

STATE OF NEW MEXICO  
CITY OF ARTESIA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2017



*(c) Kim Kafton 2009*



## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

Official Roster  
June 30, 2017

City Council

Phillip Burch	Mayor
Manuel Madrid Jr.	City Councilor, District 1
Raul Rodriguez	City Councilor, District 1
Luis Florez	City Councilor, District 2
Nora Sanchez	City Councilor, District 2
Kent Bratcher	City Councilor, District 3
Jeff Youtsey	City Councilor, District 3
Terry Hill	City Councilor, District 4
Bill Rogers	City Councilor, District 4

Administrative Officials

Aubrey Hobson	City Clerk/Treasurer
Summer Galvan	Finance Director
Bill Thalman	Human Resources Director

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**TABLE OF CONTENTS**

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTORY SECTION</b>		
Official Roster		i
Table of Contents		ii-iii
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report		iv-v
Basic Financial Statements		
Government-wide Financial Statements:		
Statement of Net Position	A-1	1-2
Statement of Activities	A-2	3-4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	B-1	5-6
Reconciliation of the Balance Sheet to the Statement of Net Position		7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	B-2	8-9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities		10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual		
General Fund	C-1	11
MRGT Infrastructure Special Revenue Fund	C-2	12
Statement of Net Position – Proprietary Funds	D-1	13-14
Statement of Revenues, Expenses, and Changes in Fund Net Position- Proprietary Funds	D-2	15-16
Statement of Cash Flows – Proprietary Funds	D-3	17-18
Statement of Fiduciary Assets and Liabilities		19
Notes to Financial Statements		20-47
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Schedule of Net Pension Liability	<u>Statement/</u> <u>Schedule</u> I	48-49
<b>SUPPLEMENTARY INFORMATION</b>		
<u>Statement/</u> <u>Schedule</u>		
Nonmajor Governmental Fund Descriptions		50-51
Combining Balance Sheet – Nonmajor Governmental Funds	B-1	52-55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	B-2	56-59

**STATE OF NEW MEXICO  
CITY OF ARTESIA**

	<u>Statement/ Schedule</u>	<u>Page</u>
<b>SUPPORTING SCHEDULES</b>		
Schedule of Collateral Pledged by Depository for Public Funds	II	60
Schedule of Depositories	III	61
Schedule of Changes in Assets and Liabilities	IV	62
 <b>COMPLIANCE SECTION</b>		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		63
Report on Compliance for Each major Federal Program; Report on Internal Control over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance		65
Schedule of Expenditures of Federal Awards		67
Schedule of Findings & Questioned Costs	V	68

**FINANCIAL SECTION**



# Griego Professional Services, LLC

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Wayne A. Johnson  
New Mexico State Auditor  
City Council Members  
City of Artesia  
Artesia, New Mexico

### Report on Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Artesia, New Mexico, as of June 30, 2017, 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 funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

P.O. Box 37379 • Albuquerque, NM 87176-7379  
8500 Menaul Blvd. NE, Ste. B295 • Albuquerque, NM 87112  
Phone (505) 856-2741 - Fax (505) 856-7510

**Other matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Proportionate Share of the Net Pension Liability and Schedule of City's Contributions on page 48 be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the City's financial statements financial statements and combining and individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code Federal regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. The other schedules required by 2.2.2 NMAC are presented for purpose of additional analysis and are not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017 on our consideration of City of Artesia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

GRIEGO PROFESSIONAL SERVICES, LLC



Albuquerque, New Mexico  
December 5, 2017



**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Exhibit A-1

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash and cash equivalents	\$ 13,877,130	\$ 9,023,612	\$ 22,900,742
Short term investments	12,736,760	1,461,525	14,198,285
Receivables			
Property taxes	-	71,338	71,338
Other taxes	10,823	-	10,823
Intergovernmental	211,222	-	211,222
Other accounts receivable	1,191,853	1,009,736	2,201,589
Inventory	-	126,544	126,544
Internal balances	-	-	-
Restricted cash and equivalents	1,087,951	-	1,087,951
Capital assets	95,600,046	70,548,136	166,148,182
Less: accumulated depreciation	(37,555,791)	(33,166,444)	(70,722,235)
<b>Total Assets</b>	<b>87,159,994</b>	<b>49,074,447</b>	<b>136,234,441</b>
<b>Deferred Outflow of Resources</b>			
Related to Pensions	5,210,274	548,589	5,758,863

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Exhibit A-1

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Liabilities</b>			
Accounts payable	\$ 1,839,204	\$ 33,511	\$ 1,872,715
Accrued payroll liabilities	259,993	51,419	311,412
Customer deposits payable	-	-	-
Other accrued liabilities	-	133,237	133,237
Accrued interest payable	88,287	-	88,287
Current portion of accrued compensated absences	355,694	51,747	407,441
Current portion of long term obligatons	2,085,000	-	2,085,000
Noncurrent Liabilities:			
Net Pension Liability	16,382,709	1,624,958	18,007,667
Bonds and Notes Payable	27,480,000	-	27,480,000
Notes & Capital Leases Payable	-	-	-
Landfill liability	-	24,992	24,992
<b>Total Liabilities</b>	<b>48,490,887</b>	<b>1,919,864</b>	<b>50,410,751</b>
<b>Deferred Inflow of Resources</b>			
Related to Pensions	185,245	27,840	213,085
<b>Net Position</b>			
Net investment in capital assets	28,479,255	36,551,178	65,030,433
Restricted for:			
Debt service	4,593,357	-	4,593,357
Capital projects	1,625,722	-	1,625,722
Special revenue funds/other purposes	6,801,815	-	6,801,815
Unrestricted	2,193,987	11,124,154	13,318,141
<b>Total Net Position</b>	<b>43,694,136</b>	<b>47,675,332</b>	<b>91,369,468</b>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO  
CITY OF ARTESIA  
STATEMENT OF ACTIVITIES  
JUNE 30, 2017**

	<b>Program Revenues</b>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs:</b>				
<b>Primary Government</b>				
Governmental Activities:				
General government	\$ 4,963,501	\$ 1,177,239	\$ 291,435	\$ -
Public safety	7,823,409	465,592	257,771	-
Culture and recreation	2,703,787	41,046	-	-
Health and welfare	477,503	-	-	-
Public works	14,802,825	-	-	160,021
Interest on long-term debt	1,158,983	-	-	-
	<u>31,930,008</u>	<u>1,683,877</u>	<u>549,206</u>	<u>160,021</u>
Business-type activities				
Airport	653,971	322,380	-	3,643,644
Water	3,629,977	2,535,478	-	273,125
Solid Waste	2,015,694	1,771,236	-	-
Cemetery	54,932	57,645	-	-
Waste Water	2,059,858	1,453,614	-	-
	<u>8,414,432</u>	<u>6,140,353</u>	<u>-</u>	<u>3,916,769</u>
Total primary government	<u>40,344,440</u>	<u>7,824,230</u>	<u>549,206</u>	<u>4,076,790</u>

**General Revenues:**

Taxes

Property taxes

Gross receipts taxes

Other Tax

Interest income

Transfers in (out)

Gain (loss) on asset disposal

Miscellaneous income

Total General Revenues and Transfers

Change in net assets

Total net position - beginning of year

Restatement (Note 20)

Restated net position - beginning of year

Total net position - end of year

The accompanying notes are an integral part of these financial statements

<u>Net (Expenses) Revenues and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (3,494,827)	\$ -	\$ (3,494,827)
(7,100,046)	-	(7,100,046)
(2,662,741)	-	(2,662,741)
(477,503)	-	(477,503)
(14,642,804)	-	(14,642,804)
(1,158,983)	-	(1,158,983)
<u>(29,536,904)</u>	<u>-</u>	<u>(29,536,904)</u>
-	3,312,053	3,312,053
-	(821,374)	(821,374)
-	(244,458)	(244,458)
-	2,713	2,713
-	(606,244)	(606,244)
<u>-</u>	<u>1,642,690</u>	<u>1,642,690</u>
		<u>(27,894,214)</u>
4,479	-	4,479
23,234,403	167,468	23,401,871
1,218,738	641,539	1,860,277
38,553	38,531	77,084
(525,169)	525,169	-
(4,248)	-	(4,248)
818,303	225,794	1,044,097
<u>24,785,059</u>	<u>1,598,501</u>	<u>26,383,560</u>
<u>(4,751,845)</u>	<u>3,241,191</u>	<u>(1,510,654)</u>
49,015,496	44,434,141	93,449,637
(569,515)	-	(569,515)
48,445,981	44,434,141	92,880,122
<u>\$ 43,694,136</u>	<u>\$ 47,675,332</u>	<u>\$ 91,369,468</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<u>General Fund</u>	<u>MGRT Infrastructure Fund</u>	<u>Capital Projects Fund</u>
<b>Assets</b>			
<i>Current:</i>			
Cash and cash equivalents	\$ 5,109,349	\$ 3,443,374	\$ 2,949,358
Short term investments	11,500,000	-	-
Accounts receivable			
Taxes	1,175,576	-	-
Intergovernmental	14,000	-	184,242
Miscellaneous	9	-	-
Interfund receivable	9,649	-	-
<i>Total assets</i>	<u>\$ 17,808,583</u>	<u>\$ 3,443,374</u>	<u>\$ 3,133,600</u>
<b>Liabilities and fund balances</b>			
<i>Liabilities</i>			
Accounts payable	\$ 322,261	\$ -	\$ 1,507,875
Accrued payroll liabilities	259,993	-	-
Customer deposits payable	-	-	-
Other accrued liabilities	-	-	-
Interfund payable	-	-	-
Deferred Revenue	-	-	-
<i>Total liabilities</i>	<u>582,254</u>	<u>-</u>	<u>1,507,875</u>
<b>Fund balances</b>			
Nonspendable	-	-	-
Restricted	-	3,443,374	1,625,725
Committed	1,434,953	-	-
Assigned	-	-	-
Unassigned	15,791,376	-	-
<i>Total fund balances</i>	<u>17,226,329</u>	<u>3,443,374</u>	<u>1,625,725</u>
<i>Total liabilities and fund balances</i>	<u>\$ 17,808,583</u>	<u>\$ 3,443,374</u>	<u>\$ 3,133,600</u>

The accompanying notes are an integral part of these financial statements

Debt Service Fund	Other Governmental Funds	Total
\$ 1,362,555	\$ 2,286,445	\$ 15,151,081
-	1,050,760	12,550,760
-	-	1,175,576
-	12,980	211,222
121	26,970	27,100
-	-	9,649
<u>\$ 1,362,676</u>	<u>\$ 3,377,155</u>	<u>\$ 29,125,388</u>
-	-	-
-	9,068	1,839,204
-	-	259,993
-	-	-
-	-	-
-	9,649	9,649
-	-	-
<u>-</u>	<u>18,717</u>	<u>2,108,846</u>
-	-	-
1,362,676	3,363,825	9,795,600
-	-	1,434,953
-	-	-
<u>-</u>	<u>(5,387)</u>	<u>15,785,989</u>
<u>1,362,676</u>	<u>3,358,438</u>	<u>27,016,542</u>
<u>\$ 1,362,676</u>	<u>\$ 3,377,155</u>	<u>\$ 29,125,388</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Exhibit B-1  
Page 2 of 2

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

Fund balances - total governmental funds	\$	27,016,542
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		58,044,255
Deferred outflows and inflows of resources related to pensions are		
Deferred outflow of resources		5,210,274
Deferred inflow of resources		(185,245)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:		
Accrued interest		(88,287)
Current portion of accrued compensate absences		(355,694)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds		
Net pension liability		(16,382,709)
Bonds payable		(29,565,000)
		<u>                    </u>
Net position-Governmental Activities	\$	<u><u>43,694,136</u></u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDING JUNE 30, 2017**

