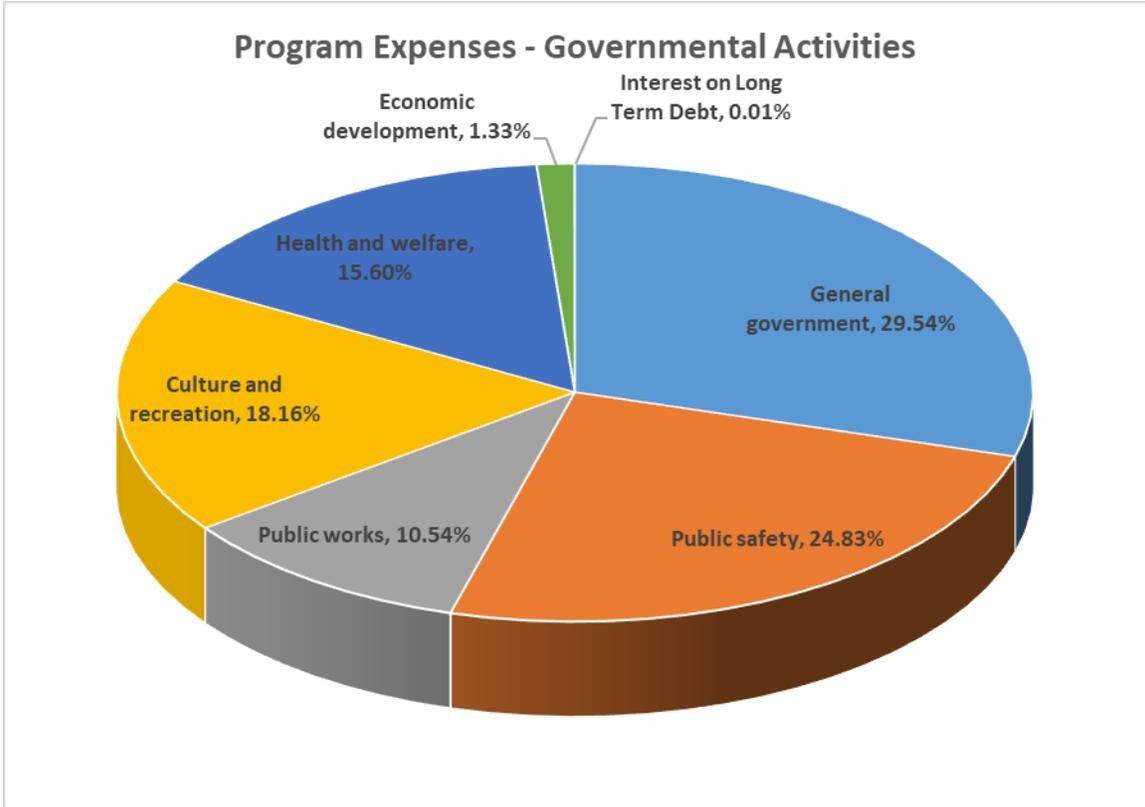
	Governmental Activities		Business-type Activities		Total	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenues						
Program revenues						
Charges for services	\$ 13,491	13,226	20,715	19,961	34,206	33,187
Operating grants and contributions	1,974	2,063	997	252	2,971	2,315
Capital grants and contributions	2,571	2,941	69	-	2,640	2,941
General revenues						
Property taxes	3,013	2,857	-	-	3,013	2,857
Gross receipts taxes	64,738	69,362	1,534	1,656	66,272	71,018
Other taxes	3,796	4,738	-	-	3,796	4,738
Investment income	3,059	2,749	72	89	3,131	2,838
Gain/(loss) on disposition of assets	(196)	(349)	(51)	(55)	(247)	(404)
Other	2,775	2,140	55	99	2,830	2,239
Total revenue	95,220	99,727	23,391	22,002	118,612	121,729
Expenses						
General government	28,158	25,346	-	-	28,158	25,346
Public safety	23,673	21,295	-	-	23,673	21,295
Public works	10,044	9,485	-	-	10,044	9,485
Culture and recreation	17,311	16,476	-	-	17,311	16,476
Health and welfare	14,874	12,836	-	-	14,874	12,836
Economic development	1,266	720	-	-	1,266	720
Interest on long-term debt	11	17	-	-	11	17
Joint utility	-	-	12,648	13,867	12,648	13,867
Solid waste	-	-	7,023	6,582	7,023	6,582
Total expenses	95,337	86,175	19,671	20,449	115,007	106,624
Transfers	268	(33)	(268)	33	-	-
Change in net position	\$ 151	13,519	3,453	1,586	3,604	15,105

Governmental Activities

The City's governmental activities' change in net position was \$245,866,000 in the year ended June 30, 2020. The governmental activities' change in net position for the year ended June 30, 2019, was \$245,721,000. Significant highlights are noted below.

- The resulting decrease revenues from gross receipts taxes did not affect cash balance significantly due to the deferment of labor costs and capital purchases in the last quarter of the fiscal year. Also, decreases in grant receivables led to higher cash balances at June 30, 2020 compared to June 30, 2019. Gross receipts tax was \$64,738,000 for the year ended June 30, 2020 compared to \$69,362,000 for the year ended June 30, 2019.
- Total expenses for fiscal year 2020 were \$95,337,000 compared to \$86,175,000 for fiscal year end 2019.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**



**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

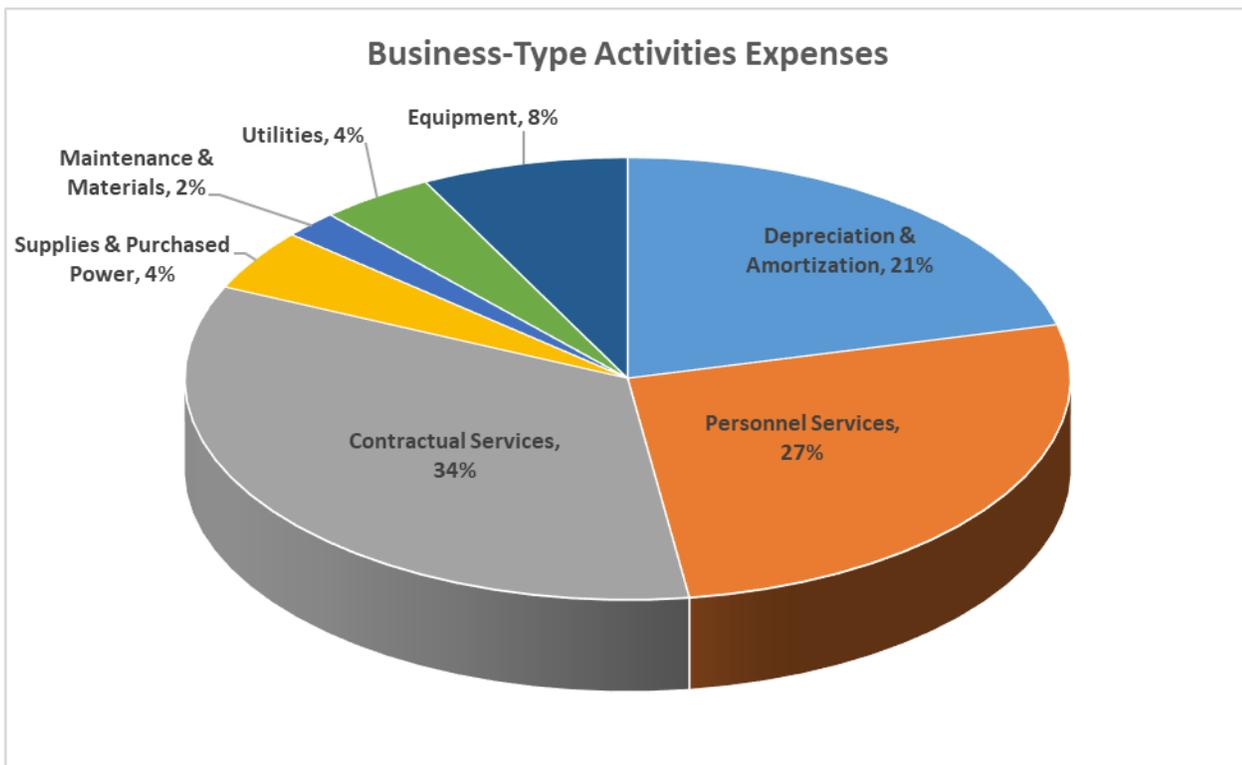
Business-Type Activities

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 City recently finalized an independent rate study that was introduced for consideration to the City Commission in fiscal year 2021. The proprietary fund statements show these activities in greater detail.

The change in net position contributed by the City's business-type activities was \$3,453,000 in the year ended June 30, 2020, compared to the net position of \$1,586,000 for the year ended June 30, 2019. The increase this year was driven by decreases in expenditures and deferment of capital outlay in the Joint Utility Enterprise Fund. Revenues remained relatively flat.

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, 2020, unrestricted net position totaled \$12,345,000 in the Joint Utility and Solid Waste Funds as compared to \$8,716,000 at June 30, 2019. 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

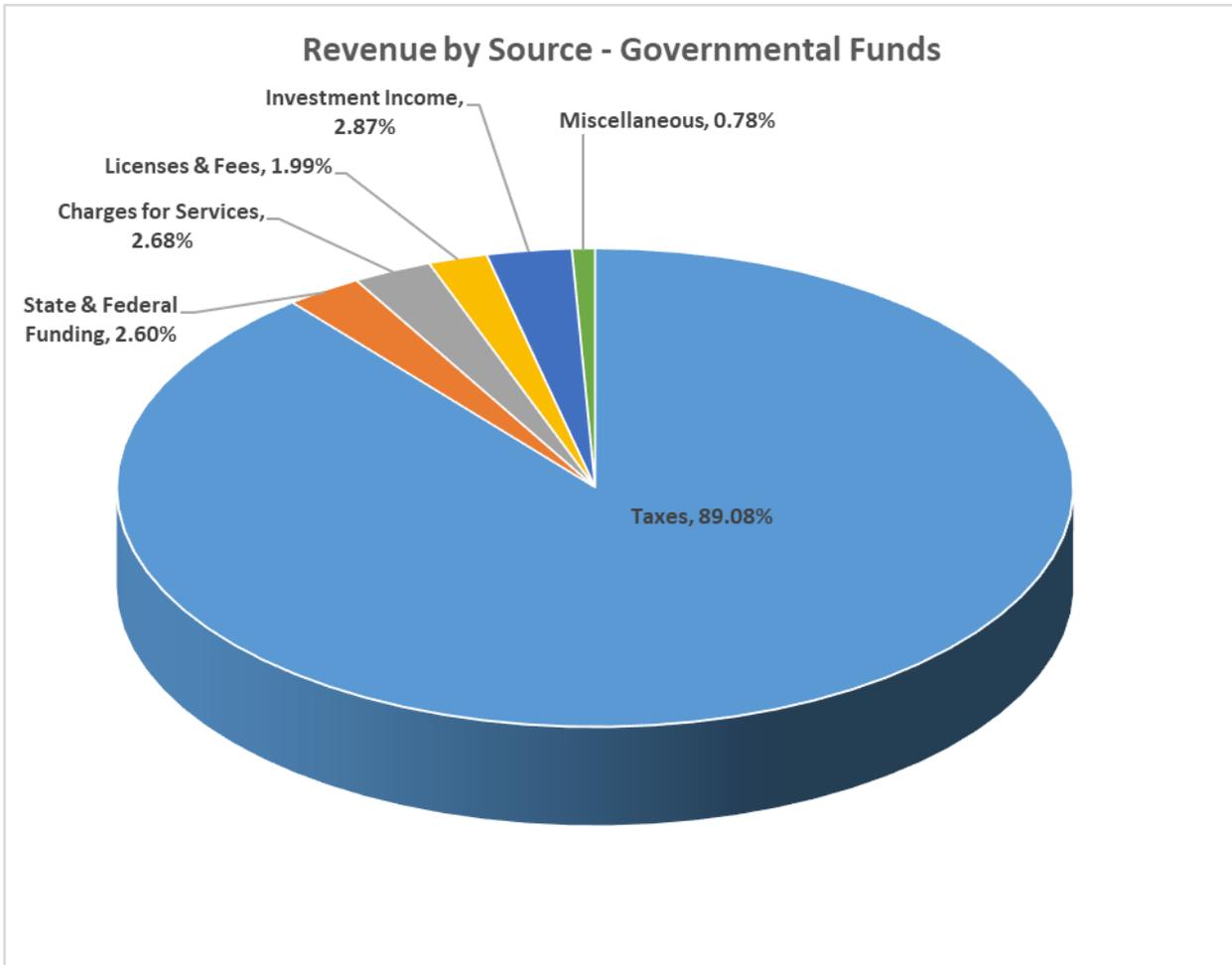
The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted balance may serve as a useful measure of a government's net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

As of June 30, 2020, the City's governmental funds reported combined ending fund balances of \$311,489,000, an increase of \$3,598,000 from the prior year. Of this amount, \$17,175,000 approximately

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

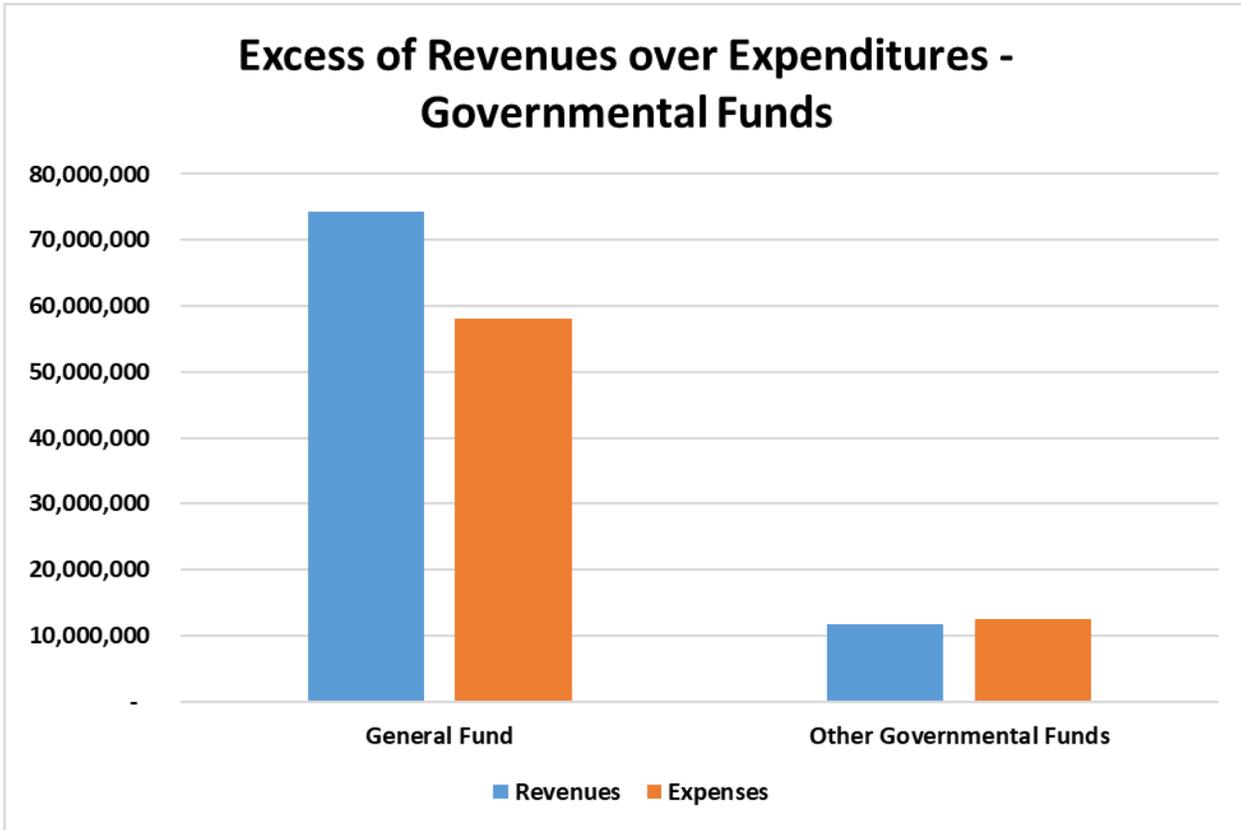
5.50% constitutes unassigned fund balance, which is available for spending at the government's discretion. Approximately 5.18%, or \$16,135,000 constitutes fund balance is restricted for minimum fund balance requirements.

