

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**

*Basic Financial Statements and  
Required Supplementary Information  
For the Year Ended June 30, 2008  
and Independent Auditors' Report*

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

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JUNE 30, 2008**

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**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**DIRECTORY OF OFFICIALS**

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**ELECTED OFFICIALS**

Phillip Burch  
George Holmes  
Manuel Barragan  
Raul Rodriguez  
Antonio Torrez  
Nora Sanchez  
Raye Miller  
J.B. Smith  
Terry Hill

Mayor  
Mayor Pro-Tem  
City Councilor  
City Councilor  
City Councilor  
City Councilor  
City Councilor  
City Councilor  
City Councilor

**DEPARTMENT HEADS**

Aubrey Hobson  
Don Raley  
J.D. Hummingbird  
Robert Forrest  
Bill Thalman  
Kaye Kiper  
John Caraway

City Clerk - Treasurer  
Chief of Police  
Fire Chief  
Director of Infrastructure  
Human Resources Director  
Municipal Judge  
City Attorney

**HOUSING AUTHORITY**

Jimmy Boyse  
Veral d'Entremont  
Paul Alvarez  
Randy Hazelbaker  
Leslie Havens  
Jodi Herring

Chairperson  
Vice-Chairperson  
Commissioner  
Commissioner  
Commissioner  
Resident Member

**ADMINISTRATIVE STAFF**

Louisa Madrid

Executive Director



## Strickler & Prieto, LLP

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### INDEPENDENT AUDITORS' REPORT

Hector H. Balderas,  
New Mexico State Auditor  
Mayor and City Councilors  
City of Artesia  
Artesia, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information and the fiduciary fund of the City of Artesia (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental funds and nonmajor enterprise funds, presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the fiduciary fund of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue and debt service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the City as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons for the major enterprise funds and all nonmajor governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2009, 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as "Other Supplemental Information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Frederick & Turo, LLP*

July 17, 2009

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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The following is an overview of the financial condition for the City of Artesia, New Mexico (the "City"), for the fiscal year ended June 30, 2008. This narrative highlights the major aspects of the City's financial status for this period, and should be considered in conjunction with the information presented in other sections of this audit report.

**Financial Highlights**

- The City assets exceeded liabilities by \$68,273,963 at June 30, 2008. Approximately 41% of the City's net assets may be used to meet the City's ongoing obligations to citizens and creditors. During the current year, the City increased its net assets by \$4,385,524.
- Unrestricted cash and investments at June 30, 2008, totaled \$25,666,888. Current liabilities, including the current portion of long-term liabilities at June 30, 2008, amounted to \$2,499,952. This is an increase of \$1,106,721 which is a result of an increase in accounts payable due largely in part to capital projects.
- During the fiscal year, the City governmental activities expended \$7,504,752 for capital assets. The business-type activities expended \$4,482,076 for capital outlay. Investment in capital assets for the City total \$40,018,114, net of accumulated depreciation at June 30, 2008. These capital assets included land, construction in process, buildings, improvements, infrastructure, utility system, airport infrastructure and equipment.
- Long-term liabilities for the City at the end of the year were \$457,459. During the year, the City increased its debt by \$30,911.

**Overview of the Financial Statements**

This discussion and analysis is 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. This report also contains other supplementary information, in addition to the basic financial statements themselves.

**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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 City's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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 general government, public safety, public works, and culture and recreation. The business-type activities of the City include water, solid waste, wastewater, airport, and cemetery. The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate Public Housing Authority. The Housing Authority is referred to as the component unit.

Detailed financial information for the Housing Authority is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages fifteen and sixteen of this report. A complete set of separately issued audited financial statements can be obtained directly from the Housing Authority directly.

### **Fund Financial Statements**

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

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus 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 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 City's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the general fund, the City maintains twenty other individual governmental funds of which eighteen are classified as special revenue funds; two are classified as capital projects funds. Information for the general fund, which is considered a major fund, is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements following the notes to the financial statements.

The City adopts an annual appropriated budget for all of its funds. The budgetary comparison statement for the general fund is located on page twenty-one. Budgetary comparison statements for the special revenue and capital projects nonmajor funds are located on pages fifty-five through seventy-five. The basic governmental fund financial statements can be found on page seventeen through twenty of this report.



## **Proprietary Funds**

The City maintains one type of proprietary funds. The enterprise fund is 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, solid waste, and wastewater services provided to the citizens. Additionally, the City uses enterprise funds to account for an airport and a cemetery.

Proprietary funds 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 fund, solid waste fund, wastewater fund, and airport fund; all of which are considered major funds of the City. Data from the other enterprise funds are combined into a single aggregated presentation. The basic proprietary fund statements can be found on pages twenty-two through twenty-five of this report.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statement 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 financial statements can be found on page twenty-six. The City's four fiduciary funds account for monies collected and expended for various purposes. The sales tax fund is a clearing account for sales tax receipts. The court fund accounts for DWI testing receipts and disbursements. The meter fund accounts for meter deposits held by the City. The Hellwig Fund accounts for assets provided by a private donor. The earnings from the assets are utilized for the purchase of medical equipment donated to the local community hospital.

## **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 the fund financial statements. The notes to the financial statements can be found on pages twenty-seven through forty-six of this report.

## **Other Information**

The combining statements referred to earlier in connection with non-major are presented immediately following the notes to the financial statements. Combining governmental fund statements can be found on pages forty-seven through fifty-four of this report.

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$68,273,963 at the close of the fiscal year. Fifty-nine percent of the City's net assets are composed of investment in capital assets (e.g., land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. The City uses these assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's 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.

**CONDENSED STATEMENT OF NET ASSETS**  
(In Thousands)

	<u>Government Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
<b>Assets:</b>						
Current and other assets	\$ 24,873	\$ 23,080	\$ 6,144	\$ 7,874	\$ 31,017	\$ 30,954
Capital assets, net of accumulated depreciation	21,583	19,708	18,436	14,877	40,019	34,585
<b>Total assets</b>	<b>46,456</b>	<b>42,788</b>	<b>24,580</b>	<b>22,751</b>	<b>71,036</b>	<b>65,539</b>
<b>Liabilities:</b>						
Current liabilities	1,506	820	797	404	2,303	1,224
Long-term liabilities	249	220	210	207	459	427
<b>Total liabilities</b>	<b>1,755</b>	<b>1,040</b>	<b>1,007</b>	<b>611</b>	<b>2,762</b>	<b>1,651</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	21,583	19,709	18,343	14,775	39,926	34,484
Unrestricted	23,118	22,039	5,230	7,365	28,348	29,404
<b>Total net assets</b>	<b>\$ 44,701</b>	<b>\$ 41,748</b>	<b>\$ 23,573</b>	<b>\$ 22,140</b>	<b>\$ 68,274</b>	<b>\$ 63,888</b>

The remaining balance of unrestricted net assets of \$28,348,849 may be used to meet the government's ongoing obligations to citizens and creditors. The City increased its net assets by \$4,385,524 during the fiscal year. At the end of the current fiscal year, the City is able to report positive balances in the two categories of net assets.

At June 30, 2007, unrestricted cash and investments totaled \$25,885,486. At the end of the current year, unrestricted cash and investments totaled \$25,666,888; a decrease of \$218,598. There were many funds that reflected increases and decreases in cash and investments. The largest increase occurred in the general fund where cash and investments increased by \$2,315,975.

At June 30, 2007, receivables for the City equaled \$4,518,300. At June 30, 2008, the receivables totaled \$4,965,658. The net increase in the receivables was \$447,358. The majority of the increase is attributed to taxes. The majority of the taxes will be collected shortly after year-end and no allowance for doubtful receipts has been recorded for those types of receivables.

Current and other assets within the governmental activities increased from \$23,079,697 in 2007 to \$24,873,932 in 2008, an increase of \$1,794,235. The reasons for the increase are as follows: investments increased by \$2,583,000, accounts receivable increased by \$3,773, taxes receivable increased by \$483,170, while cash decreased by \$1,010,801 and intergovernmental receivables decreased by \$230,887. The increase in tax receivables is due mainly to increased gross receipts taxes.

Current and other assets within the business type activities decreased from \$7,874,115 in 2007 to \$6,143,964 in 2008, a decrease of \$1,730,151. In comparing the two years, there was an increase in cash in the amount of \$335,203, and a decrease in investments of \$2,126,000. Additionally, accounts receivable increased by \$233,407. The majority of the decrease in the current assets is within the investments. This decrease is the result of major capital improvements funded from the cash reserves.

Current liabilities that consist of accounts payable, accrued salaries, accrued liabilities, and deferred revenues at June 30, 2007, equaled \$820,242. At June 30, 2008, the City reported an amount equal to \$2,304,598. The current liabilities increased by \$1,484,356. The largest increase occurred in accounts payable.

At June 30, 2008, the long-term debt, including the current portion equaled \$457,449.

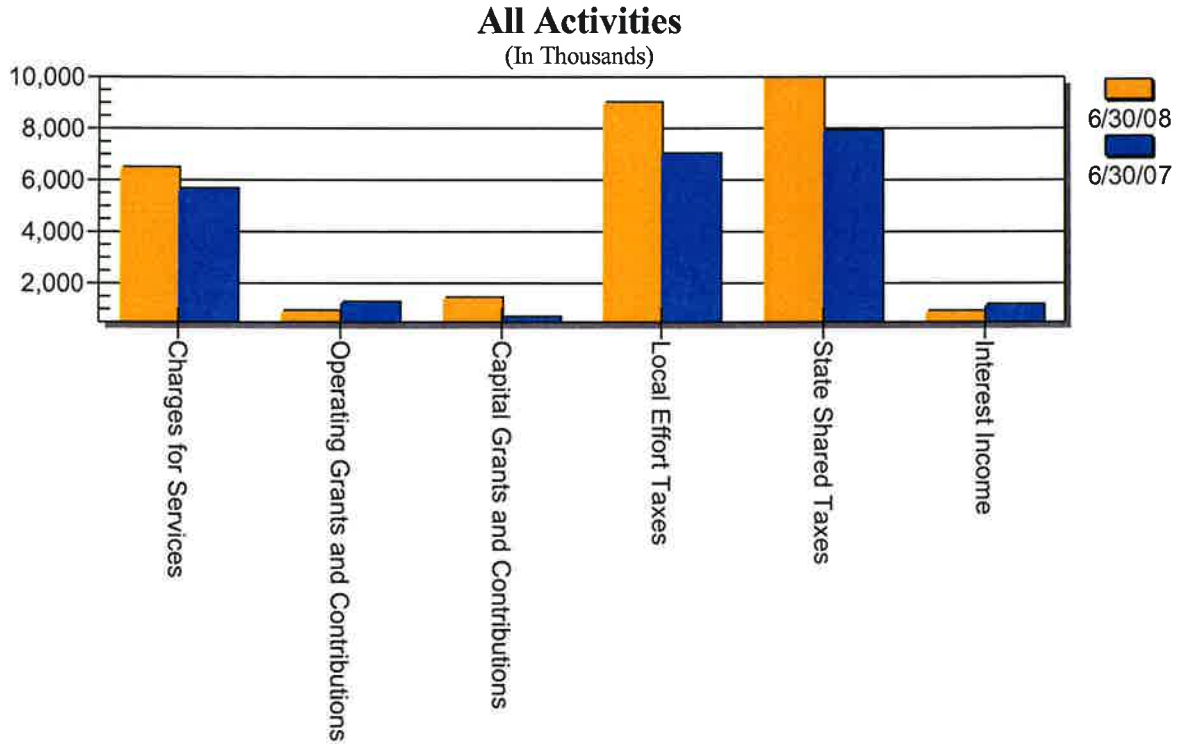
The net assets at June 30, 2008, totaled \$68,273,963. The net assets balance at June 30, 2007, amounted to \$63,888,439.

A condensed comparative statement of activities is as follows:

**CONDENSED STATEMENT OF ACTIVITIES  
(In Thousands)**

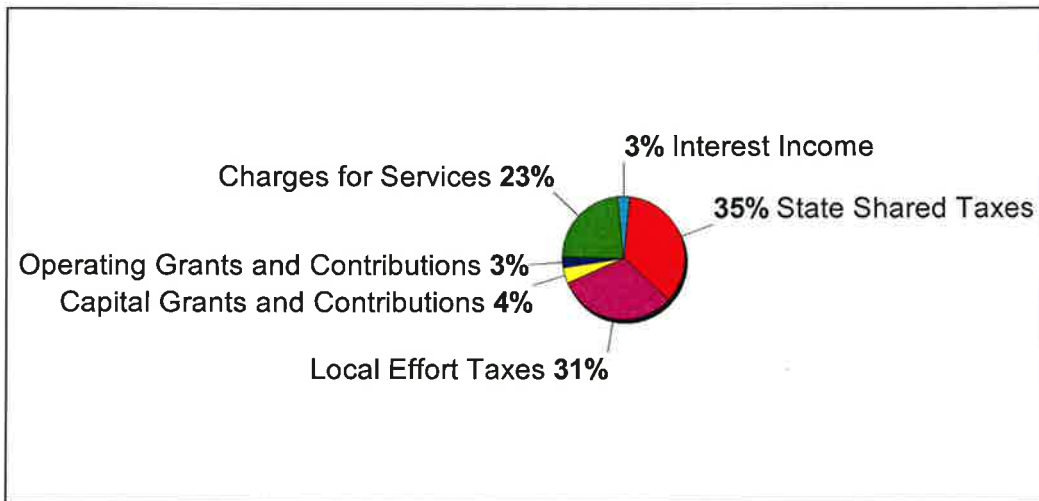
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Revenues:						
Program revenues:						
Charges for services	\$ 767	\$ 1,081	\$ 5,681	\$ 4,545	\$ 6,448	\$ 5,626
Operating grants and contributions	870	1,208	24	24	894	1,232
Capital grants and contributions	1,306	506	98	143	1,404	649
General revenues:						
Local effort taxes	8,968	6,994	-	-	8,968	6,994
State shared taxes	9,629	7,573	382	296	10,011	7,869
Investment income	662	788	220	346	882	1,134
Miscellaneous	-	-	-	1	-	1
Loss on investment	-	-	-	(1)	-	(1)
Loss on disposal of assets	(1)	(22)	-	(3)	(1)	(25)
Total revenue	<u>22,201</u>	<u>18,128</u>	<u>6,405</u>	<u>5,351</u>	<u>28,606</u>	<u>23,479</u>
Expenses:						
General government	3,766	3,228	-	-	3,766	3,228
Public safety	6,428	5,827	-	-	6,428	5,827
Public works	5,956	1,650	-	-	5,956	1,650
Culture and recreation	2,443	2,071	-	-	2,443	2,071
Water	-	-	1,685	1,542	1,685	1,542
Solid Waste	-	-	1,493	1,329	1,493	1,329
Wastewater	-	-	1,374	1,067	1,374	1,067
Airport	-	-	906	706	906	706
Cemetery	-	-	165	82	165	82
Interest on long-term debt	-	-	5	18	5	18
Total expenses	<u>18,593</u>	<u>12,776</u>	<u>5,628</u>	<u>4,744</u>	<u>24,221</u>	<u>17,520</u>
Transfers, net	<u>(655)</u>	<u>84</u>	<u>655</u>	<u>(84)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 2,953</u>	<u>\$ 5,436</u>	<u>\$ 1,432</u>	<u>\$ 523</u>	<u>\$ 4,385</u>	<u>\$ 5,959</u>

## COMPARISON OF REVENUE - BY FUNCTION

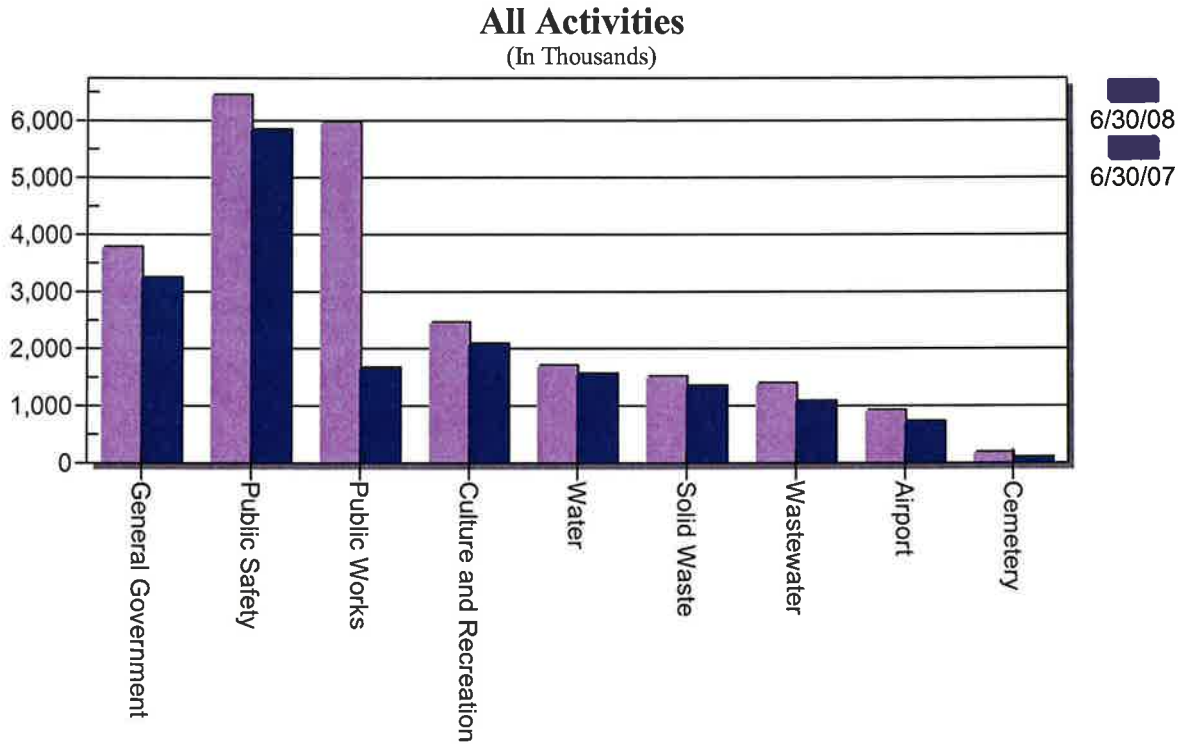


## TOTAL REVENUE BY ACTIVITY

June 30, 2008



## COMPARISON OF EXPENSES - BY FUNCTION



The statement of activities from 2008 shows revenue increases in both governmental and business-type activities when compared to the 2007 fiscal year. Specifically, governmental activities program and general revenues increased by \$4,072,514. Increases were noted in all categories except charges for services. The largest increase occurred within local effort and state shared taxes. That increase amounted to \$4,030,229 or approximately twenty-seven percent.