	General Fund	MGRT Infrastructure Fund	Capital Projects Fund
<i>Revenues:</i>			
Property taxes	\$ 4,479	\$ -	\$ -
Gross receipts taxes	16,203,047	2,592,990	1,261,886
Other taxes	538,156	-	-
State grants	291,435	160,021	-
Federal grants	-	-	-
Licenses and fees	624,842	-	-
Charges for services	934,488	-	-
Investment income	29,062	3,313	1,700
Miscellaneous	91,032	-	727,271
<i>Total Revenues</i>	<u>18,716,541</u>	<u>2,756,324</u>	<u>1,990,857</u>
<i>Expenditures:</i>			
<i>Current:</i>			
General Government	3,358,744	-	-
Public safety	8,828,145	-	-
Culture and recreation	1,207,599	-	-
Health and welfare	477,503	-	-
Public works	3,100,866	-	-
Capital Outlay	-	-	12,926,376
<i>Debt Service:</i>			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
<i>Total Expenditures</i>	<u>16,972,857</u>	<u>-</u>	<u>12,926,376</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>1,743,684</u>	<u>2,756,324</u>	<u>(10,935,519)</u>
<i>Other financing sources (uses)</i>			
Proceeds from note payable	-	-	-
Premium on bonds payable	-	-	-
Operating transfers in	-	-	8,661,562
Operating transfers (out)	(3,453,385)	(4,143,696)	(720,000)
<i>Total other financing sources (uses)</i>	<u>(3,453,385)</u>	<u>(4,143,696)</u>	<u>7,941,562</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	(1,709,701)	(1,387,372)	(2,993,957)
<i>Fund balance - beginning of year</i>	19,576,422	4,830,746	4,548,805
<i>Prior period adjustment</i>	(640,392)	-	70,877
<i>Fund balance - beginning of year (restated)</i>	<u>18,936,030</u>	<u>4,830,746</u>	<u>4,619,682</u>
<i>Fund balance - end of year</i>	<u>\$ 17,226,329</u>	<u>\$ 3,443,374</u>	<u>\$ 1,554,848</u>

The accompanying notes are an integral part of these financial statements

Debt Service Fund	Other Governmental Funds	Total
\$ -	\$ -	\$ 4,479
-	370,427	20,428,350
-	680,582	1,218,738
-	257,771	709,227
-	-	-
-	10,557	635,399
6,390	107,600	1,048,478
431	4,047	38,553
-	-	818,303
<u>6,821</u>	<u>1,430,984</u>	<u>24,901,527</u>
1,113	601,612	3,961,469
-	167,687	8,995,832
-	-	1,207,599
-	-	477,503
-	-	3,100,866
-	1,014,916	13,941,292
3,235,983	-	3,235,983
1,146,614	-	1,146,614
-	-	-
<u>4,383,710</u>	<u>1,784,215</u>	<u>36,067,158</u>
<u>(4,376,889)</u>	<u>(353,231)</u>	<u>(11,165,631)</u>
-	-	-
-	-	-
4,381,614	420,050	13,463,226
-	(754,786)	(9,071,867)
<u>4,381,614</u>	<u>(334,736)</u>	<u>4,391,359</u>
4,725	(687,967)	(6,774,272)
1,357,951	4,046,405	34,360,329
-	-	(569,515)
<u>1,357,951</u>	<u>4,046,405</u>	<u>33,790,814</u>
<u>\$ 1,362,676</u>	<u>\$ 3,358,438</u>	<u>\$ 27,016,542</u>

The accompanying notes are an integral part of these financial statements

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2017

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

Net change in fund balances - total governmental funds	\$ (6,774,272)
--	----------------

Governmental funds report capital outlays as expenditures. However in  
the statement of activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense:

Capital expenditures	2,661,849
----------------------	-----------

Depreciation expense	(3,076,702)
----------------------	-------------

Loss on disposal of assets	(4,248)
----------------------------	---------

Governmental funds report pension contributions as expenditures. However in  
the statement of activities, the cost of pension benefits earned net of employee  
contributions is reported as pension expense

Pension contributions and changes in costs of benefits for net of employee contributions	(794,455)
---	-----------

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial  
resources to governmental funds, while the repayment of the principal of long-term  
debt consumes the current financial resources of governmental funds. Neither  
transaction, however, has any effect on net assets. Also, governmental funds  
report the effect of issuance costs, premiums, discounts, and similar items when  
debt is first issued, whereas these amounts are deferred and amortized in the  
statement of activities:

Principal payments on bonds	<u>3,235,983</u>
-----------------------------	------------------

Change in net position of governmental activities	<u><u>\$ (4,751,845)</u></u>
---	------------------------------

## STATE OF NEW MEXICO

Exhibit C-1

## CITY OF ARTESIA

## GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes	\$ 13,822,550	\$ 17,353,103	\$ 17,324,444	\$ 28,659
Intergovernmental	544,828	616,410	303,521	312,889
Licenses and fees	540,052	634,866	630,270	4,596
Charges for services	1,085,600	1,075,454	971,947	103,507
Investment income	20,000	30,248	30,248	-
Miscellaneous	73,700	211,248	91,359	119,889
<i>Total revenues</i>	<u>16,086,730</u>	<u>19,921,329</u>	<u>19,351,789</u>	<u>569,540</u>
<i>Expenditures:</i>				
Current				
General Government	3,908,929	4,103,807	3,699,875	403,932
Public safety	11,514,016	9,635,741	8,801,685	834,056
Culture and recreation	1,365,476	1,386,276	1,216,583	169,693
Health and welfare	489,943	489,943	483,215	6,728
Public works	3,343,373	3,379,373	3,087,142	292,231
Education	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
<i>Total expenditures</i>	<u>20,621,737</u>	<u>18,995,140</u>	<u>17,288,500</u>	<u>1,706,640</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(4,535,007)</u>	<u>926,189</u>	<u>2,063,289</u>	<u>1,137,100</u>
<i>Other financing sources (uses):</i>				
Operating transfers in	368,216	184,108	-	(184,108)
Operating transfers (out)	(5,610,880)	(3,948,037)	(3,453,385)	494,652
Bond proceeds	-	-	-	-
Designated cash (budgeted increase in cash)	9,777,671	2,837,740	-	(2,837,740)
<i>Total other financing sources (uses)</i>	<u>4,535,007</u>	<u>(926,189)</u>	<u>(3,453,385)</u>	<u>(2,527,196)</u>
<i>Net change in fund balances</i>	-	-	(1,390,096)	(1,390,096)
<i>Fund balances - beginning of year</i>	-	-	18,084,486	18,084,486
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,694,390</u>	<u>\$ 16,694,390</u>
<i>Reconciliation to GAAP Basis:</i>				
Revenue accruals			(635,248)	
Expenditure accruals			315,643	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (1,709,701)</u>	

The accompanying notes are an integral part of these financial statements.

## STATE OF NEW MEXICO

Exhibit C-2

## CITY OF ARTESIA

## MRGT INFRASTRUCTURE SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ 2,592,990	\$ 2,592,990
Intergovernmental	-	-	160,021	160,021
Licenses and fees	-	-	-	-
Charges for services	-	-	-	-
Investment income	-	-	3,313	3,313
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>2,756,324</u>	<u>2,756,324</u>
<i>Expenditures:</i>				
Current				
General Government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Public works	-	-	-	-
Education	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>2,756,324</u>	<u>2,756,324</u>
<i>Other financing sources (uses):</i>				
Operating transfers in	-	-	(4,143,696)	(4,143,696)
Operating transfers (out)	-	-	-	-
Bond proceeds	-	-	-	-
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>(4,143,696)</u>	<u>(4,143,696)</u>
<i>Net change in fund balances</i>	-	-	(1,387,372)	(1,387,372)
<i>Fund balances - beginning of year</i>	-	-	4,830,746	4,830,746
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,443,374</u>	<u>\$ 3,443,374</u>
<i>Reconciliation to GAAP Basis:</i>				
Revenue accruals			-	
Expenditure accruals			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ (1,387,372)</u>	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

<b>Assets</b>	Airport	Water
Cash and investments	\$ 804	\$ 2,563,135
Receivables		
Taxes	-	-
Customers (net of allowance for uncollectibles)	10,130	518,561
Interfund receivables	-	-
Inventory	126,544	-
Prepaid insurance	-	-
Total current assets	137,478	3,081,696
Capital assets	8,161,817	23,374,981
Less: accumulated depreciation	(4,077,508)	(8,079,887)
Total noncurrent assets	4,084,309	15,295,094
Total assets	\$ 4,221,787	\$ 18,376,790
<b>Deferred Outflow of Resources</b>		
Related to Pensions	\$ 35,745	\$ 244,638
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ -	\$ 26,272
Accrued payroll liabilities	11,486	25,400
Other accrued liabilities	-	111,598
Current portion of accrued compensated absences	4,779	20,460
Total current liabilities	16,265	183,730
Noncurrent Liabilities:		
Pension Liability	105,878	724,636
Noncurrent portion of landfill liability	-	-
Total non-current liabilities	105,878	724,636
Total liabilities	122,143	908,366
<b>Deferred Inflow of Resources</b>		
Related to Pensions	\$ 1,814	\$ 12,415
<b>Net Position</b>		
Net investment in capital assets	3,978,431	14,570,458
Restricted	-	-
Unrestricted	155,144	3,130,189
Total net position	4,133,575	17,700,647

The accompanying notes are an integral part of these financial statements

Solid Waste	Waste Water	Cemetary	Total
\$ 3,075,047	\$ 4,342,295	\$ 503,856	\$ 10,485,137
71,338	-	-	71,338
292,487	178,757	9,801	1,009,736
-	-	-	-
-	-	-	126,544
-	-	-	-
<u>3,438,872</u>	<u>4,521,052</u>	<u>513,657</u>	<u>11,692,755</u>
5,177,372	33,074,479	759,487	70,548,136
(3,538,452)	(17,203,573)	(267,024)	(33,166,444)
<u>1,638,920</u>	<u>15,870,906</u>	<u>492,463</u>	<u>37,381,692</u>
<u>\$ 5,077,792</u>	<u>\$ 20,391,958</u>	<u>\$ 1,006,120</u>	<u>\$ 49,074,447</u>
\$ 155,264	\$ 112,942	\$ -	\$ 548,589
\$ 7,239	\$ -	\$ -	\$ 33,511
22,484	9,895	3,793	73,058
-	-	-	111,598
12,695	13,813	-	51,747
<u>42,418</u>	<u>23,708</u>	<u>3,793</u>	<u>269,914</u>
459,903	334,541	-	1,624,958
24,992	-	-	24,992
<u>484,895</u>	<u>334,541</u>	<u>-</u>	<u>1,649,950</u>
<u>527,313</u>	<u>358,249</u>	<u>3,793</u>	<u>1,919,864</u>
\$ 7,879	\$ 5,732	\$ -	\$ 27,840
1,638,920	15,870,906	492,463	36,551,178
-	-	-	-
<u>3,058,944</u>	<u>4,270,013</u>	<u>509,864</u>	<u>11,124,154</u>
<u>4,697,864</u>	<u>20,140,919</u>	<u>1,002,327</u>	<u>47,675,332</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Airport</u>	<u>Water</u>
<i>Operating revenues:</i>		
Charges for services	\$ 322,380	\$ 2,535,478
Total operating revenues	<u>322,380</u>	<u>2,535,478</u>
<i>Operating expenses:</i>		
Personnel services	254,914	1,456,617
Contractual services	-	60,047
Supplies and purchased power	166,603	261,285
Maintenance and materials	48,760	166,239
Utilities	9,153	270,277
Depreciation	143,093	1,028,487
Miscellaneous	31,448	387,025
Total operating expenses	<u>653,971</u>	<u>3,629,977</u>
Operating income (loss)	(331,591)	(1,094,499)
<i>Non-operating revenues (expenses):</i>		
Taxes	-	-
Interest income	-	31,982
Interest expense	-	-
Grant revenue	3,643,644	273,125
Miscellaneous	-	-
Total non-operating revenues	<u>3,643,644</u>	<u>305,107</u>
Transfers in	2,110,475	2,183,834
Transfers (out)	<u>(3,471,337)</u>	<u>(919,219)</u>
Total transfers	<u>(1,360,862)</u>	<u>1,264,615</u>
<i>Net Income</i>	1,951,191	475,223
<i>Total net position - beginning</i>	<u>2,182,384</u>	<u>17,225,424</u>
<i>Total net position - ending</i>	<u>\$ 4,133,575</u>	<u>\$ 17,700,647</u>