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 \$93,272,877. 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 132% of the total general fund expenditures. The City's general fund balance increased by \$11,358,624 in the current fiscal year.



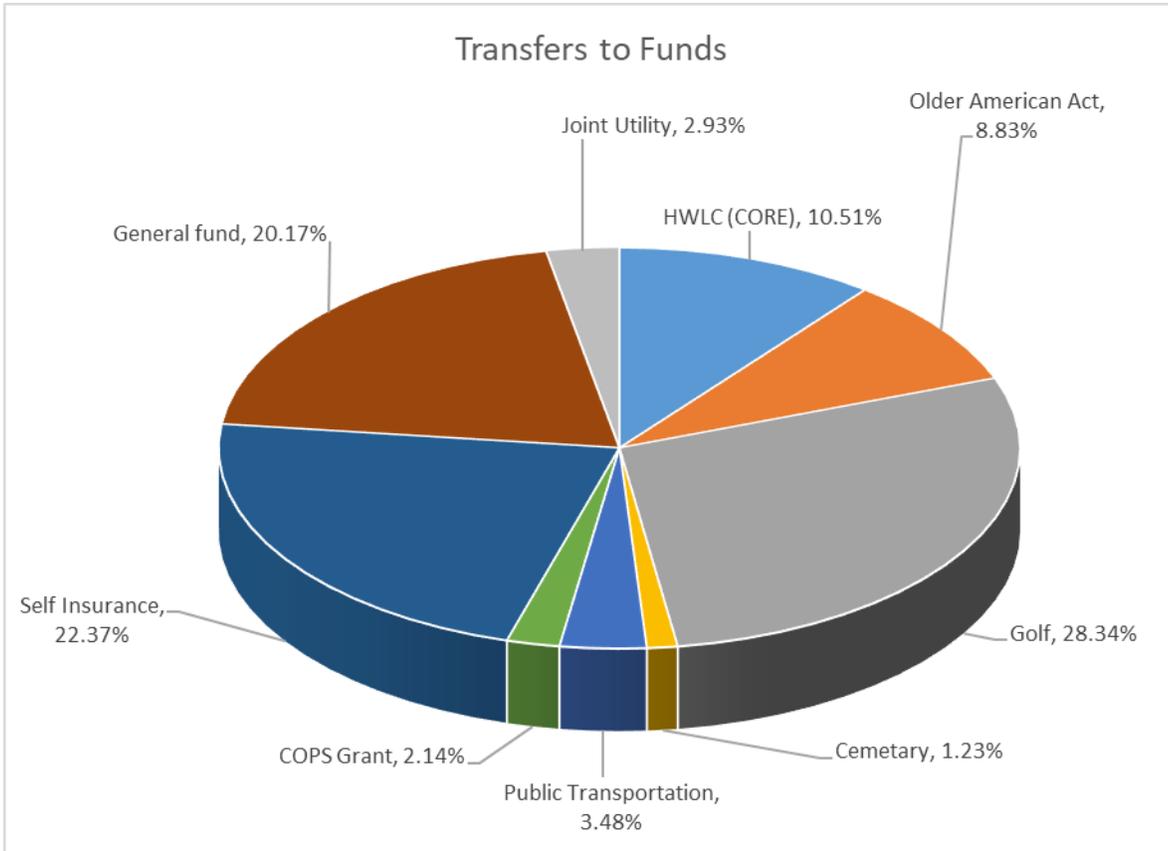
- Taxes include property taxes, franchise taxes, oil and gas production taxes, lodgers' taxes, and municipally imposed gross receipts taxes.
- Intergovernmental includes grants and state-shared taxes, including a portion of gross receipts tax.
- Charges for services include fees for services and waste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

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**



- 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.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**



Transfer activity totaled \$8,409,741. The graph above details transfers in by fund recipient for the year ended June 30, 2020.

Budgetary Comparisons

The appropriated general fund budget for the year ended June 30, 2020 was amended by the City Commission throughout the year. These amendments resulted in the following changes:

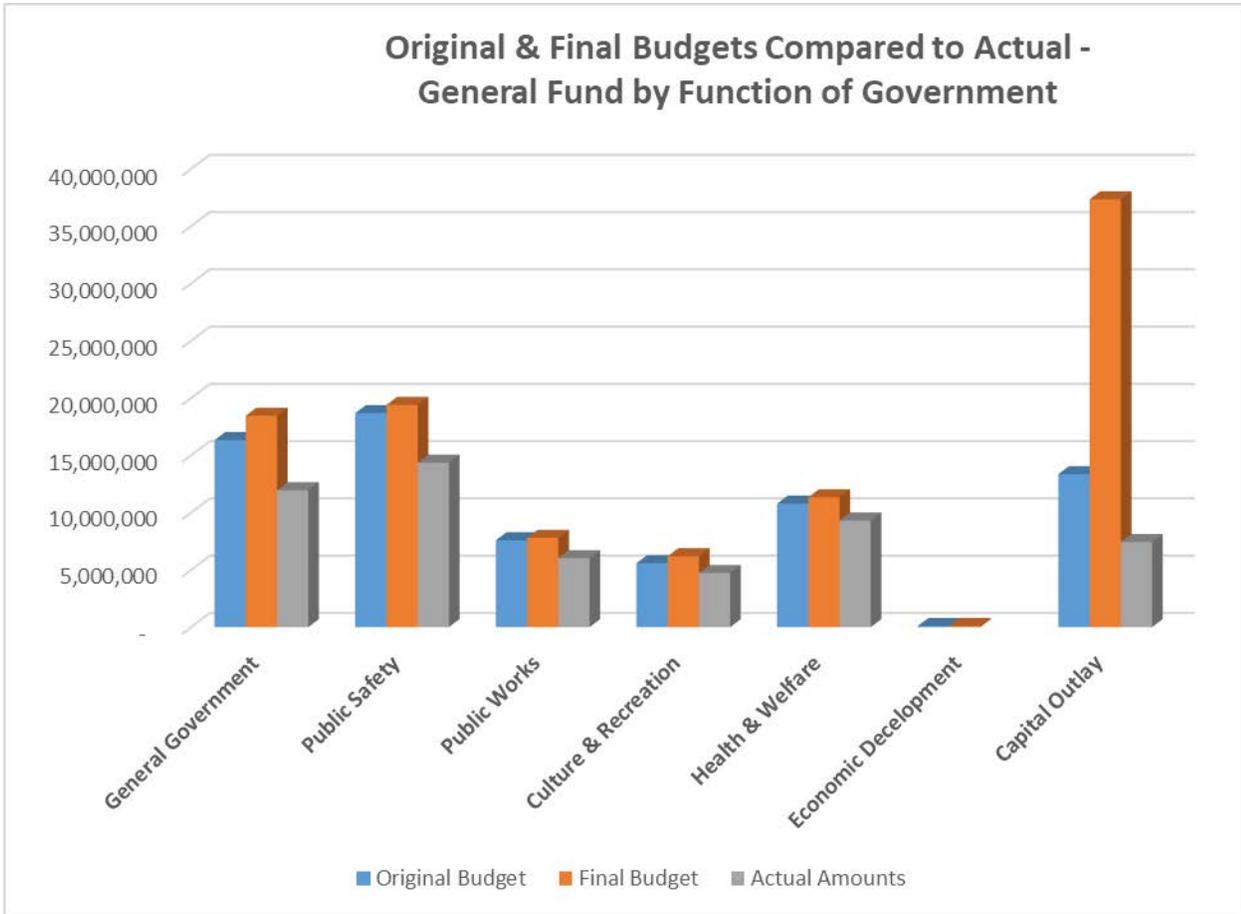
	Excess (deficiency) of revenues over expenditure		
	Original Budget	Final Budget	Actual
General Fund	\$ (2,922,818)	(24,006,273)	\$ 21,012,445

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.

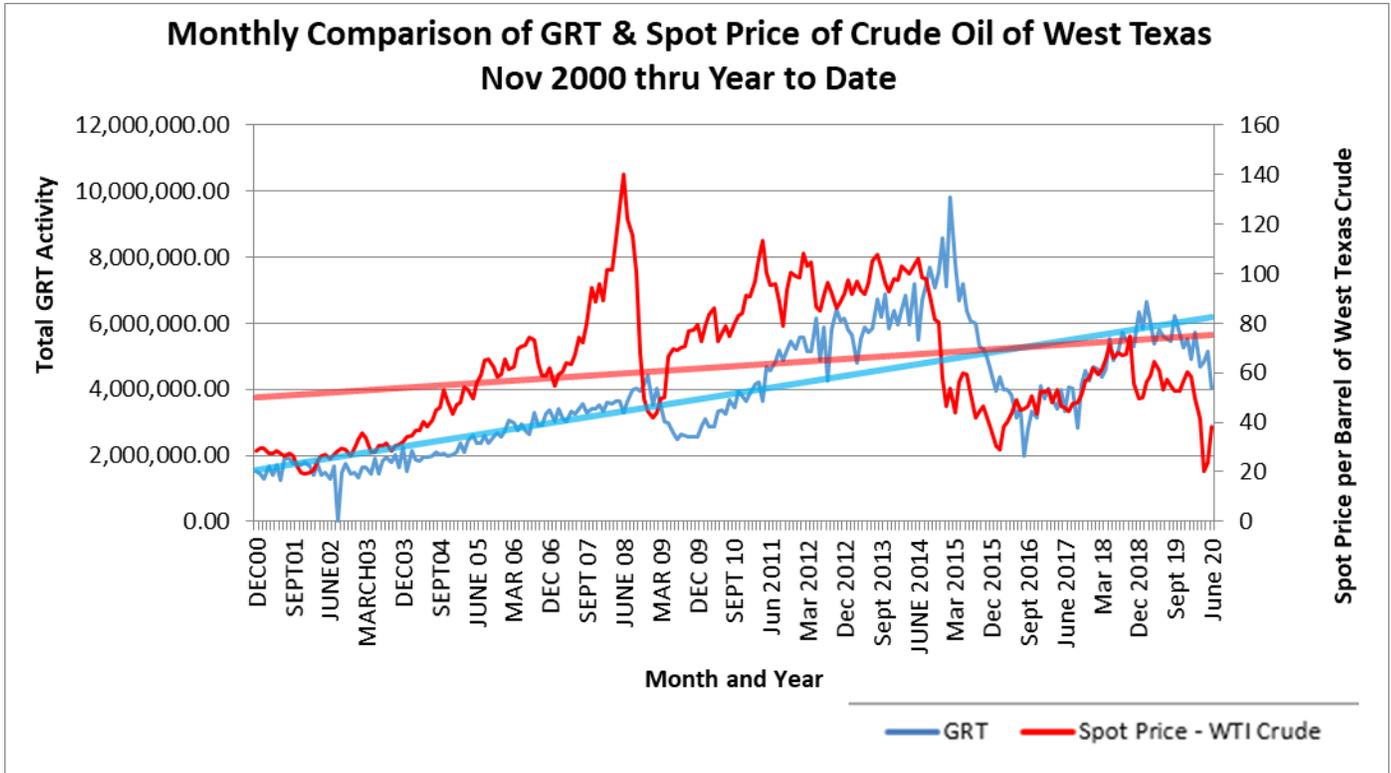
**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**



Current Facts and Future Trends

Mining continues to be the dominant Gross Receipts Tax category in the data supplied to the City by the New Mexico Taxation and Revenue Department. The annual percentage of mining gross receipt taxes is approximately 22% 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. It should be noted the current volatility of the global energy markets and the current COVID pandemic is negatively impacting gross receipt taxes. The current trending of gross receipt taxes is projecting a reduction of approximately 36%, or 41.0 million for fiscal year 2021 (unrestricted) as compared to 64.0 million for fiscal year 2020 (unrestricted) It should also be noted the oil and gas revenue component is approximately the same ratio percentage as the retail revenue component. This again shows a downward trend of this industry. The other major categories of gross receipt taxes as a percentage of annual gross receipt taxes are retail trade (22%), services (9%), construction (10%) and wholesale trade (8%). 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:

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**



Over the next 12 to 18 months, the City of Hobbs will be relying on unrestricted cash reserves, deferring capital, 15% reductions of operating expenditures, merit freezes (non-union only), and hiring freezes. The City of Hobbs budgeted approximately a 14 million reduction of cash reserves in fiscal year 2021.

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. The recent changes in NM to collective bargaining (HB 364) may cause challenges to recurring expenditures and fiscal/administrative oversight. The impact will be on all funds as it relates general fund (taxes), proprietary funds (fees) and special revenue funds (grants and increased subsidies from general fund). The hiring of 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. The City of Hobbs implemented a high deductible, general liability risk insurance fund in fiscal year 2020. The City of Hobbs will be task with paying claims up to the high deductible amount and charging the claims to the respective departments. The City will need to maintain an adequate amount of reserves to mitigate future risks with this program. An actuarial study was performed at June 30, 2020 to measure the City's unfunded benefits liability as it relates to Retiree Health Insurance. The current unfunded liability as of June 2020 is \$39,477,400 million. In addition, GASB No. 68 (Local Portion of Pension Liabilities with regards to PERA) requires the City to recognize the local portion of PERA. The total liability regarding this pension is approximately \$65,441,269 million.

Housing has been a long-standing issue with the City of Hobbs in attracting workforce labor and economic development. Since 2013, the City of Hobbs has adopted and implemented an affordable and market rate housing ordinance which encourages development of single family and multiple family housing units. This overall policy helps increase capacity of overall housing needs thus increasing the potential growth of Hobbs. The overall investment by the City of Hobbs, since 2013 to present is approximately \$17.4 million dollars.

**STATE OF NEW MEXICO
CITY OF HOBBS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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 \$27,836,758 million. Future liabilities related to the Enterprise Fund are the dilapidation of concrete sewer lines and additional waterline projects.

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 \$61.5 million dollars. The City has completed approximately 99.5% of the construction contract with Haydon Construction. A joint powers agreement had 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 \$4.2 million dollars with an estimated revenue generation of \$1.9 million. Subsidies (inclusive of \$500,000 in Lodgers' Tax subsidy) are estimated to be fixed at approximately \$2.3 million dollars and will be accounted for in a Special Revenue Fund. It should be noted the COVID pandemic has restricted the collection of fees to help offset the general fund subsidy. The general fund subsidy for this special revenue fund is projected to be significantly higher for 2021.

The lodgers' tax special revenue fund will significantly be impaired in 2021 due to the instability of the oil and gas market and the ongoing COVID pandemic. Projected revenue loss for fiscal year 2021 is trending currently at a 67% reduction, or \$500,000 for 2021 (projected) as compared to \$1,525,647. The City of Hobbs currently uses lodgers' tax to offset the CORE operating expenditures. To maintain the CORE special revenue fund, the City will need to use more general fund reserves to offset the lack of revenue from lodgers' tax. The City of Hobbs also uses lodgers' tax to provide revenue guarantees to the local airline. (United Airlines) The reduction of lodgers' tax revenue will reduce the overall general fund reserves.

In FY 2021, the City will partner with various local entities to help fund, design and develop a Career Technical and Education facility operated by the Hobbs Municipal Schools. The City of Hobbs will be a capital only partner for this agreement. The development of trade and technical labor at the high school level is essential to the overall economic development for the City of Hobbs. The total amount of contribution by the City of Hobbs will be up to \$10 million dollars. A significant portion of this payment is expected in March of 2021.

