NOTICE

CITY OF ARTESIA, NEW MEXICO
$10,820,000*
Gross Receipts Tax Refunding Revenue Bonds
Series 2019

Preliminary Official Statement, subject to completion,
dated March 27, 2019

The Preliminary Official Statement, dated March 27, 2019 (the "Preliminary Official Statement"), relating to the above-described bonds (the "Series 2019 Bonds" or the "Bonds") of the City of Artesia, New Mexico (the "City"), has been posted as a matter of convenience. The posted version of the Preliminary Official Statement has been formatted in Adobe Portable Document Format. Although this format should replicate the Preliminary Official Statement available from the City, appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat may cause the Preliminary Official Statement that you view or print to differ in appearance from the Preliminary Official Statement.

The Preliminary Official Statement and the information contained therein are subject to completion or amendment or other change without notice. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

For purposes of Rule 15c2-12 promulgated by the United States Securities and Exchange Commission, the Preliminary Official Statement alone, and no other document or information on the internet, constitutes the "Official Statement" that the City has "deemed final" as of its date in respect of the Bonds, except for certain information permitted by Rule 15c2-12 to be omitted therefrom.

No person has been authorized to give any information or to make any representations other than those contained in the Preliminary Official Statement in connection with the offer and sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized. The information and expressions of opinion in the Preliminary Official Statement are subject to change without notice and neither the delivery of the Official Statement nor any sale made thereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of the Preliminary Official Statement.

By choosing to proceed and view the electronic version of the Preliminary Official Statement, you acknowledge that you have read and understood this Notice.

Preliminary Official Statement dated March 27, 2019

* Preliminary; subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 27, 2019

NEW ISSUE-Book-Entry Only

RATING: S&P – "AA-"
See "RATINGS" herein.

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants described in "TAX MATTERS" herein, interest on the Bonds (including original issue discount treated as interest) (a) is excludable from the gross income of the recipients thereof for federal income tax purposes, under Section 103 of the Internal Revenue Code of 1986, as amended, (b) is not an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended, for purposes of the federal alternative minimum tax imposed on individuals, and (c) is excludable from net income for purposes of all taxation imposed by the State of New Mexico or any political subdivision thereof. For a more complete description of such opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Bonds for certain owners of such bonds, see "TAX MATTERS" herein.

$10,820,000*
CITY OF ARTESIA, NEW MEXICO
Gross Receipts Tax Refunding Revenue Bonds
Series 2019

Dated: Date of Delivery **Due: June 1, as shown on the inside cover**

The Bonds are special limited obligations of the City of Artesia, New Mexico (the "City"), issuable only as fully registered bonds as to both principal and interest in the denomination of $5,000 and integral multiples thereof. Interest accrues from the Date of Delivery and is payable semiannually on June 1 and December 1 in each year beginning June 1, 2019. The principal of the Bonds is payable at the office of the City Clerk/Treasurer of the City (the "Paying Agent"). The Bonds will be issued pursuant to a book-entry-only system and will be registered in the name of Ceded & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of bond certificates representing their beneficial ownership interests. So long as DTC or its nominee is the owner of the Bonds, disbursement of payments of principal and interest to DTC is the responsibility of the Paying Agent, disbursement of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants, as more fully described herein.

SEE MATURITY SCHEDULE SET FORTH ON THE INSIDE COVER OF THIS OFFICIAL STATEMENT.

The Bonds maturing on and after June 1, 2027*, are subject to optional redemption on and after June 1, 2026*, in whole or in part at any time, and may also be subject to mandatory sinking fund redemption as provided herein. See "THE BONDS - Prior Redemption" herein.

The Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, charter or statutory provision or limitation, are not general obligations of the City and are payable and collectible solely from the gross receipts tax revenues specifically pledged therefor. See "THE PLEDGED REVENUES" herein. Neither the full faith and credit of the City, nor the ad valorem taxing power or general resources of the City, the State of New Mexico or any other political subdivision is pledged to the payment of the Bonds. The Bonds are being issued to provide funds for the purposes of defraying the cost of (1) paying, refunding and discharging the City's outstanding Gross Receipts Tax Revenue Bonds, Series 2009 maturing on and after June 1, 2020, and (2) paying all costs related thereto and to the issuance of the Bonds. The Bonds constitute an irrevocable first lien (but not necessarily an exclusive first lien) upon the Pledged Revenues, as defined herein. See "THE BONDS - Source of Payment and Security" and "THE PLEDGED REVENUES."

The Bonds are offered when, as and if issued by the City subject to the delivery of an approving opinion by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, and other conditions. Modrall, Sperling, Roehl, Harris & Sisk, P.A. has also acted as special counsel to the City in connection with the preparation of this Official Statement and the sale of the Bonds to the Underwriters. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. It is expected that delivery of the Bonds will be made on or about April 16, 2019, through the facilities of DTC, against payment therefor.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

BAIRD
STIFEL

Dated: _____________, 2019

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* Preliminary; subject to change.

$10,820,000*
CITY OF ARTESIA, NEW MEXICO
Gross Receipts Tax Refunding Revenue Bonds
Series 2019

MATURITY SCHEDULE*
Base CUSIP[(1)] No. 043053

Maturity (June 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP[(1)]
2020	$850,000			
2021	895,000			
2022	945,000			
2023	990,000			
2024	1,045,000			
2025	1,105,000			
2026	1,165,000			
2027	1,220,000			
2028	1,275,000			
2029	1,330,000			

* Preliminary, subject to change.

CITY OF ARTESIA

511 West Texas Avenue
Artesia, New Mexico 88210

MAYOR

Raye Miller

CITY COUNCIL

Luis Florez (Mayor Pro Tem)
Manuel Madrid, Jr.
Raul Rodriguez
George G. Mullen
Kent Bratcher
Jeff Youtsey
Terry Hill
Bill Rogers

CITY ADMINISTRATION

Aubrey Hobson, City Clerk/Treasurer
Summer Galvan, Finance Supervisor
Matthew T. Byers, City Attorney

FINANCIAL ADVISOR

RBC Capital Markets, LLC
Albuquerque, New Mexico

BOND AND DISCLOSURE COUNSEL

Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

REGISTRAR AND PAYING AGENT

City of Artesia Clerk/Treasurer

UNDERWRITERS

Robert W. Baird & Co., Incorporated
Stifel, Nicolaus & Company, Incorporated

VERIFICATION AGENT

Causey, Demgen & Moore, P.C.
Denver, Colorado

REFUNDING ESCROW AGENT

BOKF, NA
Albuquerque, New Mexico

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

No dealer, salesman or other person has been authorized by the City of Artesia, New Mexico (the "City") to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. None of the United States Securities and Exchange Commission or any other federal, state, municipal or other governmental entity, or any agency or department thereof, has passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement is "deemed final" by the City for purposes of Rule 15c2-12 promulgated by the United States Securities and Exchange Commission. The City has covenanted to provide such annual financial statements and other information in the manner as may be required by regulations of the Securities and Exchange Commission or other regulatory body.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains statements that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR

DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Copies of the Bond Ordinance authorizing the issuance of the Bonds are available upon request at the office of the City Clerk/Treasurer, City Hall, 511 West Texas Avenue, Artesia, New Mexico 88210.

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OFFICIAL STATEMENT

$10,820,000*
City of Artesia, New Mexico
Gross Receipts Tax Refunding Revenue Bonds
Series 2019

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the City of Artesia, New Mexico (the "City") Gross Receipts Tax Refunding Revenue Bonds, Series 2019 (the "Bonds" or "Series 2019 Bonds"), being issued by the City pursuant to the ordinance authorizing the issuance of the Bonds adopted by the City on March 12, 2019 (the "Bond Ordinance").

This introduction is not a summary of this Official Statement. It is only a description of and guide to, and is qualified by, the more complete information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this "INTRODUCTION" from this Official Statement, or to otherwise use it without the entire Official Statement. This Official Statement has been prepared by the City in connection with the original issuance and sale of the Bonds, and detachment or other use of this "INTRODUCTION" without the entire Official Statement, including the cover page and appendices, is unauthorized.

All terms used in this Official Statement which are not defined herein shall have the meanings given such terms in the Bond Ordinance.

The Issuer

The City is a political subdivision of the State of New Mexico (the "State") organized and existing under and pursuant to the Constitution and laws of the State. The City was incorporated in 1905, operates under a Mayor-Council form of government, and is located in the southeastern portion of the State, approximately 241 miles southeast of Albuquerque. As of February 2019, the estimated population of the City was approximately 12,411. See "THE CITY" and "AREA ECONOMIC INFORMATION."

Purpose and Authorization

The Bonds are being issued to provide funds to defray the costs of (1) paying, refunding and discharging the City's outstanding Gross Receipts Tax Revenue Bonds, Series 2009 maturing on and after June 1, 2020, and (2) paying all costs related thereto and to the issuance of the Bonds.

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*Preliminary; subject to change.

Authority for Issuance

The Bonds are being issued pursuant to the City's powers under the laws and the Constitution of the State, including Sections 3-31-1 through 3-31-12 and Section 7-19D-18, NMSA 1978, as amended, and the Bond Ordinance.