In the current year, governmental activities expenses totaled \$18,593,326. The previous year, governmental activities expenses were equal to \$12,766,250. The increases in current year expenses amount to \$5,827,076. The largest increase in governmental activities expenses occurred within the City's public works. For 2007, the City's general government expenses totaled \$3,227,528, and increased by \$538,290 for a total of \$3,765,818, a sixteen percent increase for general government expenses.

Expenses for public safety increased from \$5,827,520 in 2007 to \$5,956,062 in 2008, which is a two percent increase. This is negligible in the overall budget.

For 2008, the City reflected an increase in governmental activities net assets of \$2,953,088. In the prior year, the increase was \$5,436,466. The difference between the years is \$1,050,942.

The business-type activities reflect an increase in net assets of \$1,432,436 for the current fiscal year. In the previous year, the increase amounted to \$522,672; that is a one hundred seventy-four percent increase. Business-type revenues for the current year amounted to \$6,404,702. That amount is an increase \$1,052,616 when compared to the previous fiscal year.

During the current year, the City had capital grants within the business-type assets that totaled \$98,227. In the previous year, the City reported capital grants equal to \$142,735. The grant revenues received were from U.S. Federal Aviation Administration for airport improvements.

For the previous year, the business-type activities reported expenses as \$4,744,598. For the current year, the City reports expenses as \$5,627,266, an increase of \$882,668.

## **Financial Analysis of the City's Funds**

### Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$23,241,106. One hundred percent of this total constitutes undesignated, unreserved fund balances, which are available for spending at the City's discretion. The general fund balance of \$21,130,853 represents ninety percent of the total governmental fund balances. The City's general fund balance increased by \$2,328,795 during the current fiscal year. While the non-major funds decreased their fund balances by \$909,901.

General fund revenues totaled \$18,678,842 for the fiscal year, while expenditures were \$15,695,047. Revenues exceeded expenditures by \$2,983,795 prior to transfers in and out of the general fund. During the year, the general fund received \$70,000 from other City funds while it transferred \$725,000. The net transfer out of (\$655,000) decreased the excess revenues over expenditures resulting in a net increase of fund balance of \$2,328,795.

Comparing this to the change in net assets of 2007 in the amount of \$1,112,103, we see that the City spent \$363,380 less for capital outlay in 2007 than we did in 2008. The change in net assets is attributable to the increase in Gross Receipts Taxes in the General Fund.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. An analysis of the major proprietary funds is as follows:

The water fund reflects a net increase in net assets in the amount of \$1,349,021. Comparing this to the increase in net assets of \$560,549 in 2007, we see an increase of \$788,472 from 2007 to 2008. Total revenues for 2007 were \$2,167,346 compared to 2008 revenues of \$2,824,011. The major difference was in the charge for services as sales of water were up \$745,116.

The solid waste fund reflects an increase in net assets of \$566,945 for 2008. This compares to the increase in net assets of \$156,645 in 2007. In 2008, operating expenses were up \$162,755. Revenues from taxes increased \$85,587.

The wastewater fund reflects a decrease in net assets of \$434,039 due to operations. In 2007, the decrease of net assets was \$489,394. Revenues in 2008 were up \$64,737 when comparing the two years, while expenditures in 2008 increased by \$306,587; due mainly to depreciation expense.

The airport fund reflects a decrease in assets of \$140,658 for 2008; while in 2007 the increase in net assets amounted to \$264,171. The major difference was in general operating. Operating expense increased \$199,496 in 2008 when compared to 2007. These differences account for the net change in assets.

### **General Fund Budgetary Highlights**

The discussion that follows presents financial data based upon the budgetary basis of accounting. Please refer to the notes of the financial statements for an explanation of the differences of accounting regarding the budget.

During the current fiscal year, the City budgeted general fund revenues at \$17,352,801. The actual revenues for the fiscal year were \$18,253,875, an excess of \$901,074. Local effort taxes and shared taxes were over budgeted by \$500,948 and \$463,962, respectively. This is because of the increases in the GRT for the year. Licenses and permits were over budget by \$19,417. This is because of the building and sewer permits issued during the year with several new large projects. Intergovernmental revenues were under budget by \$16,494. The only other category we were under budget was for Charges for Services, where we budgeted \$409,850 including Ambulance billing. Ambulance receipts were down due to the changing of responsibility from the Finance Department to the Fire Department.

Fines and forfeitures were over budget by \$12,568. This was due almost entirely to increased police fine collections. Miscellaneous revenues were over budget by \$61,901.

Increases in the original budget were made due to additional income received during the fiscal year, allowing the City to increase the budgeted expenditures.

For the year ended June 30, 2008, the City anticipated that expenditures would exceed revenues and net transfers in by \$219,489. Actual revenues of \$18,253,875 exceeded expenditures of \$15,312,320 and net transfers out of \$655,000, producing an excess of revenues over expenditures of \$2,286,555. General government expenditures showed to be over budget by \$1,538,825. The major portion of that was an over budget in capital outlay. Public safety expenditures showed to be under budget by \$616,169. Public works expenditures showed to be under budget by only \$69,677.

Culture and recreation expenditures showed to be under budget by \$282,235. Some of this is through salaries and benefits, some in purchased property services and the rest in other operating expenses. These categories, over the many departments represented are within the City's anticipated goals. Culture and recreation expenses are harder to estimate because of the unknown participation of citizens in the different programs.

Capital outlay expenditures showed to be under budget by \$2,830,714. This is reflected in the street department where the STIP project was not finished by June 30th. The project continued into 2008-2009. The City is aware that due to construction schedules, weather and the availability of supplies, capital projects will be delayed from time to time, but the majority of the projects were carried into the next year for completion.

During the fiscal year, the City increased anticipated revenues by \$3,478,129. The City decreased anticipated expenditures by \$2,861,801 for the fiscal year. The main reason for the increase in the final budgeted revenues from the original budgeted revenues was additional anticipated revenues from sales taxes. During the year, the City decreased its budgeted expenditures with the majority of the decreases made to capital outlay.

**Capital Assets and Debt Administration**

Capital Assets

The City's investment in capital assets for the government as of June 30, 2008 amounts to \$38,757,140 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, utility systems, and machinery and equipment.

Major capital assets events during the current fiscal year included the following:

- **Governmental Activities**-During the fiscal year, the City expended \$3,283,854 for capital assets. Forty-eight percent of the expenditures were for buildings and improvements.
- **Business-Type Activities**-During the fiscal year, the City expended \$4,482,076 for capital assets. Thirteen percent of those expenditures were for utility system and airport infrastructure improvements.

**CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION  
(In Thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>
Land	\$ 629	\$ 629	\$ 166	\$ 166	\$ 795	\$ 795
Construction in Progress	2,336	1,393	4,129	1,059	6,465	2,452
Buildings	5,580	5,282	(227)	36	5,353	5,318
Improvements	2,990	2,005	55	57	3,045	2,062
Infrastructure	7,392	7,876	-	-	7,392	7,876
Utility System	-	-	11,023	11,588	11,023	11,588
Airport Infrastructure	-	-	1,014	1,045	1,014	1,045
Furniture and Equipment	2,655	2,524	2,275	926	4,930	3,450
<b>Total governmental activities</b>	<b>\$ 21,582</b>	<b>\$ 19,709</b>	<b>\$ 18,435</b>	<b>\$ 14,877</b>	<b>\$ 40,017</b>	<b>\$ 34,586</b>

Additional information on the City's capital assets can be found in note seven on pages forty-one and forty-two of this report.



## Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$457,449, which consists of bonds, compensated absences, and landfill post-closure liability. The City's taxable value of property in 2008 was \$226,662,702. The City may currently issue up to \$9,066,508 in general obligation bonds. At the present time, the City does not have any general obligation bonds.

### **LONG TERM DEBT (In Thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2007</u>
Notes Payable	\$ -	\$ -	-	\$ -	\$ -	\$ -
Bonds Payable	-	-	93	102	93	102
Landfill post closure	-	-	65	54	65	54
Compensated absences	249	220	51	51	300	271
Total long term debt	\$ 249	\$ 220	\$ 209	\$ 207	\$ 458	\$ 427

### **Currently Known Facts, Decisions, or Conditions**

Gross receipts continued to increase. For FY 2007-2008, gross receipts taxes were up 30 % from FY 2006-2007. For 2008-2009 they were up 16% from FY 2007-2008. This increase has allowed the City to pursue infrastructure projects that were badly needed to accommodate this type of growth. In 2007-2008, the council approved the sixth increment of gross receipts tax that will be used for infrastructure projects in FY 2008-2009 and beyond. Utility funds continue to be strong with the Solid Waste Fund still being the weakest of the three because of rising fuel and equipment costs. Solid Waste borrowed \$575,000 in the 2007-2008 fiscal year from the general fund for equipment needs and is paying the General Fund back \$70,000 in 2007-2008 and \$130,000-\$200,000 in subsequent years. At the end of the payout, it is estimated that the fund will be able to keep up with equipment needs.

Housing, as always, is a concern especially for affordable housing. The federal law enforcement training center continues to expand and is a major contributor to our growth and also to some of our infrastructure needs. There are a few subdividers building houses, but at this time there are not a large number of new houses available.

In 2008-2009, the City continues looking forward to the construction of new hotels as well as finishing Phase III of the Industrial Park to allow new businesses to expand into Artesia.

Several projects will be continuing in the new budget year and planning will begin for several more infrastructure projects to begin construction in 2008-2009. The City of Artesia continues to prosper and the City will be very active in shaping that growth to meet the needs for quality of life for the citizens of Artesia.

### **Request for Information**

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Clerk-Treasurer, P.O. Box 1310, Artesia, New Mexico 88211-1310.

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash	\$ 2,481,725	\$ 1,207,339	\$ 3,689,064	\$ 297,712
Investments	18,348,919	3,628,905	21,977,824	-
Receivables:				
Accounts	348,143	837,795	1,185,938	6,080
Taxes	3,539,047	76,409	3,615,456	-
Intergovernmental	124,497	-	124,497	-
Interest	31,601	8,166	39,767	-
Prepaid expenses	-	-	-	42,085
Inventory	-	73,764	73,764	-
Restricted cash	-	104,586	104,586	17,704
Restricted investments	-	207,000	207,000	-
Capital assets net of accumulated depreciation	21,582,510	18,435,604	40,018,114	2,117,503
<b>Total assets</b>	<b>\$ 46,456,442</b>	<b>\$ 24,579,568</b>	<b>\$ 71,036,010</b>	<b>\$ 2,481,084</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 1,219,420	\$ 737,375	\$ 1,956,795	\$ 59,336
Accrued salaries	233,802	53,468	287,270	-
Accrued liabilities	53,037	7,496	60,533	24,650
Deposits payable	-	-	-	17,116
Noncurrent liabilities:				
Compensated absences:				
Due within one year	142,741	42,613	185,354	-
Due after one year	106,053	21,792	127,845	-
Bonds payable:				
Due within one year	-	10,000	10,000	-
Due after one year	-	83,000	83,000	-
Landfill closure, due after one year	-	51,250	51,250	-
<b>Total liabilities</b>	<b>1,755,053</b>	<b>1,006,994</b>	<b>2,762,047</b>	<b>101,102</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	21,582,510	18,342,604	39,925,114	2,117,503
Unrestricted	23,118,879	5,229,970	28,348,849	262,479
<b>Total net assets</b>	<b>44,701,389</b>	<b>23,572,574</b>	<b>68,273,963</b>	<b>2,379,982</b>
<b>Total liabilities and net assets</b>	<b>\$ 46,456,442</b>	<b>\$ 24,579,568</b>	<b>\$ 71,036,010</b>	<b>\$ 2,481,084</b>

See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues			Primary Government			Component Unit
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government Activities:</b>							
General government	\$ 3,765,818	\$ 163,649	\$ 97,486	\$ 475	\$ (3,504,208)	\$ -	\$ (3,504,208)
Public safety	6,427,973	561,253	641,857	133,591	(5,091,272)	-	(5,091,272)
Public works	5,956,062	-	-	1,000,000	(4,956,062)	-	(4,956,062)
Culture and recreation	2,443,473	42,400	130,708	171,481	(2,098,884)	-	(2,098,884)
Total governmental activities	18,593,326	767,302	870,051	1,305,547	(15,650,426)	-	(15,650,426)
<b>Business-type Activities:</b>							
Water	1,685,091	2,669,147	-	-	-	984,056	-
Solid waste	1,492,643	1,334,521	24,000	-	-	(134,122)	-
Wastewater	1,373,623	913,609	-	-	-	(460,014)	-
Airport	905,523	666,638	-	98,227	-	(140,658)	-
Cemetery	165,286	97,259	-	-	-	(68,027)	-
Interest on long-term debt	5,100	-	-	-	-	(5,100)	-
Total business-type activities	5,627,266	5,681,174	24,000	98,227	-	176,135	-
Total primary government	\$ 24,220,592	\$ 6,448,476	\$ 894,051	\$ 1,403,774	(15,650,426)	176,135	(15,650,426)
Component Unit:							
Housing Authority	\$ 776,086	\$ 311,945	\$ 257,883	\$ 164,729	-	-	(41,529)
<b>General Revenues:</b>							
Local effort taxes					8,967,863	-	-
State shared taxes					9,629,221	381,806	10,011,027
Interest income					662,435	220,159	882,594
Miscellaneous					-	(235)	(235)
Gain (loss) on disposal of capital assets					(1,005)	(429)	(1,434)
Operating transfers, net					(655,000)	655,000	-
Total general revenues and transfers					18,603,514	1,256,301	10,891,952
Change in net assets					2,953,088	1,432,436	4,385,524
Net assets - beginning					41,748,301	22,140,138	63,888,439
Net assets - ending					\$ 44,701,389	\$ 23,572,574	\$ 68,273,963

See accompanying notes to financial statements.