The accompanying notes are an integral part of these financial statements



<u>Solid Waste</u>	<u>Waste Water</u>	<u>Cemetary</u>	<u>Total</u>
\$ 1,771,236	\$ 1,453,614	\$ 57,645	\$ 6,140,353
<u>1,771,236</u>	<u>1,453,614</u>	<u>57,645</u>	<u>6,140,353</u>
872,903	632,542	-	3,216,976
148,196	41,420	-	249,663
74,641	35,769	4,783	543,081
600,646	162,404	19,025	997,074
1,687	154,635	7,642	443,394
204,270	951,253	22,181	2,349,284
113,351	81,835	1,301	614,960
<u>2,015,694</u>	<u>2,059,858</u>	<u>54,932</u>	<u>8,414,432</u>
(244,458)	(606,244)	2,713	(2,274,079)
167,468	641,539	-	809,007
3,004	3,060	485	38,531
-	-	-	-
-	-	-	3,916,769
225,794	-	-	225,794
<u>396,266</u>	<u>644,599</u>	<u>485</u>	<u>4,990,101</u>
1,757	211,133	408,526	4,915,725
-	-	-	(4,390,556)
<u>1,757</u>	<u>211,133</u>	<u>408,526</u>	<u>525,169</u>
153,565	249,488	411,724	3,241,191
4,544,299	19,891,431	590,603	44,434,141
<u>\$ 4,697,864</u>	<u>\$ 20,140,919</u>	<u>\$ 1,002,327</u>	<u>\$ 47,675,332</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Enterprise Funds	
	Airport	Water
	Enterprise Fund	Enterprise Fund
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 300,758	\$ 2,396,119
Cash paid to suppliers and employees	(471,630)	(1,990,287)
<b>Net Cash (Used) by Operating Activities</b>	(170,872)	405,832
<b>Cash Flows From Non-Capital Financing Activities</b>		
Operating transfers	(1,360,862)	1,264,615
Gross receipts tax	-	-
Grant income	3,643,644	273,125
Interest expense	-	6,529
Miscellaneous income	-	-
<b>Net Cash (Used) by Non-Capital Financing Activities</b>	2,282,782	1,544,269
<b>Cash Flows From Capital Financing Activities</b>		
(Purchase)/transfer of capital assets	(2,112,338)	(2,176,973)
Principal paid on capital debt	-	-
Prior period adjustment	-	-
Interest paid on capital debt	-	-
<b>Net Cash (Used) by Capital Financing Activities</b>	(2,112,338)	(2,176,973)
<b>Cash Flows From Investing Activities:</b>		
Interest income	-	31,982
<b>Net Cash (Used) by Investing Activities</b>	-	31,982
Net Increase/(Decrease) in Cash and Cash Equivalents	(428)	(194,890)
Cash and Cash Equivalents, Beginning of Year	1,232	2,758,025
Cash and Cash Equivalents, End of Year	\$ 804	\$ 2,563,135
<b>Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities:</b>		
Operating income (loss)	\$ (331,591)	\$ (1,094,499)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation	143,093	1,028,487
(Increase)/decrease in accounts receivable	(21,622)	(18,896)
(Increase)/decrease in interfund balances	(49,918)	407
(Increase)/decrease in inflows	862	6,529
Increase/(decrease) in accounts payable	(142)	18,664
Increase/(decrease) in accrued liabilities	7,013	12,851
Increase/(decrease) deferred outflows	(14,612)	(120,870)
Increase/(decrease) in pension liability	81,223	572,258
Increase/(decrease) in accrued compensated absences	14,822	901
<b>Net Cash (Used) by Operating Activities</b>	\$ (170,872)	\$ 405,832

**Summary of Significant Noncash Activities:**

No significant noncash transactions.

The accompanying notes are an integral part of these financial statements.

Enterprise Funds			
Soild Waste Enterprise Fund	Waste Water Enterprise Fund	Cemetary Fund	Total
\$ 1,755,514	\$ 1,454,615	\$ 64,079	\$ 5,971,085
(1,506,775)	(898,764)	(29,149)	(4,896,605)
<u>248,739</u>	<u>555,851</u>	<u>34,930</u>	<u>1,074,480</u>
1,757	211,133	408,526	525,169
167,468	641,539	-	809,007
-	-	-	3,916,769
-	-	-	6,529
225,794	-	-	225,794
<u>395,019</u>	<u>852,672</u>	<u>408,526</u>	<u>5,074,742</u>
(59,288)	(213,693)	(367,487)	(4,929,779)
(23,758)	-	-	(23,758)
-	-	-	-
-	-	-	-
<u>(83,046)</u>	<u>(213,693)</u>	<u>(367,487)</u>	<u>(4,586,050)</u>
3,004	3,060	485	38,531
<u>3,004</u>	<u>3,060</u>	<u>485</u>	<u>38,046</u>
563,716	1,197,890	76,454	1,601,218
<u>2,511,331</u>	<u>3,144,405</u>	<u>427,402</u>	<u>8,842,395</u>
<u>\$ 3,075,047</u>	<u>\$ 4,342,295</u>	<u>\$ 503,856</u>	<u>\$ 10,485,137</u>
\$ (244,458)	\$ (606,244)	2,713	(2,274,079)
204,270	951,253	22,181	2,349,284
(15,722)	1,001	6,434	(48,805)
-	-	-	(49,511)
(61,269)	(42,196)	-	(96,074)
5,428	(350)	(191)	23,409
6,375	(4,114)	3,793	25,918
3,631	2,594	-	(129,257)
349,925	253,299	-	1,256,705
559	608	-	16,890
<u>\$ 248,739</u>	<u>\$ 555,851</u>	<u>\$ 34,930</u>	<u>\$ 1,074,480</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**AGENCY FUNDS**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2017**

Exhibit E-1

	<u>Agency Funds</u>
<b>ASSETS</b>	
<i>Current Assets</i>	
Cash	350,751
Stock investments	2,135,147
Investments - LGIP	729,475
Interest receivable	<u>1,051</u>
<i>Total assets</i>	<u><u>3,216,424</u></u>
 <b>LIABILITIES</b>	
<i>Current Liabilities</i>	
Deposits held in trust for others	<u>3,216,424</u>
<i>Total liabilities</i>	<u><u>\$ 3,216,424</u></u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies**

The City of Artesia (the “City”) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police, fire, emergency medical, etc.), highways and streets, public utilities (wastewater, water, solid waste, etc.), health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

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

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

This summary of significant accounting policies of the City is presented to assist in the understanding of the City’s Financial Statements. The financial statements and notes to the financial statements are the representation of the City’s management who is responsible for their integrity and objectivity.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles..

During the year ended June 30, 2017, the District adopted GASB Statements No. 72, *Fair Value Measurement and Application*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, No. 79, *Certain External Investment Pools and Pool Participants*, and a portion of No 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB Statements Nos. 72, 76, and 79, as well as the implemented portion of Statement No. 73, are required to be implemented for the fiscal year ending June 30, 2017.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement is effective for June 30, 2017 year end and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the amendments for Statement No.s 67 and 68 and assets accumulated for pensions not administered as trusts. The amendments of this pronouncement clarifies application of certain provisions of GASB 67 and 68 with regards to the following issues: (1) Information that is required to be presented as notes to the 10-year schedules of RSI about investment-related factors that significantly affect trends in reported amounts; (2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions; and (3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

In addition, effective for June 30, 2017 year ends, the requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that, for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

The objective of GASB Statement No. 77 is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current year revenues were sufficient to pay for current year services, (b) compliance with financial-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them and (d) financial position and economic condition and how they have changed over time. The pronouncement is effective as of June 30, 2017. The City is not a recipient of significant property tax revenues assessed, calculated and collected by Eddy County. The County is responsible and makes the determination of all individual tax abatements, if any. As of June 30, 2017, the City is not aware of tax abatement programs entered by the County which may have a financial effect on the property tax revenue received and due the City.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool for measuring all of its investments at amortized cost for financial reporting purposes. Professional judgement is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide for qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

GASB Statement No. 82 objective is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and; (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements

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

**A. Financial Reporting Entity**

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14 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. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

In years prior to June 30, 2013, for financial reporting purposes the City of Artesia Public Housing Authority (Authority) was considered to be a discretely presented component unit of the City of Artesia. For fiscal year ending June 30, 2013 and thereafter, the Authority is not considered to be a component unit of the City of Artesia because it does not meet the requirements to be reported as a component unit of the City of Artesia as defined by Governmental Accounting Standards Board's (GASB) Statement 14 as amended by GASB Statement No. 61. Based on the criteria described above the City does not have any component units.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, amend GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, to incorporate deferred outflows of resources and deferred inflows of resources in the financial reporting model.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*B. Government-wide and fund financial statements (Continued)*

*Deferred outflows of resources* – a consumption of net assets by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

*Deferred inflows of resources* – an acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

*Net position* – the residual of the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation (Continued)*

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

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

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

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

The City reports the following major governmental funds:

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

*Capital Improvements* – To record revenues and expenditures for severance tax and state funds received for projects approved by the legislature.

*MGRT Infrastructure* – To account for the municipal gross receipts tax to be used for infrastructure improvements. The fund is authorized by the City Council.

The City reports the following proprietary funds as major funds. Proprietary funds include:

The *Airport Fund* accounts for the operations and activities related to the City's airport.

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 *Solid Waste Fund* accounts for the disposal of solid waste for the residents of the City.

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 *Cemetery Fund* accounts for the operations and activities related to the City's cemetery.

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Measurement focus, basis of accounting, and financial statement presentation (Continued)*

The *Capital Projects Funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The *Debt Service Funds* account for the services of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *Fiduciary Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are used to account for DWI testing receipts and disbursements; water security deposits, and for funds provided by a private donor to finance the purchase of medical equipment for the community hospital.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues for the various functions concerned as reported in the Statement of Activities.

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

*D. Assets, Liabilities and Net Position or Equity*

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

**Investments:** State statutes authorize the City to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Local Government Investment Pool (LGIP).

Investments for the City are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*D. Assets, Liabilities and Net Position or Equity (Continued)*

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 in the event they are not received within 60 days of year end.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied. Property taxes are considered to be 100% collectable.

**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:** Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used.

**Capital Assets:** Capital assets, which include property, plant, utility systems, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1980) are included as part of the governmental capital assets reported in the government-wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Library books and periodicals are estimated to have a useful life of less than one year or are under the capitalization threshold and are expensed when purchased.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the City during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure	40
Utility systems	25
Machinery & Equipment (including vehicles)	5

**Accrued Expenses:** Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through June 30, 2017, along with applicable PERA, FICA, Medicare, and Retiree Health Care contributions.

**Deferred Revenues:** Accounting principles generally accepted in the United States of America require that grant revenue (voluntary nonexchange transactions) be recognized as revenue in the government-wide financial statements when all eligibility requirements have been met and recognized as revenue in the

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1. Summary of Significant Accounting Policies** (continued)

*D. Assets, Liabilities and Net Position or Equity (Continued)*

governmental fund financial statements based on the same factors subject to the availability criterion. Amounts received from reimbursement basis grants are recorded as deferred revenue in the governmental fund financial statements when received more than 90 days after year end and amounts received after 60

**Compensated Absences:** City employees accrue sick leave at various rates depending on the employee’s length of service. Accumulated sick leave shall not be taken as annual paid leave. Accordingly, no liability is recorded for non-vesting accumulated rights to receive sick pay benefits.