Terms of the Bonds

Payment Dates

The Bonds will be dated their date of issuance and initial delivery to the Underwriters, which is expected to be on or about April 16, 2019. Interest on the Bonds will be payable on June 1 and December 1 of each year to registered owners shown on the books of the Registrar on the 15th day of the calendar month preceding each regularly scheduled interest payment date, commencing June 1, 2019. The Bonds will be issued in the aggregate principal amount of $10,820,000* and will mature on the dates and in the amounts shown on the inside cover page (unless redeemed prior to maturity).

Denominations

The Bonds will be issuable in denominations of $5,000, or integral multiples thereof.

*Optional Redemption**

Bonds maturing on and after June 1, 2027, are subject to optional redemption beginning June 1, 2026, as more fully described in "THE BONDS - Prior Redemption." The Bonds may also be subject to mandatory sinking fund redemption as more fully described in the "THE BONDS – Prior Redemption" herein.

Additional Parity Bonds

Except with respect to certain refunding bonds which do not increase the City's obligations as to required debt service, the City will be required to meet certain tests prior to the issuance of additional bonds with a lien on the Pledged Revenues on parity with the lien of the Bonds. For a description of these tests, see "THE BONDS - Additional Bonds."

Source of Payment and Security

The Bonds are not general obligations of the City and no pledge of the full faith and credit of the City, the taxing power or general resources of the City are made for the payment thereof. The Bonds are special limited obligations of the City and are not an indebtedness of the City within the meaning of any constitutional or statutory provision or limitation. The Bonds are payable and collectible solely from the Pledged Revenues, as defined in the Bond Ordinance. Pledged Revenues generally consist of gross receipts tax revenues distributed to the City from the State and commonly referred to as "State-Shared Gross Receipts Taxes" and "Hold Harmless Gross Receipts Taxes," more fully described in the section entitled "THE PLEDGED REVENUES." See also, "THE BONDS – Source of Payment and Security" herein. The Bond Ordinance provides that the Bonds may be further secured by a Reserve Fund that is to be funded by the City upon the happening of certain events. See "THE BONDS – Creation and Administration of Funds – *The Reserve Fund*" herein.

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*Preliminary; subject to change.

Outstanding Obligations Payable from Pledged Revenues

Other than the State-Shared Gross Receipts Tax Revenue Bonds set forth in "EXISTING CITY DEBT" herein, the City has no obligations payable from the Pledged Revenues currently outstanding. Pursuant to the Bond Ordinance, the City is not permitted to incur other obligations payable from Pledged Revenues which are senior to the Bonds. However, the City will be permitted to incur parity obligations in accordance with certain tests and upon satisfaction of certain tests as described in "THE BONDS - Additional Bonds," and to incur obligations payable from Pledged Revenues which are junior to the Bonds.

Tax Exemption

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, assuming continuous compliance with certain covenants described in "TAX MATTERS" herein, interest on the bonds (a) is excludable from gross income for federal income purposes, (b) is not a specific preference item for purposes of the federal alternative minimum tax on individuals and (c) is excludable from net income for purposes of all taxation imposed by the State of New Mexico or any political subdivision thereof. See "TAX MATTERS" herein.

Professionals Involved in the Offering

At the time of the issuance and sale of the Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, will deliver a bond opinion in substantially the form included in Appendix A hereto. See "LEGAL MATTERS." Modrall, Sperling, Roehl, Harris & Sisk, P.A. has also acted as special counsel to the City in connection with the preparation of this Official Statement and the sale of the Bonds to the Underwriters. The Bonds will be sold and distributed in the initial offering by Robert W. Baird & Co., Incorporated and Stifel, Nicolaus & Company, Incorporated (the "Underwriters"). Certain legal matters will be passed on for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. Griego Professional Services, LLC, certified public accountants, audited the City's financial statements for the fiscal year ended June 30, 2018. The City's auditors have not been requested to review this official statement and have not done so.

RBC Capital Markets, LLC is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. The Financial Advisor may receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

Causey, Demgen & Moore, P.C. (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters, the mathematical accuracy of the schedules and demonstrate the Defeasance Obligations will mature and bear interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay when due, the principal of and interest on the Refunded Bonds on and to their redemption date. Such maturing principal of and interest on the Defeasance Obligations will not be available to pay the Bonds. See "VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval of Bond Counsel and certain other conditions. It is anticipated that the Bonds will be delivered through the facilities of The Depository Trust Company, New York, New York, on or about April 16, 2019.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents may be obtained during the offering period, upon request to the City and upon payment to the City of a charge for copying, mailing and handling, at 511 West Texas Avenue, New Mexico 88210, Attention: City Clerk/Treasurer. Additional information also may be obtained from the City's Financial Advisor during the offering period for the Bonds at RBC Capital Markets, LLC, 6301 Uptown Boulevard, N.E., Suite 110, Albuquerque, New Mexico 87110.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds.

RISK FACTORS

The purchase of the Bonds involves special risks and the Bonds may not be appropriate investments for all types of investors. Each prospective investor is encouraged to read this Official Statement in its entirety and to give particular attention to the factors described below, which, among other factors discussed herein, could affect the payment of debt service on the Bonds and could affect the market price and marketability of the Bonds to an extent that cannot be determined at this time. *The following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of such risks.*

Gross Receipts Tax Collections are Subject to Fluctuation

Gross receipts tax collections are subject to the fluctuations in spending related, in part, to national and local economic conditions, which influence the amount of gross receipts taxes collected. This causes gross receipts tax revenues to increase along with the increasing prices brought about by inflation, but also causes collections to be vulnerable to adverse economic conditions and reduced spending. The City's retail sales are affected by general economic circumstances.

The Pledged Revenues are based on the total gross receipts of the City. The City's economic base and future collections in gross receipts tax revenues are directly affected, in part, by oil and natural gas exploration and development activities, and ongoing use and development of the Federal Law Enforcement Training Center in the City. Additionally, various circumstances and developments, most of which are beyond the control of the City, may have an adverse effect on the future level of Pledged Revenues. Such circumstances may include, among others, adverse changes in national and local economic and financial conditions generally, reductions in the rates of employment and economic growth in the City, the State and the region, a decrease in rates of population growth and rates of residential and commercial development in the City, the State and the region and various other factors. For the Fiscal Years ended June 30, 2018, June 30, 2017 and June 30, 2016, the Pledged Revenues were $9,181,832, $9,090,558 and $8,762,493, respectively.

State Legislation

The State Legislature of the State of New Mexico (the "Legislature") may amend the laws relating to the imposition, calculation and/or the distribution of or otherwise impacting the City's gross receipts tax revenues. In some cases, the Legislature has made amendments which negatively impacted the amount of gross receipts tax revenues received by local government.

In 2004, the Legislature adopted legislation creating a deduction from gross receipts tax for receipts from retail sales of food (not including restaurant sales and certain sales of prepared foods) as defined for federal food stamp program purposes. Retailers are required to report receipts from sales of such groceries and then claim the deduction. The statute provides for payments to be made from the State general fund to reimburse local governments for revenues lost as a result of the new deductions (the "Hold Harmless Distributions"). Those distributions are included within Pledged Revenues. In the same year, the Legislature created a deduction from gross receipts tax for receipts of licensed medical care providers from Medicare Part C and managed health plans that by contract do not reimburse providers for gross receipts tax. This legislation includes provision for payments from the State general fund to reimburse local governments for revenues lost as a result of this deduction. The Hold Harmless Distributions are included within State-Shared Gross Receipts Tax Revenues (but not the Hold Harmless Gross Receipts Tax Revenues, for which no Hold Harmless Distributions are made) but, as described below, will be phased out over a 15-year period, which began July 1, 2015.

In 2013 the Legislature adopted legislation amending several provisions of New Mexico's tax code, including a phased reduction in the Hold Harmless Distributions to certain municipalities and counties over 15 years beginning with the Fiscal Year that started July 1, 2015. The law as currently enacted will result in annual reductions and ultimately the elimination of the Hold Harmless Distributions to the City, which began on July 1, 2015, as follows:

Fiscal year ending June 30	% of Total Hold Harmless Distribution*
2016	94%
2017	88%
2018	82%
2019	76%
2020	70%
2021	63%
2022	56%
2023	49%
2024	42%
2025	35%
2026	28%
2027	21%
2028	14%
2029	7%
2030	-0-

* Based on percentage of total deductions from gross receipts claimed for sale of food at retail food stores and services provided by health care practitioners.

In order to offset the reduced Hold Harmless Distributions, the law allows municipalities and counties to impose a local option gross receipts tax of up to three-eighths of one percent (3/8%) (the "Hold Harmless Gross Receipts Tax"). It is possible that the New Mexico Legislature will further amend the law to provide for additional decreases in Hold Harmless Distributions in the event that a municipality or county imposes any increment of the Hold Harmless Gross Receipts Tax. The City imposed an increment of the Hold Harmless Gross Receipts Tax at the rate of one quarter of one percent (0.25%) effective July 1, 2015. Revenues from the 0.25% Hold Harmless Gross Receipts Tax are included in Pledged Revenues.