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	General Fund	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 2,339,722	\$ 142,003	\$ 2,481,725
Investments	16,422,619	1,926,300	18,348,919
Receivables:			
Accounts	348,143	-	348,143
Taxes	3,182,195	356,852	3,539,047
Intergovernmental	7,000	117,497	124,497
Interest	29,419	2,182	31,601
Interfund balance	9,649	-	9,649
	<u>9,649</u>	<u>-</u>	<u>9,649</u>
 Total assets	 <u>\$ 22,338,747</u>	 <u>\$ 2,544,834</u>	 <u>\$ 24,883,581</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 857,619	\$ 361,801	\$ 1,219,420
Accrued salaries	220,671	13,131	233,802
Accrued liabilities	53,037	-	53,037
Deferred revenues	76,567	50,000	126,567
Interfund balance	-	9,649	9,649
	<u>-</u>	<u>9,649</u>	<u>9,649</u>
 Total liabilities	 1,207,894	 434,581	 1,642,475
 Fund balances:			
Unreserved:			
Undesignated, reported in:			
General fund	21,130,853	-	21,130,853
Special revenue fund	-	3,005,569	3,005,569
Capital projects funds	-	(895,316)	(895,316)
	<u>-</u>	<u>(895,316)</u>	<u>(895,316)</u>
 Total fund balances	 <u>21,130,853</u>	 <u>2,110,253</u>	 <u>23,241,106</u>
 Total liabilities and fund balances	 <u>\$ 22,338,747</u>	 <u>\$ 2,544,834</u>	 <u>\$ 24,883,581</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

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Amounts reported for government activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 23,241,106
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,582,510
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:	
Property taxes	76,567
Grant revenue	50,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These are accrued compensated absences.	<u>(248,794)</u>
Net assets - Statement of Net Assets	<u>\$ 44,701,389</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>General Fund</b>	<b>Total Nonmajor Funds</b>	<b>Total</b>
<b>Revenues:</b>			
Local effort taxes	\$ 8,753,647	\$ 225,702	\$ 8,979,349
State shared taxes	7,807,779	1,821,442	9,629,221
Licenses and permits	110,217	-	110,217
Intergovernmental	751,623	1,640,358	2,391,981
Charges for services	269,622	162,307	431,929
Fines and forfeitures	195,568	-	195,568
Other	790,386	33,752	824,138
	<u>18,678,842</u>	<u>3,883,561</u>	<u>22,562,403</u>
Total revenues			
<b>Expenditures:</b>			
<b>Current:</b>			
General government	3,233,440	387,424	3,620,864
Public safety	5,996,717	118,776	6,115,493
Public works	1,080,618	-	1,080,618
Culture and recreation	1,760,755	405,217	2,165,972
Capital outlay	3,623,517	3,881,235	7,504,752
	<u>15,695,047</u>	<u>4,792,652</u>	<u>20,487,699</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	2,983,795	(909,091)	2,074,704
<b>Other financing sources (uses):</b>			
Operating transfers in	70,000	211,026	281,026
Operating transfers out	(725,000)	(211,026)	(936,026)
	<u>(655,000)</u>	<u>-</u>	<u>(655,000)</u>
Total other financing sources (uses)			
Net changes in fund balances	2,328,795	(909,091)	1,419,704
Fund balance - beginning of year	18,802,058	3,019,344	21,821,402
Fund balance - end of year	<u>\$ 21,130,853</u>	<u>\$ 2,110,253</u>	<u>\$ 23,241,106</u>

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN THE FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2008**

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Net change in fund balances - total governmental funds	\$ 1,419,704
The changes in net assets reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$3,283,854 exceeded depreciation expense of \$1,360,537 in the current period.	1,923,317
Disposition of capital assets.	(49,503)
Property taxes collected during the fiscal year, made available to pay for the current period's expenditures, reported as deferred revenue in the funds in the previous fiscal year of (\$88,053), net of the current year amount of \$76,567.	(11,486)
Grant revenue not collected within sixty days will not be available to pay for current period expenditures, and, therefore, are reported as deferred revenue in the funds.	50,000
Prior year grant revenue that was not collected within the sixty days and was reported as revenue in the government wide financial statements.	(350,000)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This is the increase in the amount of compensated absences liability.	<u>(28,944)</u>
Change in net assets of governmental activities	<u>\$ 2,953,088</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget- Positive (Negative)</b>
<b>Revenues:</b>				
Local effort taxes	\$ 6,935,414	\$ 8,019,205	\$ 8,520,153	\$ 500,948
State shared taxes	6,077,212	7,126,212	7,590,174	463,962
Licenses and permits	75,800	90,800	110,217	19,417
Intergovernmental	345,120	761,117	744,623	(16,494)
Charges for services	409,850	410,850	269,622	(141,228)
Fines and forfeitures	158,000	183,000	195,568	12,568
Miscellaneous	774,350	761,617	823,518	61,901
<b>Total revenues</b>	<b>14,775,746</b>	<b>17,352,801</b>	<b>18,253,875</b>	<b>901,074</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	3,340,516	1,751,290	3,290,115	(1,538,825)
Public safety	5,782,620	6,618,856	6,002,687	616,169
Public works	1,070,159	1,142,757	1,073,080	69,677
Culture and recreation	1,783,926	2,046,099	1,763,864	282,235
Capital outlay	6,196,900	6,013,288	3,182,574	2,830,714
<b>Total expenditures</b>	<b>18,174,121</b>	<b>17,572,290</b>	<b>15,312,320</b>	<b>2,259,970</b>
Excess (deficiency) of revenues over expenditures	(3,398,375)	(219,489)	2,941,555	3,161,044
<b>Other financing sources (uses):</b>				
Operating transfers in (out), net	(153,556)	(655,903)	(655,000)	903
<b>Total other financing sources (uses)</b>	<b>(153,556)</b>	<b>(655,903)</b>	<b>(655,000)</b>	<b>903</b>
Net changes in fund balances	(3,551,931)	(875,392)	2,286,555	3,161,947
Fund balance - beginning of year	18,802,058	18,802,058	18,802,058	-
Fund balance - end of year	\$ 15,250,127	\$ 17,926,666	\$ 21,088,613	\$ 3,161,947
<b>Reconciliation of budgetary basis to GAAP basis:</b>				
Net changes in fund balance budgetary basis			\$ 2,286,555	
Net revenue accruals			424,967	
Net expenditure accruals			(382,727)	
Net changes in fund balance GAAP basis			\$ 2,328,795	

See accompanying notes to financial statements.

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2008**

	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Wastewater Fund</b>	<b>Airport Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>ASSETS:</b>						
Cash	\$ 121,849	\$ 786,368	\$ 56,530	\$ 239,986	\$ 2,606	\$ 1,207,339
Investments	2,317,000	513,025	591,380	-	207,500	3,628,905
Receivables:						
Accounts	522,536	190,190	122,351	2,718	-	837,795
Taxes	-	76,409	-	-	-	76,409
Interest	5,483	1,254	1,058	-	371	8,166
Inventory	-	-	-	73,764	-	73,764
Restricted cash	-	104,586	-	-	-	104,586
Restricted investments	20,000	187,000	-	-	-	207,000
Non-Current Assets						
Capital assets, net of accumulated depreciation	6,242,732	1,631,502	9,221,894	1,187,487	151,989	18,435,604
<b>Total assets</b>	<b>\$ 9,229,600</b>	<b>\$ 3,490,334</b>	<b>\$ 9,993,213</b>	<b>\$ 1,503,955</b>	<b>\$ 362,466</b>	<b>\$ 24,579,568</b>
<b>LIABILITIES:</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 504,095	\$ 154,885	\$ 39,687	\$ 37,943	\$ 765	\$ 737,375
Accrued salaries	23,396	15,304	11,442	3,326	-	53,468
Accrued liabilities	7,496	-	-	-	-	7,496
Current maturities of:						
Bonds payable	10,000	-	-	-	-	10,000
Compensated absences	14,162	17,135	8,996	2,320	-	42,613
<b>Total current liabilities</b>	<b>559,149</b>	<b>187,324</b>	<b>60,125</b>	<b>43,589</b>	<b>765</b>	<b>850,952</b>
<b>Non-Current Liabilities:</b>						
Bonds payable	83,000	-	-	-	-	83,000
Compensated absences	7,242	8,763	4,600	1,187	-	21,792
Landfill closure and post- closure	-	51,250	-	-	-	51,250
<b>Total non-current liabilities</b>	<b>90,242</b>	<b>60,013</b>	<b>4,600</b>	<b>1,187</b>	<b>-</b>	<b>156,042</b>
<b>Total liabilities</b>	<b>649,391</b>	<b>247,337</b>	<b>64,725</b>	<b>44,776</b>	<b>765</b>	<b>1,006,994</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	6,149,732	1,631,502	9,221,894	1,187,487	151,989	18,342,604
Unrestricted	2,430,477	1,611,495	706,594	271,692	209,712	5,229,970
<b>Total net assets</b>	<b>8,580,209</b>	<b>3,242,997</b>	<b>9,928,488</b>	<b>1,459,179</b>	<b>361,701</b>	<b>23,572,574</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,229,600</b>	<b>\$ 3,490,334</b>	<b>\$ 9,993,213</b>	<b>\$ 1,503,955</b>	<b>\$ 362,466</b>	<b>\$ 24,579,568</b>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
JUNE 30, 2008**

	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Wastewater Fund</b>	<b>Airport Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Operating Revenues:						
Charges for services	\$ 2,669,147	\$ 1,334,521	\$ 913,609	\$ 666,638	\$ 97,259	\$ 5,681,174
Operating Expenses:						
Personnel services	765,544	567,604	389,059	157,191	37,567	1,916,965
General operating	792,274	743,010	447,671	698,063	101,396	2,782,414
Depreciation	127,273	182,029	536,893	50,269	26,323	922,787
Total operating expenses	<u>1,685,091</u>	<u>1,492,643</u>	<u>1,373,623</u>	<u>905,523</u>	<u>165,286</u>	<u>5,622,166</u>
Operating income (loss)	<u>984,056</u>	<u>(158,122)</u>	<u>(460,014)</u>	<u>(238,885)</u>	<u>(68,027)</u>	<u>59,008</u>
Non-Operating Revenues (Expenses):						
State shared taxes	-	381,806	-	-	-	381,806
Interest income	159,964	24,597	26,404	-	9,194	220,159
Intergovernmental	-	24,000	-	98,227	-	122,227
Miscellaneous	-	(235)	-	-	-	(235)
Interest expense	(5,100)	-	-	-	-	(5,100)
Disposal of assets	-	-	(429)	-	-	(429)
Total non-operating revenues (expenses)	<u>154,864</u>	<u>430,168</u>	<u>25,975</u>	<u>98,227</u>	<u>9,194</u>	<u>718,428</u>
Income (loss) before transfers	1,138,920	272,046	(434,039)	(140,658)	(58,833)	777,436
Transfers:						
Transfers in	210,101	575,970	2,560	150,000	-	938,631
Transfers (out)	-	(281,071)	(2,560)	-	-	(283,631)
Total transfers	<u>210,101</u>	<u>294,899</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>655,000</u>
Change in net assets	1,349,021	566,945	(434,039)	9,342	(58,833)	1,432,436
Net assets - beginning of year	<u>7,231,188</u>	<u>2,676,052</u>	<u>10,362,527</u>	<u>1,449,837</u>	<u>420,534</u>	<u>22,140,138</u>
Net assets - end of year	<u>\$ 8,580,209</u>	<u>\$ 3,242,997</u>	<u>\$ 9,928,488</u>	<u>\$ 1,459,179</u>	<u>\$ 361,701</u>	<u>\$ 23,572,574</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
JUNE 30, 2008**

	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Wastewater Fund</b>	<b>Airport Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>						
Cash received from customers	\$ 2,483,895	\$ 1,294,918	\$ 894,855	\$ 665,628	\$ 97,259	\$ 5,436,555
Cash payments to suppliers for goods and services	(431,975)	(606,135)	(567,443)	(715,935)	(101,427)	(2,422,915)
Cash payments to employees for services	(758,383)	(563,681)	(389,254)	(154,613)	(37,567)	(1,903,498)
Net cash provided by (used in) operating activities	<u>1,293,537</u>	<u>125,102</u>	<u>(61,842)</u>	<u>(204,920)</u>	<u>(41,735)</u>	<u>1,110,142</u>
<b>Cash Flows From Non-Capital and Related Financing Activities:</b>						
Cash received from state shared taxes	-	381,806	-	-	-	381,806
Cash received from intergovernmental sources	-	24,000	-	98,227	-	122,227
Net transfers in (out)	<u>210,101</u>	<u>294,899</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>655,000</u>
Net cash provided by non-capital and related financing activities	<u>210,101</u>	<u>700,705</u>	<u>-</u>	<u>248,227</u>	<u>-</u>	<u>1,159,033</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>						
Acquisition of capital assets	(4,056,371)	(216,077)	(104,492)	(93,100)	(11,944)	(4,481,984)
Proceeds from sale of capital assets	-	26	-	-	-	26
Principal payments on capital debt	(9,000)	-	-	-	-	(9,000)
Interest payments on capital debt	(5,100)	-	-	-	-	(5,100)
Net cash used in non-capital and related financing activities	<u>(4,070,471)</u>	<u>(216,051)</u>	<u>(104,492)</u>	<u>(93,100)</u>	<u>(11,944)</u>	<u>(4,496,058)</u>
<b>Cash Flows From Investing Activities:</b>						
Interest income	176,012	25,285	28,329	-	9,830	239,456
Return of principal	2,250,000	-	100,000	-	26,000	2,376,000
Investment contribution	-	(39,899)	-	-	-	(39,899)
Net cash provided by (used in) investing activities	<u>2,426,012</u>	<u>(14,614)</u>	<u>128,329</u>	<u>-</u>	<u>35,830</u>	<u>2,575,557</u>
Net increase (decrease) in cash	(140,821)	595,142	(38,005)	(49,793)	(17,849)	348,674
Cash and cash equivalents, beginning of year	<u>262,670</u>	<u>295,812</u>	<u>94,535</u>	<u>289,779</u>	<u>20,455</u>	<u>963,251</u>
Cash and cash equivalents, end of year	<u>\$ 121,849</u>	<u>\$ 890,954</u>	<u>\$ 56,530</u>	<u>\$ 239,986</u>	<u>\$ 2,606</u>	<u>\$ 1,311,925</u>
<b>Displayed as:</b>						
Cash	\$ 121,849	\$ 786,368	\$ 56,530	\$ 239,986	\$ 2,606	\$ 1,207,339
Restricted cash	-	104,586	-	-	-	104,586
	<u>\$ 121,849</u>	<u>\$ 890,954</u>	<u>\$ 56,530</u>	<u>\$ 239,986</u>	<u>\$ 2,606</u>	<u>\$ 1,311,925</u>

(Continued)

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
JUNE 30, 2008**

	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Wastewater Fund</b>	<b>Airport Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 984,056	\$ (158,122)	\$ (460,014)	\$ (238,885)	\$ (68,027)	\$ 59,008
Adjustment to reconcile operating income to net cash provided by operating activities:						
Depreciation	127,273	182,029	536,893	50,269	26,323	922,787
Miscellaneous expense	-	(235)	-	-	-	(235)
Bad debt expense	9,632	16,442	(4,344)	-	-	21,730
Landfill monitoring	-	(2,500)	-	-	-	(2,500)
Changes in assets and liabilities:						
Accounts receivable	(194,884)	(56,045)	(14,410)	(1,010)	-	(266,349)
Inventory	-	-	-	(31,954)	-	(31,954)
Accounts payable and accrued liabilities	360,299	139,610	(119,772)	14,082	(31)	394,188
Compensated absences	7,161	3,923	(195)	2,578	-	13,467
Net cash provided by (used in) operating activities	<u>\$ 1,293,537</u>	<u>\$ 125,102</u>	<u>\$ (61,842)</u>	<u>\$ (204,920)</u>	<u>\$ (41,735)</u>	<u>\$ 1,110,142</u>

(Concluded)

See accompanying notes to financial statements.

**FIDUCIARY FUNDS FINANCIAL STATEMENTS**



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND  
JUNE 30, 2008**

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**ASSETS**

Cash	\$ 130,340
Investments	1,961,592
Interest receivable	<u>936</u>
Total assets	<u>\$ 2,092,868</u>

**LIABILITIES**

Held for others	<u>\$ 2,092,868</u>
Total liabilities	<u>\$ 2,092,868</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Artesia (the "City") is a political subdivision of the state of New Mexico, operates under the Mayor-Council form of government. The City provides the following authorized services: public safety, police and fire, highways and streets, water, sanitation, health and welfare, social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Reporting Entity**

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 14 and 39. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the government.

The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the City of Artesia Public Housing Authority (the "Housing Authority") have been included in the City's financial statements as a discretely presented component unit.

The Housing Authority is reported as a proprietary fund type. The City appoints the Housing Authority's board of commissioners, and is able to impose its will on the Housing Authority.

Separately issued financial statements may be obtained directly from their administrative office as follows: Executive Director, Artesia Housing Authority, 617 West Bush Avenue, Artesia, New Mexico 88211.

There are no other other component units during the year ended June 30, 2008.

**B. Basis of Presentation**

***Government-Wide and Fund Financial Statements***—The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. 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 support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements if a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues. The net cost (by function of governmental-type activity) is normally covered by general revenues (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.) The City does not allocate indirect costs.