They earn vacation leave at various rates depending on the employee’s length of service, as follows:

Annual leave may not be carried over from year to year. Effective January 1 of each year, the annual leave balance from the previous year shall be forfeited. When an employee, for any reason, terminates his/her employment with the City, he/she shall be paid for all unused earned annual leave hours.

<u>Employment Duration</u>	<u>Regular Employees</u>	<u>Fire Employees</u>
1 to 4 years	80 hours	120 hours
5 to 9 years	120 hours	168 hours
10 to 19 years	160 hours	240 hours
20 years and over	200 hours	288 hours

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

**Long-term Obligations:** In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or the straight line method if the difference from using the effective method is inconsequential.

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

**Fund Balance Classification Policies and Procedures:** For committed fund balance the City’s highest level of decision-making authority is the City Council. The formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.

For assigned fund balance, the City Council has approved the City Manager as an authorized official to assign fund balance to a specific purpose.

When multiple categories of fund balance are available for expenditures, the City will start with the most restricted category and spend those funds first before moving down to the next category of available funds.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

*D. Assets, Liabilities and Net Position or Equity (Continued)*

**Nonspendable Fund Balance:** At June 30, 2017, the City of Artesia did not have any nonspendable fund balance.

**Restricted and Committed Fund Balance:** At June 30, 2017, the City has presented restricted fund balance on the governmental funds balance sheet in the amount of \$9,795,600 for various City operations as restricted by enabling legislation.

**Minimum Fund Balance Policy:** It is the policy of the City to achieve and maintain an Unassigned Fund Balance in the General Fund equal to 8.33% or 1/12th of budgeted expenditures in accordance with DFA requirements. The City considers a balance of less than 8.33% or 1/12th to be cause for concern, barring unusual or deliberate circumstances. This equals \$1,434,953 as a committed balance at June 30, 2017.

In the event that the Unassigned Fund Balance in the General Fund is calculated to be less than the policy requires, the City shall plan to control operating expenditures and use budget surpluses in subsequent fiscal years to restore the balance. The minimum Unassigned Fund Balance shall be restored within one to three fiscal years, as economic conditions allow. Except in extraordinary circumstances, the minimum Undesignated Fund Balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the City. It should be used primarily to insure adequate designated reserves, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Equity Classifications: Equity is classified as Net Position and displayed in three components in the Government-wide Statements:

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

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

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

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City’s financial statements include the allowance for uncollectible accounts in the enterprise funds, depreciation on capital assets over their estimated useful lives, current and estimated remaining landfill capacity and used to calculate the landfill liability, and the current portion of accrued compensated absences.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

*D. Assets, Liabilities and Net Position or Equity (Continued)*

**Reclassifications:** Certain amounts included in the prior year financial statements have been reclassified to conform to the current year presentation. All waste water funds have been consolidated into a single proprietary fund for financial statement presentation purposes.

**NOTE 2. Stewardship, Compliance and Accountability**

*Budgetary Information*

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

These budgets are prepared on a Non-GAAP cash budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been properly amended by the City Council in accordance with the above procedures. These amendments resulted in the following changes:

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

The City is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP), a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2017 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual fund budgetary statement.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3. Deposits & Investments**

Cash & Cash Equivalents

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

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

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

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

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account (including an Interest on Lawyer Trust Account) no longer will receive unlimited deposit insurance coverage by the FDIC. Beginning January 1, 2013, all of the County's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2017, \$41,429,096, of the City's bank balances of \$42,179,096 was exposed to custodial credit risk, \$17,706,435 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the City's name.

The schedule listed below discloses the State of New Mexico, Office of the State Auditor's requirements on reporting the insured portion of the City's deposits.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 3. Deposits & Investments (Continued)**

Cash & Cash Equivalents (Continued)

	First America Bank	Western Bank	Total
Amount of deposits	\$ 41,596,427	\$ 582,669	\$ 42,179,096
FDIC Coverage	<u>(500,000)</u>	<u>(250,000)</u>	<u>(750,000)</u>
Total uninsured public funds	41,096,427	332,669	41,429,096
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	<u>22,916,327</u>	<u>806,334</u>	<u>23,722,661</u>
Uninsured and unallocated	<u>\$ 18,180,100</u>	<u>\$ (473,665)</u>	<u>\$ 17,706,435</u>
Collateral requirement (50% of uninsured funds)	\$ 20,548,214	\$ 166,335	\$ 20,714,549
Pledged Collateral	<u>22,916,327</u>	<u>806,334</u>	<u>23,722,661</u>
Over (Under) collateralized	<u>\$ 2,368,113</u>	<u>\$ 639,999</u>	<u>\$ 3,008,112</u>

Investments

The City's investments at June 30, 2017 include the following:

<u>Investments</u>	<u>Rating</u>	<u>Western Average Maturity</u>	<u>Fair Value</u>
US Treasury Money Market Mutual Funds	AA+	>90 Days	\$ <u>2,864,621</u>
			<u>\$ 2,864,621</u>

The City has presented 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(I) through 6-10-10(P) and Sections 6-10-10.1(A) and (E), NMSA 1978. The pool does not have unit shares. Per section 6-10-10(F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. As of June 30, 2017, the City's investment in the State Treasurer Local Government Investment Pool was rated AAAM by Standard & Poor's.

*Interest Rate Risk – Investments.* The City's policy related to interest rate risk with investments is to comply with the state as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). The City's investments were rated AAA by Moody's Investors Services and S&P and have a weighted average days to maturity (WAM) of 27.5 days.

*Concentration of Credit Risk – Investments.* For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the City. The investment in the U.S Treasury Money Market Mutual Funds represents 21% and the investment in the New Mexico State Treasurer Local Growth Investment pool is 79% of the investment portfolio, respectively. Since the City only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the City. The City's policy related to concentration of credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3. Deposits & Investments (Continued)**

Investments – Fiduciary Net Position

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 these 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 \$2,864,621.

**NOTE 4. Receivables**

Receivables as of June 30, 2017, are as follows:

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Taxes	1,175,576	-	-	1,175,576
Intergovernmental	14,000	184,242	12,980	211,222
Miscellaneous	9	121	26,970	27,100
Net Receivables	<u>\$ 1,189,585</u>	<u>\$ 184,363</u>	<u>\$ 39,950</u>	<u>\$ 1,413,898</u>

The above receivables are deemed 100% collectable.

Proprietary fund receivables as of June 30, 2017 are as follows:

	<u>Airport</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Cemetery</u>
Taxes	\$ -	\$ -	\$ 71,338	\$ -	\$ -
Customer Receivables	10,130	570,027	337,661	204,268	9,801
Allowance for doubtful accounts	-	(51,466)	(45,174)	(25,511)	-
Net Receivables	<u>\$ 10,130</u>	<u>\$ 518,561</u>	<u>\$ 363,825</u>	<u>\$ 178,757</u>	<u>\$ 9,801</u>

	<u>Total</u>
Taxes	\$ 71,338
Customer Receivables	1,131,887
Allowance for doubtful accounts	(122,151)
Net Receivables	<u>\$ 1,081,074</u>

**NOTE 5. Interfund Receivables, Payables, and Transfers**

The City records temporary interfund receivables and payables to enable the funds to operate until grant monies are received. Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances of June 30, 2017 is as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
Major Funds		
General Fund	\$ —	\$ 9,649
Water Fund	—	—
Nonmajor Funds		
Commission on Aging Fund	5,384	—
RSVP Program Fund	4,265	—
Total	<u>\$ 9,649</u>	<u>\$ 9,649</u>

All interfund balances are short-term in nature.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 5. Interfund Receivables, Payables, and Transfers (continued)**

Transfers from the General Fund to:	
Airport Fund	\$ 55,442
Capital Projects Fund	1,823,203
Debt Service	<u>1,574,740</u>
Total transfers from the General Fund	<u>\$ 3,453,385</u>
Transfers from MGRT Infrastructure Fund:	
Debt Service Fund	\$ 2,056,822
Capital Projects Fund	2,086,874
Total transfers from the MGRT Infrastructure Fund	<u>\$ 4,143,696</u>
Transfers from Capital Projects Fund to:	
Debt Service Fund	<u>\$ 720,000</u>
Total transfers from the Capital Projects Fund	<u>\$ 720,000</u>
Transfers to Debt Service Fund from:	
General Fund	\$ 1,574,740
MGRT Infrastructure	2,086,874
Capital Projects Fund	<u>720,000</u>
Total transfers from the Debt Service Fund	<u>\$ 4,381,614</u>
Transfers from non-major funds to:	
Law Enforcement to Capital Projects Fund	\$ 58,386
Lodger's Tax to Lodger's Tax Promotional Fund	420,050
Industrial Park to Capital Projects Fund	<u>276,350</u>
Total transfers from non-major funds	<u>\$ 754,786</u>
Transfers to non-major funds from:	
Lodger's Tax Promotional Fund to Lodger's Tax	<u>\$ 420,050</u>
Total transfers from non-major funds	<u>\$ 420,050</u>
Transfers from the Water Fund to:	
Capital Projects Fund	<u>(919,219)</u>
Total transfers from the Water Fund	<u>\$ (919,219)</u>
Transfers from the Waste Water Fund to:	
General Fund	\$ (2,560)
Capital Projects Fund	<u>213,693</u>
Total transfers from the Waste Water Fund	<u>\$ 211,133</u>

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 5. Interfund Receivables, Payables, and Transfers (continued)**

Transfers to (from) the Solid Waste Fund:	
Wastewater Fund	\$ 2,560
Capital Projects Fund	<u>(803)</u>
Total transfers from the Solid Waste Fund	<u>\$ 1,757</u>
Transfers to (from) the Airport Fund:	
General Fund	\$ 55,442
Capital Projects Fund	<u>(1,416,304)</u>
Total transfers from the Airport Fund	<u>\$ (1,360,862)</u>
Transfers to the Cemetery Fund from:	
Capital Projects Fund	<u>\$ 408,526</u>
Total transfers from the Airport Fund	<u>\$ 408,526</u>

**NOTE 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2017 follows. Land and construction in progress are not subject to depreciation.