Other amendments to State laws affecting taxed activities and distribution of gross receipts tax revenues have been proposed from time to time and could be proposed in the future by the Legislature. There is no assurance that any future amendments will not adversely affect activities now subject to the gross receipts tax or distribution of gross receipts tax revenues to the City. Notwithstanding the foregoing, the provisions of State law authorizing the issuance of revenue bonds (including gross receipts tax bonds such as the Bonds) include a provision stating that any law which authorizes the pledge of revenues to the payment of revenue bonds, or which affects the pledged revenue "shall not be repealed or amended or otherwise directly or indirectly modified in such a manner as to impair adversely any such outstanding revenue bonds."

Bankruptcy and Foreclosure

The ability and willingness of an owner or operator of a business to pay gross receipts taxes may be adversely affected by the filing of a bankruptcy proceeding by the owner. The ability to collect delinquent gross receipts taxes using foreclosure and sale for non-payment of taxes may be forestalled or delayed by bankruptcy, reorganization, insolvency or other similar proceedings affecting the owner or operator of a business. The Federal bankruptcy laws provide for an automatic stay of foreclosure and sale proceedings, thereby delaying such proceedings, perhaps for an extended period. Delays in the exercise of remedies could result in gross receipts tax collections that may be insufficient to pay debt service on Bonds when due.

City Cannot Increase Rates of Taxes

The City has no control over the rate at which the State Gross Receipts Tax is imposed; the rate can be increased only by action of the State Legislature. Although it is possible that the State Legislature will increase the rate of distribution to the City, there is currently no legislation proposed or pending to increase the rate of distribution to the City.

Additional Parity Bonds

Pursuant to the Bond Ordinance, the City has the right to issue one or more series of additional bonds and other types of securities and obligations payable wholly or in part from the State-Shared Gross Receipts Tax Revenues and secured by a lien thereon on parity with the lien thereon of the Bonds (“Additional Bonds”). Such Additional Bonds would have a lien on the State-Shared Gross Receipts Tax Revenues on parity with the lien of the Bonds. As a result, if State-Shared Gross Receipts Tax Revenues are insufficient to pay debt service on the Bonds and the Additional Bonds in any year, debt service will be paid on a proportionate basis.

Secondary Market

At this time no guarantee can be made that a secondary market for the Bonds will be developed of maintained by the initial purchasers of the Bonds or others. Owners of the Bonds should be prepared to hold their Bonds to maturity or prior redemption.

Limited Obligations

The Bonds constitute a lien only on the Pledged Revenues. Therefore, the security for the punctual payment of the principal of and interest on the Bonds is dependent on the City’s receipt of the Pledged Revenues in amounts sufficient to meet the debt service requirements of the Bonds. See “PLEDGED REVENUES” herein. The Bonds and the interest thereon do not constitute a debt or indebtedness of the City within the meaning of any provision or limitation of the Constitution or laws of the State and do not give rise to a pecuniary liability of the City or a charge against its general credit or taxing power. Further, the Bonds are not obligations of the State, and the owners of the Bonds may not look to the State for payment of the principal of or interest on the Bonds.

Bond Ratings

There is no assurance that the ratings assigned to the Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price or the marketability of the Bonds. See the information herein under the caption “RATINGS” herein.

PURPOSE AND PLAN OF FINANCING

Sources and Uses of Funds

The estimated sources and uses of funds to be received in connection with the sale of the Bonds are set forth in the following table.

SOURCES OF FUNDS:	
Par Amount of Bonds	$____________
Net Original Discount/Premium	____________
TOTAL SOURCES OF FUNDS	$____________
USES OF FUNDS:	
Deposit to Escrow Fund	$____________
Costs of Issuance[(1)]	____________
TOTAL USES OF FUNDS	$____________

[(1)] Includes legal and financial advisory fees and underwriters' discount.

The Project Plan

The Bonds are being issued to provide funds to defray the costs of (1) paying, refunding and discharging the City's Gross Receipts Tax Revenue Bonds, Series 2009 maturing on and after June 1, 2020 (the "Refunded Bonds") and (2) paying all costs related thereto and to the issuance of the Bonds. The City's purposes in refunding and discharging the Refunded Bonds are to lower the interest rate and the overall annual debt service requirements of the City's debt.

The principal and interest due on the Refunded Bonds are to be paid on June 1, 2019, the first optional redemption date for Refunded Bonds. All payments of principal and interest due on the Refunded Bonds shall be paid as herein described from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and BOKF, NA, Albuquerque, New Mexico (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on June 1, 2019. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Defeasance Obligations"). The City will redeem the Series 2009 Bonds maturing on June 1, 2019 with available funds outside the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Refunded Bonds.

Causey, Demgen & Moore, P.C. (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters, the mathematical accuracy of the schedules and demonstrate the Defeasance Obligations will mature and bear interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay when due, the principal of and interest on the Refunded Bonds on June 1, 2019. Such maturing principal of and interest on the Defeasance Obligations will not be available to pay the Bonds. See "VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS."

By the deposit of the Defeasance Obligations and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of the Refunded Bonds in accordance with the requirements of the ordinance authorizing issuance of the Refunded Bonds, and applicable law, and the Refunded Bonds will no longer be outstanding as Parity Obligations. The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of, premium and interest on the Refunded Bonds if, for any reason, the cash balance on deposit or scheduled to be on deposit in the Escrow Fund is insufficient to make such payments.

ANNUAL DEBT SERVICE SUMMARY

Year Ending (June 30)	Debt Service on Outstanding Parity State-Shared GRT Obligations[(1)]	Estimated Debt Service on Series 2019 Bonds[*(2)]	Total Parity State-Shared GRT Debt Service[*]	Estimated State-Shared GRT Revenues[(3)]	Parity State-Shared GRT Debt Service Coverage[*]	Estimated Total Pledged Revenues[(4)]	Series 2019 Bonds Debt Service Coverage[*(5)]
2019	$3,075,069	$62,844	$3,137,913	$7,658,535	2.44x	$9,181,832	2.93x
2020	1,863,091	1,352,750	3,215,841	7,658,535	2.38x	9,181,832	2.86x
2021	1,121,308	1,355,250	2,476,558	7,658,535	3.09x	9,181,832	3.71x
2022	1,110,525	1,360,500	2,471,025	7,658,535	3.10x	9,181,832	3.72x
2023	1,096,342	1,358,250	2,454,592	7,658,535	3.12x	9,181,832	3.74x
2024	1,076,859	1,363,750	2,440,609	7,658,535	3.14x	9,181,832	3.76x
2025	1,064,376	1,371,500	2,435,876	7,658,535	3.14x	9,181,832	3.77x
2026	1,046,293	1,376,250	2,422,543	7,658,535	3.16x	9,181,832	3.79x
2027	1,027,810	1,373,000	2,400,810	7,658,535	3.19x	9,181,832	3.82x
2028	1,013,927	1,379,200	2,393,127	7,658,535	3.20x	9,181,832	3.84x
2029	744,444	1,383,200	2,127,644	7,658,535	3.60x	9,181,832	4.32x
2030	706,144	-	706,144	7,658,535	10.85x	9,181,832	
2031	413,194	-	413,194	7,658,535	18.53x	9,181,832	
2032	416,006	-	416,006	7,658,535	18.41x	9,181,832	
2033	408,331	-	408,331	7,658,535	18.76x	9,181,832	
Total	$16,183,717	$13,763,494	$29,947,211				

[*] Preliminary, subject to change. Amounts rounded to the nearest dollar. Includes debt Service on the unrefunded June 1, 2019 maturity of the Series 2009 Bonds.
[(1)] Debt Service and Coverage do not include debt service on the Refunded Bonds.
[(2)] Based on assumed average interest rate of 4.46%, subject to change.
[(3)] State-Shared Gross Receipts Tax Revenues are based on FY 2018 collections of $7,658,535 provided by the City. There is no assurance that State-Shared Gross Receipts Tax Revenues received in the future will equal the State-Shared Gross Receipts Tax Revenues used in the coverage computation. State-Shared Gross Receipts Tax Revenues do not reflect the future phase-out of the Hold Harmless Distributions
[(4)] Total Debt Service Coverage includes Pledged State-Shared Gross Receipts Tax Revenues for FY 2018 of $7,658,535 plus Pledged Hold Harmless Gross Receipts Tax Revenues for FY 2018 of $1,523,297. There is no assurance that State-Shared Gross Receipts Tax Revenues or the Pledged Hold Harmless Gross Receipts Tax Revenues received in the future will equal the State-Shared Gross Receipts Tax Revenues or the Hold Harmless Gross Receipts Tax Revenues used in the above coverage computations. State-Shared Gross Receipts Tax Revenues do not reflect the future phase-out of the Hold Harmless Distributions.
[(5)] Includes debt service on the Bonds and the unrefunded June 1, 2019 maturity of the Series 2009 Bonds.