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

The water, solid waste, wastewater funds, and airport are the major proprietary funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The City's fiduciary funds (which have been refined narrowed in scope) are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into government-wide statements.

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

**C. Measurement Focus, Basis of Accounting**

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

**Governmental Fund Financial Statements**—The governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 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 made.

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

In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

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

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the full accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases (e.g., revenues and expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's water, sewer, and sanitary landfill funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The reporting focus for fiduciary funds is on net assets and changes in net assets and are reported using the accounting principles similar to proprietary funds.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major business-type funds:

The water fund accounts for the provisions of water services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

The solid waste fund accounts for the disposal of solid waste for the residents of the City.

The wastewater fund accounts for the provisions of sewer service to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, administration, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

The airport fund accounts for the operation of the City airport. Financing is provided in part by hangar rental and transfers from the general fund.

Additionally, the City reports the following fund types:

The City reports four combined agency funds; the sales tax fund to account for sales tax receipts and disbursements; the court fund to account for DWI testing, receipts and disbursements; the meter fund to account for water security deposits held by the City, and the Hellwig fund to account for funds provided by a private donor to finance the purchase of medical equipment for the community hospital.

The City maintains twenty other individual governmental funds that are considered nonmajor funds; eighteen are classified as special revenue funds and two are classified as capital project funds. The City maintains two other individual enterprise funds that are considered nonmajor funds. A description for each nonmajor fund is as follows:

The municipal court fees fund accounts for the collection and expenditures of fees charged on citations for court appearances. The fund is authorized by Municipal Court Act 35-14-11, NMSA, 1978.

The emergency medical services fund accounts for the acquisition of emergency medical equipment financed through a grant from the state of New Mexico. The fund is authorized by Emergency Medical Fund Act, 24-10A-6, NMSA, 1978.

The enhanced 911 fund accounts for funds distributed to telephone companies receiving funds for the 911 system on behalf of the City of Artesia. the fund us authorized by the City Council. The fund had no balances at June 30, 2008 nor any activity during the year ended June 30, 2008.

The fire protection fund accounts for operations and acquisition of assets for the Fire Department. This fund is financed through state grants. The fund is authorized by Fire Protection Act, 59A-53-1, NMSA, 1978.

The law enforcement fund accounts for receipts and disbursements of State Funds Chapter 289, Law of 1983. These funds are to enhance the efficiency and effectiveness of the police force. The fund is authorized by 29-13-3, NMSA, 1978.

The LF Kennedy library fund accounts for money provided by a private donor to finance the purchase of particular library books. The principal amount was required to be maintained intact until October 4, 1991. At that time, both principal and interest could be spent on library books. The fund is authorized by the City Council.

The lodgers' tax fund accounts for the operations of promotional activities of the City of Artesia. Financing is provided primarily by specific tax levy on area motels. The fund is authorized by 14-37-16, NMSA, 1969.

The lodgers' tax promotional fund accounts for the operations of promotional activities of the city of Artesia. Financing is provided primarily by transfer from the Lodger's Tax Fund. The fund is authorized by 14-37-16, NMSA, 1969.

The gasoline tax fund accounts for the receipts, disbursements and transfer of funds received from an additional one cent gasoline tax. These funds are used to finance capital projects. The fund is authorized by 7-1-6.27, NMSA, 1978 compliance, 1989 Supplement.

The recreation fund accounts for the operations and maintenance of City owned recreation facilities. Financing is provided by a cigarette tax levy to the extent that other revenues are not sufficient to provide such services. The fund is authorized by 7-12-15 and 16, NMSA 1978.

The CDBG project fund accounts for various developments funded by federal grants. Authorized by federal government, Title I of the Housing and Community Development Act of 1974, as amended 10-4-95 and 9-30-96.

The Commission on Aging fund accounts for the operation and acquisition of assets for the senior citizens. It is financed through various grants. The fund is authorized by 13-1-59, NMSA, 1969.

The R.S.V.P fund records, maintains, and reports to the state of New Mexico hours performed by retired volunteers in the area. It is financed by a grant from the state of New Mexico. The fund is authorized by the City Council.

The federal forfeiture fund accounts for the receipts and disbursement of funds received from the sale of federally forfeited assets. These funds are used to supplement a fund for law enforcement. The fund is authorized by the federal government 21 U.S.C. Section 881 (E) (1) and 19 U.S.C Section 1616A.

The state and local forfeiture fund accounts for the receipts and disbursement of funds received from the sale of state and local forfeited assets. These funds are used to supplement a fund for law enforcement.

The industrial park fund provides for the lease of land and sale of water and sewer services to the lessee. The fund is authorized by the City Council.

The MGRT infrastructure accounts for the municipal gross receipts tax to be used for infrastructure improvements. The fund is authorized the City Council.

The MGRT economic development fund accounts for the municipal infrastructure gross receipts tax to be used for economic development plans and projects. This fund was established by City ordinance no. 645.

The capital improvement fund was established to record revenues and expenditures for severance tax and state funds received for projects approved by the legislature.

The CDBG rehab fund was established to record receipts from Urban Renewal in the early 1980's. The money was used to make low interest rate loans and grants for housing rehab. Funds collected from repayment of loans are used for CDBG-type projects.

The wastewater improvement fund accounts for the municipal infrastructure gross receipts tax dedicated to wastewater facilities enhancement.

The cemetery fund accounts for the operation and maintenance of the City cemetery. Financing is provided through lot sales and fees for services. The fund is authorized by 14-41-1, NMSA, 1978.

#### **D. Budgets**

Budgets for all funds are prepared by management and approved by the City Council and the New Mexico Department of Finance and Administration. The Clerk-Treasurer is responsible for preparing the budget from requests submitted by department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the City Council for approval by resolution. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval.

DFA certifies a pending budget by July 1st with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal years.

The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is presented as a reserved portion of fund balance. Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local Council approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

**E. Assets, Liabilities and Net Assets or Equity**

***Cash and Cash Equivalents***—For purposes of the statement of cash flows, the City considers all highly liquid investments, including restricted assets, with a maturity when purchased of three months or less to be cash equivalents.

***Deposits and Investments***—Investments in the City's cash and certificates of deposit are stated at cost, which approximates fair value. State statutes authorize the City to invest in certificates of deposit, obligations of the state and the U.S. government, and the New Mexico State Treasurer's investments pool. Cash and certificates of deposit are reported at book value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

***Receivables and Payables***—Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund balance. Long term advances between funds, as reported in the fund financial statements, 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.

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

***Restricted Assets***—Certain long-term assets in the proprietary funds and the component unit are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as "deposits held in trust for others."



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

**Capital Assets**—Capital assets include: property, plant, utility systems, equipment, and infrastructure assets. Infrastructure includes streets, sidewalks, bridges, drainage systems, lighting systems and similar items. Such assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000, and an estimated useful life in excess of one year. Assets are capitalized at historical cost or estimated historical cost if purchased or constructed. It is the policy of the City not to capitalize computer software. Donated assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add value of the asset or materially extend asset's lives are not capitalized.

During the 2005 regular New Mexico legislative session, the legislature enacted HB 1074 amending Section 12-6-10, NMSA 1978, and changing the capitalization threshold for movable chattel and equipment from costing more than \$1,000 to items costing more than \$5,000. The 2005 amendment became effective June 17, 2005. The City Council chose to amend its capitalization policy from \$1,000 to \$5,000 effective July 1, 2006. All assets capitalized prior to July 1, 2006, which are property of the City, remain on the financial and accounting records of the City.

As allowed by GASB Statement No. 34, the city had retroactively reported all infrastructure assets owned by the municipality.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets under construction.

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

<b>Assets</b>	<b>Years</b>
Buildings	40
Utility system	25
Public domain infrastructure	40
Machinery and equipment, including vehicles	5

**Compensated Absences**—City employees are entitled to certain compensated absences based on their employment classification and length of employment.

***Vacation Pay***—Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Accumulated unused vacation may not be carried from one year to year. Effective January 1st of each year, the employees' annual leave balance from the previous year shall be forfeited. In situations involving unforeseen circumstances, the mayor, upon recommendations of an employee's supervisor, may approve annual leave to be carried over from one year to the next. The annual vacation pay may not exceed forty (40) hours. Accumulated unused vacation is payable upon retirement or termination from employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if they have matured.

***Sick Leave***—With minor exceptions, the City allows 40-hour employees to accumulate unused sick leave to a maximum of 960 hours. Fire Department employees may accumulate 1,440 hours of sick leave. Hours accumulated above these thresholds are forfeited. Accumulated unused sick leave is not paid upon termination from employment or retirement. Sick leave is only paid upon illness while in the employment of the City. Accordingly, no provision for accumulated sick leave has been accrued in the accompanying financial statements.

***Deferred Revenues***—Within the government-wide financial statements, deferred revenues represent unearned revenues advanced to the City. Such advances are reported as deferred revenue until the earnings process is complete. Deferred revenues may include grant awards reflected as receivable but not recognized as revenues since all criteria have not been met.

Within the governmental funds, revenues must be available in order to be recognized. Revenues such as real estate taxes that are not available are recorded as deferred revenues and reflected as a liability with the balance sheet.

***Long Term Obligations***—In the government-wide fund financial statements, long term obligations and other long term obligations are reported as liabilities in the applicable governmental or business-type activities within the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

***Net Assets***—The government-wide financial statements utilize a net assets presentation. Net assets are categorized as follows:

***Investment in capital assets, net of related debt***—This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

***Restricted net assets***—This category reflects the portion of net assets that have third party limitations on their use.

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

**Fund Equity**—In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted. Designations represent tentative managerial plans that are subject to change. Fund equity was reserved or designated for:

**Reserved, designated for subsequent year's expenditures**—Represents the amounts, other than carryover expenditures, which are required to be designated for subsequent year's expenditures.

**Unreserved, undesignated**—Amounts that have not been reserved or designated for any purpose. These funds are available for unrestricted use by the City.

**Bond Discounts/Issuance Costs**—In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts are presented as a reduction of the face amount of bonds proceeds whereas issuance costs are recorded as expenditures.

**Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. CASH AND INVESTMENTS

### Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash.

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

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

### Cash Deposited With Financial Institutions

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

As of June 30, 2008, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	<b>Per Institution</b>	<b>Reconciling Items</b>	<b>Per Financial Statements</b>
Cash on hand	\$ -	\$ 600	\$ 600
1st National Bank	3,967,182	(1,078,833)	2,888,349
Western Bank	332,850	-	332,850
Wells Fargo	702,191	-	702,191
Total cash deposits	<u>\$ 5,002,223</u>	<u>\$ (1,078,233)</u>	<u>\$ 3,923,990</u>

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

Statement of Net Assets:	
Cash	\$ 3,689,064
Restricted cash	104,586
Statement of fiduciary net assets	<u>130,340</u>
Total cash reported on financial statements	<u>\$ 3,923,990</u>

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the City.

All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the City carrying value of the deposits (demand and certificates of deposit).

Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	<b>1st National Bank</b>	<b>Western Bank</b>	<b>Wells Fargo Bank</b>
Checking accounts	\$ 3,946,182	\$ 331,850	\$ 702,191
Certificates of deposit	21,000	1,000	-
	<hr/>	<hr/>	<hr/>
Total deposits	3,967,182	332,850	702,191
FDIC coverage	(121,000)	(101,000)	(100,000)
	<hr/>	<hr/>	<hr/>
Total uninsured public funds	<u>\$ 3,846,182</u>	<u>\$ 231,850</u>	<u>\$ 602,191</u>
Pledged securities	\$ 3,927,274	\$ 440,348	\$ 329,598
Collateral requirement (50% of uninsured public funds)	1,923,091	115,925	301,096
	<hr/>	<hr/>	<hr/>
Over collateralization	<u>\$ 2,004,183</u>	<u>\$ 324,423</u>	<u>\$ 28,502</u>

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits are owned by the public unit. Time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

***Custodial Credit Risk-Deposits***—Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$4,680,223 of the City's bank balance of \$5,002,223 was exposed to custodial credit risk as follows:

	<b>1st National Bank</b>	<b>Western Bank</b>	<b>Wells Fargo Bank</b>	<b>Total</b>
Uninsured and collateral held by pledging banks' trust dept. or agent not in the City's name	\$ 3,846,182	\$ 231,850	\$ 602,191	\$ 4,680,223

### Investments

Investments at June 30, 2008 are as follows:

<b>Agency</b>	<b>Investment</b>	<b>Maturity</b>	<b>Fair Market Value</b>
City Investments: NM State Treasurer	Investment Pool	N/A	<u>\$ 22,184,824</u>
Fiduciary Investments: NM State Treasurer			516,450
Other investments			<u>1,445,142</u>
Total fiduciary investments			<u>1,961,592</u>
Total investments			<u>\$ 24,146,416</u>

The investment amounts reported for the primary government within the financial statements are displayed as follows:

Statement of net assets:	
Investments	\$ 21,977,824
Restricted investments	207,000
Statement of fiduciary net assets	
Investments	<u>1,961,592</u>
	<u>\$ 24,146,416</u>

Credit and Interest Rate Risk

The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

*New MexiGROW Local Government Investment Pool*—The New MexiGROW Local Government Investment Pool's (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 6-10-10.1F, 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. The LGIP is rated AAA by Standard and Poor's and has a weighted average maturity of 46 days at June 30, 2008. Participation in the LGIP is voluntary.

Investments - Fiduciary Net Assets

A citizen of the City bequeathed certain assets to be used for the benefit of the community hospital. The City holds the assets strictly as an agent. The assets are mainly composed of equity securities in both public and private corporations. The City is prohibited from selling or trading the securities. All income earned is designated for the purchase of medical equipment for the local hospital. The fair market value of the investments at year end is \$1,253,630.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2008, are as follows:

	<b>Governmental Activities</b>	<b>Business Type Activities</b>
Accounts receivable:		
Charges for services	\$ 974,377	\$ 947,623
Allowance for doubtful accounts	<u>(626,234)</u>	<u>(109,828)</u>
	<u>\$ 348,143</u>	<u>\$ 837,795</u>

Taxes receivable:		
Property taxes	\$ 81,893	\$ -
Local effort sales tax	1,852,860	-
State shared tax	1,604,294	76,409
	<u>\$ 3,539,047</u>	<u>\$ 76,409</u>
Intergovernmental:		
Federal grants	\$ 7,000	\$ -
State grants	117,497	-
	<u>\$ 124,497</u>	<u>\$ -</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year deferred revenue which related to delinquent property taxes was \$76,567. There was also \$50,000 in deferred revenue related to state grants at June 30, 2008.

#### 4. **PROPERTY TAX**

Property taxes attached as an enforceable lien on property as of January 1st. Property tax rates for the year are set no later than September 1st each year by the New Mexico Secretary of Finance and Administration. The rates of tax are then used by the Eddy County Assessor to develop the property tax schedule by October 1st. The Eddy County Treasurer sends tax notices to property owners by November 1st of each year. Taxes are payable in equal semiannual installments by November 10th and April 10th of subsequent year. Thirty days later the bill becomes delinquent and the County Treasurer assesses penalties and interest. Taxes are collected on behalf of the City by the County Treasurer, and are remitted to the City in the month following collection. The County Treasurer is statutorily required to collect taxes as an intermediary agency for all forms of government. Distribution of taxes collected is made through the County Treasurer's office.

The City is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the City is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the City. The City's total tax rate to finance general government services for the year 2006, was \$2.225 per \$1,000 for non-residential and \$1.911 for residential property. In the year 2006, there was no tax rate established for payment of bonds principal and interest.