<b>Capital Assets used in Governmental Activities:</b>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>
Capital assets not depreciated					
Land	\$ 928,299	\$ 914,843	\$ —	\$ —	\$ 1,843,142
Construction in Progress	<u>5,525,423</u>	<u>216,794</u>	<u>—</u>	<u>—</u>	<u>5,742,167</u>
Total not being depreciated	<u>\$ 6,453,672</u>	<u>\$ 1,131,637</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,585,309</u>
Capital assets being depreciated					
Buildings	\$ 33,554,222	\$ 1,084,707	\$ —	\$ (6,774)	\$ 34,632,155
Improvements	8,187,742	399,604	—	—	8,587,346
Infrastructure	34,733,385	—	(7,802)	—	34,725,583
Equipment	<u>10,029,764</u>	<u>26,995</u>	<u>(12,836)</u>	<u>25,730</u>	<u>10,069,653</u>
Total being depreciated	<u>\$ 86,505,113</u>	<u>\$ 1,511,306</u>	<u>\$ (20,638)</u>	<u>\$ 18,956</u>	<u>\$ 88,014,737</u>
Total capital assets	<u>\$ 92,958,785</u>	<u>\$ 2,642,943</u>	<u>\$ (20,638)</u>	<u>\$ 18,956</u>	<u>\$ 95,600,046</u>
Less accumulated depreciation					
Buildings	\$ 6,566,365	\$ 878,611	\$ —	\$ —	\$ 7,444,976
Improvements	2,788,567	404,972	—	—	3,193,539
Infrastructure	18,644,723	1,040,622	(3,554)	—	19,681,791
Equipment	<u>6,495,824</u>	<u>752,497</u>	<u>(12,836)</u>	<u>—</u>	<u>7,235,485</u>
Total accumulated depreciation	<u>\$ 34,495,479</u>	<u>\$ 3,076,702</u>	<u>\$ (16,390)</u>	<u>\$ —</u>	<u>\$ 37,555,791</u>
Net capital assets	<u>\$ 58,463,306</u>	<u>\$ (433,759)</u>	<u>\$ (4,248)</u>	<u>\$ 18,956</u>	<u>\$ 58,044,255</u>

Depreciation expense for the year ended June 30, 2017 was charged to governmental activities as follows:

General Government	\$ 1,071,422
Public Safety	80,972
Public Works	428,120
Culture and Recreation	<u>1,496,188</u>
Total	<u>\$ 3,076,702</u>

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 6. Capital Assets (Continued)**

<b>Capital Assets used in Business-Type Activities:</b>	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital assets not depreciated					
Land	\$ 165,622	\$ —	—	\$ —	\$ 165,622
Construction in Progress	—	2,110,475	—	—	2,110,475
Total not being depreciated	<u>\$ 165,622</u>	<u>\$ 2,110,475</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,276,097</u>
Capital assets being depreciated					
Buildings	\$ 735,769	\$ —	\$ —	\$ 6,774	\$ 742,543
Improvements	1,090,281	408,525	—	—	1,498,806
Utility System	53,178,507	1,311,262	—	—	54,489,769
Airport Infrastructure	4,664,200	—	—	—	4,664,200
Equipment	5,816,185	1,086,266	—	(25,730)	6,876,721
Total being depreciated	<u>\$ 65,484,942</u>	<u>\$ 2,806,053</u>	<u>\$ —</u>	<u>\$ (18,956)</u>	<u>\$ 68,272,039</u>
Total capital assets	<u>\$ 65,650,564</u>	<u>\$ 4,916,528</u>	<u>\$ —</u>	<u>\$ (18,956)</u>	<u>\$ 70,548,136</u>
Less accumulated depreciation					
Buildings	\$ 461,816	\$ 16,682	\$ —	\$ 4,911	\$ 483,409
Improvements	147,001	36,789	—	—	183,790
Utility System	22,588,168	1,843,825	—	—	24,431,993
Airport Infrastructure	3,200,190	115,327	—	—	3,315,517
Equipment	4,433,942	336,662	—	(18,869)	4,751,735
Total accumulated depreciation	<u>\$ 30,831,117</u>	<u>\$ 2,349,285</u>	<u>\$ —</u>	<u>\$ (13,958)</u>	<u>\$ 33,166,444</u>
Net capital assets	<u>\$ 34,819,447</u>	<u>\$ 2,567,243</u>	<u>\$ —</u>	<u>\$ (4,998)</u>	<u>\$ 37,381,692</u>

Depreciation expense charged to business-type activities for the year ended June 30, 2017 was as follows:

Waste Water	\$ 951,253
Solid Waste	204,270
Water	1,028,487
Airport	143,093
Cemetery	22,182
Total	<u>\$ 2,349,285</u>

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 7. Long-term Debt**

**Governmental Activities**

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the government-wide Statement of Net Position:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds Payable	\$ 32,800,000	\$ 0	\$ 3,235,000	\$ 29,565,000	\$ 2,085,000
Compensated Absences	340,040	163,281	147,627	355,694	355,694
Total Long-Term Debt	<u>\$ 33,140,040</u>	<u>\$ 163,281</u>	<u>\$ 3,382,627</u>	<u>\$ 29,920,694</u>	<u>\$ 2,440,694</u>

Interest expense paid on long-term debt for governmental activities totaled \$1,158,983 for the year ended June 30, 2017.

**Revenue Bonds**

On September 14, 2009, the City entered into a bond agreement for the construction of a public safety complex. The bonds will constitute a special obligation of the City, and shall be payable only from the revenues of the state-shared gross receipts tax distributed to the City pursuant to Section 7-1-6.4 NMA 1978, as amended. Interest on the bond is due each December 1 and June 1 until maturity.

On July 31, 2013, the City entered into a bond agreement to provide funds to defray the cost of street, sewer, sanitary sewer and storm drainage infrastructure replacements and improvements. The bonds will constitute a special obligation of the City, and shall be payable only from the revenues of the state-shared gross receipts tax distributed to the City pursuant to Section 7-1-6.4 NMA 1978, as amended. Interest on the bond is due each December 1 and June 1 until maturity.

On December 8, 2009, the City entered into a bond agreement for the improvement of the wastewater treatment plant. The bonds will constitute a special obligation of the City, and shall be payable from the net revenues of the City's water and wastewater system and the a designated amount of the sixth increment (0.25%) of municipal gross receipts tax revenues imposed by the City pursuant to Ordinance No. 772, Adopted on September 11, 2007 and Section 7-19D-1 through Section 7-19D-12 NMSA 1978. The revenue bonds are as follows:

Series	Original Issue	Final Maturity	Interest Rate	Outstanding
Revenue Bonds Series 2010	\$ 12,885,000	6/1/2029	2.000-4.250%	\$ 9,005,000
Revenue Bonds Series 2013	\$ 7,000,000	6/1/2028	2.660%	\$ 2,805,000
Revenue Bonds Series 2016	\$ 7,000,000	6/1/2030	2.000-3.000%	\$ 4,005,000
New Mexico Gross Receipts Tax	\$ 20,000,000	6/1/2029	2.750-4.625%	\$ 13,750,000

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 7. Long-term Debt (Continued)**

The annual requirements to amortize the Bonds as of June 30, 2017, including interest payments, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2018	2,085,000	1,059,441	3,144,441
2019	2,145,000	994,908	3,139,908
2020	2,200,000	927,364	3,127,364
2021	2,260,000	856,901	3,116,901
2022	2,325,000	782,268	3,107,268
2023-2027	12,775,000	2,612,150	15,387,150
2028-2032	<u>5,775,000</u>	<u>356,090</u>	<u>6,131,090</u>
Total	<u>\$ 29,565,000</u>	<u>\$ 7,589,122</u>	<u>\$ 37,154,122</u>

**Business-Type Activities**

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the proprietary Statement of Net Position:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds Payable	\$ —	\$ —	\$ —	\$ —	\$ —
Landfill Closure	48,750	—	23,758	24,992	—
Compensated Absences	<u>49,469</u>	<u>9,263</u>	<u>6,985</u>	<u>51,747</u>	<u>51,747</u>
Total Long-Term Debt	<u>\$ 98,219</u>	<u>\$ 9,263</u>	<u>\$ 30,743</u>	<u>\$ 76,739</u>	<u>\$ 51,747</u>

No interest expense was paid on long-term debt for business-type activities for the year ended June 30, 2017.

**Landfill Closure and Post-Closure Care 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 liability for landfill closure and post-closure care costs is \$24,992 as of June 30, 2017, which is based on 100 percent usage (filled) of the landfill. The estimated total current cost of the landfill closure and post-closure care 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, 2017. 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.

In addition, the City is required by the State of New Mexico Environmental Regulation Board to demonstrate financial assurance for the post-closure costs. The City is in compliance with these requirements, and at June 30, 2017, cash and investments reported as part of the pooled funds held by the City Treasurer and are presented on the Solid Waste Fund Statement of Net Positions sufficient to cover the estimated remaining post-closure costs.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 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 and natural disasters. The City participates in the New Mexico Self-Insurer's Fund risk pool.

The City has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the City which exceeds the insurance coverage, the City would not be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurer's Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage has not changed significantly from prior years and coverage is expected to be continued.

At June 30, 2017, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against City of Artesia.

New Mexico Self-Insurer's Fund has not provided information on an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and prior fiscal year.

**NOTE 9. PERA Pension Plan**

*Plan description.* The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

*Benefits provided.* For a description of the benefits provided and recent changes to the benefits see Note in the PERA audited financial statements for the fiscal ended June 30, 2017 available at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf).

*Contributions.* The contribution requirements of defined benefit plan members and City of Artesia are established in State Statute under Chapter 10, Article 11 NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY15 annual audit report at [http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR\\_12.22.2016\\_FINAL-with-corrections.pdf](http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2016-CAFR_12.22.2016_FINAL-with-corrections.pdf). The PERA coverage options that apply to City of Artesia are Municipal General Division and Municipal Police Division. Statutorily required contributions to the pension plan from City of Artesia were \$602,900, and there were \$475,302 employer paid member benefits that were "picked up" by the employer for the year ended June 30, 2017.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2016. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 9. PERA Pension Plan (Continued)**

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

City of Artesia’s proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2016 to June 30, 2017 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal General Division, at June 30, 2017, City of Artesia reported a liability of \$5,003,883 for its proportionate share of the net pension liability. At June 30, 2016, City of Artesia’s proportion was 0.3132 percent, which was an increase of .0285 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, City of Artesia recognized PERA Fund Municipal General Division pension expense of \$641,559. At June 30, 2017, City of Artesia reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 250,014	\$ 48,835
Changes of assumptions	293,419	832
Net difference between projected and actual Earnings on pension plan investments	920,705	-
Changes in proportion and differences between the City’s contributions and proportionate Share of contributions	225,178	36,064
City’s contributions subsequent to the measurement date	—	—
Total	<u>\$ 1,689,316</u>	<u>\$ 85,731</u>

\$1,689,316 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 9. PERA Pension Plan (Continued)**

Fiscal Year <u>Ending June 30.</u>		
2018	\$	365,125
2019		365,125
2020		633,813
2021		239,522
2022		—

For PERA Fund Division Municipal Police Division, at June 30, 2017, the City reported a liability of \$6,805,742 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was .9224 percent, which was an increase of .1027 percent from its proportion measured as of June 30, 2015, due to the insignificance of the difference.

For the year ended June 30, 2017, the City recognized PERA Fund Division Municipal Police Members pension expense of \$1,044,595. At June 30, 2017, the City reported PERA Fund Division Municipal Police Members deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 499,641	\$ —
Changes of assumptions	450,774	122,740
Net difference between projected and actual Earnings on pension plan investments	1,076,367	—
Changes in proportion and differences between the City's contributions and proportionate Share of contributions	420,933	—
City's contributions subsequent to the measurement date	—	—
Total	<u>\$ 2,447,715</u>	<u>\$ 122,740</u>

\$2,447,715 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year <u>Ending June 30.</u>		
2018	\$	597,883
2019		597,883
2020		843,241
2021		285,968
2022		—

For PERA Fund Division Municipal Fire Division, at June 30, 2017, the City reported a liability of \$6,198,041 for its proportionate share of the net pension liability. At June 30, 2016, the City's proportion was .7936 percent, which was an increase of .1355 percent from its proportion measured as of June 30, 2015, due to the insignificance of the difference.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 9. PERA Pension Plan (Continued)**

For the year ended June 30, 2017, the City recognized PERA Fund Division Municipal Fire Members pension expense of \$956,092. At June 30, 2017, the City reported PERA Fund Division Municipal Fire Members deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 280,677	\$ —
Changes of assumptions	327,852	—
Net difference between projected and actual Earnings on pension plan investments	516,265	—
Changes in proportion and differences between the City's contributions and proportionate Share of contributions	497,037	4,614
City's contributions subsequent to the measurement date	<u>—</u>	<u>—</u>
Total	<u>\$ 1,621,831</u>	<u>\$ 4,614</u>

\$1,621,831 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	
2018	\$ 470,329
2019	470,329
2020	523,370
2021	528,370
2022	—

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
<input type="checkbox"/> Investment rate of return	7.48% annual rate, net of investment expense
<input type="checkbox"/> Payroll growth	2.75% annual rate
<input type="checkbox"/> Projected salary increases	2.75% to 14.25% annual rate
<input type="checkbox"/> Includes inflation at	2.75% annual rate

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 9. PERA Pension Plan (Continued)**

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

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate if Return
Global Equity	43.5%	7.39%
Risk Reduction Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets	20.0	7.35
Total	100.0%	

*Discount rate:* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the City's net pension liability in each PERA Fund Division that the City participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

	1% Decrease (6.48%)	Current Discount Rate (7.75%)	1% Increase (8.48%)
<u>Muni General Division</u> City's proportionate share of the net pension liability	\$ 7,460,344	\$ 5,003,883	\$ 2,966,370
<u>Muni Police Division</u> City's proportionate share of the net pension liability	\$ 10,012,935	\$ 6,805,742	\$ 4,182,632
<u>Muni Fire Division</u> City's proportionate share of the net pension liability	\$ 8,107,006	\$ 6,198,041	\$ 4,630,026

***Pension plan fiduciary net position.*** Detailed information about the pension plan's fiduciary net position is available in the separately issued FY16 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

***Payables to the pension plan.*** The City did not maintain a payable related to PERA contribution at June 30, 2017.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10. Post-Employment Benefits – State Retiree Health Care Plan**

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 and has elected not to participate in the post-employment health insurance plan.