THE BONDS

Generally

The City is authorized under Sections 3-31-1 through 3-31-12 and Section 7-19D-18, NMSA 1978, as amended, to issue gross receipts tax revenue bonds, including the Bonds, and to pledge gross receipts tax revenues pursuant to the Bond Ordinance. The Bonds shall be dated the date of their issuance and initial delivery to the Underwriters ("Dated Date"), which is expected to be on or about April 16, 2019, will be issued in the aggregate principal amount of $10,820,000*, are issuable in denominations of $5,000 each and any integral multiple thereof, shall bear interest from the Dated Date until maturity at the rates shown on the cover page hereof payable on June 1, 2019, and semiannually thereafter on December 1 and June 1 in each year, and shall mature on June 1 in the years and in the amounts shown on the cover page hereof (unless redeemed prior to maturity).

Special Limited Obligations

All of the Bonds and all payments of principal, premium, if any, and interest thereon whether at maturity or on a redemption date, together with any interest accruing thereon, shall be special limited obligations of the City and shall be payable and collectible solely from the Pledged Revenues. The owner or owners of the Bonds may not look to any general or other fund for the payment of the principal of or interest on such obligations, except the designated special funds pledged therefor. The Bonds shall not constitute an indebtedness or a debt of the City within the meaning of any constitutional, charter or statutory provision or limitation, nor shall they be considered or held to be general obligations of the City. Each of the Bonds shall recite that it is payable and collectible solely out of the Pledged Revenues as set forth in the Bond Ordinance, and that the holders thereof may not look to any general or other municipal fund for the payment of the principal of and interest on the Bonds. Nothing herein shall prevent the City from applying other funds of the City legally available therefor to the payment of the Bonds, in its sole discretion.

Payment – Regular and Special Record Dates

Principal of and interest on the Bonds shall be payable in lawful money of the United States of America, without deduction for exchange or collection charges. Principal shall be payable in immediately available funds at maturity or redemption thereof upon presentation and surrender of such Bond at the principal office of the Paying Agent or at the designated office of any successor Paying Agent. Upon any partial prior redemption of any Bond, the registered owner, in its discretion, may request the Registrar to authenticate a new Bond or to make a notation on the Bond indicating the date and amount of prepayment, except in the case of final maturity, in which case the Bond must be presented to the Paying Agent prior to payment. Interest on the Bonds shall be payable by check or draft mailed to the registered owner thereof (or in such other manner as may be agreed upon by the Paying Agent and the registered owner), as shown on the registration books maintained by the Registrar at the address appearing therein on the 15th day of the calendar month next preceding the Interest Payment Date (the "Record Date"). Any interest which is not timely paid or provided for shall cease to be payable to the owner thereof (or of one or more predecessor Bonds) as of the Record Date, but shall be payable to the owner thereof (or of one or more predecessor Bonds) at the close of business on a special record date for the payment of that overdue interest. The special record date shall be fixed by the Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the special record date shall be given to Bond owners not less than ten (10) days prior thereto. If any Bond presented for payment remains unpaid at maturity or redemption, it shall continue to bear interest at the rate or rates

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*Preliminary; subject to change.

designated in, and applicable to, such Bond from time to time. If any Bond is not presented for payment at maturity or redemption when funds available therefor have been deposited with the Paying Agent, it shall cease bearing interest on and from the date of maturity or redemption.

Registration

Transfer and Exchange

The City shall cause books for registration, transfer, and exchange of the Bonds as provided in the Bond Ordinance to be kept at the principal office of the Registrar. Upon surrender for transfer or exchange of any fully registered Bond at the principal office of the Registrar duly endorsed by the registered owner or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer or exchange in form satisfactory to the Registrar and duly executed, the Registrar shall authenticate and deliver, not more than three (3) business days after receipt of the Bond or Bonds to be transferred, in the name of the transferee or registered owner, as appropriate, a new Bond or Bonds in authorized denominations, in fully registered form of the same aggregate principal amount, maturity and interest rate.

Times When Transfer or Exchange Not Required

The Registrar shall not be required to transfer or exchange any Bond (i) during the period of fifteen (15) days next preceding the mailing of notice calling any Bonds for redemption as herein provided, or (ii) after the mailing to registered owners of notice calling such Bonds or portion thereof for redemption as herein provided. The Registrar shall close books for change of registered owners' addresses on each Record Date; transfers will be permitted within the period from each Record Date to each Interest Payment Date, but such transfers shall not include a transfer of accrued interest payable.

Registered Owners

The person in whose name any Bond is registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either the principal of or interest on any such Bond shall be made only to or upon the order of the registered owner thereof or his legal representative as stated in the Bond Ordinance, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

Replacement Bonds

If any Bonds shall be lost, stolen, destroyed or mutilated, the Registrar shall, upon receipt of such Bond, if mutilated, and such evidence, information or indemnity relating thereto as the Registrar may reasonably require, if lost, stolen or destroyed, authenticate and deliver a replacement Bond or Bonds of a like aggregate principal amount and of the same maturity and interest rate, bearing a number or numbers not contemporaneously outstanding. If any such lost, stolen, destroyed or mutilated Bond shall have matured or have been called for redemption, the Registrar may request the Paying Agent to pay such bond in lieu of replacement.

Book-Entry Only System

Introduction

Unless otherwise noted, the information contained under the caption "General" below has been provided by DTC. None of the City, the Financial Advisor, Bond Counsel, the Underwriters or counsel to the

Underwriters make any representations as to the accuracy or the completeness of such information. The Beneficial Owners of the Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE BOND ORDINANCE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Bonds will be issued in book entry form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The City undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on that website as described in the preceding sentence, including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC will mail an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and sinking fund and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC or the Paying Agent, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered as described in the Bond Ordinance.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered as described in the Bond Ordinance.

The City cannot and does not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but none of the City, the Financial Advisor, Bond Counsel, the Underwriters or counsel to the Underwriters takes any responsibility for the accuracy thereof.

Prior Redemption

*Optional Redemption**

Bonds maturing on and after June 1, 2027, are subject to prior redemption at the City's option in one or more units of principal of $5,000 on and after June 1, 2026, in whole or in part at any time in such order of maturities as the City may determine (and by lot if less than all of the Bonds of such maturity is called, such selection by lot to be made by the Registrar in such manner as the Registrar shall consider appropriate and fair), for the principal amount of each $5,000 unit so redeemed and accrued interest thereon to the redemption date.

Notice of Redemption

Notice of redemption shall be given by the Registrar by electronic means or by sending a copy of such notice by first-class, postage prepaid mail at least thirty (30) days prior to the redemption date to the registered

*Preliminary; subject to change.

owner of each Bond, or portion thereof, to be redeemed at the address shown as of the close of business of the Registrar on the fifth day prior to giving notice on the registration books kept by the Registrar. The City shall give notice of optional redemption of the Bonds to the Registrar at least forty-five (45) days prior to the redemption date (unless such deadline is waived by the Registrar). The Registrar's failure to give such notice to the registered owner of any Bond, or any defect therein, shall not affect the validity of the proceedings for the redemption of any Bonds for which proper notice was given. Notices of redemption shall specify the maturity dates and the number or numbers of the Bonds to be redeemed (if less than all are to be redeemed) and if less than the full amount of any Bond is to be redeemed, the amount of such Bond to be redeemed, the date fixed for redemption, and that on such redemption date there will become and be due and payable upon each Bond to be redeemed at the office of the Paying Agent the principal amount to be redeemed plus accrued interest to the redemption date and that from and after such date interest will cease to accrue on such amount. Notice having been given in the manner hereinbefore provided, the Bond or Bonds so called for redemption shall become due and payable on the redemption date so designated and if an amount of money sufficient to redeem all Bonds called for redemption shall on the redemption date be on deposit with the Paying Agent, the Bonds to be redeemed shall be deemed not outstanding and shall cease to bear interest from and after such redemption date. Upon presentation of the Bonds to be redeemed at the office of the Paying Agent, the Paying Agent will pay the Bond or Bonds so called for redemption with funds deposited with the Paying Agent by the City.

If money or Defeasance Obligations (as defined in the Bond Ordinance) sufficient to pay the optional redemption price of the Bonds to be called for optional redemption are not on deposit with the Paying Agent prior to the giving of notice of optional redemption pursuant to this Section, such notice shall state such Bonds will be redeemed in whole or in part on the optional redemption date in a principal amount equal to that part of the optional redemption price received by the Paying Agent on the applicable optional redemption date. If the full amount of the optional redemption price is not received as set forth in the preceding sentence, the notice shall be effective only for those Bonds for which the optional redemption price is on deposit with the Paying Agent. If all Bonds called for optional redemption cannot be redeemed, the Bonds to be redeemed shall be selected in the manner deemed reasonable and fair by the City and the Registrar shall give notice, in the manner in which the original notice or optional redemption was given, that such money was not received and the information required by this Section. In that event, the Registrar shall promptly return to the Owners thereof the Bonds or certificates which it has received evidencing the part thereof which have not been optionally redeemed.