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, CFE – 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, 2020**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 123,632,279	23,867,051	147,499,330
Receivables:			
Taxes	8,320,288	183,323	8,503,611
Intergovernmental	538,966	-	538,966
Other	1,299,964	-	1,299,964
Due from customers, net	-	1,086,671	1,086,671
Prepaid expenses	717,158	-	717,158
Inventory	130,728	506,694	637,422
Total current assets	<u>134,639,383</u>	<u>25,643,739</u>	<u>160,283,122</u>
Noncurrent assets			
Restricted cash	22,834	726,239	749,073
Restricted cash - customer deposits	-	469,901	469,901
Land and work in progress	11,554,522	15,717,527	27,272,049
Capital assets, depreciable	358,556,228	148,789,374	507,345,602
Less: accumulated depreciation	<u>(144,012,658)</u>	<u>(82,349,788)</u>	<u>(226,362,446)</u>
Total noncurrent assets	<u>226,120,926</u>	<u>83,353,253</u>	<u>309,474,179</u>
Total assets	<u>360,760,309</u>	<u>108,996,992</u>	<u>469,757,301</u>
Deferred outflows of resources			
Pension deferral	10,166,019	1,277,235	11,443,254
OPEB deferral	404,453	44,397	448,850
Total deferred outflows of resources	<u>10,570,472</u>	<u>1,321,632</u>	<u>11,892,104</u>
Total assets and deferred outflows of resources	<u>\$ 371,330,781</u>	<u>110,318,624</u>	<u>481,649,405</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 2,298,391	850,659	3,149,050
Accrued payroll expenses	2,001,848	175,532	2,177,380
Accrued claims payable	646,659	-	646,659
Accrued interest payable	-	370,472	370,472
Unearned revenue	625,000	726,239	1,351,239
Meter deposits	-	469,901	469,901
Compensated absences, current portion	609,358	185,823	795,181
Notes and loans payable, current portion	-	2,238,505	2,238,505
Capital lease payable, current portion	145,851	-	145,851
Total current liabilities	<u>6,327,107</u>	<u>5,017,131</u>	<u>11,344,238</u>
Noncurrent liabilities			
Compensated absences	1,828,074	-	1,828,074
Notes and loans payable	-	27,836,758	27,836,758
Capital lease payable	18,665	-	18,665
Net pension liability	59,815,127	5,626,142	65,441,269
Net OPEB liability	<u>35,572,501</u>	<u>3,904,899</u>	<u>39,477,400</u>
Total noncurrent liabilities	<u>97,234,367</u>	<u>37,367,799</u>	<u>134,602,166</u>
Total liabilities	<u>103,561,474</u>	<u>42,384,930</u>	<u>145,946,404</u>
Deferred inflows of resources			
Pension deferral	5,899,778	554,118	6,453,896
OPEB deferral	<u>15,997,868</u>	<u>1,756,132</u>	<u>17,754,000</u>
Total deferred inflows of resources	<u>21,897,646</u>	<u>2,310,250</u>	<u>24,207,896</u>
Net position			
Net investment in capital assets	226,098,092	52,081,850	278,179,942
Restricted for:			
Debt service	-	1,196,140	1,196,140
Capital projects	10,852,119	-	10,852,119
Special revenue	4,086,699	-	4,086,699
Unrestricted	<u>4,834,751</u>	<u>12,345,454</u>	<u>17,180,205</u>
Total net position	<u>245,871,661</u>	<u>65,623,444</u>	<u>311,495,105</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 371,330,781</u>	<u>110,318,624</u>	<u>481,649,405</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, 2020**

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
Primary Government							
General government	\$ 28,158,181	8,981,633	1,366,078	-	(17,810,470)	-	(17,810,470)
Public safety	23,672,915	12,053	360,120	-	(23,300,742)	-	(23,300,742)
Public works	10,043,639	286,046	-	-	(9,757,593)	-	(9,757,593)
Culture and recreation	17,310,702	2,204,559	199,545	2,011,966	(12,894,632)	-	(12,894,632)
Health and welfare	14,873,843	2,007,018	48,246	558,680	(12,259,899)	-	(12,259,899)
Economic development	1,266,150	-	-	-	(1,266,150)	-	(1,266,150)
Interest on long-term debt	11,457	-	-	-	(11,457)	-	(11,457)
<i>Total governmental activities</i>	<u>95,336,887</u>	<u>13,491,309</u>	<u>1,973,989</u>	<u>2,570,646</u>	<u>(77,300,943)</u>	<u>-</u>	<u>(77,300,943)</u>
Business-type Activities:							
Joint Utility Fund (600)	12,647,839	13,666,878	996,620	69,322	-	2,084,981	2,084,981
Solid Waste (100)	7,022,728	7,048,308	-	-	-	25,580	25,580
<i>Total business-type activities</i>	<u>19,670,567</u>	<u>20,715,186</u>	<u>996,620</u>	<u>69,322</u>	<u>-</u>	<u>2,110,561</u>	<u>2,110,561</u>
<i>Total Primary Government</i>	<u>\$ 115,007,454</u>	<u>34,206,495</u>	<u>2,970,609</u>	<u>2,639,968</u>	<u>(77,300,943)</u>	<u>2,110,561</u>	<u>(75,190,382)</u>
General Revenues:							
Taxes							
Property taxes, levied for general purposes				\$ 3,012,697	-		3,012,697
Gross receipts taxes				64,737,795	1,534,072		66,271,867
Gas taxes				1,370,166	-		1,370,166
Franchise tax				900,012	-		900,012
Lodger's tax				1,525,647	-		1,525,647
Investment income				3,059,495	71,863		3,131,358
Licenses, fees, and permits				1,778,583	-		1,778,583
Miscellaneous income				996,062	55,400		1,051,462
Gain/(loss) on disposition of assets				(196,171)	(50,979)		(247,150)
Transfers				267,514	(267,514)		-
Total general revenues and transfers				<u>77,451,800</u>	<u>1,342,842</u>		<u>78,794,642</u>
Change in net position				150,857	3,453,403		3,604,260
Net position, beginning				245,720,804	62,170,041		307,890,845
Net position, ending				<u>\$ 245,871,661</u>	<u>65,623,444</u>		<u>311,495,105</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, 2020**

	(001,002) General Fund	Non-Major Governmental Funds	Total
<i>Assets</i>			
Cash and cash equivalents	\$ 92,782,065	15,038,067	107,820,132
Restricted cash	22,834	-	22,834
Receivables:			
Property taxes	135,408	-	135,408
GRT receivable	7,533,551	366,652	7,900,203
Other taxes	90,172	194,505	284,677
Intergovernmental	420,904	118,062	538,966
Housing incentive receivable	142,686	-	142,686
Accounts receivables, net	1,114,318	7,167	1,121,485
Prepaid expenses	552,108	-	552,108
Inventory	-	130,729	130,729
Due from other funds	-	9,100	9,100
<i>Total assets</i>	<u>\$ 102,794,046</u>	<u>15,864,282</u>	<u>118,658,328</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 1,576,288	687,921	2,264,209
Accrued payroll expenses	1,728,645	273,204	2,001,849
Unearned revenue	625,000	-	625,000
Due to other funds	9,100	-	9,100
<i>Total liabilities</i>	<u>3,939,033</u>	<u>961,125</u>	<u>4,900,158</u>
<i>Deferred inflows of resources</i>			
Deferred inflows - property taxes	19,821	-	19,821
<i>Total deferred inflows of resources</i>	<u>19,821</u>	<u>-</u>	<u>19,821</u>
<i>Fund balances</i>			
Nonspendable	552,108	130,729	682,837
Restricted			
Public safety	-	1,534,154	1,534,154
Culture and recreation	-	202,120	202,120
Transportation and roads	-	347,691	347,691
Health and welfare	-	6,030	6,030
Economic development	-	1,996,704	1,996,704
Capital projects	-	10,852,119	10,852,119
Committed			
Subsequent year's expenditures	4,843,817	-	4,843,817
Assigned	-	-	-
Unassigned	93,439,267	(166,390)	93,272,877
<i>Total fund balances</i>	<u>98,835,192</u>	<u>14,903,157</u>	<u>113,738,349</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 102,794,046</u>	<u>15,864,282</u>	<u>118,658,328</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 BALANCES
TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2020**

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

Fund balances - total governmental funds	\$	113,738,349
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).		226,098,092
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		15,332,150
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		4,266,241
Net OPEB related deferrals		(15,593,415)
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		(2,437,432)
Net pension liability		(59,815,127)
Net OPEB liability		(35,572,501)
Capital lease payable		(164,516)
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		19,821
Rounding		(1)
Net position of governmental activities	\$	<u><u>245,871,661</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, 2020**

	(001,002) General Fund	Non-Major Governmental Funds	Total
<i>Revenues:</i>			
<i>Taxes:</i>			
Property	\$ 3,031,597	-	3,031,597
Gross receipts	61,669,611	3,068,184	64,737,795
Gasoline and motor vehicle	503,577	866,590	1,370,167
Franchise	900,012	-	900,012
Lodger's	-	1,525,647	1,525,647
<i>Intergovernmental:</i>			
State operating grants	678,530	259,083	937,613
State capital grants	-	2,570,646	2,570,646
Federal operating grants	140,252	806,207	946,459
Federal capital grants	-	-	-
Charges for services	2,323,678	2,231,669	4,555,347
Licenses and fees	1,551,533	227,050	1,778,583
Investment income (loss)	2,962,143	84,016	3,046,159
Miscellaneous	548,864	71,747	620,611
<i>Total revenues</i>	<u>74,309,797</u>	<u>11,710,839</u>	<u>86,020,636</u>
<i>Expenditures:</i>			
<i>Current:</i>			
General government	12,569,569	86,699	12,656,268
Public safety	16,453,868	441,078	16,894,946
Public works	6,135,352	1,107,429	7,242,781
Culture and recreation	5,014,638	7,456,544	12,471,182
Health and welfare	10,445,791	195,837	10,641,628
Economic development	-	1,266,150	1,266,150
Capital outlay	7,506,587	1,842,684	9,349,271
<i>Debt service:</i>			
Principal	-	-	-
Interest	-	11,457	11,457
<i>Total expenditures</i>	<u>58,125,805</u>	<u>12,407,878</u>	<u>70,533,683</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>16,183,992</u>	<u>(697,039)</u>	<u>15,486,953</u>
<i>Other financing sources (uses)</i>			
Transfers in	1,802,720	4,874,535	6,677,255
Transfers out	(6,239,093)	(2,170,648)	(8,409,741)
<i>Total other financing sources (uses)</i>	<u>(4,436,373)</u>	<u>2,703,887</u>	<u>(1,732,486)</u>
<i>Net change in fund balance</i>	11,747,619	2,006,848	13,754,467
<i>Fund balance, - beginning</i>	87,087,573	12,896,309	99,983,882
<i>Fund balance - ending</i>	<u>\$ 98,835,192</u>	<u>14,903,157</u>	<u>113,738,349</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 GOVERNEMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

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

Net change in fund balances - total governmental funds	\$	13,754,467
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		7,666,664
Loss on disposition of assets		(196,171)
Depreciation and amortization expense		(14,607,228)
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.		
		1,708,261
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		(475,513)
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		173,745
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		(5,755,873)
OPEB expense		(2,098,596)
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		(18,900)
Rounding		1
Change in net position of governmental activities	\$	150,857

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, 2020**

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
<i>Revenues:</i>				
<i>Taxes:</i>				
Property	\$ 2,800,000	2,712,615	3,076,074	363,459
Gross receipts	60,750,000	66,063,250	64,799,199	(1,264,051)
Gasoline and motor vehicle	250,000	847,846	447,619	(400,227)
Franchise	954,400	954,400	911,699	(42,701)
<i>Intergovernmental:</i>				
State operating grants	352,584	454,964	1,305,144	850,180
State capital grants	-	1,053,453	628,015	(425,438)
Federal operating grants	7,500	95,757	88,729	(7,028)
Charges for services	1,781,000	1,781,750	2,082,414	300,664
Licenses and fees	1,359,275	1,397,275	1,550,411	153,136
Investment income (loss)	650,000	650,000	2,230,313	1,580,313
Miscellaneous	587,351	627,601	605,265	(22,336)
<i>Total revenues</i>	<u>69,492,110</u>	<u>76,638,911</u>	<u>77,724,882</u>	<u>1,085,971</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	16,327,949	18,461,474	12,664,653	5,796,821
Public safety	18,684,330	19,400,071	16,248,929	3,151,142
Public works	7,584,244	7,802,462	6,136,517	1,665,945
Culture and recreation	5,584,819	6,197,175	5,010,329	1,186,846
Health and welfare	10,778,296	11,335,846	10,277,193	1,058,653
Economic development	100,000	100,000	-	100,000
Capital outlay	13,355,290	37,348,156	6,374,816	30,973,340
<i>Total expenditures</i>	<u>72,414,928</u>	<u>100,645,184</u>	<u>56,712,437</u>	<u>43,932,747</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(2,922,818)</u>	<u>(24,006,273)</u>	<u>21,012,445</u>	<u>45,018,718</u>
<i>Other financing sources (uses)</i>				
Transfers in	2,313,825	2,891,762	1,273,011	6,478,598
Transfers out	(6,595,485)	(10,441,852)	(6,239,094)	(23,276,431)
<i>Total other financing sources (uses)</i>	<u>(4,281,660)</u>	<u>(7,550,090)</u>	<u>(4,966,083)</u>	<u>(16,797,833)</u>
<i>Net change in fund balance</i>	<u>(7,204,478)</u>	<u>(31,556,363)</u>	<u>16,046,362</u>	<u>28,220,885</u>
Budgeted cash carryover	<u>7,204,478</u>	<u>31,556,363</u>		
<i>Total</i>	<u>\$ -</u>	<u>-</u>		

RECONCILIATION FROM BUDGET/ACTUAL TO GAAP

Change in fund balance (Budget Basis)	\$ 16,046,362
To adjust applicable revenue accruals and deferrals	(3,415,087)
To adjust applicable expenditure accruals	<u>(883,656)</u>
Change in fund balance (GAAP basis)	<u>\$ 11,747,619</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 NET POSITION
PROPRIETARY FUNDS
AS OF JUNE 30, 2020**

	(600) Joint Utility	(100) Solid Waste Disposal	Total	Governmental Activities Internal Service Funds
<i>Assets</i>				
<i>Current assets</i>				
Cash and cash equivalents	\$ 21,382,460	2,484,591	23,867,051	15,812,150
Receivables:				
Customer receivable, net	836,574	250,097	1,086,671	-
GRT receivable	183,323	-	183,323	-
Other receivable	-	-	-	35,793
Inventory	506,694	-	506,694	-
Prepaid expenses	-	-	-	165,050
<i>Total current assets</i>	<u>22,909,051</u>	<u>2,734,688</u>	<u>25,643,739</u>	<u>16,012,993</u>
<i>Noncurrent assets</i>				
Restricted cash - unspent grant proceeds	726,239	-	726,239	-
Restricted cash - meter deposits	469,901	-	469,901	-
Capital assets	164,506,901	-	164,506,901	-
Less: accumulated depreciation	<u>(82,349,788)</u>	<u>-</u>	<u>(82,349,788)</u>	<u>-</u>
<i>Total noncurrent assets</i>	<u>83,353,253</u>	<u>-</u>	<u>83,353,253</u>	<u>-</u>
<i>Total assets</i>	<u>106,262,304</u>	<u>2,734,688</u>	<u>108,996,992</u>	<u>16,012,993</u>
<i>Deferred outflows of resources</i>				
Pension deferral	1,277,235	-	1,277,235	-
OPEB deferral	<u>44,397</u>	<u>-</u>	<u>44,397</u>	<u>-</u>
<i>Total deferred outflows</i>	<u>1,321,632</u>	<u>-</u>	<u>1,321,632</u>	<u>-</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 107,583,936</u>	<u>2,734,688</u>	<u>110,318,624</u>	<u>16,012,993</u>
<i>Liabilities, deferred inflows of resources, and net position liabilities</i>				
<i>Current liabilities</i>				
Accounts payable	\$ 281,091	569,568	850,659	34,184
Accrued payroll expenses	175,532	-	175,532	-
Other accrued expenses	-	-	-	646,659
Accrued compensated absences	185,823	-	185,823	-
Meter deposits	469,901	-	469,901	-
Accrued interest	370,472	-	370,472	-
Unearned revenue	726,239	-	726,239	-
Current portion of long-term debt	<u>2,238,505</u>	<u>-</u>	<u>2,238,505</u>	<u>-</u>
<i>Total current liabilities</i>	<u>4,447,563</u>	<u>569,568</u>	<u>5,017,131</u>	<u>680,843</u>
<i>Noncurrent liabilities</i>				
Long-term debt	27,836,758	-	27,836,758	-
Net pension liability	5,626,142	-	5,626,142	-
Net OPEB liability	<u>3,904,899</u>	<u>-</u>	<u>3,904,899</u>	<u>-</u>
<i>Total noncurrent liabilities</i>	<u>37,367,799</u>	<u>-</u>	<u>37,367,799</u>	<u>-</u>
<i>Total liabilities</i>	<u>41,815,362</u>	<u>569,568</u>	<u>42,384,930</u>	<u>680,843</u>
<i>Deferred inflows of resources</i>				
Pension deferral	554,118	-	554,118	-
OPEB deferral	<u>1,756,132</u>	<u>-</u>	<u>1,756,132</u>	<u>-</u>
<i>Total deferred inflows of resources</i>	<u>2,310,250</u>	<u>-</u>	<u>2,310,250</u>	<u>-</u>
<i>Net position</i>				
Net investment in capital assets	52,081,850	-	52,081,850	-
Restricted	1,196,140	-	1,196,140	-
Unrestricted	<u>10,180,334</u>	<u>2,165,120</u>	<u>12,345,454</u>	<u>15,332,150</u>
<i>Total net position</i>	<u>63,458,324</u>	<u>2,165,120</u>	<u>65,623,444</u>	<u>15,332,150</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 107,583,936</u>	<u>2,734,688</u>	<u>110,318,624</u>	<u>16,012,993</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, 2020**