#### 5. **INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS**

Interfund balances represent short-term advances for funds that receive grants on a reimbursement basis. The composition of interfund transfers during the year ended June 30, 2008 is as follows:

Transfers In	Transfers Out	Amount
General Fund	Solid Waster Fund	\$ 70,000
Airport Fund	General Fund	150,000
Solid Waste Fund	General Fund	575,000
Lodgers' Tax Fund	Lodgers' Tax Promotional Fund	211,026
Water Fund	Solid Waste Fund	210,101
		<u>1,216,127</u>
		<u>\$ 1,216,127</u>

The City recorded interfund receivables/payables to reflect a temporary loan between funds. These funds are expected to be paid back within a year:

Due To	Due From	Amount
General Fund	RSVP Program Fund	\$ 4,265
General Fund	Commission on Aging	5,384
		<u>9,649</u>
		<u>\$ 9,649</u>

## 6. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 629,209	\$ -	\$ -	\$ 629,209
Construction in progress	1,392,631	2,242,081	(1,299,037)	2,335,675
Total capital assets not being depreciated	<u>2,021,840</u>	<u>2,242,081</u>	<u>(1,299,037)</u>	<u>2,964,884</u>
Capital assets being depreciated:				
Buildings	8,505,827	519,615	(235,095)	8,790,347
Improvements	2,956,477	1,074,676	(1,923)	4,029,230
Infrastructure	19,122,530	-	-	19,122,530
Equipment	6,475,014	746,519	(406,500)	6,815,033
Total capital assets being depreciated	<u>37,059,848</u>	<u>2,340,810</u>	<u>(643,518)</u>	<u>38,757,140</u>
Less accumulated depreciation for:				
Buildings	3,223,721	182,686	(196,325)	3,210,082
Improvements	951,871	89,426	(1,923)	1,039,374
Infrastructure	11,246,526	483,173	-	11,729,699
Equipment	3,950,874	605,252	(395,767)	4,160,359
Total accumulated depreciation	<u>19,372,992</u>	<u>1,360,537</u>	<u>(594,015)</u>	<u>20,139,514</u>
Total capital assets being depreciated, net	<u>17,686,856</u>	<u>980,273</u>	<u>(49,503)</u>	<u>18,617,626</u>
Governmental activities capital assets, net	<u>\$ 19,708,696</u>	<u>\$ 3,222,354</u>	<u>\$ (1,348,540)</u>	<u>\$ 21,582,510</u>



Depreciation expense for the year ended June 30, 2008 was charged to the following functions and funds:

General government	\$ 137,714
Public safety	298,107
Public works	651,084
Culture and recreation	<u>273,632</u>
	<u>\$ 1,360,537</u>

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Business Type Activities:				
Capital assets not being depreciated:				
Land	\$ 165,622	\$ -	\$ -	\$ 165,622
Construction in progress	<u>1,058,871</u>	<u>3,945,670</u>	<u>(875,319)</u>	<u>4,129,222</u>
Total capital assets not being depreciated	<u>1,224,493</u>	<u>3,945,670</u>	<u>(875,319)</u>	<u>4,294,844</u>
Capital assets being depreciated:				
Buildings	482,530	60,000	-	542,530
Improvements	125,376	-	-	125,376
Utility system	23,860,578	-	-	23,860,578
Airport infrastructure	4,200,915	-	-	4,200,915
Equipment	<u>3,083,401</u>	<u>1,351,725</u>	<u>(133,111)</u>	<u>4,302,015</u>
Total capital assets being depreciated	<u>31,752,800</u>	<u>1,411,725</u>	<u>(133,111)</u>	<u>33,031,414</u>
Less accumulated depreciation for:				
Buildings	446,786	323,195	-	769,981
Improvements	67,894	2,076	-	69,970
Utility system	12,272,339	565,358	-	12,837,697
Airport infrastructure	3,156,064	30,043	-	3,186,107
Equipment	<u>2,157,348</u>	<u>2,115</u>	<u>(132,564)</u>	<u>2,026,899</u>
Total accumulated depreciation	<u>18,100,431</u>	<u>922,787</u>	<u>(132,564)</u>	<u>18,890,654</u>
Total capital assets being depreciated, net	<u>13,652,369</u>	<u>488,938</u>	<u>(547)</u>	<u>14,140,760</u>
Business-type activities capital assets, net	<u>\$ 14,876,862</u>	<u>\$ 4,434,608</u>	<u>\$ (875,866)</u>	<u>\$ 18,435,604</u>

## 7. LONG TERM OBLIGATIONS

Long term liability activity for the year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 219,850	\$ 264,959	\$ (236,015)	\$ 248,794	\$ 142,741
Business Type Activities:					
Bonds payable	102,000	-	(9,000)	93,000	10,000
Compensated absences	50,938	82,166	(68,699)	64,405	42,613
Landfill closure	53,750	-	(2,500)	51,250	-
Total business-type activities	\$ 206,688	\$ 82,166	\$ (80,199)	\$ 208,655	\$ 52,613

Loan debt service requirements to maturity are as follows:

Years ending June 30,	Principal	Interest	Total
2009	\$ 10,000	\$ 4,650	\$ 14,650
2010	10,000	4,150	14,150
2011	11,000	3,650	14,650
2012	11,000	3,100	14,100
2013	12,000	2,550	14,550
2014-2018	39,000	4,050	43,050
	<u>\$ 93,000</u>	<u>\$ 22,150</u>	<u>\$ 115,150</u>

### Compensated Absences

A liability for unused vacation for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

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

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

### Landfill Closure and Post-Closure Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure of the landfill site. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste.

The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The landfill was closed in 1998. The estimated total current cost of the landfill post-closure care liability of \$51,250 is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2008. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in state and federal landfill laws and regulations. The City is required by the state of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs.

## **8. RISK MANAGEMENT**

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

## **9. PERA PENSION PLAN**

*Plan Description.* Substantially all of the City's full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost sharing, multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123.

*Funding Policy.* Plan members are required to contribute 15.65% for municipal employees and 16.3% of gross salaries for law enforcement employees. The City is required to contribute 18.5% for law enforcement plan members and 11.65% for all other plan members. The contribution requirements of plan members and the City are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The City's contributions to PERA for the years ended June 30, 2008, 2007, and 2006 were \$307,610 \$336,856, and \$147,654, respectively, equal to the amount of the required contributions for the years, respectively.

For the year ended June 30, 2008, the City's total payroll was \$6,449,383 and the payroll for employees covered by the plan was \$2,583,218.

**10. DEFERRED COMPENSATION**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Diversified Investment Advisors. The assets and liabilities are held in trust by Diversified Investment Advisors.

The plan, available to all City employees who work at least 17 hours per week, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of the deferred account of each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The City contributes an amount equal to 8% for all employees contributing 0%, 9% for all employees contributing 2.5% and 10% for all employees contributing 5% of the permanent, full-time employees gross salaries. The City's contributions to the plan for the years ended June 30, 2008, 2007 and 2006 were approximately \$208,757, \$304,556, and \$263,220, respectively.

As of January 1, 2002, the assets of the plan were placed in a trust to be held for the exclusive benefit of the participants and their beneficiaries. Since the City does not have custody or control of these assets, an agency fund is not required to be reported. The market value of these assets at June 30, 2008 is \$3,924,774.

**11. POST EMPLOYMENT BENEFITS**

The Retiree Health Care Act, Chapter IV, Article 7C, NMSA 1978 provides a comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The City has elected not to participate in the post employment health insurance plan.

**12. CONTINGENT LIABILITIES**

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

The City is involved in various claims and lawsuits arising in the normal course of business. The City is insured through the New Mexico City Insurance Authority. In the opinion of management, the outcome of these matters will not have a material effect on the financial position of the City.

**13. ACCOUNTING STANDARDS**

In June 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets which is effective for financial statements for periods beginning after June 15, 2009. The Statement establishes uniform financial reporting standards for intangible assets. The City incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

In November 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 52, Land Held as Investments by Endowments, which is effective for financial statements for periods beginning after June 15, 2008, with earlier application encouraged. This Statement establishes standards for the reporting of land and other real estate by endowment. The City is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which is effective for all periods beginning after June 15, 2009. The statement is intended to improve how governments report information about derivative instruments. The City is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements on the upcoming year.

**14. DEFICIT FUND BALANCES**

The following funds had deficit fund balances at June 30, 2008:

Emergency Medical Services Fund	\$	385
Fire Protection Fund		460
Commission On Aging Fund		6,329
RSVP Program Fund		12,828
Capital Improvement Fund		903,093

**SUPPLEMENTARY INFORMATION**

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds						
	Municipal Court Fees Fund	Emergency Medical Service Fund	Fire Protection Fund	Law Enforcement Fund	L F Kennedy Library Fund	Lodgers' Tax Fund	
<b>ASSETS</b>							
Cash	\$ 29,786	\$ -	\$ -	\$ 5,382	\$ 27,194	\$ 59,482	
Investments	150,000	-	-	-	20,000	-	
Taxes receivable	-	-	-	-	-	-	
Intergovernmental receivable	-	-	-	-	-	-	
Accrued interest receivable	269	-	-	-	36	-	
<b>Total assets</b>	<b>\$ 180,055</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,382</b>	<b>\$ 47,230</b>	<b>\$ 59,482</b>	
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 1,466	\$ 385	\$ 460	\$ -	\$ -	\$ -	
Accrued salaries	-	-	-	-	-	-	
Deferred revenue	-	-	-	-	-	-	
Interfund balance	-	-	-	-	-	-	
<b>Total liabilities</b>	<b>1,466</b>	<b>385</b>	<b>460</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Fund balances:							
Unreserved	178,589	(385)	(460)	5,382	47,230	59,482	
<b>Total liabilities and fund balances</b>	<b>\$ 180,055</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,382</b>	<b>\$ 47,230</b>	<b>\$ 59,482</b>	

See accompanying notes to financial statements.

Continued

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds						
	Lodgers' Tax Promotional Fund	Gasoline Tax Fund	Recreation Fund	CDBG Project Fund	Commission on Aging Fund	RSVP Program Fund	Federal Forfeitures Fund
<b>ASSETS</b>							
Cash	\$ 21,886	\$ 408,295	\$ 30,049	\$ 10	\$ 2,845	\$ (7,374)	\$ 129
Investments	-	275,000	-	-	-	-	-
Taxes receivables	-	49,603	2,400	-	-	-	-
Intergovernmental receivable	-	-	-	-	-	-	-
Accrued interest receivable	-	493	-	-	-	-	-
<b>Total assets</b>	<b>\$ 21,886</b>	<b>\$ 733,391</b>	<b>\$ 32,449</b>	<b>\$ 10</b>	<b>\$ 2,845</b>	<b>\$ (7,374)</b>	<b>\$ 129</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ -	\$ 230,000	\$ 4,768	\$ -	\$ 3,790	\$ 330	\$ -
Accrued salaries	-	-	12,272	-	-	859	-
Deferred revenues	-	-	-	-	-	-	-
Interfund balance	-	-	-	-	5,384	4,265	-
<b>Total liabilities</b>	<b>-</b>	<b>230,000</b>	<b>17,040</b>	<b>-</b>	<b>9,174</b>	<b>5,454</b>	<b>-</b>
Fund balances:							
Unreserved	21,886	503,391	15,409	10	(6,329)	(12,828)	129
<b>Total liabilities and fund balances</b>	<b>\$ 21,886</b>	<b>\$ 733,391</b>	<b>\$ 32,449</b>	<b>\$ 10</b>	<b>\$ 2,845</b>	<b>\$ (7,374)</b>	<b>\$ 129</b>

See accompanying notes to financial statements.

Continued



STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds					Total Special Revenue Funds
	State and Local Forfeitures Fund	Industrial Park Fund	MGRT Infrastructure Fund	MGRT Economic Development Fund		
<b>ASSETS</b>						
Cash	\$ 139	\$ 2,593	\$ 381,575	\$ 72,647	\$	1,034,638
Investments	-	256,000	702,550	522,750		1,926,300
Taxes receivables	-	-	228,577	76,272		356,852
Intergovernmental receivable	-	-	-	-	-	-
Accrued interest receivable	-	459	161	764		2,182
<b>Total assets</b>	<b>\$ 139</b>	<b>\$ 259,052</b>	<b>\$ 1,312,863</b>	<b>\$ 672,433</b>	<b>\$</b>	<b>\$ 3,319,972</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ -	\$ 50,424	\$ -	\$ -	\$	291,623
Accrued salaries	-	-	-	-		13,131
Deferred revenue	-	-	-	-		-
Interfund balance	-	-	-	-		9,649
<b>Total liabilities</b>	<b>-</b>	<b>50,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>314,403</b>
Fund balances:						
Unreserved	139	208,628	1,312,863	672,433		3,005,569
<b>Total liabilities and fund balances</b>	<b>\$ 139</b>	<b>\$ 259,052</b>	<b>\$ 1,312,863</b>	<b>\$ 672,433</b>	<b>\$</b>	<b>\$ 3,319,972</b>

See accompanying notes to financial statements.

Continued

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Capital Projects Funds				Total Non-Major Funds
	Capital Improvement Fund	CDBG Rehab Fund	Total Capital Projects Funds		
<b>ASSETS</b>					
Cash	\$ (900,412)	\$ 7,777	\$ (892,635)		142,003
Investment	-	-	-		1,926,300
Taxes receivable	-	-	-		356,852
Intergovernmental receivable	117,497	-	117,497		117,497
Accrued interest receivable	-	-	-		2,182
<b>Total assets</b>	<b>\$ (782,915)</b>	<b>\$ 7,777</b>	<b>\$ (775,138)</b>	<b>\$</b>	<b>2,544,834</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 70,178	\$ -	\$ 70,178		\$ 361,801
Accrued salaries	-	-	-		13,131
Deferred revenue	50,000	-	50,000		50,000
Interfund balance	-	-	-		9,649
<b>Total liabilities</b>	<b>120,178</b>	<b>-</b>	<b>120,178</b>		<b>434,581</b>
<b>Fund balances:</b>					
Unreserved	(903,093)	7,777	(895,316)		2,110,253
<b>Total liabilities and fund balances</b>	<b>\$ (782,915)</b>	<b>\$ 7,777</b>	<b>\$ (775,138)</b>	<b>\$</b>	<b>2,544,834</b>

Concluded

See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds							
	Municipal Court Fees Fund	Emergency Medical Services Fund	Fire Protection Fund	Law Enforcement Fund	LF Kennedy Library Fund	Lodgers' Tax Fund		
Revenues:								
Local effort taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 225,702
State shared taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	20,000	94,140	39,200	-	-	-	-
Charges for services	86,117	-	-	-	-	657	-	-
Miscellaneous	269	-	691	-	-	850	-	-
Total revenues	86,386	20,000	94,831	39,200	1,507	-	-	225,702
Expenditures:								
Current:								
General government	22,415	-	-	-	-	-	-	-
Public safety	-	18,457	81,669	18,650	-	-	-	-
Culture and recreation	-	-	-	-	1,731	-	-	-
Capital outlay	6,497	-	30,684	19,296	-	-	-	-
Total expenditures	28,912	18,457	112,353	37,946	1,731	-	-	-
Excess (deficiency) of revenues over expenditures	57,474	1,543	(17,522)	1,254	(224)	-	-	225,702
Other financing sources (uses):								
Transfer in	-	-	-	-	-	-	-	-
Transfer (out)	-	-	-	-	-	-	-	(211,026)
Total other financing sources (uses)	-	-	-	-	-	-	-	(211,026)
Net changes in fund balances	57,474	1,543	(17,522)	1,254	(224)	-	-	14,676
Fund balance - beginning of year	121,115	(1,928)	17,062	4,128	47,454	-	-	44,806
Fund balance - end of year	\$ 178,589	\$ (385)	\$ (460)	\$ 5,382	\$ 47,230	\$ -	\$ -	\$ 59,482

Continued

See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds							
	Lodgers' Tax Promotional Fund	Gasoline Tax Fund	Recreation Fund	CDBG Project Fund	Commission on Aging Fund	RSVP Program Fund	Federal Forfeitures Fund	
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Local effort taxes	-	280,961	13,928	-	-	-	-	
State shared taxes	-	136,962	54,000	-	36,322	-	-	
Intergovernmental	-	-	29,784	-	-	-	-	33,805
Charges for services	-	-	-	-	-	-	-	-
Miscellaneous	-	3,538	-	-	-	-	-	-
Total revenues	-	421,461	97,712	-	36,322	-	-	33,805
Expenditures:								
Current:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Culture and recreation	229,447	-	91,325	-	42,168	-	-	40,546
Capital outlay	-	366,693	-	-	-	-	-	-
Total expenditures	229,447	366,693	91,325	-	42,168	-	-	40,546
Excess (deficiency) of revenues over expenditures	(229,447)	54,768	6,387	-	(5,846)	-	-	(6,741)
Other financing sources (uses):								
Transfer in	211,026	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	211,026	-	-	-	-	-	-	-
Net changes in fund balances	(18,421)	54,768	6,387	-	(5,846)	-	-	(6,741)
Fund balance - beginning of year	40,307	448,623	9,022	10	(483)	(6,087)	-	129
Fund balance - end of year	\$ 21,886	\$ 503,391	\$ 15,409	\$ 10	\$ (6,329)	\$ (12,828)	\$	\$ 129

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See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds					Total Special Revenue Funds
	State and Local Forfeitures Fund	Industrial Park Fund	MGRT Infrastructure Fund	MGRT Economic Development Fund		
Revenues:						
Local effort taxes	\$ -	\$ -	\$ -	\$ -	\$ -	225,702
State shared taxes	-	-	1,144,855	381,698	-	1,821,442
Intergovernmental	-	5,790	-	-	-	420,219
Charges for services	-	45,749	-	-	-	162,307
Miscellaneous	-	10,853	3,480	14,018	-	33,699
Total revenues	-	62,392	1,148,335	395,716	-	2,663,369
Expenditures:						
Current:						
General government	-	-	-	365,000	-	387,415
Public safety	-	-	-	-	-	118,776
Culture and recreation	-	-	-	-	-	405,217
Capital outlay	-	150,379	1,161,101	-	-	1,734,650
Total expenditures	-	150,379	1,161,101	365,000	-	2,646,058
Excess (deficiency) of revenues over expenditures	-	(87,987)	(12,766)	30,716	-	17,311
Other financing sources (uses):						
Transfer in	-	-	-	-	-	211,026
Transfer out	-	-	-	-	-	(211,026)
Total other financing sources (uses)	-	-	-	-	-	-
Net changes in fund balances	-	(87,987)	(12,766)	30,716	-	17,311
Fund balance - beginning of year	139	296,615	1,325,629	641,717	-	2,988,258
Fund balance - end of year	\$ 139	\$ 208,628	\$ 1,312,863	\$ 672,433	\$ -	\$ 3,005,569

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See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Capital Projects Funds				
	Capital Improvement Fund	CDBG Rehab Fund	Total Capital Projects Funds	Total Non-Major Funds	
Revenues:					
Local effort taxes	\$ -	\$ -	\$ -	\$ 225,702	
State shared taxes	-	-	-	1,821,442	
Intergovernmental	1,219,664	475	1,220,139	1,640,358	
Charges for services	-	-	-	162,307	
Miscellaneous	-	53	53	33,752	
Total revenues	1,219,664	528	1,220,192	3,883,561	
Expenditures:					
Current:					
General government	-	9	9	387,424	
Public safety	-	-	-	118,776	
Culture and recreation	-	-	-	405,217	
Capital outlay	2,146,585	-	2,146,585	3,881,235	
Total expenditures	2,146,585	9	2,146,594	4,792,652	
Excess (deficiency) of revenues over expenditures	(926,921)	519	(926,402)	(909,091)	
Other financing sources (uses):					
Transfer in	-	-	-	211,026	
Transfer out	-	-	-	(211,026)	
Total other financing sources (uses)	-	-	-	-	
Net changes in fund balances	(926,921)	519	(926,402)	(909,091)	
Fund balance - beginning of year	23,828	7,258	31,086	3,019,344	
Fund balance - end of year	\$ (903,093)	\$ 7,777	\$ (895,316)	\$ 2,110,253	

Concluded

See accompanying notes to financial statements.