Creation and Administration of Funds

The Income Funds and Debt Service Fund

The Bond Ordinance requires that so long as any of the Bonds shall be outstanding, either as to principal or interest, or both, the City shall credit (1) all State-Shared Gross Receipts Tax Revenues to the Gross Receipts Tax Income Fund and (2) all Hold Harmless Gross Receipts Tax Revenues to the Hold Harmless Gross Receipts Tax Income Fund. So long as any of the Bonds are outstanding, either as to principal or interest or both, the payments described below shall be made monthly from the Income Funds.

As a first charge on the Gross Receipts Tax Income Fund, on a parity with any monthly deposits for payment of principal of and interest on any additional Parity Obligations, the following amounts shall be withdrawn from the Gross Receipts Tax Income Fund and shall be credited to the Debt Service Fund:

(1) Monthly, commencing on the first day of the month immediately succeeding the delivery of the Bonds, an amount in equal monthly installments necessary, together with any other moneys therein and available therefor, to pay the next maturing installment of interest on the Bonds, and monthly

thereafter, commencing on each Interest Payment Date, one-sixth (1/6) of the amount necessary to pay the next maturing installment of interest on the Bonds then outstanding.

(2) Monthly, commencing on the first day of the month immediately succeeding the delivery of the Bonds, an amount in equal monthly installments necessary, together with any other moneys therein and available therefor, to pay the next maturing installment of principal of the outstanding Bonds and monthly thereafter, commencing on each principal payment date, one-twelfth (1/12) of the amount necessary to pay the next maturing installment of principal on the Bonds then outstanding.

As a first charge on the Hold Harmless Gross Receipts Receipts Tax Income Fund, on a parity with any monthly deposits for payment of principal of and interest on any additional Parity Hold Harmless Gross Receipts Tax Obligations, the following amounts shall be withdrawn from the Hold Harmless Gross Receipts Tax Income Fund and shall be credited to the Debt Service Fund:

(1) Monthly, commencing on the first day of the month immediately succeeding the delivery of the Bonds, an amount in equal monthly installments necessary, together with any other moneys therein and available therefor, to pay the next maturing installment of interest on the Bonds, and monthly thereafter, commencing on each Interest Payment Date, one-sixth (1/6) of the amount necessary to pay the next maturing installment of interest on the Bonds then outstanding.

(2) Monthly, commencing on the first day of the month immediately succeeding the delivery of the Bonds, an amount in equal monthly installments necessary, together with any other moneys therein and available therefor, to pay the next maturing installment of principal of the outstanding Bonds and monthly thereafter, commencing on each principal payment date, one-twelfth (1/12) of the amount necessary to pay the next maturing installment of principal on the Bonds then outstanding

In making the deposits required to be made into the Debt Service Fund, if there are any amounts then on deposit in the Debt Service Fund available for the purpose for which such deposit is to be made, the amount of the deposit to the Debt Service Fund as described immediately above shall be reduced by the amount available in such fund for such purpose.

The Reserve Fund

The City Treasurer or successor, on or before the 150th day after the close of each Fiscal Year, shall prepare a certificate stating the ratio of coverage of State-Shared Gross Receipts Tax Revenues to the combined maximum annual principal and interest coming due in any subsequent Fiscal Year on the outstanding Bonds and other Parity State-Shared Gross Receipts Tax Obligations (the "Debt Service Coverage Ratio"); and if such certificate indicates that the State-Shared Gross Receipts Tax Revenues for such Fiscal Year are less than 2.0 times the maximum annual principal and interest requirements in any subsequent Fiscal Year of all Bonds and any Parity State-Shared Gross Receipts Tax Obligations then outstanding, the City shall immediately proceed to accumulate the Minimum Reserve in the Reserve Fund by 12 substantially equal monthly deposits made on the first day of each month commencing on the first day of the first month immediately following such determination and such accumulations shall be made from the State-Shared Gross Receipts Tax Revenues, second to the payments required and described below and concurrently with the payment (if any) into the reserve fund for other Parity State-Shared Gross Receipts Tax Obligations; or shall acquire a Reserve Fund Insurance Policy in the amount of the Minimum Reserve. After the funding of the Reserve Fund as aforesaid, if such certificates for two consecutive Fiscal Years indicate that the Debt Service Coverage Ratio for two consecutive Fiscal Years is at least 2.0 times the maximum annual principal and interest coming due in any subsequent Fiscal Year on then outstanding Bonds and other Parity State-Shared Gross Receipts Tax

Obligations and there has been no payment default which has occurred during such period, any money or securities in the Reserve Fund may be transferred to other City funds or accounts, and the procedure provided in the first sentence of this paragraph shall be reinstated. The amounts in the Reserve Fund are pledged exclusively as additional security for payment of the principal of and interest on the Bonds and the Bond Ordinance creates a lien thereon. After accumulation of the Minimum Reserve, second and on a parity with the payments required above, there shall be credited monthly to the Reserve Fund from the Gross Receipts Tax Income Fund, such amount or amounts, if any, as are necessary to maintain the Reserve Fund as a continuing reserve in an amount not less than the Minimum Reserve to meet possible deficiencies in the Debt Service Fund. The moneys (if any) in the Reserve Fund shall be accumulated and maintained as a continuing reserve to be used except as provided in the Bond Ordinance, only to prevent deficiencies in the payment of the principal of and interest on the Bonds when due and resulting from the failure to credit to the Debt Service Fund sufficient funds to pay such principal and interest as the same become due. Amounts (if any) in the Reserve Fund in excess of the Minimum Reserve shall be withdrawn from the Reserve Fund and deposited into the Debt Service Fund (including investment income therefrom) and shall be used to pay the principal of or interest on the Bonds or any obligations refunding the Bonds. Also, second to the payments required aboveand coequal and on a parity with payments into the Reserve Fund, there may be credited on a periodic basis of not more frequently than monthly, amounts necessary to establish, maintain or reestablish reasonable reserve funds for additional Parity State-Shared Gross Receipts Tax Obligations or necessary to reimburse a credit facility provider for amounts due in connection with a draw on any debt service reserve fund insurance policy or similar credit facility for any such additional Parity State-Shared Gross Receipts Tax Obligations.

Defraying Delinquencies in Debt Service Fund and Reserve Fund

If, in any month, the City shall, for any reason, fail to pay into the Debt Service Fund the full amount above stipulated from the Pledged Revenues, then an amount shall be paid into the Debt Service Fund in such month from the Reserve Fund (if moneys are then on deposit in the Reserve Fund) equal to the difference between that paid from the Pledged Revenues and the full amount so stipulated. If the moneys paid into the Debt Service Fund from the Reserve Fund are not equal to the amount required to be paid into the Debt Service Fund for such month, then in the following month, an amount equal to the difference between the amount paid and the amount required shall be deposited into the Debt Service Fund, in addition to the normal payment required to be paid in such month, from the first Pledged Revenues thereafter received and not required to be otherwise applied. The money deposited in the Debt Service Fund from the Reserve Fund, if any, shall be replaced in the Reserve Fund from the first State-Shared Gross Receipts Tax Revenues thereafter received not required to be otherwise applied. If, in any month, the City shall, for any reason, fail to pay into the Reserve Fund the full amount required, the difference between the amount paid and the amount so stipulated shall in a like manner be paid therein from the first State-Shared Gross Receipts Tax Revenues thereafter received and not required to be otherwise applied. The moneys in the Reserve Fund shall be used solely and only for the purpose of paying any deficiencies in the payment of the principal of and the interest on the Bonds. Cash accumulated in the Reserve Fund shall not be invested in a manner which could cause the Bonds to become arbitrage bonds within the meaning of the Code. Any investments held in the Reserve Fund shall be valued annually, on or about June 1, at their current fair market value and, if the amount then on deposit in the Reserve Fund exceeds the Minimum Reserve, all amounts in excess of the Minimum Reserve shall be transferred to the Debt Service Fund and used to pay principal of and interest on the Bonds.

Payment of Parity State-Shared Gross Receipts Tax Obligations

Concurrently with the payment of the State-Shared Gross Receipts Tax Revenues required above, any amounts on deposit in the Gross Receipts Tax Income Fund shall be used by the City for the payment of principal of, interest on and debt service reserve fund deposits relating to outstanding and/or additional Parity State-Shared Gross Receipts Tax Bonds payable from the Pledged Revenues, as applicable, as the same become due. If funds on deposit in the Gross Receipts Tax Income Fund are not sufficient to pay when due the required payments of principal of, interest on and debt service reserve fund deposits relating to the Bonds and any other outstanding Parity State-Shared Gross Receipts Tax Bonds, then the available funds in the Gross Receipts Tax Income Fund will be used, first, on a pro rata basis, based on the amount of principal and interest then due with respect to each series of outstanding Parity State-Shared Gross Receipts Tax Bonds, for the payment of principal of and interest on all series of outstanding Parity State-Shared Gross Receipts Tax Bonds and, second, to the extent of remaining available funds in the Gross Receipts Tax Income Fund, on a pro rata basis, based on the amount of debt service reserve fund deposits then required with respect to each series of outstanding Parity State-Shared Gross Receipts Tax Bonds, for the required debt service reserve fund deposits for all series of outstanding Parity State-Shared Gross Receipts Tax Bonds.