	(600) Joint Utility	(100) Solid Waste Disposal	Total	Governmental Activities Internal Service Funds
<i>Operating revenues:</i>				
Charges for services	\$ 13,666,878	7,048,308	20,715,186	8,935,962
State operating grants	996,620	-	996,620	-
<i>Total operating revenues</i>	<u>14,663,498</u>	<u>7,048,308</u>	<u>21,711,806</u>	<u>8,935,962</u>
<i>Operating expenses:</i>				
Personnel services	4,675,787	-	4,675,787	-
Contractual services	308,641	7,022,728	7,331,369	9,706,406
Supplies expense	1,313,011	-	1,313,011	-
Repairs and maintenance	140,171	-	140,171	-
Utilities	826,386	-	826,386	-
Equipment	45,531	-	45,531	-
Miscellaneous	182,588	-	182,588	-
Depreciation and amortization	4,656,365	-	4,656,365	-
<i>Total operating expenses</i>	<u>12,148,480</u>	<u>7,022,728</u>	<u>19,171,208</u>	<u>9,706,406</u>
<i>Operating income (loss)</i>	<u>2,515,018</u>	<u>25,580</u>	<u>2,540,598</u>	<u>(770,444)</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts and other taxes	1,534,072	-	1,534,072	-
Investment income	71,863	-	71,863	13,335
Interest expense	(499,358)	-	(499,358)	-
Gain/(loss) on sale of capital assets	(50,979)	-	(50,979)	-
Miscellaneous income	55,400	-	55,400	465,370
<i>Total non-operating revenues (expenses)</i>	<u>1,110,998</u>	<u>-</u>	<u>1,110,998</u>	<u>478,705</u>
Transfers	(267,514)	-	(267,514)	2,000,000
State capital grants	69,322	-	69,322	-
<i>Net capital grants and transfers</i>	<u>(198,192)</u>	<u>-</u>	<u>(198,192)</u>	<u>2,000,000</u>
<i>Change in net position</i>	3,427,824	25,580	3,453,404	1,708,261
<i>Net position, beginning of year</i>	60,030,500	2,139,540	62,170,040	13,623,889
<i>Net position, end of year</i>	<u>\$ 63,458,324</u>	<u>2,165,120</u>	<u>65,623,444</u>	<u>15,332,150</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 CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(600) Joint Utility	(100) Solid Waste Disposal	Total	Governmental Activities Internal Service Funds
Cash flows from operating activities				
Receipts from customers and users	\$ 15,064,637	7,147,336	22,211,973	8,932,082
Payments to employees	(3,867,448)	-	(3,867,448)	-
Payments to suppliers	(3,545,808)	(7,011,008)	(10,556,816)	(9,806,311)
<i>Net cash provided (used) by operating activities</i>	<u>7,651,381</u>	<u>136,328</u>	<u>7,787,709</u>	<u>(874,229)</u>
Cash flows from non-capital financing activities				
Gross receipts and other taxes	1,534,072	-	1,534,072	-
Miscellaneous revenue	55,400	-	55,400	465,370
Transfers to other funds	(267,514)	-	(267,514)	2,000,000
<i>Net cash provided (used) by noncapital financing activities</i>	<u>1,321,958</u>	<u>-</u>	<u>1,321,958</u>	<u>2,465,370</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(5,254,118)	-	(5,254,118)	-
Proceeds from issuance of debt	2,683,283	-	2,683,283	-
Principal payments	(1,927,392)	-	(1,927,392)	-
Interest payments	(499,358)	-	(499,358)	-
Capital grant revenue	69,322	-	69,322	-
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(4,928,263)</u>	<u>-</u>	<u>(4,928,263)</u>	<u>-</u>
Cash flows from investing activities				
Investment income	71,863	-	71,863	13,335
<i>Net cash provided (used) by investing activities</i>	<u>71,863</u>	<u>-</u>	<u>71,863</u>	<u>13,335</u>
Net increase (decrease) in cash and cash equivalents	4,116,939	136,328	4,253,267	1,604,476
Balances - beginning of year	18,461,661	2,348,263	20,809,924	14,207,674
Balances - end of year	<u>\$ 22,578,600</u>	<u>2,484,591</u>	<u>25,063,191</u>	<u>15,812,150</u>
Reconciliation of cash and cash equivalents				
Unrestricted	\$			
Cash and cash equivalents	21,382,460	2,484,591	23,867,051	15,812,150
Restricted				
Unspent grant proceeds	726,239	-	726,239	-
Meter deposits	469,901	-	469,901	-
Total cash	<u>\$ 22,578,600</u>	<u>2,484,591</u>	<u>25,063,191</u>	<u>15,812,150</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 CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(600) Joint Utility	(100) Solid Waste Disposal	Total	<u>Governmental Activities Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,515,018	25,580	2,540,598	(770,444)
<i>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</i>				
Depreciation expense	4,656,365	-	4,656,365	-
Pension expense	541,581	-	541,581	-
OPEB expense	230,370	-	230,370	-
(Increase) decrease in:				
Accounts receivable	367,863	99,028	466,891	(3,880)
Inventory	16,556	-	16,556	-
Prepays	-	-	-	(165,050)
(Decrease) increase in:				
Accounts payable	(733,399)	11,720	(721,679)	14,764
Accrued payroll and related	25,863	-	25,863	-
Customer deposits	33,276	-	33,276	-
Compensated absences	10,525	-	10,525	-
Other liabilities	(12,637)	-	(12,637)	50,381
<i>Net cash provided (used) by operating activities</i>	<u>\$ 7,651,381</u>	<u>136,328</u>	<u>7,787,709</u>	<u>(874,229)</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 FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF JUNE 30, 2020**

ASSETS

Cash and cash equivalents	\$ <u>447,196</u>
<i>Total assets</i>	\$ <u><u>447,196</u></u>

LIABILITIES

Deposits payable	\$ <u>447,196</u>
<i>Total liabilities</i>	\$ <u><u>447,196</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, 2020**

NOTE 1 – ENTITY AND 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

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

for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the City does not have any component units required to be reported under GASB Statements No. 14, No. 39 and No. 61.

B. Government-Wide and Fund Financial Statements

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

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

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

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,

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

expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange transactions should be recognized when the related purpose restriction, eligibility requirement or time requirement is met in accordance with GASB No. 33 and GASB No. 65. Property taxes are recognized as revenues, net of estimated refunds and estimated uncollectible amounts, in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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.

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

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 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 or construction of major capital assets.

Internal Service Funds are used to account for the financing of goods or services provided by an activity to other departments of the City on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements.

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.

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

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.

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, 2020 are recognized as revenue because they are

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

remitted in time to be used as resources for payment of obligations incurred during the year ended June 30, 2020.

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, 2020 are recorded as prepaid expenses. These payments consist of prepaid annual rental expense for ambulances, prepaid housing assistance incentive payments to certified police officers and various prepaid insurance premiums.

Restricted Assets

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government and by Section 12-6-10 NMSA 1978 as assets with an initial, individual cost of more than \$5,000 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.

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, 2020.

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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.

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.

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.

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Long-term Obligations

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

Fund Balance Classification Policies and Procedures

For *committed* fund balance, the City's highest level of decision-making authority is the City Commission. The formal action that is required to be taken to establish a fund balance commitment is a resolution of the City Commission.

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

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

Nonspendable Fund Balance

Nonspendable fund balances represent prepaid expense 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 1/12th of the General Fund final budgeted expenditures. A minimum fund balance policy represents a plan to accumulate resources as opposed to a limitation on purpose for which resources are to be expended. As such a minimum fund balance policy does not affect the classification fund balance and is reported as unassigned.

Government-wide Statements

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

- a. Net investment in capital assets: Net position invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

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- 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 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, 2020 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

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United States Government obligations. All invested funds of the City properly followed State of New Mexico investment requirements as of June 30, 2020.

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

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

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

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

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

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2020, \$7,416,981 of the City's bank balances of \$7,666,981 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	\$	1,027,199
Repurchase agreements		6,639,782
FDIC coverage		<u>(250,000)</u>
Total uninsured public funds		7,416,981
Collateralized by securities held by trust pledging institutions or by its trust department or agency in other than the City's name		7,416,981
Uninsured and uncollateralized	\$	<u>-</u>
Collateral requirement - deposits (50% of uninsured funds)		388,600
Collateral requirement - repurchase agreements (102% of uninsured funds)		<u>6,772,578</u>
Pledged collateral		6,772,578
Over (under) collateralized	\$	<u>-</u>

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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, 2020, the City's investment in the LGIP was rated as AAAM by Standard & Poor's.

As of June 30, 2020, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
	[25] day WAM (R);		
New Mexico LGIP	[77] day WAM (F) \$	82,721,383	AAAM
U.S. Treasury Securities	659 days \$	59,385,280	AA+

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 96 of this report. The New Mexico LGIP fund totaling \$82,721,383 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 \$59,385,280 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.

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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, 2020:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Treasury Securities	\$ 59,385,280	-	-	59,385,280
Investments (LGIP) measured at NAV - practical expedient				<u>82,721,383</u>
Investments at fair value				<u>142,106,663</u>

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

<u>Cash and investments</u>	<u>Amount</u>
Cash and cash equivalents	
Cash on hand	\$ 17,688
Cash	313,992
Repurchase agreement	6,639,782
NMFA Cash	726,240
Reconciling items	<u>(1,352,072)</u>
Subtotal cash and cash equivalents	<u>6,345,630</u>
Investments	
State Treasurer's Investment Pool	82,721,383
Certificates of deposit - maturities > 90 days	713,207
US Agency Securities	<u>59,385,280</u>
Subtotal investments	<u>142,819,870</u>
Total cash and investments	<u>\$ 149,165,500</u>
<u>Cash and investments by fund type</u>	<u>Amount</u>
Governmental funds	\$ 107,842,963
Internal service funds	<u>15,812,150</u>
Subtotal governmental activities	123,655,113
Business-type activities	25,063,191
Fiduciary funds	<u>447,196</u>
Total cash and investments	<u>\$ 149,165,500</u>

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NOTE 4 – RECEIVABLES

Receivables as of June 30, 2020, including the applicable allowances for uncollectible accounts, are as follows:

<u>Governmental Funds</u>	(001,002) General Fund	Non-Major Governmental Funds	Totals	Internal Service Funds
Taxes				
Property tax	\$ 135,408	-	135,408	-
Gross receipts taxes	7,533,551	366,652	7,900,203	-
Gas and oil taxes	20,162	137,445	157,607	-
Franchise and lodger's taxes	70,010	57,060	127,070	-
Total taxes	7,759,131	561,157	8,320,288	-
Intergovernmental				
Federal	13,003	113,150	126,153	-
State	32,464	4,912	37,376	-
Local	375,437	-	375,437	-
Total intergovernmental	420,904	118,062	538,966	-
Other				
Housing incentive	142,686	-	142,686	-
Accounts				
Ambulance	763,009	-	763,009	-
Weed mowing/Condemnation	162,372	-	162,372	-
Court fines	563,219	-	563,219	-
Other	-	7,167	7,167	35,793
Less: Allowance for uncollectibles	(374,282)	-	(374,282)	-
Total other, net	1,257,004	7,167	1,264,171	35,793
Net receivables	\$ 9,437,039	686,386	10,123,425	35,793
<u>Business-Type Funds</u>	(600) Joint Utility	(100) Solid Waste Disposal	Total Business-Type	
Taxes				
Gross receipts tax	\$ 183,323	-	183,323	
Due from customers				
Water fees	980,076	-	980,076	
Sewer fees	449,152	-	449,152	
Solid waste fees	-	515,821	515,821	
Less: Allowance for uncollectibles	(592,654)	(265,724)	(858,378)	
Total due from customers, net	836,574	250,097	1,086,671	
Net receivables	\$ 1,019,897	250,097	1,269,994	

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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:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General fund (001)	Lodger's Tax fund (230)	\$ 313,249
General fund (001)	Joint Utility (600)	529,709
General fund (001)	City Commission Impr. (490)	959,762
COPS Grant fund (150)	General fund (001)	191,004
H and W Learning Center (160)	General fund (001)	366,700
H and W Learning Center (160)	Lodger's Tax fund (230)	572,766
Older American fund (170)	General fund (001)	788,972
Golf fund (180)	General fund (001)	2,471,041
Golf fund (180)	Lodger's Tax fund (230)	62,676
Cemetery fund (190)	General fund (001)	110,119
Public Transp. fund (270)	General fund (001)	311,257
Joint Utility (600)	City Commission Impr. (490)	262,195
Self Insurance fund (740)	General fund (001)	2,000,000
		<u>\$ 8,939,450</u>
<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General Fund (001)	Public Transportation (270)	\$ <u>9,100</u>

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, 2020:

Primary Government <i>Governmental Activities includes</i> <i>Internal Service Funds</i>	Balance 06/30/19	Additions	Deletions	Reclass	Transfers	Balance 06/30/20
Capital assets not being depreciated:						
Land	\$ 7,064,265	-	-	-	-	7,064,265
Construction in progress	2,268,400	3,370,615	-	(1,148,758)	-	4,490,257
Total capital assets not being depreciated	<u>9,332,665</u>	<u>3,370,615</u>	<u>-</u>	<u>(1,148,758)</u>	<u>-</u>	<u>11,554,522</u>
Capital assets being depreciated:						
Buildings and improvements	99,412,266	1,076,141	-	-	-	100,488,407
Equipment	53,140,044	2,526,167	(1,516,236)	-	18,934	54,168,909
Land improvements	71,531,194	63,982	-	1,148,758	-	72,743,934
Infrastructure	127,932,442	629,759	-	-	-	128,562,201
Total capital assets being depreciated	<u>352,015,946</u>	<u>4,296,049</u>	<u>(1,516,236)</u>	<u>1,148,758</u>	<u>18,934</u>	<u>355,963,451</u>
Total capital assets	<u>361,348,611</u>	<u>7,666,664</u>	<u>(1,516,236)</u>	<u>-</u>	<u>18,934</u>	<u>367,517,973</u>
Amortizable assets						
Intangible assets	2,596,357	-	-	(3,580)	-	2,592,777
Total amortizable assets	<u>2,596,357</u>	<u>-</u>	<u>-</u>	<u>(3,580)</u>	<u>-</u>	<u>2,592,777</u>
Less accumulated depreciation:						
Buildings and improvements	(33,183,022)	(2,871,769)	-	-	-	(36,054,791)
Equipment	(29,295,157)	(3,111,678)	1,320,065	-	(18,934)	(31,105,704)
Land improvements	(16,117,530)	(2,714,059)	-	-	-	(18,831,589)
Infrastructure	(49,655,896)	(5,862,052)	-	-	-	(55,517,948)
Total accumulated depreciation	<u>(128,251,605)</u>	<u>(14,559,558)</u>	<u>1,320,065</u>	<u>-</u>	<u>(18,934)</u>	<u>(141,510,032)</u>
Less accumulated amortization						
Intangible assets	(2,458,536)	(47,670)	-	3,580	-	(2,502,626)
Total accumulated amortization	<u>(2,458,536)</u>	<u>(47,670)</u>	<u>-</u>	<u>3,580</u>	<u>-</u>	<u>(2,502,626)</u>
Capital assets, net	<u>\$ 233,234,827</u>	<u>(6,940,564)</u>	<u>(196,171)</u>	<u>-</u>	<u>-</u>	<u>226,098,092</u>

Depreciation and amortization expense for the year ended June 30, 2020 was charged to governmental activities as follows:

Governmental activities:

General government	\$ 3,195,259
Public safety	4,099,394
Public works	1,739,238
Culture and recreation	2,997,662
Health and welfare	2,575,675
Total	<u>14,607,228</u>