**SPECIAL REVENUE FUNDS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**MUNICIPAL COURT FEES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Charges for services	\$ 70,000	\$ 105,000	\$ 86,117	\$ (18,883)
Expenditures:				
Current:				
General government	20,000	30,000	23,350	(6,650)
Capital outlay	-	6,761	6,497	(264)
Total expenditures	20,000	36,761	29,847	(6,914)
Net change in fund balance	50,000	68,239	56,270	(11,969)
Fund balance - beginning of year	121,115	121,115	121,115	-
Fund balance - end of year	\$ 171,115	\$ 189,354	\$ 177,385	\$ (11,969)
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 56,270	
Net revenue accruals			269	
Net expenditure accruals			935	
Net changes in fund balance GAAP basis			\$ 57,474	

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**EMERGENCY MEDICAL SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Expenditures:				
Current:				
Public safety	20,000	20,000	20,000	-
Net change in fund balances	-	-	-	-
Fund balance - beginning of year	(1,928)	(1,928)	(1,928)	-
Fund balance - end of year	<u>\$ (1,928)</u>	<u>\$ (1,928)</u>	<u>\$ (1,928)</u>	<u>\$ -</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ -	
Net revenue accruals			-	
Net expenditure accruals			<u>1,543</u>	
Net changes in fund balance GAAP basis			<u>\$ 1,543</u>	

See accompanying notes to financial statements.

STATE OF NEW MEXICO  
CITY OF ARTESIA

E-911 GRANT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008

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	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 66,000	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Public safety	66,000	-	-	-
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**FIRE PROTECTION SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 84,279	\$ 94,140	\$ 94,140	\$ -
Miscellaneous	-	764	764	-
	<u>84,279</u>	<u>94,904</u>	<u>94,904</u>	<u>-</u>
Total revenues	84,279	94,904	94,904	-
Expenditures:				
Current:				
Public safety	64,279	94,197	94,169	28
Capital outlay	20,000	30,684	30,684	-
	<u>84,279</u>	<u>124,881</u>	<u>124,853</u>	<u>28</u>
Total expenditures	84,279	124,881	124,853	28
Net change in fund balances	-	(29,977)	(29,949)	(28)
Fund balance - beginning of year	<u>17,062</u>	<u>17,062</u>	<u>17,062</u>	<u>-</u>
Fund balance - end of year	<u>\$ 17,062</u>	<u>\$ (12,915)</u>	<u>\$ (12,887)</u>	<u>\$ (28)</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (29,949)	
Net revenue accruals			(73)	
Net expenditure accruals			12,500	
Net changes in fund balance GAAP basis			<u>\$ (17,522)</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**LAW ENFORCEMENT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Intergovernmental	\$ 34,400	\$ 39,200	\$ 39,200	\$ -
Expenditures:				
Current:				
Public safety	-	18,650	18,650	-
Capital outlay	34,400	27,311	21,929	(5,382)
Total expenditures	34,400	45,961	40,579	(5,382)
Net change in fund balances	-	(6,761)	(1,379)	5,382
Fund balance - beginning of year	4,128	4,128	4,128	-
Fund balance - end of year	\$ 4,128	\$ (2,633)	\$ 2,749	\$ 5,382
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (1,379)	
Net revenue accruals			-	
Net expenditure accruals			2,633	
Net changes in fund balance GAAP basis			\$ 1,254	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**L F KENNEDY LIBRARY SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Charges for services	\$ 500	\$ 500	\$ 657	\$ 157
Miscellaneous	750	750	900	150
Total revenues	1,250	1,250	1,557	307
Expenditures:				
Current:				
Culture and recreation	2,500	2,500	1,731	(769)
Net change in fund balances	(1,250)	(1,250)	(174)	1,076
Fund balance - beginning of year	47,454	47,454	47,454	-
Fund balance - end of year	\$ 46,204	\$ 46,204	\$ 47,280	\$ 1,076
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (174)	
Net revenue accruals			(50)	
Net expenditure accruals			-	
Net changes in fund balance GAAP basis			\$ (224)	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**LODGERS' TAX SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Local effort taxes	\$ 206,000	\$ 225,603	\$ 225,702	\$ 99
Expenditures:				
Current:				
Culture and recreation	50,000	50,000	-	(50,000)
Excess of revenues over expenditures	156,000	175,603	225,702	50,099
Other financing sources (uses):				
Transfer (out)	(190,000)	(211,027)	(211,026)	1
Net change in fund balances	(34,000)	(35,424)	14,676	50,100
Fund balance - beginning of year	44,806	44,806	44,806	-
Fund balance - end of year	<u>\$ 10,806</u>	<u>\$ 9,382</u>	<u>\$ 59,482</u>	<u>\$ 50,100</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**LODGERS' TAX PROMOTIONAL SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Culture and recreation	190,000	226,367	226,367	-
Deficiency of revenues over expenditures	(190,000)	(226,367)	(226,367)	-
Other Financing Sources:				
Transfer in	190,000	207,946	207,946	-
Net change in fund balance	-	(18,421)	(18,421)	-
Fund balance - beginning of year	40,307	40,307	40,307	-
Fund balance - end of year	<u>\$ 40,307</u>	<u>\$ 21,886</u>	<u>\$ 21,886</u>	<u>\$ -</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (18,421)	
Net revenue accruals			3,081	
Net expenditure accruals			(3,081)	
Net changes in fund balance GAAP basis			<u>\$ (18,421)</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**GASOLINE TAX SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
<b>Revenues:</b>				
State shared taxes	\$ 300,000	\$ 300,000	\$ 281,009	\$ (18,991)
Intergovernmental	75,000	136,963	136,962	(1)
Miscellaneous	3,500	3,500	3,369	(131)
	<u>378,500</u>	<u>440,463</u>	<u>421,340</u>	<u>(19,123)</u>
<b>Total revenue</b>				
<b>Expenditures:</b>				
<b>Current:</b>				
Capital outlay	<u>474,000</u>	<u>535,693</u>	<u>136,693</u>	<u>(399,000)</u>
Net change in fund balances	(95,500)	(95,230)	284,647	379,877
Fund balance - beginning of year	<u>448,623</u>	<u>448,623</u>	<u>448,623</u>	<u>-</u>
Fund balance - end of year	<u>\$ 353,123</u>	<u>\$ 353,393</u>	<u>\$ 733,270</u>	<u>\$ 379,877</u>
<b>Reconciliation of budgetary basis to GAAP basis:</b>				
Net changes in fund balance budgetary basis			\$ 284,647	
Net revenue accruals			121	
Net expenditure accruals			<u>(230,000)</u>	
Net changes in fund balance GAAP basis			<u>\$ 54,768</u>	

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**RECREATION SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
<b>Revenues:</b>				
State shared taxes	\$ 12,000	\$ 12,000	\$ 14,545	\$ 2,545
Intergovernmental	54,000	54,000	54,000	-
Charges for services	24,979	24,979	29,784	4,805
Miscellaneous	3,950	3,950	-	(3,950)
<b>Total revenues</b>	<b>94,929</b>	<b>94,929</b>	<b>98,329</b>	<b>3,400</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Culture and recreation	118,970	118,970	91,418	(27,552)
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(24,041)</b>	<b>(24,041)</b>	<b>6,911</b>	<b>30,952</b>
<b>Other financing sources (uses):</b>				
Transfer out	(3,556)	(903)	-	(903)
<b>Net change in fund balance</b>	<b>(27,597)</b>	<b>(24,944)</b>	<b>6,911</b>	<b>31,855</b>
<b>Fund balance - beginning of year</b>	<b>9,022</b>	<b>9,022</b>	<b>9,022</b>	<b>-</b>
<b>Fund balance - end of year</b>	<b>\$ (18,575)</b>	<b>\$ (15,922)</b>	<b>\$ 15,933</b>	<b>\$ 31,855</b>
<b>Reconciliation of budgetary basis to GAAP basis:</b>				
Net changes in fund balance budgetary basis			\$ 6,911	
Net revenue accruals			(617)	
Net expenditure accruals			93	
<b>Net changes in fund balance GAAP basis</b>			<b>\$ 6,387</b>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**CDBG GRANT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ -	\$ 35,000	\$ 350,000	\$ 315,000
Expenditures:				
Current:				
General government	-	350,000	350,000	-
Net change in fund balance	-	(315,000)	-	315,000
Fund balance - beginning of year	10	10	10	-
Fund balance - end of year	\$ 10	\$ (314,990)	\$ 10	\$ 315,000
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ -	
Net revenue accruals			(350,000)	
Net expenditure accruals			350,000	
Net changes in fund balance GAAP basis			\$ -	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**COA GRANT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 38,861	\$ 44,245	\$ 41,706	\$ (2,539)
Expenditures:				
Current:				
Culture & recreation	38,861	83,106	38,861	(44,245)
Net change in fund balance	-	(38,861)	2,845	41,706
Fund balance - beginning of year	(483)	(483)	(483)	-
Fund balance - end of year	<u>\$ (483)</u>	<u>\$ (39,344)</u>	<u>\$ 2,362</u>	<u>\$ 41,706</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 2,845	
Net revenue accruals			(5,384)	
Net expenditure accruals			(3,307)	
Net changes in fund balance GAAP basis			<u>\$ (5,846)</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**MUSEUM GRANT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Intergovernmental	\$ -	\$ 2,000	\$ -	\$ (2,000)
Expenditures:				
Current:				
General government	-	2,000	-	(2,000)
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**RSVP PROGRAM SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Intergovernmental	\$ 45,643	\$ 49,908	\$ 33,805	\$ (16,103)
Expenditures:				
Current:				
Culture and recreation	45,643	45,643	41,179	(4,464)
Net change in cash balance	-	4,265	(7,374)	(11,639)
Fund balance - beginning of year	(6,087)	(6,087)	(6,087)	-
Fund balance - end of year	\$ (6,087)	\$ (1,822)	\$ (13,461)	\$ (11,639)
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (7,374)	
Net revenue accruals			-	
Net expenditure accruals			633	
Net changes in fund balance GAAP basis			\$ (6,741)	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**FEDERAL FORFEITURES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Public safety	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	129	129	129	-
Fund balance - end of year	\$ 129	\$ 129	\$ 129	\$ -

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**STATE AND LOCAL FORFEITURES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Public safety	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance - beginning of year	139	139	139	-
Fund balance - end of year	\$ 139	\$ 139	\$ 139	\$ -

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**INDUSTRIAL PARK SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Over (Under)
Revenues:				
Charges for services	\$ 40,000	\$ 40,000	\$ 45,749	\$ 5,749
Miscellaneous	<u>11,000</u>	<u>11,000</u>	<u>11,499</u>	<u>499</u>
Total revenue	51,000	51,000	57,248	6,248
Expenditures:				
Capital outlay	<u>250,000</u>	<u>163,315</u>	<u>99,955</u>	<u>(63,360)</u>
Net change in fund balance	(199,000)	(112,315)	(42,707)	57,112
Fund balance - beginning of year	<u>296,615</u>	<u>296,615</u>	<u>296,615</u>	<u>-</u>
Fund balance - end of year	<u>\$ 97,615</u>	<u>\$ 184,300</u>	<u>\$ 253,908</u>	<u>\$ 57,112</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (42,707)	
Net revenue accruals			5,144	
Net expenditure accruals			<u>(50,424)</u>	
Net changes in fund balance GAAP basis			<u>\$ (87,987)</u>	

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**MGRT INFRASTRUCTURE SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
State shared taxes	\$ 825,000	\$ 1,000,000	\$ 1,111,750	\$ 111,750
Miscellaneous	5,000	5,000	3,707	(1,293)
Total revenues	830,000	1,005,000	1,115,457	110,457
Expenditures:				
Current:				
Capital outlay	1,500,000	2,153,318	1,161,101	(992,217)
Net change in fund balance	(670,000)	(1,148,318)	(45,644)	1,102,674
Fund balance - beginning of year	1,325,629	1,325,629	1,325,629	-
Fund balance - end of year	\$ 655,629	\$ 177,311	\$ 1,279,985	\$ 1,102,674
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (45,644)	
Net revenue accruals			32,878	
Net expenditure accruals			-	
Net changes in fund balance GAAP basis			\$ (12,766)	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**MGRT ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
State shared taxes	\$ 290,000	\$ 340,000	\$ 370,583	\$ 30,583
Miscellaneous	14,000	14,000	14,663	663
Total revenues	304,000	354,000	385,246	31,246
Expenditures:				
Current:				
General government	370,000	551,080	365,000	(186,080)
Net change in fund balance	(66,000)	(197,080)	20,246	217,326
Fund balance - beginning of year	641,717	641,717	641,717	-
Fund balance - end of year	\$ 575,717	\$ 444,637	\$ 661,963	\$ 217,326
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 20,246	
Net revenue accruals			10,470	
Net expenditure accruals			-	
Net changes in fund balance GAAP basis			\$ 30,716	

See accompanying notes to financial statements.

**CAPITAL PROJECTS FUNDS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Intergovernmental	\$ 18,599,228	\$ 21,123,712	\$ 1,152,166	\$ (19,971,546)
Expenditures:				
Current:				
General government	18,877,709	21,207,540	2,136,406	(19,071,134)
Net change in fund balance	(278,481)	(83,828)	(984,240)	900,412
Fund balance, beginning of year	23,828	23,828	23,828	-
Fund balance, end of year	<u>\$ (254,653)</u>	<u>\$ (60,000)</u>	<u>\$ (960,412)</u>	<u>\$ 900,412</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (984,240)	
Net revenue accruals			67,494	
Net expenditure accruals			(10,175)	
Net changes in fund balance GAAP basis			<u>\$ (926,921)</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**CDBG REHAB CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

---

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Over (Under)</b>
Revenues:				
Intergovernmental	\$ 600	\$ 600	\$ 475	\$ (125)
Miscellaneous	75	75	53	(22)
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	675	675	528	(147)
Expenditures				
General government	-	9	9	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net changes in fund balance	675	666	519	(147)
Fund balance - beginning of year	<hr/> 7,258	<hr/> 7,258	<hr/> 7,258	<hr/> -
Fund balance - end of year	<hr/> <b>\$ 7,933</b>	<hr/> <b>\$ 7,924</b>	<hr/> <b>\$ 7,777</b>	<hr/> <b>\$ (147)</b>

See accompanying notes to financial statements.