Concurrently with the payment of the Hold Harmless Gross Receipts Tax Revenues above, any amounts on deposit in the Hold Harmless Gross Receipts Tax Income Fund shall be used by the City for the payment of principal of, interest on and debt service reserve fund deposits relating to outstanding and/or additional Parity Hold Harmless Gross Receipts Tax Bonds payable from the Hold Harmless Gross Receipts Tax Revenues, as applicable, as the same become due. If funds on deposit in the Hold Harmless Gross Receipts Tax Income Fund are not sufficient to pay when due the required payments of principal of, interest on and debt service reserve fund deposits relating to the Bonds and any other outstanding Parity Hold Harmless Gross Receipts Tax Bonds, then the available funds in the Hold Harmless Gross Receipts Tax Income Fund will be used, first, on a pro rata basis, based on the amount of principal and interest then due with respect to each series of outstanding Parity Hold Harmless Gross Receipts Tax Bonds, for the payment of principal of and interest on all series of outstanding Parity Hold Harmless Gross Receipts Tax Bonds and, second, to the extent of remaining available funds in the Hold Harmless Gross Receipts Tax Income Fund, on a pro rata basis, based on the amount of debt service reserve fund deposits then required with respect to each series of outstanding Parity Hold Harmless Gross Receipts Tax Bonds, for the required debt service reserve fund deposits for all series of outstanding Hold Harmless Gross Receipts Tax Parity Obligations to which the Hold Harmless Gross Receipts Tax Revenues have been pledged to such debt service reserve fund deposits.

Termination Upon Deposit to Maturity

No payment shall be made into the Debt Service Fund or the Reserve Fund if the amounts (excluding any amount in the Reserve Fund represented by a reserve fund insurance policy) in such funds total a sum at least equal to the entire aggregate amount due as to principal, premium, if any, and interest, on the Bonds to their respective maturities or applicable redemption dates, in which case moneys in the Debt Service Fund and the Reserve Fund in an amount at least equal to such principal and interest requirements shall be used solely to pay such obligations as the same accrue, and any moneys in excess thereof in the Debt Service Fund and the Reserve Fund may be used as provided below.

Subordinate Obligations

After making the payments described above, any balance remaining in the State-Shared Gross Receipts Tax Income Fund and Hold Harmless Gross Receipts Tax Income Fund, after making the payments hereinabove provided shall be used by the City for the payment of interest on and the principal of additional bonds or other obligations, if any, having a lien on the Pledged Revenues subordinate to the lien thereon of the Bonds hereafter authorized, issued and payable from the Pledged Revenues, as the same become due. Payments with respect to principal, interest and reserve funds for any such subordinate lien obligations may be made at any intervals as may be provided in the ordinance or resolution authorizing such additional obligations.

Use of Surplus Revenues

After making the required payments as described above, the remaining Pledged Revenues, if any, may be applied to any other lawful purpose, as the City may from time to time determine.

Additional Bonds

Limitations Upon Issuance of Parity State-Shared Gross Receipts Tax Obligations

Nothing in the Bond Ordinance shall be construed in such a manner as to prevent the issuance by the City of additional bonds or other obligations payable from the State-Shared Gross Receipts Tax Revenues and constituting a lien upon the State-Shared Gross Receipts Tax Revenues on a parity with, but not prior nor superior to, the lien of the Bonds, nor to prevent the issuance of bonds or other obligations refunding all or a part of the Bonds herein authorized, provided, however, that before any such additional Parity State-Shared Gross Receipts Tax Obligations are authorized or actually issued:

(1) The City is then current in all of the accumulations required to be made into the Debt Service Fund and Reserve Fund (if then required to be funded) pursuant to the Bond Ordinance; and

(2) The State-Shared Gross Receipts Tax Revenues received by the City for the Fiscal Year immediately preceding the date of the issuance of such additional Parity Obligations shall have been sufficient to pay an amount representing at least two hundred percent (200%) of the combined maximum annual principal and interest coming due in any subsequent Fiscal Year on the then outstanding Bonds, all other then outstanding Parity State-Shared Gross Receipts Tax Obligations and the Parity State-Shared Gross Receipts Tax Obligations proposed to be issued (excluding any reserves therefor).

For the purposes of the tests set forth in clauses (1) and (2) above, if on the date of issuance of any such Parity State-Shared Gross Receipts Tax Obligations the full amount of a reserve fund requirement or minimum reserve for Parity State-Shared Gross Receipts Tax Obligations is immediately funded or capitalized from the proceeds of such Parity State-Shared Gross Receipts Tax Obligations, the amount of such reserve fund requirement or minimum reserve so funded shall be deducted from the principal and interest coming due in the final Fiscal Year for the proposed additional Parity State-Shared Gross Receipts Tax Obligations.

Nothing in the Bond Ordinance shall prevent the City from issuing bonds or other obligations payable from the State-Shared Gross Receipts Tax Revenues and constituting a lien on the State-Shared Gross Receipts Tax Revenues subordinate or junior to the lien of the Bonds. The City shall not issue any obligation having a lien on State-Shared Gross Receipts Tax Revenues pledged by the Bond Ordinance which is prior and superior to the lien thereon of the Bonds.

Refunding Obligations

The City is also allowed to issue Parity State-Shared Gross Receipts Tax Obligations for the purpose of refunding other outstanding obligations that are payable out of the State-Shared Gross Receipts Tax Revenues if the Parity State-Shared Gross Receipts Tax Obligations would not increase any aggregate principal and interest requirements on and prior to the last maturity date of the outstanding obligations which are not refunded. Refunding Parity State-Shared Gross Receipts Tax Obligations not complying with such test may be issued in compliance with the test set forth above for additional Parity Obligations.

Limitations Upon Issuance of Parity Hold Harmless Gross Receipts Tax Obligations

Nothing in the Bond Ordinance shall be construed in such a manner as to prevent the issuance by the City of additional bonds or other obligations payable from the Hold Harmless Gross Receipts Tax Revenues and constituting a lien upon the Hold Harmless Gross Receipts Tax Revenues on a parity with, but not prior nor superior to, the lien of the Bonds, nor to prevent the issuance of bonds or other obligations refunding all or a part of the Bonds herein authorized, provided, however, that before any such additional Parity Hold Harmless Gross Receipts Tax Obligations are authorized or actually issued the City shall be current in all of the accumulations required to be made into the Debt Service Fund and Reserve Fund (if the Reserve Fund is then required to be funded) pursuant to the Bond Ordinance and any ordinance or resolution authorizing the issuance of Parity Hold Harmless Gross Receipts Tax Obligations.

Source of Payment and Security

The Bonds are payable and collectible solely from an irrevocable and first lien (but not necessarily an exclusive first lien) on the Pledged Revenues. "Pledged Revenues" means (A) that portion of the statewide gross receipts tax which is distributed monthly by the Revenue Division of the Taxation and Revenue Department of the State of New Mexico to the City as authorized by Section 7-1-6.4 NMSA 1978, and which is to be in an amount, subject to any increase or decrease made pursuant to Section 7-1-6.15 NMSA 1978, equal to the product of the quotient of 1.225% (or such higher rate of distribution which hereafter may be enacted into law) divided by the tax rate imposed by Section 7-9-4, NMSA 1978, times the net receipts (*i.e.*, the total gross receipts tax less any refunds disbursed in that month) for the month attributable to the gross receipts tax from business locations within the City and other places designated in Section 7-1-6.4 NMSA 1978 and (B) the revenues from the municipal hold harmless gross receipts tax transferred to the City pursuant to Section 7-1-6.12 NMSA1978, which municipal hold harmless gross receipts tax is imposed pursuant to Section 7-19D-18 NMSA 1978, and Ordinance No. 960 imposed on all persons engaging in business in the municipality, subject to certain exemptions referenced in Sections 7-19D-4(A) and 7-19D-5 NMSA 1978 and the deductions specified in 7-19D-7 at the rate of one-fourth of one percent (0.25%) of the gross receipts of a person engaging in business; provided that Pledged Revenues shall also include (i) the distribution to the City pursuant to Section 7-1-6.46 NMSA 1978, which is in lieu of revenue that would have been received by the City but for the deductions provided by 7-9-92 and 7-9-93 NMSA 1978, and (ii) any similar distributions made to the City in lieu of gross receipts tax revenues; and provided further that the City is not pledging to this bond and the term "Pledged Revenues" does not include any gross receipts tax income received pursuant to any other statute; and provided further, the City intends that Sections 3-31-6(C) and 7-19D-18(D), NMSA 1978 apply expressly to the amount of revenues pledged pursuant to the Bond Ordinance and the bondholders may not look to any general or other municipal fund other than that described above for the payment of the interest and principal of the Bonds.

All of the Bonds, together with the interest accruing thereon, shall be payable and collectible solely out of Pledged Revenues, which are irrevocably so pledged by the applicable Bond Ordinance. The registered owner or owners of the Bonds may not look to any general or other fund for the payment of the principal of or interest on such obligations, except the designated special funds pledged therefor. The Bonds shall not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation; nor shall they be considered or held to be general obligations of the City.