Internal Service Fund

Total governmental activities	<u>\$ 14,607,228</u>
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<i>Business-Type Activities</i>	Balance 06/30/19	Additions	Deletions	Reclass	Transfers	Balance 06/30/20
Capital assets not being depreciated:						
Land	\$ 12,473	-	-	-	-	12,473
Construction in progress	11,906,316	4,096,831	-	(298,093)	-	15,705,054
Total capital assets not being depreciated	<u>11,918,789</u>	<u>4,096,831</u>	<u>-</u>	<u>(298,093)</u>	<u>-</u>	<u>15,717,527</u>
Capital assets being depreciated:						
Buildings and improvements	28,433,125	-	-	-	-	28,433,125
Equipment	44,547,054	619,666	(635,512)	-	(18,934)	44,512,274
Land improvements	2,313,697	27,499	-	-	-	2,341,196
Infrastructure	72,689,564	510,122	-	298,093	-	73,497,779
Total capital assets being depreciated	<u>147,983,440</u>	<u>1,157,287</u>	<u>(635,512)</u>	<u>298,093</u>	<u>(18,934)</u>	<u>148,784,374</u>
Total capital assets	<u>159,902,229</u>	<u>5,254,118</u>	<u>(635,512)</u>	<u>-</u>	<u>(18,934)</u>	<u>164,501,901</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	(16,737,081)	(580,123)	-	-	-	(17,317,204)
Equipment	(37,669,186)	(1,000,207)	584,533	-	18,934	(38,065,926)
Land improvements	(1,392,353)	(46,179)	-	-	-	(1,438,532)
Infrastructure	(22,497,135)	(3,029,731)	-	-	-	(25,526,866)
Total accumulated depreciation	<u>(78,295,755)</u>	<u>(4,656,240)</u>	<u>584,533</u>	<u>-</u>	<u>18,934</u>	<u>(82,348,528)</u>
Less accumulated amortization						
Intangible assets	(1,135)	(125)	-	-	-	(1,260)
Total accumulated amortization	<u>(1,135)</u>	<u>(125)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,260)</u>
Total capital assets net of depreciation	<u>\$ 81,610,339</u>	<u>597,753</u>	<u>(50,979)</u>	<u>-</u>	<u>-</u>	<u>82,157,113</u>

Depreciation and amortization expense for the year ended June 30, 2020 was charged to business-type activities as follows:

Business type activities:

Joint Utility	\$ 4,656,365
Solid waste disposal	<u>-</u>
Total business-type activities	<u>\$ 4,656,365</u>

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NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2020, the following changes occurred in the liabilities reported in the government-wide statement of net position:

Governmental Activities

	Balance 06/30/19	Additions	Deletions	Balance 06/30/20	Due Within One Year
Governmental Activities:					
Capital lease	\$ 338,262	-	(173,746)	164,516	145,851
Compensated absences	1,961,919	1,784,881	(1,309,368)	2,437,432	609,358
Net pension liability	61,078,965	1,692,558	(2,956,396)	59,815,127	-
Net OPEB liability	41,516,330	-	(5,943,829)	35,572,501	-
Total long-term debt	\$ 104,895,476	3,477,439	(10,383,339)	97,989,576	755,209

As of June 30, 2020, 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, 2020</u>
Ambulance	4/1/2017	5/1/2020	2.97%	\$ 478,776	74,814
Ambulance	10/20/2017	5/20/2021	3.82%	292,766	89,702
				\$ 771,542	164,516

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>
2021	\$ 145,851	3,639	149,490
2022	18,665	59	18,724
2023	-	-	-
2024	-	-	-
2025	-	-	-
	\$ 164,516	3,698	168,214

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Proprietary Funds

	Balance 06/30/19	Additions	Deletions	Balance 06/30/20	Due Within One Year
Business-Type Activities:					
NMFA and NMED loans	\$ 29,319,372	2,683,283	(1,927,392)	30,075,263	2,238,505
Compensated absences	175,299	164,501	(153,977)	185,823	185,823
Net pension liability	5,745,059	159,256	(278,173)	5,626,142	-
Net OPEB liability	4,557,370	-	(652,471)	3,904,899	-
Total long-term debt	<u>\$ 39,797,100</u>	<u>3,007,040</u>	<u>(3,012,013)</u>	<u>39,792,127</u>	<u>2,424,328</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, 2020, balances of NMFA and NMED loans are as follows:

<u>NMFA/NMED Notes Payable</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Int. Rate</u>	<u>Original Issue</u>	<u>06/30/20</u>
NMED Wastewater Loan	3/7/2011	7/21/2030	2.00%	\$ 31,419,101	\$ 18,805,323
NMFA Clean Drinking Water Loan	10/1/2010	5/1/2030	1.75%	5,019,965	2,757,696
NMFA Water Project Loan	3/22/2013	6/1/2032	0.25%	1,319,488	799,968
NMFA WTB Effluent Refuse Project	6/12/2015	6/1/2035	0.25%	1,280,000	967,406
NMFA WTB Effluent Refuse Project	6/12/2016	6/1/2036	0.25%	723,040	560,065
NMED CWSRF 064	10/16/2017	10/31/2038	1.20%	<u>6,143,300</u>	<u>6,184,805</u>
				<u>\$ 45,904,894</u>	<u>\$ 30,075,263</u>

NMED Wastewater Loan

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 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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

NMFA Clean Drinking Water Loan

The City entered into a loan agreement with the New Mexico Finance Authority on October 1, 2010 for a total commitment of \$5,019,965. 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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

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NMFA Water Project Loan

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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

NMFA WTB Effluent Refuse Project 2015

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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

NMFA WTB Effluent Refuse Project 2016

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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

NMED CWSRF 064

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.

This debt is secured with legally pledged revenues. There are no finance-related default consequences, termination event consequences, or subjective acceleration clauses specified in the debt agreement.

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

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2021	\$ 2,238,505	482,970	2,721,475
2022	2,278,168	444,567	2,722,735
2023	2,318,591	405,419	2,724,010
2024	2,359,791	365,512	2,725,303
2025	2,401,780	324,832	2,726,612
2026-2030	12,667,461	974,657	13,642,118
2031-2035	4,123,803	138,007	4,261,810
Thereafter	1,687,164	37,852	1,725,016
	<u>\$ 30,075,263</u>	<u>3,173,816</u>	<u>33,249,079</u>

NOTE 8 – LINE OF CREDIT

On December 13, 2019, the City established a \$708,000 irrevocable letter of credit with Lea County State Bank at 1.273% in order to meet an insurance requirement. There was no balance outstanding on the line-of-credit as of June 30, 2020. 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 \$708,000 and a maturity date of December 15, 2020.

NOTE 9 – CONDUIT DEBT OBLIGATIONS

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

Recipient	Date of Issue	Retirement Date	Amount Issued	Amount Outstanding 06/30/20	Purpose
RMS Foods, Inc.	2005	2035	\$ 7,775,000	\$ 5,000	Acquire land and acquire, construct, and equip a facility in the City of Hobbs

NOTE 10 – OPERATING LEASES

The City did not have any new or existing operating lease agreements at June 30, 2020.

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.

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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 \$646,659 at June 30, 2020 and is reported as a liability on the financial statements.

The City maintains a large self-insured retention program for all third party policies related to general and police liability insurance. General liability claims exceeding \$500,000 per occurrence up to \$6,000,000 annually are covered by commercial insurance. Police liability claims exceeding \$250,000 per occurrence up to \$5,000,000 annually are also covered by commercial insurance. Claims are paid monthly as reported and charged to the various departments. There were no significant claim payments subsequent to June 30, 2020.

The City's risk management activities are accounted for in the Risk Management Internal Service Fund, which includes health insurance, workers' compensation insurance, general/police liability 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 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 postretirement survivors' annuities are also available.

TIER II - The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit

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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, 2020, the City of Hobbs reported a liability of \$65,441,269 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2019 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2019. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2019. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the City’s proportion was 6.8393%, which was a decrease of 0.7605% from its proportion measured as of June 30,2018.

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Municipal General Division, at June 30, 2020, the City reported a liability of \$28,651,427 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 1.6551%, which was a decrease of 0.1318% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$5,672,627. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Municipal General Division</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 859,024	309,943
Changes of assumptions	1,277,552	70,568
Net difference between projected and actual earnings on pension plan investments	965,475	-
Change in proportion and differences between the City contributions and proportionate share of contributions	1,152,676	1,311,011
The City contributions subsequent to the measurement date	<u>1,579,730</u>	<u>-</u>
Total	<u>\$ 5,834,457</u>	<u>1,691,522</u>

\$1,579,730 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ 1,638,639
2022	718,607
2023	47,112
2024	158,847
2025	-
Thereafter	-

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Municipal Police Division - At June 30, 2020, the City reported a liability of \$16,690,226 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 2.2595%, which was a decrease of 0.4109% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$2,145,015. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Municipal Police Division</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 697,270	710,977
Changes of assumptions	946,712	42,463
Net difference between projected and actual earnings on pension plan investments	521,186	-
Change in proportion and differences between the City contributions and proportionate share of contributions	22,269	2,331,592
The City contributions subsequent to the measurement date	<u>1,061,993</u>	<u>-</u>
Total	<u>\$ 3,249,430</u>	<u>3,085,032</u>

\$1,061,993 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ (387,170)
2022	(281,700)
2023	(314,260)
2024	85,535
2025	-
Thereafter	-

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Municipal Fire Division - At June 30, 2020, the City reported a liability of \$20,099,616 for its proportionate share of the net pension liability. At June 30, 2019, the City's proportion was 2.9247%, which was a decrease of 0.2178% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$2,012,835. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Municipal Fire Division</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 341,369	635,164
Changes of assumptions	551,460	31,802
Net difference between projected and actual earnings on pension plan investments	321,429	-
Change in proportion and differences between the City contributions and proportionate share of contributions	258,015	1,010,376
The City contributions subsequent to the measurement date	887,094	-
Total	<u>\$ 2,359,367</u>	<u>1,677,342</u>

\$887,094 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ (178,106)
2022	64,509
2023	(143,933)
2024	52,462
2025	-
Thereafter	-

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

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization period	Level Percent of Pay
Asset valuation method	Solved for based on statutory rates
Actuarial assumptions:	
Investment rate of return	7.25% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	3.00%
Projected salary increases	3.25% to 13.50% annual rate
Includes inflation at	2.50%
	2.75% all other years
Mortality assumption	The mortality assumptions are based on the RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally. For non-public safety groups, 25% of in-service deaths are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.
Experience study dates	July 1, 2008 to June 30, 2017 (demographic) and July 1, 2013 through June 30, 2017 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2019. These assumptions were adopted by the Board use in the June 30, 2018 actuarial valuation.

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

<u>All Funds - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	42.33%	7.48%
Risk Reduction & Mitigation	21.37%	2.37%
Credit Oriented Fixed Income	15.00%	5.47%
Real Assets	20.00%	6.48%
Multi-Risk Allocation	1.30%	
Total	<u>100.00%</u>	

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

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

<u>PERA Fund Division</u>	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Municipal General Division	\$ 43,333,555	28,651,427	16,503,933
Municipal Police Division	\$ 25,257,613	16,690,226	9,700,852
Municipal Fire Division	\$ 26,638,261	20,099,616	14,741,048

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

Payables to the pension plan- At June 30, 2020, the City reported a payable of \$241,980 for outstanding contributions due to PERA for the year ended June 30,2020.

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, 2020, the following employees were covered by the benefit terms:

Active plan members	566
Inactive plan members or beneficiaries currently receiving benefit payments	<u>113</u>
	<u>679</u>

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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:

	<u>2020</u>
City contributions	\$ 448,850
Employee contributions	<u>591,500</u>
	<u>\$ 1,040,350</u>

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 01, 2019.

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Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial method	Entry Age Normal – Level % of Salary Method
Measurement date	Last day of the fiscal year (i.e. – July 1, 2019)
Measurement period	July 1, 2019 to June 30, 2020
Valuation date	First day of the fiscal year (i.e. - July 1, 2020)
Census data	As of July 1, 2020
Service cost	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.
Discount rates	For the Fiscal Year Ending June 30, 2020: 3.50%, For the Fiscal Year Ending June 30, 2019: 3.87%, For the Fiscal Year Ending June 30, 2018: 3.58%
Municipal bond rate basis	Bond Buyer General Obligation 20-Bond Municipal Bond Index
CPI	2.50%
Life insurance administrative load	10.0% (applied only to pre-Medicare retiree life insurance amounts)
Salary scale	3.00%
Health benefits participation	95% of future retirees are assumed to elect participation in the healthcare plan.
Life insurance participation	100% of future retirees are assumed to participate in the life insurance plan.
Spouse age difference & marriage percentage	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
Future Retiree Healthy Mortality	<u>Fire</u> : PUB-2010 Healthy "Safety" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019. <u>Police</u> : PUB-2010 Healthy "Safety" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019. <u>Municipality</u> : PUB-2010 Healthy "Safety" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019.
Current Retiree Healthy Mortality	<u>Current Retirees</u> : PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019
Disabled mortality	<u>Current Disabled Retirees</u> : PUB-2010 "General" classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019

Discount rate – The discount rate used to measure the total OPEB liability was 3.50 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

	Increase/(Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
June 30, 2019	\$ 46,073,700	-	46,073,700
Changes recognized for the fiscal year			
Service cost	3,309,100	-	3,309,100
Interest on total OPEB liability	1,903,300	-	1,903,300
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(10,976,200)	-	(10,976,200)
Changes of assumptions	(423,000)	-	(423,000)
Benefit payments	(1,001,000)	(1,001,000)	(2,002,000)
Contributions from the employer	-	409,500	409,500
Contributions from the employee	591,500	591,500	1,183,000
Net investment income	-	-	-
Administrative expense	-	-	-
Net changes	(6,596,300)	-	(6,596,300)
June 30, 2020	\$ 39,477,400	-	39,477,400

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:

	1% Decrease	Current	1% Increase
	(2.50%)	Discount Rate (3.50%)	(4.50%)
Net OPEB liability	\$ 48,100,000	\$ 39,477,400	\$ 32,925,300

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:

	1% Decrease	Current	1% Increase
	Trend Rate	Trend Rate	Trend Rate
Net OPEB liability	\$ 32,440,100	\$ 39,477,400	\$ 48,933,100

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$2,777,200. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Municipal General Division</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	9,716,000
Changes of assumptions	-	8,038,000
Net difference between expected and actual earnings on OPEB plan investments	-	-
The City contributions made after the measurement date	<u>448,850</u>	<u>-</u>
Total	<u>\$ 448,850</u>	<u>17,754,000</u>

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ (2,435,200)
2022	(2,435,200)
2023	(2,435,200)
2024	(2,435,200)
2025	(2,435,200)
Thereafter	(5,578,000)

Payable Changes in the Net OPEB Liability - At June 30, 2020, the City reported a payable of \$32,785 for outstanding contributions due to various insurance providers for the year ended June 30, 2020.

NOTE 14 – CONTINGENT LIABILITIES

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

NOTE 15 – FEDERAL AND STATE GRANTS

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

NOTE 16 – JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING

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

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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. Note: The swimming pool and handball courts are no longer in operation by 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.

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. Currently, the tennis courts are maintained by the Hobbs Municipal Schools. 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.

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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.

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.

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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 2019.

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

Justice Assistance Grant Edward Byre – On July 21st, 2017, the City executed 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 \$14,680 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.

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On August 6th, 2018, the City executed 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 \$12,771 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 \$61,500,000. Once the HWLC is completed, the parties will share in the cost of utilities and maintenance of the HWLC and the use of the 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 the complete design and construction costs were \$61,209,382. Outstanding "punchlist items" for construction items is currently at \$242,842 as of June 30, 2020. All funding for design and construction costs have been received from the JF Maddox Foundation, NMJC and Hobbs Municipal School District as of June 30, 2020. Audit responsibility rest with each individual party described above.

Lea County - The City of Hobbs entered into a joint powers agreement on June 4th, 2018 with the County of Lea. The agreement is to provide for Fire, EMS, Library, Senior Center and any other services made available by the City to the County. The agreement also includes services for addressing, permitting, inspecting and certifying for occupancy any new structures proposed to be constructed within the Extra Territorial Jurisdiction and animal services at the Hobbs Animal Adoption Center. The County of Lea will contribute a fixed amount of \$625,000 annually to these services and will expire on June 30, 2023. Audit responsibility lies with the City of Hobbs.