**PROPRIETARY FUNDS**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**COMBINING STATEMENTS OF NET ASSETS - NONMAJOR PROPRIETARY  
FUNDS  
JUNE 30, 2008**

	<b>Wastewater Improvement Fund</b>	<b>Cemetery Fund</b>	<b>Total</b>
<b>Assets:</b>			
Cash	\$ 1,606	\$ 1,000	\$ 2,606
Investments	8,500	199,000	207,500
Accrued interest receivable	15	356	371
<b>Noncurrent assets:</b>			
Capital assets, net of accumulated depreciation	-	151,989	151,989
<b>Total assets</b>	<b>\$ 10,121</b>	<b>\$ 352,345</b>	<b>\$ 362,466</b>
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ -	\$ 765	\$ 765
<b>Net assets:</b>			
Invested in capital assets	-	151,989	151,989
Unrestricted	10,121	199,591	209,712
<b>Total net assets</b>	<b>10,121</b>	<b>351,580</b>	<b>361,701</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,121</b>	<b>\$ 352,345</b>	<b>\$ 362,466</b>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND NET ASSETS - NONMAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Wastewater Improvement Fund	Cemetery Fund	Total
Operating Revenues:			
Charges for services	\$ -	\$ 97,259	\$ 97,259
Operating Expenses:			
Personnel services	-	37,567	37,567
General operating	-	101,396	101,396
Depreciation	-	26,323	26,323
	<hr/>	<hr/>	<hr/>
Total operating expenses	-	165,286	165,286
	<hr/>	<hr/>	<hr/>
Operating (loss)	-	(68,027)	(68,027)
Non-operating Revenues (Expenses):			
Interest income	360	8,834	9,194
	<hr/>	<hr/>	<hr/>
Change in net assets	360	(59,193)	(58,833)
Net assets, beginning of year	9,761	410,773	420,534
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 10,121	\$ 351,580	\$ 361,701
	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Wastewater Improvement Fund</b>	<b>Cemetery Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers	\$ -	\$ 97,259	\$ 97,259
Cash payments to suppliers for goods and services	-	(101,427)	(101,427)
Cash payments to employees for services	-	(37,567)	(37,567)
	<u>-</u>	<u>(41,735)</u>	<u>(41,735)</u>
Net cash used in operating activities	-	(41,735)	(41,735)
<b>Cash Flows From Capital Financing Activities:</b>			
Acquisition of capital assets	-	(11,944)	(11,944)
	<u>-</u>	<u>(11,944)</u>	<u>(11,944)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest income	381	9,449	9,830
Return of principal	-	26,000	26,000
	<u>381</u>	<u>35,449</u>	<u>35,830</u>
Net cash provided by investing activities	381	35,449	35,830
Net increase (decrease) in cash	381	(18,230)	(17,849)
Cash and cash equivalents, beginning of year	<u>1,225</u>	<u>19,230</u>	<u>20,455</u>
Cash and cash equivalents, end of year	<u>\$ 1,606</u>	<u>\$ 1,000</u>	<u>\$ 2,606</u>
<b>Reconciliation of Operating Income to Net Cash Used In Operating Activities:</b>			
Operating loss	\$ -	\$ (68,027)	\$ (68,027)
<b>Adjustments to Reconcile Operating Income to Net Cash Used In Operating Activities:</b>			
Depreciation	-	26,323	26,323
<b>Change in Assets and Liabilities:</b>			
Accounts payable	-	(31)	(31)
	<u>-</u>	<u>(31)</u>	<u>(31)</u>
Net cash used in operating activities	<u>\$ -</u>	<u>\$ (41,735)</u>	<u>\$ (41,735)</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**WATER FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance With Final Budget Over (Under)</b>
Operating Revenues:				
Charges for services	\$ 2,402,000	\$ 2,881,725	\$ 2,947,520	\$ 65,795
Operating Expenses:				
Personal services	816,553	779,778	758,623	(21,155)
General operating	5,737,200	5,850,665	4,488,132	(1,362,533)
Total operating expenses	6,553,753	6,630,443	5,246,755	(1,383,688)
Operating income (loss)	(4,151,753)	(3,748,718)	(2,299,235)	1,449,483
Non-Operating Revenues (Expenses):				
Interest Income	151,000	151,000	179,241	28,241
Retirement of debt	(8,000)	(9,000)	(9,000)	-
Interest expense	(6,150)	(5,515)	(5,100)	415
Total non-operating revenues (expenses)	136,850	136,485	165,141	28,656
Net change in fund balance	(4,014,903)	(3,612,233)	(2,134,094)	1,478,139
Fund balance, beginning of year	7,231,188	7,231,188	7,231,188	-
Fund balance, end of year	\$ 3,216,285	\$ 3,618,955	\$ 5,097,094	\$ 1,478,139
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (2,134,094)	
Net revenue accruals			(87,549)	
Net expenditure accruals			(165,297)	
Capital outlay			3,726,961	
Principal payments on debt			9,000	
Net changes in fund balance GAAP basis			\$ 1,349,021	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SOLID WASTE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ 1,089,000	\$ 1,266,334	\$ 1,316,653	\$ 50,319
Operating Expenses:				
Personal services	558,232	601,577	563,682	(37,895)
General operating	673,400	1,346,625	821,756	(524,869)
Total operating expenses	1,231,632	1,948,202	1,385,438	(562,764)
Operating (loss)	(142,632)	(681,868)	(68,785)	613,083
Non-Operating Revenues (Expenses):				
State shared taxes	300,000	340,000	370,595	30,595
Intergovernmental	24,000	24,000	24,000	-
Interest income	46,125	46,125	25,285	(20,840)
Miscellaneous	-	14,500	(210)	(14,710)
Total non-operating revenues (expenses)	370,125	424,625	419,670	(4,955)
Income (loss) before other financing sources (uses):	227,493	(257,243)	350,885	608,128
Other Financing Sources (Uses):				
Transfers in	11,970	575,000	575,000	-
Transfers out	(11,000)	(70,000)	(70,000)	-
Total other financing sources (uses)	970	505,000	505,000	-
Net change in fund balance	228,463	247,757	855,885	608,128
Fund balance, beginning of year	2,676,052	2,676,052	2,676,052	-
Fund balance, end of year	\$ 2,904,515	\$ 2,923,809	\$ 3,531,937	\$ 608,128
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 855,885	
Net revenue accruals			28,366	
Net expenditure accruals			(397,693)	
Capital outlay			80,387	
Net changes in fund balance GAAP basis			\$ 566,945	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**WASTEWATER FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance With Final Budget Over (Under)</b>
Operating Revenues:				
Charges for services	\$ 843,269	\$ 871,838	\$ 898,096	\$ 28,569
Operating Expenses:				
Personal services	407,242	420,025	389,254	12,783
General operating	600,270	770,726	671,935	170,456
Total operating expenses	<u>1,007,512</u>	<u>1,190,751</u>	<u>1,061,189</u>	<u>183,239</u>
Operating income (loss)	(164,243)	(318,913)	(163,093)	(154,670)
Non-Operating Revenues (Expenses):				
Interest income	<u>31,400</u>	<u>31,400</u>	<u>28,329</u>	<u>(3,071)</u>
Net change in fund balance	(132,843)	(287,513)	(134,764)	(152,749)
Fund balance, beginning of year	<u>10,362,527</u>	<u>10,362,527</u>	<u>10,362,527</u>	<u>-</u>
Fund balance, end of year	<u>\$ 10,229,684</u>	<u>\$ 10,075,014</u>	<u>\$ 10,227,763</u>	<u>\$ (152,749)</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (134,764)	
Net revenue accruals			13,159	
Net expenditure accruals			(551,958)	
Capital outlay			239,524	
Net changes in fund balance GAAP basis			<u>\$ (434,039)</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**AIRPORT FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance With Final Budget Over (Under)</b>
Operating Revenues:				
Charges for services	\$ 610,700	\$ 679,948	\$ 666,637	\$ (13,311)
Operating Expenses:				
Personal services	151,315	166,176	155,393	(10,783)
General operating	1,159,075	1,206,562	808,254	(398,308)
Total operating expenses	1,310,390	1,372,738	963,647	(409,091)
Operating (loss)	(699,690)	(692,790)	(297,010)	395,780
Non-Operating Revenues (Expenses):				
Intergovernmental	427,500	367,000	98,227	(268,773)
Loss before other financing sources:	(272,190)	(325,790)	(198,783)	(127,007)
Other Financing Sources (Uses):				
Transfers in	150,000	150,000	150,000	-
Net change in fund balance	(122,190)	(175,790)	(48,783)	(127,007)
Fund balance, beginning of year	1,449,837	1,449,837	1,449,837	-
Fund balance, end of year	\$ 1,327,647	\$ 1,274,047	\$ 1,401,054	\$ (127,007)
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (48,783)	
Net revenue accruals			-	
Net expenditure accruals			(102,368)	
Capital outlay			160,493	
Net changes in fund balance GAAP basis			\$ 9,342	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**WASTEWATER IMPROVEMENT FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance With Final Budget Over (Under)</b>
Non-Operating Revenues:				
Interest income	\$ -	\$ -	\$ 382	\$ 382
Net change in fund balance	-	-	382	382
Fund balance, beginning of year	9,761	9,761	9,761	-
Fund balance, end of year	<u>\$ 9,761</u>	<u>\$ 9,761</u>	<u>\$ 10,143</u>	<u>\$ 382</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 382	
Net revenue accruals			(22)	
Net expenditure accruals			-	
Net changes in fund balance GAAP basis			<u>\$ 360</u>	

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**CEMETERY FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON  
BUDGETARY BASIS  
FOR YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Operating Revenues:				
Charges for services	\$ 65,200	\$ 86,200	\$ 97,259	\$ 11,059
Operating Expenses:				
Personal services	45,686	55,840	37,567	18,273
General operating	120,680	121,920	113,370	8,550
Total operating expenses	166,366	177,760	150,937	26,823
Operating income (loss)	(101,166)	(91,560)	(53,678)	(37,882)
Non-Operating Revenues (Expenses):				
Interest income	9,000	9,000	9,449	449
Net change in fund balance	(92,166)	(82,560)	(44,229)	(38,331)
Fund balance, beginning of year	410,773	410,773	410,773	-
Fund balance, end of year	<u>\$ 318,607</u>	<u>\$ 328,213</u>	<u>\$ 366,544</u>	<u>\$ (38,331)</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ (44,229)	
Net revenue accruals			(615)	
Net expenditure accruals			(86,292)	
Capital outlay			71,943	
Net changes in fund balance GAAP basis			<u>\$ (59,193)</u>	

See accompanying notes to financial statements.

**FIDUCIARY FUNDS**



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Balance June 30, 2007	Increase/ Receipts	Decrease/ Disbursements	Balance June 30, 2008
<b>Sales Tax Fund</b>				
Assets:				
Cash	\$ 2	\$ 239,669	\$ 239,671	\$ -
Total assets	<u>\$ 2</u>	<u>\$ 239,669</u>	<u>\$ 239,671</u>	<u>\$ -</u>
Liabilities:				
Held for others	\$ 2	\$ 239,669	\$ 239,671	\$ -
Total liabilities	<u>\$ 2</u>	<u>\$ 239,669</u>	<u>\$ 239,671</u>	<u>\$ -</u>
 <b>Court Fund</b>				
Assets:				
Cash	\$ 5,151	\$ 7,958	\$ 9,297	\$ 3,812
Total assets	<u>\$ 5,151</u>	<u>\$ 7,958</u>	<u>\$ 9,297</u>	<u>\$ 3,812</u>
Liabilities:				
Held for others	\$ 5,151	\$ 7,958	\$ 9,297	\$ 3,812
Total liabilities	<u>\$ 5,151</u>	<u>\$ 7,958</u>	<u>\$ 9,297</u>	<u>\$ 3,812</u>
 <b>Meter Fund</b>				
Assets:				
Cash	\$ 97,336	\$ 10,744	\$ -	\$ 108,080
Investments	90,000	-	-	90,000
Total assets	<u>\$ 187,336</u>	<u>\$ 10,744</u>	<u>\$ -</u>	<u>\$ 198,080</u>
Liabilities:				
Held for others	\$ 187,336	\$ 10,744	\$ -	\$ 198,080
Total liabilities	<u>\$ 187,336</u>	<u>\$ 10,744</u>	<u>\$ -</u>	<u>\$ 198,080</u>
 <b>Hellwig Fund</b>				
Assets:				
Cash	\$ 59,197	\$ 36,327	\$ 77,076	\$ 18,448
Investments	1,943,249	100,000	171,657	1,871,592
Accrued interest receivable	2,472	6,725	8,261	936
Total assets	<u>\$ 2,004,918</u>	<u>\$ 143,052</u>	<u>\$ 256,994</u>	<u>\$ 1,890,976</u>
Liabilities:				
Held for others	\$ 2,004,918	\$ 143,052	\$ 256,994	\$ 1,890,976
Total liabilities	<u>\$ 2,004,918</u>	<u>\$ 143,052</u>	<u>\$ 256,994</u>	<u>\$ 1,890,976</u>
 <b>Summary</b>				
Assets:				
Cash	\$ 161,686	\$ 294,698	\$ 326,044	\$ 130,340
Investments	2,033,249	100,000	171,657	1,961,592
Accrued interest receivable	2,472	6,725	8,261	936
Total assets	<u>\$ 2,197,407</u>	<u>\$ 401,423</u>	<u>\$ 505,962</u>	<u>\$ 2,092,868</u>
Liabilities:				
Held for others	\$ 2,197,407	\$ 401,423	\$ 505,962	\$ 2,092,868
Total liabilities	<u>\$ 2,197,407</u>	<u>\$ 401,423</u>	<u>\$ 505,962</u>	<u>\$ 2,092,868</u>

See accompanying notes to financial statements.

**OTHER SUPPLEMENTAL INFORMATION**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SCHEDULE OF CASH ACCOUNTS  
JUNE 30, 2008**

<b>Financial Institution/Account Description</b>	<b>Type of Account</b>	<b>Financial Institution Balance</b>	<b>Reconciling Items</b>	<b>Reconciled Balance</b>
1st National Bank 303 W. Main Street P.O. Box AA Artesia, New Mexico 88211-7526				
City of Artesia Fund	Money Market	\$ 3,380,758	\$ (884,640)	\$ 2,496,118
Payroll Fund	Checking	502,674	(193,283)	309,391
Meter Fund	Checking	62,482	(910)	61,572
Federal Forfeitures	Checking	129	-	129
State Forfeitures	Checking	139	-	139
Artesia Public Library	CD	21,000	-	21,000
		<u>\$ 3,967,182</u>	<u>\$ (1,078,833)</u>	<u>\$ 2,888,349</u>
Western Bank 320 W. Texas P.O. Drawer 500 Artesia, New Mexico 88211-0500				
City Fund	Money Market	\$ 200,485	\$ -	\$ 200,485
Artesia Chamber of Commerce	Checking	27,017	-	27,017
Payroll Fund	Checking	77,326	-	77,326
Meter Fund	Checking	19,235	-	19,235
Community Development	Checking	10	-	10
Rehabilitation Escrow Account	Money Market	7,777	-	7,777
Artesia Cemetery Association	CD	1,000	-	1,000
		<u>\$ 332,850</u>	<u>\$ -</u>	<u>\$ 332,850</u>
Wells Fargo Bank, N.A. Artesia Office 610 West Main Street Artesia, New Mexico 88210-2070				
City Fund	Money Market	\$ 398,866	\$ -	\$ 398,866
City Fund	Checking	165,499	-	165,499
Payroll Fund	Checking	110,553	-	110,553
Meter Fund	Checking	27,273	-	27,273
		<u>\$ 702,191</u>	<u>\$ -</u>	<u>\$ 702,191</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SCHEDULE OF PLEDGED COLLATERAL  
JUNE 30, 2008**

1st National Bank of New Mexico  
303 W. Main Street  
P.O. Box AA  
Artesia, New Mexico 88211-7526

Security	CUSIP	Maturity	Market Value
MBS FHLMC 0406230045	312966P24	05/01/14	\$ 91,488
MBS FHLMC 0609050012	3133XGSE5	09/08/16	205,354
MBS FHLMC 0609050013	3133XGSE5	09/08/16	102,677
MBS FNMA 0305210012	31400DA77	01/01/18	321,347
MBS FHLMC 0405120074	31283KP93	01/01/18	121,594
MBS FNMA 0312050137	31401C4Y6	02/01/18	202,467
MBS FHLMC 0612210045	31294KQ57	04/01/18	194,413
MBS GNMA 0402100040	36200ECU3	05/15/18	116,283
MBS FHLMC 0402066057	31282CKJ5	09/01/18	112,899
MBS FHLMC 0310220051	3128H7ZF2	10/01/18	123,213
MBS FNMA 0510070022	31403GY22	10/01/18	219,032
MBS GNMA 0402100041	36200M2N2	11/15/18	106,215
MBS FHLMC 0511070058	31282CKU0	02/01/19	268,309
MBS FHLMC 0604110258	3129652G0	04/01/19	346,209
MBS FNMA 0412070122	31405CLZ0	06/01/09	291,559
MBS FNMA 0610190035	31406YFR6	05/01/20	608,161
MBS FNMA 0603210022	31386XW28	10/01/27	496,054
			Total: \$ 3,927,274

The holder of the security pledged by 1st National Bank New Mexico is Federal Home Loan Bank of Dallas, P.O. Box 619026, Dallas, TX 75261-9026.