**NOTE 11. 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 Retirement Corporation (DRC). The assets and liabilities are held in trust by DRC.

The plan is available to all City employees who work at least 17 hours per week. The plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable 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, 2017, 2016, and 2015 were approximately \$402, 366, \$405,233, and \$399,274, 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, 2017 is \$7,116,812.

**NOTE 12. Concentrations**

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

**NOTE 13. 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. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 14. Deficit Fund Balances and Budget Noncompliance Issues**

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

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

Commission on Aging Fund	\$	5,384
CDBG Rehab Fund		<u>3</u>
	\$	<u>5,387</u>

- B. Excess of expenditures over appropriations. No funds exceed approved budgetary authority for the year ended June 30, 2017:
- C. Designated cash appropriations. No funds had designated cash appropriations in excess of available balances for the year ended June 30, 2017:

**NOTE 15. Subsequent Events**

The date to which events occurring after June 30, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 5, 2017 which is the date on which the financial statements were available to be issued. The City is not aware of any events requiring disclosure in the financial statements that took place subsequent to year-end.

**NOTE 16. Joint Powers Agreements and Memorandums of Understanding**

Utilization of Sanitary Landfill

Participants – City of Artesia  
Eddy County

Responsible Party – All participants

Description – To make available to Artesia the landfill facilities for the disposal of solid waste materials in an environmentally approved manner, in compliance with EID Solid Waste Management

Beginning Date – February 14, 1995

Ending Date – Until rescinded or terminated

Estimated amount of project – The County will bear the cost of construction of the landfill and the cost of operation of the landfill at no cost to Artesia.

Amount contributed - None

Audit responsibility – Eddy County

Fiscal agent – Eddy County

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 16. Joint Powers Agreements and Memorandums of Understanding (continued)**

Land Swap between Eddy County and the City of Artesia

Participants – City of Artesia  
Eddy County

Responsible Party – All participants

Description – Exchange ownership of parcels of property to maximize the beneficial uses of the land to the citizens of Artesia and the county of Eddy.

Beginning Date – October 4, 2011

Ending Date – Until rescinded or terminated

Estimated amount of project – The County will bear the cost to demolish any existing structures on the land being delivered to the City of Artesia. The City of Artesia will bear the cost to demolish any structures on the land being delivered to the County.

Amount contributed - None

**NOTE 17. Restricted Net Position**

The government-wide Statement of Net Position reports \$13,436,243 of restricted net position, all of which is restricted by enabling legislation. For descriptions of the related enabling legislation for special revenue, and debt service funds.

**NOTE 18. Subsequent Pronouncements**

In June 2015, GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The County expects this pronouncement to have a material effect on its financial statements.

In March 2016, GASB Statement No. 81 Irrevocable Split-Interest Agreements was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The County is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, Certain Asset Retirement Obligations was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The County is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84 Fiduciary Activities was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The County is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85 Omnibus 2017 was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The County is still evaluating how this pronouncement will affect the financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 18. Subsequent Pronouncements (continued)**

In May 2017, GASB Statement No. 86 Certain Debt Extinguishment Issues was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The County is still evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87 Leases was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The County is still evaluating how this pronouncement will affect the financial statements.

**NOTE 19. Prior Period Adjustment**

During the fiscal year ended June 30, 2017 the City processed and recorded prior period entries to correct multiple accounts within the general fund and the capital projects fund. This resulted in a net reduction of \$569,515 in fund balance (\$640,392 reduction in the general fund and \$70,877 increase in the capital projects fund). The entries appear to be necessary as a result of the City's conversion to a new accounting system.

**NOTE 20 Governmental Fund Balance**

**Fund Balance:** In the fund financial statements, governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications and therefore would not report amounts in all possible fund balance classifications.

In the governmental financial statements, fund balance is classified and is displayed in five components:

*Nonspendable:* Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted:* Consists of amounts that are restricted to specific purposes as a result of a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

*Committed:* Consist of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts.

*Assigned:* Consist of amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned:* Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 20      Governmental Fund Balance (Continued)**

Detail relating to the fund balance classifications is displayed below:

	General	MGRT			Other
	Fund	Infrastructure	Capital Projects	Debt	Governmental
	Fund	Fund	Fund	Service	Funds
<b>Fund balances</b>					
Nonspendable					
Prepaid Items	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted					
Capital Projects	-	3,443,374	1,625,725	-	-
Debt Service	-	-	-	1,362,676	-
City Projects	-	-	-	-	2,156,547
Law Enforcement	-	-	-	-	1,012,204
Economic Development	-	-	-	-	24,820
Emergency Services	-	-	-	-	-
Lodger's Tax	-	-	-	-	-
Gas Tax	-	-	-	-	170,125
Forfeitures	-	-	-	-	129
Committed	1,434,953	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	15,791,376	-	-	-	(5,387)
<b>Total fund balances</b>	<b>\$17,226,329</b>	<b>\$3,443,374</b>	<b>1,625,725</b>	<b>1,362,676</b>	<b>\$ 3,358,438</b>



**REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**OF PERA FUND DIVISION**  
**Required Supplementary Information**  
**Public Employees Retirement Association (PERA) Plan**  
**Last 10 Fiscal Years\***  
**JUNE 30, 2017**

	2017 Municipal General	2016 Municipal General	2015 Municipal General	2017 Municipal Police	2016 Municipal Police
Proportion of the net pension liability	0.3132%	0.2847%	0.2910%	0.9224%	0.8197%
Proportionate share of the net pension liability	5,003,883	2,902,763	2,270,112	6,805,742	3,941,577
Covered-employee payroll	4,511,965	4,026,273	4,937,428	2,618,275	2,606,920
Proportionate share of the net pension liability (asset) as a percentage of it's covered-employee payroll	111%	72%	46%	260%	151%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%	69.18%	76.99%

\*The amounts were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City present information for those years for which information is available.

**SCHEDULE OF CITY'S CONTRIBUTIONS**  
**Public Employees Retirement Association (PERA) Plan**  
**PERA Fund Division**  
**Last 10 Fiscal Years\*\***

Contractually required contribution	547,559	614,796	652,306	588,407	582,143
Contributions in relation to the contractually required contribution	547,559	614,796	652,306	588,407	582,143
Contribution deficiency (excess)	-	-	-	-	-
City's covered-employee payroll	4,511,965	4,026,273	4,937,428	2,618,275	2,606,920
Contributions as a percentage of covered-employee payroll	10%	15%	13%	19%	22%

\*\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the (name of employer) will present information for those years for which information is available.

**Notes to Required Supplementary Information**

**Changes of benefit terms.** The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2016.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf).

**Changes of assumptions.** The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at <http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2016-PERA-Valuation-Report-FINAL.pdf>. See appendix B on pages 53-61 of the report which summarizes actuarial assumptions and methods effective with the June 30, 2016 valuation.

Changes in assumption resulted in a decrease of \$91.8 million to the total pension liability for the PERA Fund and an increase of 0.42% to the funded ratio for the year ended June 30, 2016. See more details of actuarial methods and assumptions on Note 2 on page 34 of PERA's Schedule of Employer Allocations and Pension amounts at [http://osanm.org/media/audits/366-B\\_PERA\\_Schedule\\_of\\_Employer\\_Allocations\\_FY2016.pdf](http://osanm.org/media/audits/366-B_PERA_Schedule_of_Employer_Allocations_FY2016.pdf)

2015 Municipal Police	2017 Municipal Fire	2016 Municipal Fire	2015 Municipal Fire
0.7967%	0.7936%	0.7936%	0.7955%
2,597,155	6,198,041	4,095,914	3,320,412
2,310,712	1,727,060	1,725,344	1,466,219
112%	359%	237%	226%
81.29%	69.18%	76.99%	81.29%
520,607	368,927	390,701	322,832
520,607	368,927	390,701	322,832
-	-	-	-
2,310,712	1,727,060	1,725,344	1,466,219
23%	21%	23%	22%

The accompanying notes are an integral part of these financial statements.

**SUPPLEMENTARY INFORMATION**

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

#### **Municipal Court Fees**

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

#### **EMS Grant**

To account 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.

#### **Fire Fund**

To account for the operation 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.

#### **Law Enforcement Assistance**

To account 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.

#### **Leah Kennedy Library Trust**

To account 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.

#### **Lodger's Tax**

To account 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.

#### **Lodger's Tax Promotional**

To account for the operations of promotional activities of the City of Artesia. Financing is provided primarily by transfer from the Lodger's Tax Fun. The fund is authorized by 14-37-16, NMSA, 1969.

#### **1 Cent Gasoline Tax**

To account 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.

#### **Recreation Fund**

To account 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.

#### **2000 CDBG Grant**

To account 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.

#### **Commission on Aging Fund**

To account 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.

#### **Federal Forfeitures**

To account for the receipts and disbursements 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.

#### **State and Local Forfeiture**

To account 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.

## **NONMAJOR GOVERNMENTAL FUNDS**

### **Industrial Park Fund**

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

### **Annexation Assessment**

To account for revenues derived from fees associated with the outside water user's contracts. The City when providing utilities to outside customers, require them to sign a contract to not protest annexation or pay fees of \$15 per month to defray the costs of legal remedies. The fund is authorized by City Council.

### **MGRT Infrastructure**

To account for the municipal gross receipts tax to be used for infrastructure improvements. The fund is authorized by the City Council.

### **MGRT Economic Development**

To account 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.

## **CAPITAL PROJECT FUNDS**

### **Public Safety Complex Capital Projects Fund**

To account for financial resources to be used for the construction of the public safety complex building.

### **CDBG Rehab Fund**

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.

## **DEBT SERVICE FUNDS**

### **Public Safety Complex Bond**

To account for the accumulation of resources and the payment of general long-term liability principal and interest related to the bond issuance for the public safety complex project.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	Special Revenue		
	Municipal Court Fees	EMS Grant	Fire Fund
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 169,826	\$ -	\$ 8,005
Short term investments	-	-	-
Accounts receivable			
Other taxes	-	-	-
Intergovernmental	-	-	-
Other receivables	299	-	-
Interfund balances	-	-	-
Prepaid expenses	-	-	-
<i>Total current assets</i>	<u>\$ 170,125</u>	<u>\$ -</u>	<u>\$ 8,005</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<i>Current Liabilities:</i>			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll liabilities	-	-	-
Customer deposits payable	-	-	-
Other accrued liabilities	-	-	-
Interfund balances	-	-	-
Deferred revenue	-	-	-
Deferred revenue - property taxes	-	-	-
<i>Total current liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance:</i>			
Nonspendable	-	-	-
Restricted	170,125	-	8,005
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
<i>Total fund balance</i>	<u>170,125</u>	<u>-</u>	<u>8,005</u>
<i>Total liabilities and fund balance</i>	<u>\$ 170,125</u>	<u>\$ -</u>	<u>\$ 8,005</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue				
Law Enforcement Fund	Leah Kennedy Fund	Lodger's Tax	Lodger's Tax Promotional Fund	Gas Tax Fund
\$ -	\$ 706	\$ -	\$ 297,168	\$ 953,479
-	17,760	-	-	27,000
-	-	-	-	-
-	-	-	-	-
-	39	24,820	-	497
-	-	-	-	-
-	-	-	-	-
<u>\$ -</u>	<u>\$ 18,505</u>	<u>\$ 24,820</u>	<u>\$ 297,168</u>	<u>\$ 980,976</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	18,505	24,820	297,168	980,976
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>18,505</u>	<u>24,820</u>	<u>297,168</u>	<u>980,976</u>
<u>\$ -</u>	<u>\$ 18,505</u>	<u>\$ 24,820</u>	<u>\$ 297,168</u>	<u>\$ 980,976</u>

The accompanying notes are an integral part of these financial statements.