NOTE 17 – OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

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

- A. Excess of expenditures over appropriations. The City's did not have any funds which exceeded approved budgetary authority for the year ended June 30, 2020.

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B. Deficit fund balance of individual funds. The following funds reported a deficit fund balance as of June 30, 2020:

Fund	Fund Type	Amount
Old American Act fund (170)	Special revenue	\$ (15,860)
Golf fund (180)	Special revenue	(81,067)
Cemetery fund (190)	Special revenue	<u>(69,463)</u>
		<u>\$ (166,390)</u>

C. Designated cash appropriations in excess of available balances. No funds exceeded approved budgetary authority for the year ended June 30, 2020.

NOTE 18 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The City had outstanding construction commitments for construction and infrastructure projects of \$1,266,824 as of June 30, 2020.

The City has entered into multiple contracts to design and construct an aerobic digester replacement project within the City of Hobbs’ Joint Utility Enterprise Funds. Remaining construction commitment is \$256,749 of a 10.5-million-dollar project. Funding related to this project is a \$6,143,300 NMFA loan and the remaining funding are user rates and infrastructure tax.

The City has entered into a paving construction contract for micro-surfacing City streets. Outstanding commitments as of June 30, 2020 are \$767,233.

The City has entered into a contract to build, design and construct a joint use health wellness and learning center. Outstanding commitments as of June 30, 2020 is \$242,842 of a \$61.5 million dollar project.

NOTE 19 – UNION AGREEMENTS

The City of Hobbs established a collective bargaining ordinance on July 7th, 2003. The City of Hobbs currently has two labor unions: The Hobbs Police Association and the Hobbs Professional Firefighter Association.

Hobbs Police Association: As of June 30, 2020, the collective bargaining agreement has 67 members (10%) of the City's 652 total employees. The agreement was approved in fiscal year 2015 and expired on June 15, 2020. Subsequently, the City of Hobbs negotiated a new 1-year agreement that was approved on July 20th, 2020 and is set to expire on June 30th, 2021.

Hobbs Professional Firefighter Association: As of June 30, 2020, the collective bargaining agreement has 44 members (7%) of the City's 652 total employees. The agreement expired on June 30, 2019 and a new 3-year contract was negotiated and approved on August 21, 2019. The agreement will expire on June 30, 2023.

NOTE 20 – LOAN AGREEMENTS WITH AFFORDABLE HOUSING DEVELOPERS

Yes Housing, Inc. - On November 7, 2014, the City entered into an affordable housing loan agreement with YES, Housing, Inc. The purpose of the agreement is to develop an affordable, mixed income, rental housing for the citizens of the City. The property is located at the intersection of East Marland and 9th Street and is named "New Leaf Community". The Developer was also allocated land per resolution # 6085 passed by the Commission on December 16, 2013. The amount loaned to the developer was \$1,300,000 plus land in the amount of \$67,003.05 (historical value). The terms of the agreement started on June 1, 2016, 12% interest per year with a total final payment amount due in 45 years. It should be noted that the promissory note and

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interest will be forgiven at the end of the term providing that the Developer does not default on the restrictive covenants within the Developer loan agreement.

Parkside Terrace CIC, LLLP - On October 19, 2015, the City entered into an affordable housing loan agreement with Parkside Terrace CIC, LLLP. The purpose of the agreement is to develop an affordable, mixed income, rental housing for the citizens of the City. The property is located at the intersection of Dunnam and Fowler and is named "Parkside Terrace". The Developer was also allocated land per resolution#6077 passed by the Commission on November 18, 2013. The amount loaned to the developer was \$1,965,000 plus land in the amount of \$873,737.80 (historical value). The terms of the agreement started on December 1, 2017, 12% interest per year with a total final payment amount due in 45 years. It should be noted that the promissory note and interest will be forgiven at the end of the term providing that the Developer does not default on the restrictive covenants within the Developer loan agreement.

Tierra Realty Trust, LLC - On June 15, 2015, the City entered into an affordable housing loan agreement with Tierra Realty Trust, LLC. The purpose of the agreement is to develop an affordable, mixed income, rental housing for the citizens of the City. The property is located at the southwest intersection of Yeso and Jefferson and is named "Playa Escondida". The amount loaned to the developer was \$1,100,000 but it should be noted that the promissory note and interest will be forgiven at the end of the term providing that the Developer does not default on the restrictive covenants within the Developer loan agreement.

Yes Housing, Inc. - On December 18, 2019, the City entered into an affordable housing loan agreement with Yes Housing, Inc. The purpose of the agreement is to develop an affordable, mixed income, rental housing for the citizens of the City. At June 30, 2020, the developer was still under construction for the affordable housing project. The property is located at the southwest intersection of Yeso and Jefferson and is named "Skyview Terrace". The amount of pass-thru loan to the developer was \$1,570,000 but it should be noted that the promissory note and interest will be forgiven at the end of the term providing that the Developer does not default on the restrictive covenants within the Developer loan agreement.

The likelihood of repayment for the loans/interest noted above is remote and therefore will not be recorded.

NOTE 21 – TAX ABATEMENTS

The City negotiates property tax abatements on an individual basis. The City has tax abatement agreements with two entities as of June 30, 2020. Each agreement was negotiated under the State of New Mexico Article 32, Industrial Revenue Bonds (IRB'S) allowing local municipal governments to abate property taxes and other state taxes such as investment tax credits (ITC's) for a variety of economic development purposes. The taxable value is 1/3 of this amount and the rate for the City 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 for fiscal year ended June 30, 2020 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

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Subsequent Event

Four Seasons Apartments – On June 15th, 2020, the City authorized the issuance and sale of the City of Hobbs, New Mexico Multifamily Housing Revenue Bonds, in one or more tax-exempt or taxable series in an amount not to exceed \$10,000,000. The purpose of the bonds is to provide funds for the rehabilitation, improvement and equipping an 80-unit multifamily housing project. As of June 30, 2020, the Four Seasons Apartments and the City had not closed on the issuance. Subsequently, the issuance closed in the month of September 2020 and required a prepayment of property taxes in the amount of \$200,000. The property taxes were estimated at over a 15-year term and was receipted by the City of Hobbs in September 2020.

The City's entire disclosure as an abating agency is presented on the following pages.

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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

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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 <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.	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

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
CITY OF HOBBS
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF PERA'S NET PENSION LIABILITY
ALL CITY PERA PLANS
LAST 10 FISCAL YEARS***

	2020	2019	2018	2017	2016	2015
	June 30, 2019	June 30, 2018	June 30, 2017	Measurement Date as of June 30, 2016	June 30, 2015	June 30, 2014
The City's proportion of the net pension liability (asset) (%)						
Municipal General	1.6551%	1.7869%	1.6110%	1.5920%	1.5029%	1.4202%
Municipal Police	2.2595%	2.6704%	2.8342%	2.8751%	2.6591%	2.4840%
Municipal Fire	2.9247%	3.1425%	3.0578%	3.0498%	3.1095%	3.5300%
	<u>6.8393%</u>	<u>7.5998%</u>	<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	\$ 28,651,427	28,489,800	22,136,502	25,434,803	15,323,368	11,079,084
Municipal Police	16,690,226	18,220,253	15,745,839	21,213,343	12,786,444	8,097,570
Municipal Fire	20,099,616	20,113,971	17,495,036	20,345,267	16,048,695	12,743,202
	<u>\$ 65,441,269</u>	<u>66,824,024</u>	<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	\$ 15,063,613	16,113,508	19,042,398	14,588,272	17,875,958	11,528,643
Municipal Police	5,022,529	5,127,550	8,944,608	5,665,079	7,143,339	4,783,820
Municipal Fire	3,891,598	3,142,614	5,250,725	2,906,425	4,851,898	3,400,537
	<u>\$ 23,977,740</u>	<u>24,383,672</u>	<u>33,237,731</u>	<u>23,159,776</u>	<u>29,871,195</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	190.20%	176.81%	116.25%	129.64%	95.59%	96.10%
Municipal Police	332.31%	355.34%	352.66%	168.58%	168.58%	169.27%
Municipal Fire	516.49%	640.04%	572.29%	270.42%	330.77%	374.74%
Plan fiduciary net position as a percentage of the total pension liability						
Municipal General	70.52%	71.13%	73.74%	69.18%	76.99%	81.29%
Municipal Police	70.52%	71.13%	73.74%	69.18%	76.99%	81.29%
Municipal Fire	70.52%	71.13%	73.74%	69.18%	76.99%	81.29%

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

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

**STATE OF NEW MEXICO
CITY OF HOBBS
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
ALL CITY PERA PLANS
LAST 10 FISCAL YEARS***

	2020	2019	2018	2017	2016	2015
Statutory required contribution						
Municipal General	\$ 1,579,730	1,438,575	1,538,840	1,818,549	1,393,180	1,707,154
Municipal Police	1,061,993	949,258	969,107	1,690,531	1,070,700	1,350,091
Municipal Fire	887,094	842,531	680,376	1,136,782	629,241	1,050,436
	<u>\$ 3,528,817</u>	<u>3,230,364</u>	<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 statutorily required contribution						
Municipal General	\$ 1,579,730	1,438,575	1,538,840	1,818,549	1,393,180	1,707,154
Municipal Police	1,061,993	949,258	969,107	1,690,531	1,070,700	1,350,091
Municipal Fire	887,094	842,531	680,376	1,136,782	629,241	1,050,436
	<u>\$ 3,528,817</u>	<u>3,230,364</u>	<u>3,188,323</u>	<u>4,645,862</u>	<u>3,093,121</u>	<u>4,107,681</u>
Annual contribution deficiency (excess)						
Municipal General	\$ -	-	-	-	-	-
Municipal Police	-	-	-	-	-	-
Municipal Fire	-	-	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2020

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

Changes of Assumptions : The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2019 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***

	2020	2019	2018
	Measurement Date as of		
	July 01, 2019	July 01, 2018	July 01, 2017
Total OPEB liability			
Service cost	\$ 3,309,100	3,596,400	4,329,000
Interest	1,903,300	1,719,300	1,452,400
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(10,976,200)	-	-
Changes of assumptions	(423,000)	(3,451,800)	(7,226,900)
Benefit payments	(1,001,000)	(1,088,600)	(1,074,700)
Contributions from employer	-	-	-
Contributions from employee	591,500	652,500	-
Net change in total OPEB liability	(6,596,300)	1,427,800	(2,520,200)
Total OPEB liability - beginning	46,073,700	44,645,900	47,166,100
Total OPEB liability - ending	\$ 39,477,400	46,073,700	44,645,900
Plan fiduciary net position			
Contributions - employer**	\$ 409,500	(436,100)	434,400
Contributions - member**	591,500	(652,500)	640,300
Net investment income	-	-	-
Benefit payments	(1,001,000)	1,088,600	(1,074,700)
Administrative expense	-	-	-
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	\$ -	-	-
City's net OPEB liability - ending	\$ 39,477,400	46,073,700	44,645,900
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll*	24,564,400	24,725,700	24,015,100
City's net OPEB liability as a percentage of covered-employee payroll	160.71%	186.34%	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.

* Covered payroll was provided by the City.

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

Notes to Schedule

Benefit Changes : None

Differences Between Expected and Actual Experience : The \$10,976,200 decrease in liability from June 30, 2019 to June 30, 2020 is due to changes in census data, claims and premiums data

Changes in Assumptions : The \$3,451,800 decrease in the liability from June 30, 2018 to June 30, 2019 is due to the increase in the assumed discount rate. The \$423,000 decrease in the liability from June 30, 2019 from June 30, 2020 is due to the decrease in the assumed discount rate and changes to the mortality table and trend rates.

**STATE OF NEW MEXICO
CITY OF HOBBS
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
LAST 10 FISCAL YEARS***

	2020	2019	2018
Actuarially determined contribution	\$ TBD	1,001,000	1,088,600
Contributions in relation to the actuarially determined contribution	TBD	1,001,000	1,088,600
Contribution deficiency (excess)	\$ -	-	-
Covered-employee payroll	\$ 24,564,400	24,725,700	24,015,100
Contributions as a percentage of covered-employee payroll	TBD	4.05%	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

Valuation Date

July 1, 2020

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**	58
Mortality	PUB-2010 "General" and "Safety" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019

**Weighted average retirement age based on July 1, 2020 census data and retirement rates provided in the "Actuarial Assumptions and Methods" section of the report

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
CITY OF HOBBS
NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

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 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.

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.

**STATE OF NEW MEXICO
CITY OF HOBBS
NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

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 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, 2020**

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
NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

INTERNAL SERVICE FUNDS

Medical Insurance Fund (640) - 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.

Risk Insurance Fund (740) – To account for the cost of providing property, general liability, claims insurance, and worker's compensation coverage and liability claims against the City. Such costs are billed to the other departments at actual cost.

**STATE OF NEW MEXICO
CITY OF HOBBS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020**

	Special Revenue Funds	Capital Projects Funds	Total
	<u> </u>	<u> </u>	<u> </u>
<i>Assets</i>			
Cash and cash equivalents	\$ 4,462,796	10,575,271	15,038,067
Inventory	130,729	-	130,729
Receivables:			
GRT receivable	-	366,652	366,652
Other taxes	57,060	137,445	194,505
Due from other governments	118,062	-	118,062
Accounts receivables, net	7,167	-	7,167
Due from other funds	9,100	-	9,100
<i>Total assets</i>	<u>\$ 4,784,914</u>	<u>11,079,368</u>	<u>15,864,282</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 460,672	227,249	687,921
Accrued payroll expenses	273,204	-	273,204
Due to other funds	-	-	-
<i>Total liabilities</i>	<u>733,876</u>	<u>227,249</u>	<u>961,125</u>
<i>Deferred inflows of resources</i>			
Deferred inflows - property taxes	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balances</i>			
Nonspendable	130,729	-	130,729
Restricted			
Public safety	1,534,154	-	1,534,154
Culture and recreation	202,120	-	202,120
Transportation and roads	347,691	-	347,691
Health and welfare	6,030	-	6,030
Economic development	1,996,704	-	1,996,704
Capital projects	-	10,852,119	10,852,119
Unassigned	(166,390)	-	(166,390)
<i>Total fund balances</i>	<u>4,051,038</u>	<u>10,852,119</u>	<u>14,903,157</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 4,784,914</u>	<u>11,079,368</u>	<u>15,864,282</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 BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Special Revenue Funds	Capital Projects Funds	Total
	<u> </u>	<u> </u>	<u> </u>
<i>Revenues:</i>			
Taxes:			
Gross receipts	\$ -	3,068,184	3,068,184
Gasoline and motor vehicle	-	866,590	866,590
Lodger's	1,525,647	-	1,525,647
Intergovernmental:			
State operating grants	259,083	-	259,083
State capital grants	2,570,646	-	2,570,646
Federal operating grants	806,207	-	806,207
Charges for services	2,231,669	-	2,231,669
Licenses and fees	227,050	-	227,050
Investment income (loss)	47,710	36,306	84,016
Miscellaneous	71,747	-	71,747
<i>Total revenues</i>	<u>7,739,759</u>	<u>3,971,080</u>	<u>11,710,839</u>
<i>Expenditures:</i>			
Current:			
General government	3,019	83,680	86,699
Public safety	441,078	-	441,078
Public works	1,107,429	-	1,107,429
Culture and recreation	7,456,544	-	7,456,544
Health and welfare	195,837	-	195,837
Economic development	1,266,150	-	1,266,150
Capital outlay	1,395,188	447,496	1,842,684
Debt service:			
Principal	-	-	-
Interest	11,457	-	11,457
<i>Total expenditures</i>	<u>11,876,702</u>	<u>531,176</u>	<u>12,407,878</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(4,136,943)</u>	<u>3,439,904</u>	<u>(697,039)</u>
<i>Other financing sources (uses)</i>			
Transfers in	4,874,535	-	4,874,535
Transfers out	(948,691)	(1,221,957)	(2,170,648)
<i>Total other financing sources (uses)</i>	<u>3,925,844</u>	<u>(1,221,957)</u>	<u>2,703,887</u>
<i>Net change in fund balance</i>	(211,099)	2,217,947	2,006,848
<i>Fund balance, - beginning</i>	<u>4,262,137</u>	<u>8,634,172</u>	<u>12,896,309</u>
<i>Fund balance - ending</i>	<u>\$ 4,051,038</u>	<u>10,852,119</u>	<u>14,903,157</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 BALANCE SHEETS
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2020**