The Bond Ordinance provides that the Bonds may be further secured by a Reserve Fund that is to be funded by the City upon the happening of certain events. See "THE BONDS – Creation and Administration of Funds – The Reserve Fund" herein.

Protective Covenants

The Bond Ordinance includes the following covenants of the City:

Use of Bond Proceeds. The City will proceed without delay to apply the proceeds of the Bonds as set forth herein and in the Bond Ordinance.

Payment of Bonds. The City will promptly pay the principal of and the interest on every Bond at the place, on the date and in the manner specified in the Bonds. Such principal and interest are payable solely from the Pledged Revenues, provided that, nothing shall prevent the City, in its discretion, from paying such principal and interest from any other legally available funds.

City's Existence. The City will maintain its corporate identity and existence so long as any of the Bonds remain outstanding, unless another political subdivision by operation of law succeeds to the duties, privileges, powers, liabilities, disabilities, immunities and rights of the City and is obligated by law to receive and distribute the Pledged Revenues in place of the City, without adversely affecting to any substantial degree the privileges and rights of any holder or holders of the Bonds.

Extension of Interest Payments. In order to prevent any accumulation of claims for interest after maturity, the City will not directly or indirectly extend or assent to the extension of time for the payment of any claim for interest on any of the Bonds, and the City will not directly or indirectly be a party to or approve any arrangements for any such extension.

Records. So long as any of the Bonds remain outstanding, proper books of record and account will be kept by the City, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Pledged Revenues.

Audits and Budgets. The City will, within one hundred and eighty (180) days following the close of each Fiscal Year, cause an audit of its books and accounts relating to the Pledged Revenues to be made showing the receipts and disbursements in connection with the Pledged Revenues unless the audit cannot be conducted within one hundred and eighty (180) days following the close of each Fiscal Year because the State Auditor or other authority of the State with superintending control of the audit directs that the audit be made by a designated auditor under different time deadlines or by the State Auditor's office and staff, in which case, the City will use its best efforts to have the audit completed as soon as possible following the close of the Fiscal Year.

Other Liens. Other than as described and identified by the Bond Ordinance, there are no liens or encumbrances of any nature whatsoever on or against the Pledged Revenues.

Impairment of Contract. The City agrees that any law, ordinance or resolution of the City that in any manner affects the Pledged Revenues or the Bonds shall not be repealed or otherwise directly or indirectly modified, in such a manner as to impair adversely any Bonds outstanding, unless such Bonds have been discharged in full or provision has been fully made therefor or unless the required consents of the holders of the then outstanding Bonds are obtained as provided by the Bond Ordinance.

Debt Service Fund and Reserve Fund. The Debt Service Fund and Reserve Fund shall be used solely and only, and those funds are so pledged, for the purposes set forth in the Bond Ordinance.

Performing Duties. The City will faithfully and punctually perform all duties with respect to the Project and the Bonds required by the Constitution and laws of the State of New Mexico and the ordinances and resolutions of the City relating to the Bonds including but not limited to the proper segregation of the Pledged Revenues and their application to the respective funds and accounts.

Tax Covenants. The City covenants that it will restrict the use of the proceeds of the Bonds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code. The Mayor and other officers of the City having responsibility for the issuance of the Bonds shall give an appropriate certificate of the City, for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the City regarding the amount and use of all the proceeds of the Bonds, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of interest on the Bonds.

The City covenants that it (a) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and (b) will not take or permit to be taken any actions which would adversely affect that exclusion, and that it or persons acting for it, will, among other acts of compliance, (i) apply the proceeds of the Bonds to the governmental purpose of the borrowing, (ii) restrict the yield on investment property acquired with those proceeds, (iii) make timely rebate payments to the federal government, if required, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code. The Mayor and other appropriate officers are hereby authorized and directed to take any and all actions, make calculations and rebate payments, and make or give reports and certifications, if any, as may be required or appropriate to assure such exclusion of that interest.

In furtherance of the covenants set forth above, the Bond Ordinance establishes a fund separate from any other funds established and maintained hereunder designated as the Rebate Fund (the "Rebate Fund"). Money and investments in the Rebate Fund shall not be used for the payment of the Bonds and amounts credited to the Rebate Fund shall be free and clear under any pledge under this Bond Ordinance. Money in the Rebate Fund shall be invested in a manner provided in the Bond Ordinance for investment of money, and all amounts on deposit in the Rebate Fund shall be held by the City, or a designated trustee, in trust, to the extent required to pay rebatable arbitrage to the United States of America. The City shall unconditionally be entitled to accept and rely upon the recommendation, advice, calculation and opinion of an accounting firm or other person or firm with knowledge of or experience in advising with respect to the provisions of the Code relating to rebatable arbitrage. The City shall remit all rebate installments and the final rebate payment to the United States of America as required by the provisions of the Code. Any moneys remaining in the Rebate Fund after redemption and payment of all the Bonds and payment and satisfaction of any rebatable arbitrage shall be withdrawn and remitted to the City.

Defeasance

When all principal, interest and prior redemption premium, if any, in connection with the Bonds hereby authorized have been duly paid, the pledge and lien for the payment of the Bonds shall thereby be discharged and the Bonds shall no longer be deemed to be outstanding within the meaning of the Bond Ordinance. Payment shall be deemed made with respect to any Bond or Bonds when the City has placed in escrow with a commercial bank exercising trust powers, an amount sufficient (including the known minimum yield from Defeasance Obligations, as defined below) to meet all requirements of principal, interest and prior redemption premium, if any, as the same become due to their final maturities or upon designated redemption dates. Any Defeasance Obligations shall become due when needed in accordance with a schedule agreed upon between the City and such bank at the time of the creation of the escrow. Defeasance Obligations shall include only (1) cash, (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGs"), and (3) obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

Events of Default

Each of the following events is declared in the Bond Ordinance as an "event of default" with respect to the Bonds:

Nonpayment of Principal. Failure to pay the principal of any of the Bonds when the same become due and payable, either at maturity or by procedures for prior redemption or otherwise; or

Nonpayment of Interest. Failure to pay any installment of interest when the same becomes due and payable; or

Incapable of Performing. If the City shall for any reason be rendered incapable of fulfilling its obligations under the Bond Ordinance; or

Default of any Other Provision. Default by the City in the due and punctual performance of its covenants or conditions, agreements and provisions contained in the Bonds or Bond Ordinance on its part to be performed (other than an event of default, as described above), and if such default continues for 30 days after written notice specifying such default and requiring the same to be remedied has been given to the City by registered owners of at least 25% in principal amount of the Bonds then outstanding.

Duties Upon Default

Upon the happening of any of the events of default provided in the Bond Ordinance, the City, in addition, will do and perform all proper acts on behalf of and for the holder or holders of the Bonds to protect and preserve the security created for the payment of the Bonds and to insure the payment of the principal of and interest on the Bonds promptly as the same become due. All proceeds derived from the Pledged Revenues, so long as any of the Bonds, either as to principal or interest, are outstanding and unpaid, shall be applied as set forth in the Bond Ordinance. In the event the City fails or refuses to proceed as provided in this Section, the holder or holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding, after demand in writing, may proceed to protect and enforce the rights of the holder or holders of the Bonds as hereinabove provided.

Remedies Upon Default

Upon the happening and continuance of any of the events of default as provided in the Bond Ordinance, then and in every case, the holder or holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding, including, but not limited to, a trustee or trustees therefor, may proceed against the City, the City Council and its agents, officers and employees, but only in their official capacities, to protect and enforce the rights of any holder of Bonds under the Bond Ordinance by mandamus or other suit, action or special proceedings in equity or at law, in any court of competent jurisdiction, either for the specific performance of any covenant or agreement contained herein or in an award relating to the execution of any power herein granted for the enforcement of any legal or equitable remedy as such holder or holders may deem most effectual to protect and enforce the rights provided above, or to enjoin any act or thing which may be unlawful or in violation of any right of any holder of the Bonds, or to require the City Council to act as if it were the trustee of an express trust, or any combination of such remedies. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all holders of the Bonds then outstanding.

The failure of such holder or holders so to proceed shall not relieve the City or any of its officers, agents or employees of any responsibility for failure to perform, in their official capacities, any duty. Each right or privilege of such holder (or trustee thereof) is in addition and cumulative to any other right or privilege, and the exercise of any right or privilege by or on behalf of any holder shall not be deemed a waiver of any other right or privilege.

Amendments to the Bond Ordinance

The Bond Ordinance may be amended or supplemented by ordinance or resolution adopted by the City Council or by the Pricing Certificate in accordance with the laws of the State, as follows:

A. Without Consent or Notice. The Bond Ordinance may be amended or supplemented without the consent of, or notice to, the holders of the Bonds for any one of the following purposes:

(1) To add to the covenants and agreements in the Bond Ordinance other covenants and agreements thereafter to be observed for the protection or benefit of the registered owners of the Bonds; or

(2) To cure any ambiguity, to cure, correct or supplement any defect or inconsistent provision contained in the Bond Ordinance, or to make any provisions with respect to matters arising under the Bond Ordinance or for any other purpose if such provisions are necessary or desirable and do not adversely affect the interests of the owners of the Bonds; or

(3) To subject to the Bond Ordinance additional revenues, properties or collateral.