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	Special Revenue		
	Recreation Fund	2000 CDBG Fund	Commission on Aging Fund
<b>ASSETS</b>			
<i>Current:</i>			
Cash and cash equivalents	\$ -	\$ 20	\$ -
Short term investments	-	-	-
Accounts receivable			
Other taxes	-	-	-
Intergovernmental	-	-	-
Other receivables	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total current assets</i>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ -</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<i>Current Liabilities:</i>			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll liabilities	-	-	-
Customer deposits payable	-	-	-
Other accrued liabilities	-	-	-
Due to other funds	-	-	5,384
Deferred revenue	-	-	-
Deferred revenue - property taxes	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total current liabilities</i>	<hr/>	<hr/>	<hr/> 5,384
 <i>Fund balance:</i>			
Nonspendable	-	-	-
Restricted	-	20	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	(5,384)
	<hr/>	<hr/>	<hr/>
<i>Total fund balance</i>	<hr/>	<hr/> 20	<hr/> (5,384)
	<hr/>	<hr/>	<hr/>
<i>Total liabilities and fund balance</i>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Federal Forfeitures Fund	State and Local Forfeitures Fund	Special Revenue			MGRT Economic Development	Capital Project	Total
		Industrial Park Fund	RSVP Program Fund	CDBG Grant Fund			
\$ 129	\$ 12,703	\$ 421,710	\$ -	\$ 422,702	\$ (3)	\$ 2,286,445	
-	-	206,000	-	800,000	-	1,050,760	
-	-	-	-	-	-	-	
-	-	-	12,980	-	-	12,980	
-	-	488	-	827	-	26,970	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
<u>\$ 129</u>	<u>\$ 12,703</u>	<u>\$ 628,198</u>	<u>\$ 12,980</u>	<u>\$ 1,223,529</u>	<u>\$ (3)</u>	<u>\$ 3,377,155</u>	
\$ -	\$ -	\$ -	\$ -	\$ 9,068	\$ -	\$ 9,068	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	4,265	-	-	9,649	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	4,265	9,068	-	18,717	
-	-	-	-	-	-	-	
129	12,703	628,198	8,715	1,214,461	-	3,363,825	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	(3)	(5,387)	
<u>129</u>	<u>12,703</u>	<u>628,198</u>	<u>8,715</u>	<u>1,214,461</u>	<u>(3)</u>	<u>3,358,438</u>	
<u>\$ 129</u>	<u>\$ 12,703</u>	<u>\$ 628,198</u>	<u>\$ 12,980</u>	<u>\$ 1,223,529</u>	<u>\$ (3)</u>	<u>\$ 3,377,155</u>	

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Special Revenue		
	Municipal Court Fees	EMS Grant	Fire Fund
<i>Revenues:</i>			
Gross receipts taxes	\$ -	\$ -	\$ -
Other taxes	-	-	-
State grants	-	18,841	199,130
Federal grants	-	-	-
Licenses and fees	10,557	-	-
Charges for services	16,998	-	-
Investment income	317	-	-
Miscellaneous	-	-	-
<i>Total revenues</i>	<u>27,872</u>	<u>18,841</u>	<u>199,130</u>
<i>Expenditures:</i>			
Current			
General Government	55,991	-	-
Public safety	-	18,841	148,846
Culture and recreation	-	-	-
Health and welfare	-	-	-
Public works	-	-	-
Capital outlay	-	-	42,279
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total expenditures</i>	<u>55,991</u>	<u>18,841</u>	<u>191,125</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(28,119)</u>	<u>-</u>	<u>8,005</u>
<i>Other financing sources (uses):</i>			
Proceeds from note payable	-	-	-
Operating transfers in	-	-	-
Operating transfers (out)	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	<u>(28,119)</u>	<u>-</u>	<u>8,005</u>
<i>Fund balances - beginning of year</i>	<u>198,244</u>	<u>-</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ 170,125</u>	<u>\$ -</u>	<u>\$ 8,005</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue				
Law Enforcement Fund	Leah Kennedy Fund	Lodger's Tax	Lodger's Tax Promotional Fund	Gas Tax Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	420,050	-	260,532
39,800	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	26	-	-	463
-	-	-	-	-
<u>39,800</u>	<u>26</u>	<u>420,050</u>	<u>-</u>	<u>260,995</u>
-	21,587	-	371,688	96
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>21,587</u>	<u>-</u>	<u>371,688</u>	<u>96</u>
39,800	(21,561)	420,050	(371,688)	260,899
-	-	-	-	-
-	-	-	420,050	-
<u>(58,386)</u>	<u>-</u>	<u>(420,050)</u>	<u>-</u>	<u>(276,350)</u>
<u>(58,386)</u>	<u>-</u>	<u>(420,050)</u>	<u>420,050</u>	<u>(276,350)</u>
(18,586)	(21,561)	-	48,362	(15,451)
<u>18,586</u>	<u>40,066</u>	<u>24,820</u>	<u>248,806</u>	<u>996,427</u>
<u>\$ -</u>	<u>\$ 18,505</u>	<u>\$ 24,820</u>	<u>\$ 297,168</u>	<u>\$ 980,976</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Special Revenue		
	Recreation Fund	2000 CDBG Fund	Commission on Aging Fund
<i>Revenues:</i>			
Gross receipts taxes	\$ -	\$ -	\$ -
Other taxes	-	-	-
State grants	-	-	-
Federal grants	-	-	-
Licenses and fees	-	-	-
Charges for services	-	-	-
Investment income	-	-	-
Miscellaneous	-	-	-
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Expenditures:</i>			
Current			
General Government	-	-	-
Public safety	-	-	-
Culture and recreation	-	-	-
Health and welfare	-	-	-
Public works	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses):</i>			
Proceeds from note payable	-	-	-
Operating transfers in (out)	-	-	-
Operating transfers in (out)	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures</i>	-	-	-
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>20</u>	<u>(5,384)</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ (5,384)</u>

The accompanying notes are an integral part of these financial statements.

Federal Forfeitures Fund	State and Local Forfeitures Fund	Special Revenue			Capital Project	Total
		Industrial Park Fund	RSVP Program Fund	MGRT Economic Development	CDBG Grant Fund	
\$ -	\$ -	\$ -	\$ -	\$ 370,427	\$ -	\$ 370,427
-	-	-	-	-	-	680,582
-	-	-	-	-	-	257,771
-	-	-	-	-	-	-
-	-	-	-	-	-	10,557
-	-	90,602	-	-	-	107,600
-	-	745	-	2,496	-	4,047
-	-	-	-	-	-	-
-	-	91,347	-	372,923	-	1,430,984
-	-	670	(859)	152,439	-	601,612
-	-	-	-	-	-	167,687
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,763	-	968,874	-	1,014,916
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	4,433	(859)	1,121,313	-	1,784,215
-	-	86,914	859	(748,390)	-	(353,231)
-	-	-	-	-	-	-
-	-	-	-	-	-	420,050
-	-	-	-	-	-	(754,786)
-	-	-	-	-	-	(334,736)
-	-	86,914	859	(748,390)	-	(687,967)
129	12,703	541,284	7,856	1,962,851	(3)	4,046,405
\$ 129	\$ 12,703	\$ 628,198	\$ 8,715	\$ 1,214,461	\$ (3)	\$ 3,358,438

The accompanying notes are an integral part of these financial statements.

**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Security Description	CUSIP Number	Fair Market Value	Maturity Date	Name and Location of Safekeeper
<b>First American Bank</b>				
Los Lunas SD 1-REF NM 3.00%	545562PD6	200,252	7/15/2017	Fed Home Loan Bank
Clovis SD 1-BLDG 3.55%	189414GN9	501,445	8/1/2020	Fed Home Loan Bank
Dulce ISD 21-UNREF NM 4.00%	264430KJ7	631,481	9/1/2017	Fed Home Loan Bank
Gallup McKinley SD #1 3.70%	364010NT1	401,096	8/1/2018	Fed Home Loan Bank
Roswell ISD NM 18 3.00%	778550HM8	382,856	8/1/2018	Fed Home Loan Bank
Roswell ISD NM 19 3.00%	778550HN6	648,713	8/1/2019	Fed Home Loan Bank
San Juan ISD #22 BLDG 3.35%	798359HR9	902,052	8/1/2019	Fed Home Loan Bank
Roswell N M NM 20 3.75%	778544CR5	360,688	8/1/2020	Fed Home Loan Bank
Albuquerque SD #12-A 3.00%	01395QQ9	236,745	8/1/2021	Fed Home Loan Bank
Bernalillo SD#1-REF 2.00%	085279QZ3	411,412	8/1/2021	Fed Home Loan Bank
Rio Rancho NM 21 4.00%	767165DR1	529,555	8/1/2021	Fed Home Loan Bank
Torrance ETC SD#8 NM 2.00%	891400NL3	407,136	5/15/2024	Fed Home Loan Bank
Albuquerque SD #12-A 4.00%	013595LM3	528,480	8/1/2022	Fed Home Loan Bank
Deming Pub SD #1-REF NM 22 2.50%	248094AW4	623,544	8/1/2022	Fed Home Loan Bank
Gallup McKinley SD #1 3.00%	364010RL4	536,870	8/1/2022	Fed Home Loan Bank
Deming Pub SD #1-REF NM 22 2.25%	550340DZ3	731,178	8/1/2022	Fed Home Loan Bank
Roswell NM 4.00%	778544CT1	395,837	8/1/2022	Fed Home Loan Bank
Roswell ISD NM 22 3.00%	778550HR7	1,332,388	8/1/2022	Fed Home Loan Bank
Roswell ISD NM 22 3.00%	778550JF1	648,858	8/1/2022	Fed Home Loan Bank
Lea Co SD #28 NM 22 2.00%	521570AT8	563,415	10/1/2022	Fed Home Loan Bank
Deming Pub SD #1-REF NM 23	248094AX2	624,306	8/1/2023	Fed Home Loan Bank
Ruidoso MUN SD#3 NM 2.00%	781338JG4	1,124,189	8/1/2023	Fed Home Loan Bank
Torrance ETC SD#8 NM 2.00%	891400NL3	506,465	5/15/2024	Fed Home Loan Bank
FNMA 10YR 2.00%	3138EPFN9	1,378,102	3/1/2025	Fed Home Loan Bank
Alamogordo NM 25 2.38%	011464JA3	570,697	8/1/2025	Fed Home Loan Bank
FNMA 15YR 3.50%	3138E4YA3	890,222	2/1/2027	Fed Home Loan Bank
Alamogordo NM 27 4.30%	011446GA3	669,265	8/1/2027	Fed Home Loan Bank
GNMA 15YR 3.50%	3622A2EK4	872,766	8/15/2027	Fed Home Loan Bank
GNMA II 15 YR 3.50%	3622A2EC2	588,836	10/20/2027	Fed Home Loan Bank
GNMA II 15 YR 3.00%	36179NZP6	1,215,007	2/20/2029	Fed Home Loan Bank
GNMA II 5X1 3.00%	36179MHJ2	369,893	7/20/1942	Fed Home Loan Bank
FHLMC OTHER 4.00%	U90067	1,961,885	8/1/1942	Fed Home Loan Bank
GNMA II MA1650 3.00%	36179NZP6	1,170,697	2/2/2029	Fed Home Loan Bank
<b>Total - First American Bank</b>		<u>\$ 22,916,331</u>		
<b>Western Bank</b>				
FNMA Pool AK1612	31368HYE7	557,393	1/1/2027	Western Bank, Artesia
FNMA Pool MA1237	31368HYE7	248,941	11/1/2032	Western Bank, Artesia
<b>Total - Western Bank</b>		<u>\$ 806,334</u>		
<b>Total</b>		<u><u>\$ 23,722,665</u></u>		