	(110) Local Government Corrections Fund	(120) Police Protection Fund	(130) Police Narcotics Fund	(140) Safer Fund
<i>Assets</i>				
Cash and cash equivalents	\$ 856,783	63,886	1,919	-
Inventory	-	-	-	-
Receivables:				
GRT receivable	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental	-	-	-	-
Accounts receivables, net	-	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 856,783</u>	<u>63,886</u>	<u>1,919</u>	<u>-</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ 6,067	-	-	-
Accrued payroll expenses	-	-	-	-
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>6,067</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				
Public safety	850,716	63,886	1,919	-
Culture and recreation	-	-	-	-
Transportation and roads	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
<i>Total fund balances</i>	<u>850,716</u>	<u>63,886</u>	<u>1,919</u>	<u>-</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 856,783</u>	<u>63,886</u>	<u>1,919</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
COMBINING BALANCE SHEETS
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2020**

	(150) COPS Grant Fund	(160) Health and Wellness Learning Center Fund	(170) Older American Act Fund	(180) Golf Fund
<i>Assets</i>				
Cash and cash equivalents	\$ 1,000	586,527	1,000	309
Inventory	-	14,089	-	116,640
Receivables:				
GRT receivable	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental	21,538	-	31,166	-
Accounts receivables, net	-	-	-	7,167
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 22,538</u>	<u>600,616</u>	<u>32,166</u>	<u>124,116</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	267,757	22,144	16,533
Accrued payroll expenses	9,810	124,228	25,882	72,010
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>9,810</u>	<u>391,985</u>	<u>48,026</u>	<u>88,543</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	-	14,089	-	116,640
Restricted				
Public safety	12,728	-	-	-
Culture and recreation	-	194,542	-	-
Transportation and roads	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital projects	-	-	-	-
Unassigned	-	-	(15,860)	(81,067)
<i>Total fund balances</i>	<u>12,728</u>	<u>208,631</u>	<u>(15,860)</u>	<u>35,573</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 22,538</u>	<u>600,616</u>	<u>32,166</u>	<u>124,116</u>

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

**STATE OF NEW MEXICO
CITY OF HOBBS
COMBINING BALANCE SHEETS
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2020**

	(190) Cemetery Fund	(200) Airport Fund	(230) Lodger's Tax Promotional Fund	(270) Public Transportation Fund
<i>Assets</i>				
Cash and cash equivalents	\$ 14,477	273,054	1,826,159	32,976
Inventory	-	-	-	-
Receivables:				
GRT receivable	-	-	-	-
Other taxes	-	-	57,060	-
Intergovernmental	-	-	-	65,358
Accounts receivables, net	-	-	-	-
Due from other funds	-	-	-	9,100
<i>Total assets</i>	<u>\$ 14,477</u>	<u>273,054</u>	<u>1,883,219</u>	<u>107,434</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ 74,001	1,462	72,708	-
Accrued payroll expenses	9,939	-	-	31,335
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>83,940</u>	<u>1,462</u>	<u>72,708</u>	<u>31,335</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				
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Transportation and roads	-	271,592	-	76,099
Health and welfare	-	-	-	-
Economic development	-	-	1,810,511	-
Capital projects	-	-	-	-
Unassigned	(69,463)	-	-	-
<i>Total fund balances</i>	<u>(69,463)</u>	<u>271,592</u>	<u>1,810,511</u>	<u>76,099</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 14,477</u>	<u>273,054</u>	<u>1,883,219</u>	<u>107,434</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 BALANCE SHEETS
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2020**

	(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	\$ 604,905	203	186,193	-
Inventory	-	-	-	-
Receivables:				
GRT receivable	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental	-	-	-	-
Accounts receivables, net	-	-	-	-
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 604,905</u>	<u>203</u>	<u>186,193</u>	<u>-</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	-	-	-
Accrued payroll expenses	-	-	-	-
Due to other funds	-	-	-	-
<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				
Public safety	604,905	-	-	-
Culture and recreation	-	-	-	-
Transportation and roads	-	-	-	-
Health and welfare	-	203	-	-
Economic development	-	-	186,193	-
Capital projects	-	-	-	-
Unassigned	-	-	-	-
<i>Total fund balances</i>	<u>604,905</u>	<u>203</u>	<u>186,193</u>	<u>-</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 604,905</u>	<u>203</u>	<u>186,193</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
COMBINING BALANCE SHEETS
NON-MAJOR SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2020**

	(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	\$ 6,019	5,827	1,559	4,462,796
Inventory	-	-	-	130,729
Receivables:				
GRT receivable	-	-	-	-
Other taxes	-	-	-	57,060
Intergovernmental	-	-	-	118,062
Accounts receivables, net	-	-	-	7,167
Due from other funds	-	-	-	9,100
<i>Total assets</i>	<u>\$ 6,019</u>	<u>5,827</u>	<u>1,559</u>	<u>4,784,914</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	-	-	460,672
Accrued payroll expenses	-	-	-	273,204
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>733,876</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	-	-	-	130,729
Restricted				
Public safety	-	-	-	1,534,154
Culture and recreation	6,019	-	1,559	202,120
Transportation and roads	-	-	-	347,691
Health and welfare	-	5,827	-	6,030
Economic development	-	-	-	1,996,704
Capital projects	-	-	-	-
Unassigned	-	-	-	(166,390)
<i>Total fund balances</i>	<u>6,019</u>	<u>5,827</u>	<u>1,559</u>	<u>4,051,038</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 6,019</u>	<u>5,827</u>	<u>1,559</u>	<u>4,784,914</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 SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(110) Local Government Corrections Fund	(120) Police Protection Fund	(130) Police Narcotics Fund	(140) Safer Fund
<i>Revenues:</i>				
Taxes:				
Lodger's	\$ -	-	-	-
Intergovernmental:				
State operating grants	-	73,200	-	-
State capital grants	-	-	-	-
Federal operating grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	215,260	-	-	-
Investment income (loss)	9,249	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>224,509</u>	<u>73,200</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	49,241	71,608	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	26,485	6,675	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>75,726</u>	<u>78,283</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>148,783</u>	<u>(5,083)</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	148,783	(5,083)	-	-
<i>Fund balance, - beginning</i>	<u>701,933</u>	<u>68,969</u>	<u>1,919</u>	<u>-</u>
<i>Fund balance - ending</i>	<u>\$ 850,716</u>	<u>63,886</u>	<u>1,919</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, 2020**

	(150) COPS Grant Fund	(160) Health and Wellness Learning Center Fund	(170) Older American Act Fund	(180) Golf Fund
<i>Revenues:</i>				
Taxes:				
Lodger's	\$ -	-	-	-
Intergovernmental:				
State operating grants	-	-	91,477	-
State capital grants	-	1,961,966	-	-
Federal operating grants	125,429	-	56,395	-
Charges for services	-	1,297,923	-	718,294
Licenses and fees	-	-	-	-
Investment income (loss)	-	-	-	-
Miscellaneous	-	18,342	41,963	1,260
<i>Total revenues</i>	<u>125,429</u>	<u>3,278,231</u>	<u>189,835</u>	<u>719,554</u>
<i>Expenditures:</i>				
Current:				
General government	3,000	19	-	-
Public safety	320,229	-	-	-
Public works	-	-	-	-
Culture and recreation	-	3,857,151	931,754	2,667,639
Health and welfare	-	-	-	-
Economic development	-	-	-	-
Capital outlay	-	808,030	41,656	139,579
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>323,229</u>	<u>4,665,200</u>	<u>973,410</u>	<u>2,807,218</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(197,800)</u>	<u>(1,386,969)</u>	<u>(783,575)</u>	<u>(2,087,664)</u>
<i>Other financing sources (uses)</i>				
Transfers in	191,004	939,466	788,972	2,533,717
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>191,004</u>	<u>939,466</u>	<u>788,972</u>	<u>2,533,717</u>
<i>Net change in fund balance</i>	(6,796)	(447,503)	5,397	446,053
<i>Fund balance, - beginning</i>	<u>19,524</u>	<u>656,134</u>	<u>(21,257)</u>	<u>(410,480)</u>
<i>Fund balance - ending</i>	<u>\$ 12,728</u>	<u>208,631</u>	<u>(15,860)</u>	<u>35,573</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 SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(190) Cemetery Fund	(200) Airport Fund	(230) Lodger's Tax Promotional Fund	(270) Public Transportation Fund
<i>Revenues:</i>				
Taxes:				
Lodger's	\$ -	-	1,525,647	-
Intergovernmental:				
State operating grants	-	-	-	-
State capital grants	50,000	-	-	-
Federal operating grants	-	-	-	624,383
Charges for services	155,861	29,955	-	29,636
Licenses and fees	11,790	-	-	-
Investment income (loss)	-	3,353	28,210	-
Miscellaneous	-	-	-	9,100
<i>Total revenues</i>	<u>217,651</u>	<u>33,308</u>	<u>1,553,857</u>	<u>663,119</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	314,989	-	-	791,567
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Economic development	-	49,728	1,216,422	-
Capital outlay	73,635	-	-	119,313
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>388,624</u>	<u>49,728</u>	<u>1,216,422</u>	<u>910,880</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(170,973)</u>	<u>(16,420)</u>	<u>337,435</u>	<u>(247,761)</u>
<i>Other financing sources (uses)</i>				
Transfers in	110,119	-	-	311,257
Transfers out	-	-	(948,691)	-
<i>Total other financing sources (uses)</i>	<u>110,119</u>	<u>-</u>	<u>(948,691)</u>	<u>311,257</u>
<i>Net change in fund balance</i>	(60,854)	(16,420)	(611,256)	63,496
<i>Fund balance, - beginning</i>	<u>(8,609)</u>	<u>288,012</u>	<u>2,421,767</u>	<u>12,603</u>
<i>Fund balance - ending</i>	<u>\$ (69,463)</u>	<u>271,592</u>	<u>1,810,511</u>	<u>76,099</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, 2020**

	(280) Fire Protection Fund	(290) Emergency Medical Services Fund	(370) Community Development Fund	(760) Recreational Expendable Trust Fund
<i>Revenues:</i>				
Taxes:				
Lodger's	\$ -	-	-	-
Intergovernmental:				
State operating grants	74,406	20,000	-	-
State capital grants	558,680	-	-	-
Federal operating grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income (loss)	6,810	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>639,896</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	175,856	19,981	-	-
Economic development	-	-	-	-
Capital outlay	179,815	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	11,457	-	-	-
<i>Total expenditures</i>	<u>367,128</u>	<u>19,981</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>272,768</u>	<u>19</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	272,768	19	-	-
<i>Fund balance, - beginning</i>	<u>332,137</u>	<u>184</u>	<u>186,193</u>	<u>-</u>
<i>Fund balance - ending</i>	<u>\$ 604,905</u>	<u>203</u>	<u>186,193</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
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(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	\$ -	-	-	1,525,647
Intergovernmental:				
State operating grants	-	-	-	259,083
State capital grants	-	-	-	2,570,646
Federal operating grants	-	-	-	806,207
Charges for services	-	-	-	2,231,669
Licenses and fees	-	-	-	227,050
Investment income (loss)	-	69	19	47,710
Miscellaneous	1,082	-	-	71,747
<i>Total revenues</i>	<u>1,082</u>	<u>69</u>	<u>19</u>	<u>7,739,759</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	3,019
Public safety	-	-	-	441,078
Public works	873	-	-	1,107,429
Culture and recreation	-	-	-	7,456,544
Health and welfare	-	-	-	195,837
Economic development	-	-	-	1,266,150
Capital outlay	-	-	-	1,395,188
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	11,457
<i>Total expenditures</i>	<u>873</u>	<u>-</u>	<u>-</u>	<u>11,876,702</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>209</u>	<u>69</u>	<u>19</u>	<u>(4,136,943)</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	4,874,535
Transfers out	-	-	-	(948,691)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,925,844</u>
<i>Net change in fund balance</i>	209	69	19	(211,099)
<i>Fund balance, - beginning</i>	<u>5,810</u>	<u>5,758</u>	<u>1,540</u>	<u>4,262,137</u>
<i>Fund balance - ending</i>	<u>\$ 6,019</u>	<u>5,827</u>	<u>1,559</u>	<u>4,051,038</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 BALANCE SHEETS
NON-MAJOR CAPITAL PROJECTS FUNDS
AS OF JUNE 30, 2020**

	(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	3,414,078	5,622,343	10,575,271
Receivables:				
GRT receivable	-	-	366,652	366,652
Other taxes	-	137,445	-	137,445
Due from other funds	-	-	-	-
<i>Total assets</i>	<u>\$ 1,538,850</u>	<u>3,551,523</u>	<u>5,988,995</u>	<u>11,079,368</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ -	227,249	-	227,249
Due to other funds	-	-	-	-
<i>Total liabilities</i>	<u>-</u>	<u>227,249</u>	<u>-</u>	<u>227,249</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	3,324,274	5,988,995	10,852,119
<i>Total fund balances</i>	<u>1,538,850</u>	<u>3,324,274</u>	<u>5,988,995</u>	<u>10,852,119</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 1,538,850</u>	<u>3,551,523</u>	<u>5,988,995</u>	<u>11,079,368</u>

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**STATE OF NEW MEXICO
CITY OF HOBBS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(460) Capital Projects Fund	(480) Street Improvements Fund	(490) City Commission Improvement Fund	Total Capital Projects Funds
<i>Revenues:</i>				
Taxes:				
Gross receipts	-	-	3,068,184	3,068,184
Gasoline and motor vehicle	-	866,590	-	866,590
Investment income (loss)	-	36,306	-	36,306
<i>Total revenues</i>	<u>-</u>	<u>902,896</u>	<u>3,068,184</u>	<u>3,971,080</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	83,680	83,680
Capital outlay	-	447,496	-	447,496
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>447,496</u>	<u>83,680</u>	<u>531,176</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>455,400</u>	<u>2,984,504</u>	<u>3,439,904</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers out	-	-	(1,221,957)	(1,221,957)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(1,221,957)</u>	<u>(1,221,957)</u>
<i>Net change in fund balance</i>	-	455,400	1,762,547	2,217,947
<i>Fund balance, - beginning</i>	<u>1,538,850</u>	<u>2,868,874</u>	<u>4,226,448</u>	<u>8,634,172</u>
<i>Fund balance - ending</i>	<u>\$ 1,538,850</u>	<u>3,324,274</u>	<u>5,988,995</u>	<u>10,852,119</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 NET ASSETS
INTERNAL SERVICE FUNDS
AS OF JUNE 30, 2020**