Western Bank  
320 W. Texas  
P.O. Drawer 500  
Artesia, New Mexico 88211-0500

Security	CUSIP	Maturity	Market Value
FNMA Pool #190709	31368HYE7	03/01/24	\$ 28,591
Cloudcroft, NM Municipal Sch District	189134DL0	08/01/15	411,757
			\$ 440,348

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

Wells Fargo Bank, N.A.  
Artesia Office  
610 West Main Street  
Artesia, New Mexico 88210-2070

Security	CUSIP	Maturity	Market Value
FNCI 190615	31368HVG5	01/01/09	\$ 6
FNCL 867437	31409CV69	05/01/36	162,100
GNSF 781038	36225BEK0	05/15/29	5,482
GNSF 781148	36225BHZ4	07/15/29	33,065
GNSF 781148	36225BHZ4	07/15/29	9,018
GNSF 781246	36225BL30	02/15/31	88,706
GNSF 781280	3622DBM54	04/15/31	31,221
			<hr/>
			\$ 329,598
			<hr/>

The holder of the security pledged is Wells Fargo Bank, N.A. The address of the bank is, Public Funds Administration, 420 Montgomery St., 11th Floor, San Francisco, CA 94104.

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SCHEDULE OF INVESTMENTS  
JUNE 30, 2008**

Type of Investment	Fair Market Value
Investments - Certificates held by Wells Fargo:	
Taxable Total Return Bond Fund	\$ 71,746
Taxable Intermediate Term Bond Fund	42,942
Large Cap Value Fund	24,044
Index 500 Stock Fund	22,698
Vanguard Index Tr REIT Vipers Shs	14,021
International Core Stock Fund	9,725
Secured Market Deposit Account	<u>6,336</u>
	<u>191,512</u>
Investments - Certificates held by the City:	
HJ Heinz	346,824
Exxon	280,192
ExxonMobil	280,192
Citigroup	55,395
3M	92,534
Del Monte	23,148
AEP	32,080
Yellow Freight	30,463
Oklahoma Gas	20,882
Oklahoma Gas & Electric	20,883
SBC	10,727
Safeway	8,199
St. Paul Travelers Co.	9,351
SCS Trans	9,321
Bell South	3,883
Bell Atlantic	3,871
Imation	3,071
Unisys	3,108
Vodafone	3,554
Comcast	2,386
Burroughs	6,216
SW Bell	2,340
AT&T	1,404
Agere and Agere Class B	1,335
NCR	969
Qwest	437
Lucent	551
Avaya, Inc.	<u>314</u>
	<u>1,253,630</u>
Total Investments - Fiduciary Funds - Agency	<u>\$ 1,445,142</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
CITY OF ARTESIA  
PUBLIC HOUSING AUTHORITY**

**FINANCIAL DATA SCHEDULE  
JUNE 30, 2008**

<b>Account No.</b>		<b>Low Rent 14.850</b>	<b>CFP 14.872</b>	<b>Total</b>
<b>Current Assets:</b>				
111	Cash	\$ 297,712	\$ -	\$ 297,712
126	Accounts receivable - tenant dwellings rent	6,080	-	6,080
142	Prepaid expenses	42,085	-	42,085
150	<b>Total current assets</b>	<b>345,877</b>	<b>-</b>	<b>345,877</b>
<b>Restricted Assets:</b>				
114	Tenant security deposit	17,704	-	17,704
<b>Property, Plant and Equipment</b>				
161	Land	102,969	-	102,969
162	Building and improvements	4,933,407	498,715	5,432,122
163	Furniture, Equipment & Machinery - Dwelling	165,946	-	165,946
166	Accumulated Depreciation	(3,551,462)	(32,072)	(3,583,534)
190	<b>Total Assets</b>	<b>\$ 2,014,441</b>	<b>\$ 466,643</b>	<b>\$ 2,481,084</b>
<b>Liabilities and Fund Equity</b>				
<b>Current Liabilities:</b>				
312	Accounts payable <= 90 days	\$ 59,336	\$ -	\$ 59,336
312	Accrued wages	19,809	-	19,809
322	Accrued compensation absences - current portion	4,841	-	4,841
<b>Liabilities payable from restricted assets:</b>				
341	Tenant security deposits	17,116	-	17,116
300	<b>Total Liabilities</b>	<b>101,102</b>	<b>-</b>	<b>101,102</b>
<b>Net Assets</b>				
508.1	Invested in capital assets, net of related debt	1,650,860	466,643	2,117,503
512.1	Unrestricted net assets	262,479	-	262,479
600	<b>Total Liabilities and Net Assets</b>	<b>\$ 2,014,441</b>	<b>\$ 466,643</b>	<b>\$ 2,481,084</b>

**STATE OF NEW MEXICO  
CITY OF ARTESIA  
PUBLIC HOUSING AUTHORITY**

**FINANCIAL DATA SCHEDULE  
JUNE 30, 2008**

<b>Account No.</b>		<b>Low Rent 14.850</b>	<b>CFP 14.872</b>	<b>Total</b>
<b>REVENUE:</b>				
703	Net tenant rental revenue	\$ 300,950	\$ -	\$ 300,950
704	Tenant revenue -other	10,995	-	10,995
705	Total tenant revenue	311,945	-	311,945
706	HUD PHA operating grants	257,883	-	257,883
706.1	Capital grants	-	164,729	164,729
711	Investment income - unrestricted	2,668	-	2,668
700	Total Revenue	572,496	164,729	737,225
<b>EXPENSES:</b>				
911	Administrative salaries	94,308	-	94,308
912	Auditing and accounting fees	24,240	-	24,240
915	Employee benefits contributions	72,572	-	72,572
916	Other operating - administrative	31,408	-	31,408
931	Water	37,052	-	37,052
932	Electricity	57,996	-	57,996
933	Gas	49,378	-	49,378
938	Other utilities expense	14,268	-	14,268
941	Ordinary maintenance - labor	75,227	-	75,227
942	Ordinary maintenance - materials & other	29,135	-	29,135
943	Ordinary maintenance - contract costs	22,723	-	22,723
974	Depreciation expense	193,293	19,240	212,533
961	Insurance premiums	53,729	-	53,729
964	Other general expenses	1,517	-	1,517
900	Total Expenses	756,846	19,240	776,086
1000	Excess of operating revenue over expenses	(184,350)	145,489	(38,861)
1103	Net assets at beginning of year	2,073,003	345,840	2,418,843
1104	Equity transfer	24,686	(24,686)	-
	Net assets at end of year	\$ 1,913,339	\$ 466,643	\$ 2,379,982



**COMPLIANCE SECTION**



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### **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**

Hector H. Balderas, New Mexico State Auditor  
Mayor and City Councilors  
City of Artesia  
Artesia, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, the fiduciary funds, the budgetary comparisons for the general fund and each major enterprise fund, and the combining and individual funds presented as supplementary information of the City of Artesia (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated July 17, 2009. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's and the City of Artesia Public Housing Authority's ("Authority") internal control over financial reporting as a basis for designing our auditing procedures 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 and Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's and Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

We consider the deficiencies described as findings number 2006-03 and 2007-01 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

#### Compliance and Other Matters

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

We noted certain matters that are required to be reported under *Governmental Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2006-05 and 2008-01.

The City's and Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's and Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Housing Authority's Board of Commissioners, management, the State Auditor, the New Mexico State Legislature, New Mexico Department of Finance and Administration Local Government Division and federal awarding agencies and pass-through grantors, and is not intended to be and should not be used by anyone other than these specified parties.



July 17, 2009

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2008**

---

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**Primary Government:**

**2006-03 Capital Assets Subsidiary Records**

**Condition**

We noted the following conditions related to capital assets subsidiary records:

During 2008, the City completed several construction in progress projects and removed them from their construction in progress detail, but did not add them to the correct capital asset account. As a result, significant audit adjustments were required to correct the capital asset detail.

The software is unable to produce a report that summarizes the information needed for financial reporting. Assets have to be manually coded to the type of asset, such as equipment, infrastructure, etc., but a report cannot be generated that groups the asset by type and provides subtotals by type.

**Criteria**

New Mexico State Statutes Section 12-6-10 directs the general services department to promulgate regulations to state agencies for the accounting and control of capital assets owned by government agencies. The New Mexico State Administrative Code, Title 2 Chapter 20, Part 1, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department requires that the City implement a systematic and well documented system for accounting of capital assets. The accounting system must be capable of generating lists of capital assets in sequences useful for managing them. The system must track all transactions, including acquisitions, depreciation, improvements and dispositions. The system must generate all necessary accounting entries to the City's general ledger.

**Effect**

Certain construction projects are not transferred to the asset detail once complete, causing an understatement of assets.

The City's capital assets subsidiary ledgers are not capable of generating data necessary for the financial statements without a significant amount of manipulation.

**Cause**

The City did not perform a roll forward that would track projects that were completed, removed from the construction in progress report and added to the capital asset detail.

The computer software, as utilized by the City, does not allow the City's personnel to easily report data needed for financial statements.

### **Recommendation**

The City should track construction in progress using a schedule that rolls forward the activity. When a project is completed, the City should add it to the capital asset subsidiary ledger.

The City should discuss the reporting issues with its software company and determine how to generate the required reports.

### **Management's Response**

The City of Artesia has been aware of the problems dealing with Construction in Progress and Capital projects. Each year we have received a finding, we have tried to take steps to alleviate this problem. However, the software we have does not provide the reports we need. Dennis Davis has been meeting with INCODE representatives to try to determine what exactly is needed to comply with the New Mexico Administrative Code. He is meeting in July with INCODE who will be in contact with the auditor so we can take care of the problem.

## **2006-05: Late Submission of Audit Report**

### **Condition**

The audit report for fiscal year 2008 was not submitted by December 1, 2008, causing the City to be out of compliance with New Mexico State Auditor Rule 2.2.2.9A(1).

### **Criteria**

The New Mexico State Auditor Rule 2.2.2.9A(1) requires audit reports for municipalities to be submitted by December 1st following the end of the fiscal year.

### **Effect**

The City's financial status and other information is not available to the public and various state agencies in a timely manner.

### **Cause**

The 2007 fiscal year audit was released to the public in December 2008, causing the fiscal year 2008 audit to be late.

### **Recommendation**

We recommend the City have the fiscal year 2009 and future audits performed with enough time to meet the New Mexico State Auditor Rule 2.2.2.9A(1) deadline.

### **Management's Response**

We feel we presented all information required of the auditors to effectively complete the 2007-2008 audit on time, however the previous auditor refused to release the trial balances so the auditor could begin to put the financial together so that made the 2007-2008 late.

## **2007-1: Financial Statements and Disclosures**

### **Condition**

The City relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The accounting staff lacks the knowledge to prepare such statements, as well as the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements. The City requires the independent auditor to gather all necessary information in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP.

### **Criteria**

Auditing standards adopted in the United States of America, in particular Statement on Auditing Standards (SAS) 109, paragraph 41 states the following: "Internal control is a process - effected by those charged with governance, management, and other personnel - designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives."

Appropriate internal control procedures over financial reporting include the ability to prepare financial statements in accordance with GAAP or at a minimum; management should have the ability to comprehend the requirements for financial reporting. Financial statements prepared in accordance with GAAP include all required statements of financial position, statements of changes in financial position, changes in cash flow and notes.

SAS 112, paragraph 11 provides examples of factors that may affect the likelihood that a control, or combination of controls could fail to prevent or detect a misstatement. One such example is "The nature of the financial statements accounts, disclosures, and assertions involved."

SAS 112, paragraph 19 provides a list of indicators of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One such example is "Ineffective oversight of the entity's financial reporting and internal control by those charged with governance."

### **Effect**

Since the City personnel lack the ability to prepare, and did not prepare the financial statements, there is an increased risk that a misstatement of the City's financial statements that is more than inconsequential, will not be prevented or detected. Further, since the City accounting staff lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

### **Cause**

The City's staff lacks the proper ability to prepare financial statements and the associated disclosures. When audit services are sought, there is a requirement that the auditor will prepare the financial statements.

In the past this may have been sufficient, however, the accounting profession, by issuance of SAS 112, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance

### **Recommendation**

The City should have its current staff undergo training so they can develop the ability to prepare the financial statements and the related notes or employ an individual to serve in the position of director of finance, that has the ability to prepare financial statements in accordance with GAAP. Alternatively, the City could choose to consult with a separate accounting firm prior to and during the audit process that would assist the City in the preparation of the financial statements and related notes.

### **Management's Response**

City personnel do lack the training to prepare financial statements. Because the positions we hold have not required CPA certification, and because SAS 112 now requires independent preparation and analysis, I suggest of the three alternatives, that the City contract with an additional auditor to prepare the statements while our main auditor concentrates on the regulatory requirements.

### **Component Unit:**

### **2008-01: Submission of Audit Report for Fiscal Year June 30, 2008**

#### **Condition**

The 2008 audit report for the Public Housing Authority will be delivered to the Office of the State Auditor and the U.S. Department of Housing and Urban Development after the December 1 due date.

#### **Criteria**

State regulation 2.2.2.9 NMAC requires that audit reports for municipalities and special districts be submitted by December 1, and that late audits be reported as findings in the next audit report. HUD regulations require submittal of audit reports within 3 months of year end.

#### **Cause**

The Public Housing Authority's delay in submitting Management's Discussion and Analysis report resulted in the late submission of the audit report.

#### **Effect**

Delays on the submission of the audit report could have an impact on State of New Mexico appropriations as the Legislature begins their session in January of each calendar year. Further, users of the financial statements such as legislators, creditors, state and federal grantors, etc., do not have timely audit reports and financial statements for their review.

#### **Recommendation**

Management's discussion and analysis ("MD&A") is required to be prepared by the Housing Authority. We recommend that the Housing Authority prepare an MD&A template prior to the deadline of the audit so that when final audited number are available, they can be updated quickly in the MD&A template and the audit can be submitted to the State Auditor prior to its due date.

### **Management's Response**

The conversion from cash basis to the accrual basis, reconciliation of general ledger accounts to subsidiary ledgers for the fiscal year were promptly released to the auditor for testing with ample time. The delay by the Housing Authority in submitting the Management Discussion & Analysis was due to the failure of the auditor in providing the Management Presentation letter along with the financial statements and trial balances to the Housing Authority in a timely basis. After the Management Discussion & Analysis was submitted to the auditor it was held by their office until March 30, 2009.

## STATUS OF PRIOR YEAR FINDINGS

### Primary Government:

		<b>Current Status</b>
2006-03	Capital Assets Subsidiary Records	Repeat
2006-05	Late Submission of Audit Report	Repeat
2006-12	Submission of the Reporting Package to the Federal Government	Resolved
2007-01	Financial Statements and Disclosures	Repeat
2007-02	Accounting Activity	Resolved

### Component Unit:

		<b>Current Status</b>
2006-01	Budget Authority	Resolved
2006-08	Tenant Eligibility	Resolved
2007-03	Payroll Tax Reports	Resolved



**STATE OF NEW MEXICO  
CITY OF ARTESIA**

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Primary Government:**

An exit conference was conducted on July 20, 2009 with the following individuals in attendance:

**City of Artesia Officials**

Raye Miller	Councillor
George Holmes	Councillor / Mayor Pro Tem
Aubrey Hobson	City Clerk-Treasurer
Jan Briggs	Assistant Treasurer

**Strickler & Prieto, LLP**

Brad Watts	Manager
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**Public Housing Authority:**

An exit conference was conducted April 1, 2009 with the following individuals in attendance:

**City of Artesia Public Housing Authority Officials**

Veral d'Entremont	Vice-Chairperson
Randy Hazelbaker	Commissioner
Louisa Madrid	Executive Director

**Strickler & Prieto, LLP**

Sandra Chiquito	Manager
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**Financial Statement Preparation**

The City's and Housing Authority's independent public accountants prepared the accompanying financial statements; however, the City and Housing Authority are responsible for the financial statement content.