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF DEPOSITORES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Schedule III

<u>Bank Name/Account Name</u>	<u>Acct. Type</u>	<u>Bank Balance</u>	<u>Reconciling Items</u>	<u>Carrying Balance</u>
<b>First American Bank</b>				
General Operating Account	Checking	26,387,212	3,626,488	22,760,724
Payroll Account	Checking	19,426	15,908	3,518
Federal Forfeiture	Savings	129	-	129
State Forfeiture Account	Checking	13,713	-	13,713
Meter Checking Account	Savings	158,187	(430)	158,617
Certificate of Deposits	CD	15,017,760	-	15,017,760
<b>Western Bank</b>				
Meter Fund	Checking	\$ 19,225	\$ -	\$ 19,225
City Fund Account	Checking	77,316	-	77,316
City of Artesia	Checking	221,845	-	221,845
City Tourism and Promotion	Checking	264,283	-	264,283
<b>Helwig</b>				
Investments	Investments	<u>\$ 2,864,621</u>	<u>\$ -</u>	<u>\$ 2,864,621</u>
Total cash in bank		<u>\$ 45,043,717</u>	<u>\$ 3,641,966</u>	<u>\$ 41,401,751</u>
Petty Cash				<u>600</u>
Total Cash				<u><u>41,402,351</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule IV

CITY OF ARTESIA

AGENCY FUNDS

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Adjustments	Deletions	Balance June 30, 2017
Sales Tax Agency Fund	\$ 93,170	276,302	-	241,089	\$ 128,383
DWI Court Test Fund	2,887	1,879	-	1,879	2,887
Meter Fund	252,926	20,031	-	13,477	259,480
Helwig Fund*	<u>2,783,277</u>	<u>43,736</u>	<u>-</u>	<u>1,339</u>	<u>2,825,674</u>
 Total All Agency Funds	 <u>\$ 3,132,260</u>	 <u>\$ 341,948</u>	 <u>\$ -</u>	 <u>\$ 257,784</u>	 <u>\$ 3,216,424</u>

\* - represents agency funds held by the City for the benefit of Artesia General Hospital in the name of the Helwig family.  
The City maintains fiduciary responsibility, and releases funds only upon request.

The accompanying notes are an integral part of these financial statements.

**COMPLIANCE SECTION**



# Griego Professional Services, LLC

Certified Public Accountants

## 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*

### Independent Auditor's Report

Wayne A. Johnson  
New Mexico State Auditor  
City Council Members  
City of Artesia  
Artesia, New Mexico

We have audited, in accordance with the auditing standard generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds, of the City of Artesia as for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Artesia's basic financial statements, and the combining and individual funds of City of Artesia, presented as supplementary information, and have issued our report thereon dated December 5, 2017.

#### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items FS 2011-006 and FS 2013-001.

## **The City's Responses to Findings**

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

## **Purpose of this Report**

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

GRIEGO PROFESSIONAL SERVICES, LLC

A handwritten signature in cursive script that reads "Griego Professional Services, LLC".

Albuquerque, New Mexico  
December 5, 2017



# Griego Professional Services, LLC

Certified Public Accountants

## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVERCOMPLIANCE IN ACCORDANCE WITH OMB UNIFORM GUIDANCE

Wayne A. Johnson  
New Mexico State Auditor  
City Manager, Mayor, and  
City Council Members  
City of Artesia  
Artesia, New Mexico

### Report on Compliance for Each Major Federal Program

We have audited City of Artesia's (the "City") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

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

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

### Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

P.O. Box 37379 • Albuquerque, NM 87176-7379  
8500 Menaul Blvd. NE, Ste. B295 • Albuquerque, NM 87112  
Phone (505) 856-2741 - Fax (505) 856-7510

## Report on Internal Control over Compliance

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

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

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

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

GRIEGO PROFESSIONAL SERVICES, LLC



Albuquerque, New Mexico  
December 5, 2017

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2017**

Schedule V

Federal Grantor or Pass-Through Grantor / Program Title	Passthrough Grant Number	Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Transportation</b>			
Airport Improvement Program		20.106	4,227,829
<b>Total U.S. Department of Transportation</b>			4,227,829
<b>Total Federal Financial Assistance</b>			\$ 4,227,829
(1) Denotes major program			

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Artesia and is presented on the modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Subrecipients

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

3. Debt Service Subsidy

The City did not receive any noncash assistance.

4. Loan Amount

The City did not maintain federal loans at June 30, 2017.

5. Indirect Cost Rate

The City has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:**

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 4,227,829
Total expenditures funded by other sources	28,603,346
Total expenditures	32,831,175

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2017**

**Schedule VI**

**Section I – Summary of Audit Results**

*Financial Statements:*

- |   |            |
|---|------------|
| 1. Type of auditors’ report issued  | Unmodified |
| 2. Internal Control over Financial Reporting and on Compliance and Other Matters: |            |
| a. Material weakness identified?  | No         |
| b. Significant deficiency identified not considered to be a material weaknesses?  | No         |
| c. Noncompliance material to the financial statements noted?                      | No         |

*Federal Awards:*

- |  |                             |                 |        |  |        |                             |  |
|--|-----------------------------|-----------------|--------|--|--------|-----------------------------|--|
| 1. Internal control over major programs:   |                             |                 |        |  |        |                             |  |
| a. Material weaknesses identified?   | No                          |                 |        |  |        |                             |  |
| b. Significant deficiency identified not considered to be material weaknesses?   | No                          |                 |        |  |        |                             |  |
| c. Control deficiency identified not considered to be a significant deficiency?  | No                          |                 |        |  |        |                             |  |
| 2. Type of auditors’ report issued on compliance for major programs  | Unmodified                  |                 |        |  |        |                             |  |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance?  | No                          |                 |        |  |        |                             |  |
| 4. Identification of major programs:   |                             |                 |        |  |        |                             |  |
| <table style="margin: auto; border-collapse: collapse;"> <tr> <td style="text-align: center; padding: 0 10px;">CFDA</td> <td style="text-align: center; padding: 0 10px;">Federal Program</td> </tr> <tr> <td style="text-align: center; border-bottom: 1px solid black; padding: 0 10px;">Number</td> <td style="text-align: center; border-bottom: 1px solid black; padding: 0 10px;"></td> </tr> <tr> <td style="text-align: center; padding: 0 10px;">20.106</td> <td style="text-align: center; padding: 0 10px;">Airport Improvement Program</td> </tr> </table> | CFDA                        | Federal Program | Number |  | 20.106 | Airport Improvement Program |  |
| CFDA   | Federal Program             |                 |        |  |        |                             |  |
| Number   |                             |                 |        |  |        |                             |  |
| 20.106   | Airport Improvement Program |                 |        |  |        |                             |  |
| 5. Dollar threshold used to distinguish between type A and type B programs:  | \$750,000                   |                 |        |  |        |                             |  |
| 6. Auditee qualified as low-risk auditee?  | No                          |                 |        |  |        |                             |  |

**Section II – Prior Year Audit Findings**

- |  |                      |
|--|----------------------|
| FS 2011-006 — Stale Dated Transactions Not Canceled                  | Repeated and Revised |
| FS 2013-001 — Accounts Receivable Aging Report to Estimate Allowance | Repeated and Revised |
| FS 2014-003 — Over Expenditure of Budgets (Compliance)               | Resolved             |
| FS 2016-001 — Late Audit Report (Compliance)                         | Resolved             |

**STATE OF NEW MEXICO**  
**CITY OF ARTESIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2017**

**Schedule VI**

**Section III – Current Year Audit Findings**

**FS2011-006 [FS-2011-06] Stale Dated Transactions – Compliance and Other Matter – Repeated and Revised**

*Condition:* During our review of all bank reconciliations prepared by the City, we noted the City is in violation of state statutes regarding stale-dated checks. Out of all outstanding checks reviewed, the City maintained 113 outstanding checks totaling (\$145,071.45) and 327 outstanding other items totaling \$78,580.99 that were dated over one year old at June 30, 2017. The finding is related to the accounting software and management is currently investigating a solution to this issue through the software.

*Criteria:* Chapter 7 Article 8A, NMSA 1978, and related regulations require that the City provide information about the payees and the related funds to Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

*Effect:* Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds.

*Cause:* The City has not implemented an internal control policy to account for stale dated outstanding checks and did not clear these checks on a timely basis.

*Auditors' Recommendation:* We recommend that the City implement a procedure to review the outstanding check listings for all bank accounts and track stale-dated checks. If checks on the outstanding check listings are greater than one year old we recommend these checks be voided and removed from the bank reconciliation. Also, we recommend that the City provide the information to the Property Division of the New Mexico Taxation and Revenue Department as required.

*Agency's Response:* The City of Artesia has addressed the stale dated checks issue as of August 2017. We internally reconciled and went through the system to clear these items and insure the stale dated checks were cleared and/or provided to the State for distribution.

*Corrective Action:* This task will be worked on by the Finance Supervisor and City Clerk/Treasurer and has been resolved in 2018 fiscal year.

STATE OF NEW MEXICO  
CITY OF ARTESIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017

Schedule VI

**FS2013-001 [FS-2013-01] Review of Accounts Receivable Aging Report to Estimate Allowance – Compliance and Other Matter - Repeated**

*Condition:* During our audit of the utility accounts receivable and related allowance for uncollectible accounts we noted the City does not have an adequate process in place to estimate future uncollectible receivables at year-end. The finding is related to the accounting software and management is currently investigating a solution to this issue through the software.

*Criteria:* Good accounting practices require the City to periodically estimate allowance for uncollectible accounts to ensure the financial statements fairly state accounts receivable net of any applicable allowance.

*Effect:* Extensive reconciliations were required of management to fairly state the allowance for uncollectible accounts at June 30, 2017.

*Cause:* City personal do not review aging reports to establish a basis for estimating future uncollectible accounts. There is no written policy that requires the City to project future uncollectible accounts receivable.

*Auditors' Recommendation:* We recommend the City draft a policy the will provide the basis for estimating future uncollectible accounts receivable accounts. We further recommend the City review accounts receivable aging reports to identity old outstanding balances that may need to be included in the allowance for uncollectable accounts.

*Agency's response:* The City has adopted a policy for estimating uncollectable accounts receivable as of July 2017.

*Corrective Action:* This has been been resolved for July 2017 and forward. This is not anticipated to be a finding in the in the next budget year. This was the responsibility of the City Clerk.

**Section V – Other Disclosures**

Auditor Prepared Financials

Griego Professional Services, LLC assisted in the preparation of the financial statements presented in this report. The City's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference-Primary Government

The contents of this report were discussed on December 5, 2017. The following individuals were in attendance.

City of Artesia  
Jeff Youtsey, City Councilor  
Bill Rogers, City Councilor  
Terry Hill, Mayor Pro-tem  
Aubrey Hobson, City Clerk/Treasurer  
Summer Valverde, Finance Director

Griego Professional Services, LLC  
J.J. Griego, CPA