	(640) Medical Insurance Fund	(740) Risk Insurance Fund	Total Internal Service Funds
<i>Assets</i>			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 13,935,520	1,876,630	15,812,150
Receivables:			
Other receivable	35,793	-	35,793
Prepaid expenses	-	165,050	165,050
Due from other funds	-	-	-
<i>Total current assets</i>	<u>13,971,313</u>	<u>2,041,680</u>	<u>16,012,993</u>
<i>Noncurrent Assets</i>			
Capital assets	-	-	-
Less: accumulated depreciation	-	-	-
<i>Total noncurrent assets</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total assets</i>	<u>13,971,313</u>	<u>2,041,680</u>	<u>16,012,993</u>
<i>Deferred Outflows of Resources</i>			
Pension deferral	-	-	-
OPEB deferral	-	-	-
<i>Total deferred outflows</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total assets and deferred outflows of resources</i>	<u>\$ 13,971,313</u>	<u>2,041,680</u>	<u>16,012,993</u>
<i>Liabilities, deferred inflows of resources, and net position</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 32,785	1,399	34,184
Other accrued expenses	646,659	-	646,659
<i>Total current liabilities</i>	<u>679,444</u>	<u>1,399</u>	<u>680,843</u>
<i>Noncurrent liabilities</i>			
Net pension liability	-	-	-
Net OPEB liability	-	-	-
<i>Total noncurrent liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total liabilities</i>	<u>679,444</u>	<u>1,399</u>	<u>680,843</u>
<i>Deferred inflows of resources</i>			
Pension deferral	-	-	-
OPEB deferral	-	-	-
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net position</i>			
Net investment in capital assets	-	-	-
Restricted	-	-	-
Unrestricted	13,291,869	2,040,281	15,332,150
<i>Total net position</i>	<u>13,291,869</u>	<u>2,040,281</u>	<u>15,332,150</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u>\$ 13,971,313</u>	<u>2,041,680</u>	<u>16,012,993</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, EXPENSES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(640) Medical Insurance Fund	(740) Risk Insurance Fund	Total Internal Service Funds
<i>Operating revenues:</i>			
Charges for services	\$ 8,735,666	200,296	8,935,962
State operating grants	-	-	-
<i>Total operating revenues</i>	<u>8,735,666</u>	<u>200,296</u>	<u>8,935,962</u>
<i>Operating expenses:</i>			
Personnel services	-	-	-
Contractual services	9,081,021	625,385	9,706,406
Depreciation and amortization	-	-	-
<i>Total operating expenses</i>	<u>9,081,021</u>	<u>625,385</u>	<u>9,706,406</u>
<i>Operating income (loss)</i>	<u>(345,355)</u>	<u>(425,089)</u>	<u>(770,444)</u>
<i>Non-operating revenues (expenses):</i>			
Gross receipts and other taxes	-	-	-
Investment income	13,335	-	13,335
Interest expense	-	-	-
Gain/(loss) on sale of capital assets	-	-	-
Miscellaneous income	-	465,370	465,370
<i>Total non-operating revenues (expenses)</i>	<u>13,335</u>	<u>465,370</u>	<u>478,705</u>
Transfers	-	2,000,000	2,000,000
Federal capital grants	-	-	-
State capital grants	-	-	-
<i>Net capital grants and transfers</i>	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
<i>Change in net position</i>	(332,020)	2,040,281	1,708,261
<i>Net position, beginning of year</i>	<u>13,623,889</u>	<u>-</u>	<u>13,623,889</u>
<i>Net position, end of year</i>	<u>\$ 13,291,869</u>	<u>2,040,281</u>	<u>15,332,150</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 CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(640) Medical Insurance Fund	(740) Risk Insurance Fund	Total Internal Service Funds
Cash flows from operating activities			
Receipts from customers and users	\$ 8,731,786	200,296	8,932,082
Payments to suppliers	(9,017,275)	(789,036)	(9,806,311)
<i>Net cash provided (used) by operating activities</i>	<u>(285,489)</u>	<u>(588,740)</u>	<u>(874,229)</u>
Cash flows from non-capital financing activities			
Miscellaneous revenue	-	465,370	465,370
Transfers to other funds	-	2,000,000	2,000,000
<i>Net cash provided (used) by noncapital financing activities</i>	<u>-</u>	<u>2,465,370</u>	<u>2,465,370</u>
Cash flows from capital and related financing activities			
None			
<i>Net cash provided (used) by capital and related financing activities</i>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Investment income	13,335	-	13,335
<i>Net cash provided (used) by investing activities</i>	<u>13,335</u>	<u>-</u>	<u>13,335</u>
Net increase (decrease) in cash and cash equivalents	(272,154)	1,876,630	1,604,476
Balances - beginning of year	14,207,674	-	14,207,674
Balances - end of year	<u>\$ 13,935,520</u>	<u>1,876,630</u>	<u>15,812,150</u>
Reconciliation of cash and cash equivalents			
Unrestricted			
Cash and cash equivalents	\$ 13,935,520	1,876,630	15,812,150
Total cash	<u>\$ 13,935,520</u>	<u>1,876,630</u>	<u>15,812,150</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 CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	(640) Medical Insurance Fund	(740) Risk Insurance Fund	Total Internal Service Funds
	<u> </u>	<u> </u>	<u> </u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (345,355)	(425,089)	(770,444)
<i>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</i>			
Depreciation expense	-	-	-
(Increase) decrease in:			
Accounts receivable	(3,880)	-	(3,880)
Prepays	-	(165,050)	(165,050)
(Decrease) increase in:			
Accounts payable	13,365	1,399	14,764
Other liabilities	50,381	-	50,381
<i>Net cash provided (used) by operating activities</i>	<u>\$ (285,489)</u>	<u>(588,740)</u>	<u>(874,229)</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 CASH, INVESTMENTS, AND PLEDGED COLLATERAL
BY BANK AND ACCOUNT
AS OF JUNE 30, 2020**

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	\$ 70,261	-	-	-	-	(54,316)	15,945
City of Hobbs - Investment for Line of Credit	Certificate of Deposit	708,000	-	-	-	-	-	708,000
City of Hobbs Savings	Repurchase	6,639,782	-	-	-	-	(1,297,756)	5,342,026
Inmate Trust Account	Checking	22,834	-	-	-	-	-	22,834
HPD - Contingency	Checking	11	-	-	-	-	-	11
HPD - Evidence Trust	Checking	220,886	-	-	-	-	-	220,886
HPD - Crime Prevention	Certificate of Deposit	5,207	-	-	-	-	-	5,207
City of Hobbs - Taxable Bonds	Investment	-	59,349,422	-	-	-	-	59,349,422
City of Hobbs - Treasury Bills	Investment	-	35,858	-	-	-	-	35,858
Local Government Investment Pool	Investment	-	-	-	82,721,383	-	-	82,721,383
NMFA-Phase II Effluent Refuse Project-Hobbs 5	Trust	-	-	726,240	-	-	-	726,240
Petty cash	Petty Cash	-	-	-	-	17,688	-	17,688
Subtotal cash and investments		<u>7,666,981</u>	<u>59,385,280</u>	<u>726,240</u>	<u>82,721,383</u>	<u>17,688</u>	<u>(1,352,072)</u>	<u>149,165,500</u>
Total amount of deposit in bank		7,666,981	59,385,280	726,240	82,721,383	17,688		
FDIC coverage		(250,000)	(59,385,280)	(726,240)	(82,721,383)	(17,688)		
Total uninsured public funds		7,416,981	-	-	-	-		
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		388,600	-	-	-	-		
102% Collateral Requirement (Section 6-10-10(H) NMSA 1978)		<u>6,772,578</u>	-	-	-	-		
		7,161,177	-	-	-	-		
Pledged security at:								
1st Security Bank, Salt Lake City, UT Bernalillo, Cnty NM 5% - 085275W35 08/15/21		252,802	-	-	-	-		
1st Security Bank, Salt Lake City, UT Clovis, NM SD 3.7% - 189414HN8 08/01/25		341,034	-	-	-	-		
1st Security Bank, Salt Lake City, UT NMMI Roswell 4% - 647183BN1 06/01/24		542,164	-	-	-	-		
1st Security Bank, Salt Lake City, UT Jal, NM PSD 3% - 470143AF5 10/01/21		309,951	-	-	-	-		
1st Security Bank, Salt Lake City, UT US Treasury 1.375% - 912828L32 08/31/20		5,021,095	-	-	-	-		
1st Security Bank, Salt Lake City, UT US Treasury 2.111% - 38380LVV2 06/20/69		<u>5,524,721</u>	-	-	-	-		
Total collateral		<u>11,991,767</u>	-	-	-	-		
Amount over/(under) collateralized		<u>\$ 4,830,590</u>	-	-	-	-		
Amount over/(under) collateralized & insured		<u>\$ 5,080,590</u>	-	-	-	-		
Total book balance		<u>\$ 6,314,909</u>	<u>59,385,280</u>	<u>726,240</u>	<u>82,721,383</u>	<u>17,688</u>		

*Note all bank accounts are interest bearing

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, 2020**

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
<u>MOTOR VEHICLE</u>				
700				
Assets				
Cash and cash equivalents	\$ 29,198	5,832,059	(5,838,400)	22,857
Total assets	<u>29,198</u>	<u>5,832,059</u>	<u>(5,838,400)</u>	<u>22,857</u>
Liabilities				
Deposits payable	29,198	5,832,059	(5,838,400)	22,857
Total liabilities	<u>\$ 29,198</u>	<u>5,832,059</u>	<u>(5,838,400)</u>	<u>22,857</u>
<u>MUNICIPAL JUDGE</u>				
710				
Assets				
Cash and cash equivalents	\$ 103,242	-	618	103,860
Total assets	<u>103,242</u>	<u>-</u>	<u>618</u>	<u>103,860</u>
Liabilities				
Deposits payable	103,242	-	618	103,860
Total liabilities	<u>\$ 103,242</u>	<u>-</u>	<u>618</u>	<u>103,860</u>
<u>CRIME LAB</u>				
730				
Assets				
Cash and cash equivalents	71,236	80,976	(78,494)	73,718
Total assets	<u>\$ 71,236</u>	<u>80,976</u>	<u>(78,494)</u>	<u>73,718</u>
Liabilities				
Deposits payable	71,236	80,976	(78,494)	73,718
Total liabilities	<u>\$ 71,236</u>	<u>80,976</u>	<u>(78,494)</u>	<u>73,718</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, 2020**

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
<u>FORECLOSURE TRUST</u>				
750				
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>
<u>SENIOR CITIZEN</u>				
780				
Assets				
Cash and cash equivalents	\$ 1,190	2,130	-	3,320
Total assets	<u>1,190</u>	<u>2,130</u>	<u>-</u>	<u>3,320</u>
Liabilities				
Deposits payable	1,190	2,130	-	3,320
Total liabilities	<u>\$ 1,190</u>	<u>2,130</u>	<u>-</u>	<u>3,320</u>
<u>EVIDENCE FUND</u>				
820				
Assets				
Cash and cash equivalents	\$ 129,954	90,932	-	220,886
Total assets	<u>129,954</u>	<u>90,932</u>	<u>-</u>	<u>220,886</u>
Liabilities				
Deposits payable	129,954	90,932	-	220,886
Total liabilities	<u>\$ 129,954</u>	<u>90,932</u>	<u>-</u>	<u>220,886</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, 2020**

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
<u>HOBBS BEAUTIFUL</u>				
830				
Assets				
Cash and cash equivalents	\$ 19,733	238	-	19,971
Total assets	<u>19,733</u>	<u>238</u>	<u>-</u>	<u>19,971</u>
Liabilities				
Deposits payable	19,733	238	-	19,971
Total liabilities	<u>\$ 19,733</u>	<u>238</u>	<u>-</u>	<u>19,971</u>
<u>CITY AGENCY</u>				
860				
Assets				
Cash and cash equivalents	\$ 3,919	634	(2,041)	2,512
Total assets	<u>3,919</u>	<u>634</u>	<u>(2,041)</u>	<u>2,512</u>
Liabilities				
Deposits payable	3,919	634	(2,041)	2,512
Total liabilities	<u>\$ 3,919</u>	<u>634</u>	<u>(2,041)</u>	<u>2,512</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash and cash equivalents	\$ 358,544	6,006,969	(5,918,317)	447,196
Total assets	<u>358,544</u>	<u>5,832,059</u>	<u>(5,838,400)</u>	<u>447,196</u>
Liabilities				
Deposits payable	358,544	6,006,969	(5,918,317)	447,196
Total liabilities	<u>\$ 358,544</u>	<u>6,006,969</u>	<u>(5,918,317)</u>	<u>447,196</u>

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

COMPLIANCE SECTION

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

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Project/ Pass-Through Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Provider Relief Program	93.498		\$ 21,836
Total U.S. Department of Health and Human Services			<u>21,836</u>
<u>U.S. Department of Transportation</u>			
Passed through New Mexico Department of Transportation			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	20-AL-64-045	1,615
Formula Grants for Rural Areas	* 20.509	MOA FY19	112,494
Formula Grants for Rural Areas	* 20.509	MO1654	416,438
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	MOA FY19	95,450
Total U.S. Department of Transportation			<u>625,997</u>
<u>U.S. Department of Justice</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0743	23,492
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BZ-0239	21,285
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2019-DJ-BX-0474	19,720
Bulletproof Vest Partnership Program	16.607	2019	14,501
Public Safety Partnership and Community Police Grants	16.710	2015UMWX0051	19,437
Public Safety Partnership and Community Police Grants	16.710	2016UMWX0189	105,992
Total U.S. Department of Justice			<u>204,427</u>
<u>U.S. Department of Health and Human Services</u>			
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	FY 2020	56,395
Total U.S. Department of Health and Human Services			<u>56,395</u>
Total Federal Financial Assistance			<u>\$ 908,655</u>

* = Denotes major program

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

Federal grant revenue per fund financials	\$ 946,459
Federal expenditures per SEFA	<u>908,655</u>
Difference	37,804
Less: Non-cost reimbursable HHS Stimulus Grant revenue in excess of expenditures	<u>(37,804)</u>
Net difference	<u>\$ -</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of 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, 2020.

Note 3 - Subrecipients

The City did not provided 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.

Note 6 - Loans and Loan Guarantees

The federal loan program listed subsequently is administered by the City and balances and transactions relating to this program are included in the City's basic financial statements. Current year federal expenditures would be included as part of the schedule above, however there were none in FY20. The outstanding loan balance at fiscal year end is as follows:

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Project/ Pass-Through Number	Balance at June 30, 2020
Clean Water State Revolving Funds (CWSRF)	66.458	CWSRF 064	\$ <u>6,184,805</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**

To the City Commission
City of Hobbs
and
Mr. Brian Colón, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the City of Hobbs, (City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we considered to be a significant deficiency: 2020-002 [2018-005].

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

December 10, 2020

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*, continued

grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-001 [2018-001].

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
December 10, 2020

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

To the City Commission
City of Hobbs
and
Mr. Brian Colón, New Mexico State Auditor

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, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to

test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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



Hinkle + Landers, P.C.
Albuquerque, NM
December 10, 2020

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

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? | No |
| 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, 2020**

<u>Reference #</u>	<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>	<u>Type of Finding*</u>
Prior Year Findings			
2020-001 [2018-001]	REVIEW OF PAYROLL TRANSACTION CYCLE	Repeat/Modify	C
2020-002 [2018-005]	RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	Repeat/Modify	B

Current Year Findings

See the findings above that have repeated in the current year.

* 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, 2020**

PRIOR YEAR FINDINGS

2020-001 [2018-001] - REVIEW OF PAYROLL TRANSACTION CYCLE

Type of Finding: (C) Finding that Does Not Rise to the Level of a Significant Deficiency (Other Matters) Involving Internal Control Over Financial Reporting

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.

Management Progress

The City has consulted with the support team from the accounting system but have been unable to remove the override function within the payroll module.

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 continue to 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 received their suggested solution to remove the edit functionality for wage rates that was discovered outside the normal workflow process. The suggested solution did not remove access and resolve the issue. Management will continue to work with software support to troubleshoot this issue.

Management has implemented a quarterly pay rate audit to mitigate this risk until the software vendor can resolve the issue.

Corrective Action Plan Timeline

Quarterly pay rate audits were performed for every quarter in FY20 and are ongoing for quarterly audit in FY21.

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

Designation of Employee Position Responsible for Meeting Deadline

Finance Director and Assistance Finance Director

2020-002 [2018-005] – RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Type of Finding: (B) Significant Deficiency in Internal Control Over Financial Reporting

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.

Management Progress

The City has established a comprehensive account receivable, allowance, and write off policy through a formal resolution, Resolution No. 6795 approved in May of 2019. Due to the on-going pandemic, the Finance Department was forced to shift its resources and priorities to more immediate needs.

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 could cause deficiencies that increase the risk of errors and inaccurate or incomplete financial reporting.

Cause

Formal policies and standard operating procedures, as they relate to accounts receivable and allowance for doubtful accounts, were set to be implemented in FY 20 but due to the on-going pandemic, the Finance Department was forced to shift its resources and priorities to more immediate needs.

Recommendation

The City should continue to implement its formal reconciliation and reporting processes over utility and other receivables, including allowance for doubtful accounts.

View of Responsible Officials and Corrective Action Plan

The City of Hobbs adopted an all in-compassing receivable/allowance for doubtful accounts policy on May 6, 2019. The standard operating procedures involved in the accounts receivable/allowance for doubtful accounts policy are still being discussed and drafted as to the increase in resources, systems workflow, collections, liens and overall reporting. The goal for the standard operating procedures was June 30th of fiscal year 2020, however, due to facility closures and reduced staffing and hours to mitigate COVID exposure, it has not been possible to implement changes.

Corrective Action Plan Timeline

Correction will be completed by June 2021 as coordination with various departments is necessary to complete the corrections needed and staffing needs to return to normal in order to assign enhanced workloads and achieve the necessary changes in policy and procedure.

Designation of Employee Position Responsible for Meeting Deadline

Finance Director and Assistance Finance Director

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

CURRENT YEAR FINDINGS

None, except the prior findings repeated, noted above.

EXIT CONFERENCE

**STATE OF NEW MEXICO
CITY OF HOBBS
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2020**

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

A remote exit conference was held in closed session on December 10, 2020. 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