B. With Consent of the Registered Owners. The Bond Ordinance may be amended without receipt by the City of any additional consideration, but with the written consent of the holders of seventy-five percent (75%) of the Bonds then outstanding (not including Bonds which may be held for the account of the City); but no ordinance adopted without the written consent of the holders of all outstanding Bonds shall have the effect of permitting:

(1) An extension of the maturity of any Bond; or

(2) A reduction in the principal amount or interest rate of any Bond; or

(3) The creation of a lien upon the Pledged Revenues ranking prior to the lien or pledge created by the Bond Ordinance; or

(4) A reduction of the principal amount of Bonds required for consent to such amendatory ordinance; or

(5) The establishment of priorities as between Bonds issued and outstanding under the provisions of the Bond Ordinance; or

(6) The modification of or otherwise affecting the rights of the registered owners of less than all of the Bonds then outstanding.

THE PLEDGED REVENUES

Generally

The Bonds are special obligations of the City, payable from the Pledged Revenues. Pledged Revenues (A) that portion of the statewide gross receipts tax which is distributed monthly by the Revenue Division of the Taxation and Revenue Department of the State of New Mexico to the City as authorized by Section 7-1-6.4 NMSA 1978, and which is to be in an amount, subject to any increase or decrease made pursuant to Section 7-1-6.15 NMSA 1978, equal to the product of the quotient of 1.225% (or such higher rate of distribution which hereafter may be enacted into law) divided by the tax rate imposed by Section 7-9-4, NMSA 1978, times the net receipts (*i.e.*, the total gross receipts tax less any refunds disbursed in that month) for the month attributable to the gross receipts tax from business locations within the City and other places designated in Section 7-1-6.4 NMSA 1978 and (B) the revenues from the municipal hold harmless gross receipts tax transferred to the City pursuant to Section 7-1-6.12 NMSA1978, which municipal hold harmless gross receipts tax is imposed pursuant to Section 7-19D-18 NMSA 1978, and Ordinance No. 960 imposed on all persons engaging in business in the municipality, subject to certain exemptions referenced in Sections 7-19D-4(A) and 7-19D-5 NMSA 1978 and the deductions specified in 7-19D-7 at the rate of one-fourth of one percent (0.25%) of the gross receipts of a person engaging in business; provided that Pledged Revenues shall also include (i) the distribution to the City pursuant to Section 7-1-6.46 NMSA 1978, which is in lieu of revenue that would have been received by the City but for the deductions provided by 7-9-92 and 7-9-93 NMSA 1978, and (ii) any similar distributions made to the City in lieu of gross receipts tax revenues; and provided further that the City is not pledging to this bond and the term “Pledged Revenues” does not include any gross receipts tax income received pursuant to any other statute; and provided further, the City intends that Sections 3-31-6(C) and 7-19D-18(D), NMSA 1978 apply expressly to the amount of revenues pledged pursuant to the Bond Ordinance and the bondholders may not look to any general or other municipal fund other than that described above for the payment of the interest and principal of the Bonds. Distributions to the City made pursuant to Section 7-1-6.46, NMSA 1978 are known as the “Hold Harmless Distributions,” and are being phased out over 15 years beginning with the Fiscal Year that started July 1, 2015. See “RISK FACTORS – State Legislation” herein.

Taxed Activities. For the privilege of engaging in business in the State, the Gross Receipts Tax is imposed upon any person engaging in business in the State. “Gross Receipts” is defined in the Gross Receipts and Compensating Tax Act as the total amount of money or value or other consideration received from selling property in the State (including tangible personal property handled on consignment in the State), from leasing property employed in the State, from performing services in the State and from selling services outside the State, the product of which is initially used in the State. The definition excludes cash discounts allowed and taken, the Gross Receipts Tax payable on transactions for the reporting period and any county sales tax, county fire protection excise tax, county and municipal gross receipts taxes, any time or time-price differential and certain gross receipts or sales taxes imposed by an Indian tribe or pueblo. Unlike most other states, the State taxes sales of services, including legal services and certain medical services.

Legislative Changes. Revisions to laws of the State affecting taxed activities and distributions of gross receipts tax revenues could be adopted in the future by the State Legislature. Proposals affecting taxed activities and distributions are frequently considered by the State Legislature. There is no assurance that any future revisions to State laws will not adversely affect activities now subject to the gross receipts tax or distribution of gross receipts tax revenues to the City. See “RISK FACTORS - State Legislation” herein.

Exemptions. Some activities and industries are exempt from the Gross Receipts Tax, many by virtue of their taxation under other laws. Exemptions include, but are not limited to, certain receipts of governmental agencies and certain organizations, receipts from the sale of vehicles, occasional sales of property or services, wages, certain agricultural products, dividends, and interest and receipts from the sale of or leasing of natural gas, oil or mineral interests. Various deductions are allowed including but not limited to receipts from various types of sales and leases of tangible personal property or services, receipts from sales to governmental agencies or certain organizations, receipts from processing certain agricultural products, receipts from certain publication sales, certain receipts from interstate commerce transactions, receipts from retail sales of food (not including restaurant sales and certain sales of prepared foods), and receipts of licensed medical care providers from Medicare Part C. There are over 100 specified exemptions and deductions from gross receipts taxation, nevertheless, the general presumption is that all receipts of a person engaging in business in the State of New Mexico are subject to the Gross Receipts Tax.

Manner of Collection and Distribution of Gross Receipts Tax. Businesses must make their payments of Gross Receipts Tax on or before the twenty-fifth of each month for taxable events in the prior month. Collection of the State Gross Receipts Tax is administered by the Revenue Division of the Taxation and Revenue Department of the State (the "Revenue Division"), pursuant to Section 7-1-6, NMSA 1978. Collections are first deposited into a suspense fund for the purpose of making disbursements for refunds, among other items. On the last day of each month, the balance of the suspense fund is transferred to the State general fund, less disbursements to the municipalities in the State.

Remedies for Delinquent Taxes. The Revenue Division may assess gross receipts taxes to a taxpayer who has not paid the taxes due to the State. If any taxpayer to whom gross receipts taxes have been assessed or upon whom demand for payment has been made does not make payment thereof (or protest the assessment or demand for payment) within 30 days after the date of assessment or demand for payment, the taxpayer becomes a delinquent taxpayer. Such taxpayer remains delinquent until payment of all the taxes due, including interest and penalties, or until security is furnished for the payment thereof. The Revenue Division may, under certain circumstances, enter into an agreement with a delinquent taxpayer to permit monthly installment payments for a period of not more than 36 months. Interest is due on any delinquent tax from the first day following the day on which it is due at the rate of 1.25% per month until paid, without regard to any installment agreement. However, if the Gross Receipts Tax is paid within 10 days after demand is made, no interest shall be imposed for the period after the date of demand.

The Revenue Division may levy upon all property or rights to property of a delinquent taxpayer and sell the same in order to collect the delinquent tax. The amount of delinquent Gross Receipts Taxes is also a lien in favor of the State upon all property and rights to property of the delinquent taxpayer, which lien may be foreclosed as provided by State statutes.

Historical Pledged Revenues

The following table shows historical pledged revenues for Fiscal Years 2014-2018.

Fiscal Year Ending 6/30	State-Shared Gross Receipts Tax Revenues	Hold Harmless Gross Receipts Tax Revenues(1)	Total Pledged Revenues
2018	$7,658,535	$1,523,297	$9,181,832
2017	7,619,595	1,470,963	9,090,558
2016	7,652,859	1,109,634	8,762,493
2015	10,873,147	-	10,873,147
2014	9,739,392	-	9,739,392

Source: City of Artesia.
(1) The City imposed the Hold Harmless Gross Receipts Tax effective July 1, 2015.

Gross Receipts Reported by Standard Industrial Classification

The following represents total taxable gross receipts reported in the City by Standard Industrial Classification:

Total Taxable Gross Receipts

	Fiscal Year Ended June 30				
Classification	2014	2015	2016	2017	2018
Agriculture, Forestry, Fishing and Hunting	$ 1,163,501	$ 1,235,981	$ 1,385,420	$ 1,005,748	$ 991,545
Mining, Quarrying, and Oil and Gas Extraction	171,453,749	148,495,618	66,683,268	3,765,983	135,371,890
Utilities	28,794,297	33,812,215	31,165,532	22,728,935	28,332,044
Construction	106,707,071	109,612,131	90,447,461	134,579,790	77,455,558
Manufacturing	78,494,295	59,316,727	16,831,697	(20,468,526)	22,829,443
Wholesale Trade	60,390,772	73,919,026	40,967,295	49,235,196	47,319,580
Retail Trade	136,799,930	143,815,328	120,995,572	121,621,927	146,598,672
Transportation and Warehousing	(47,176,382)	25,791,707	8,690,872	5,625,846	8,064,147
Information and Cultural Industries	21,246,613	19,560,772	19,265,930	18,147,319	19,283,096
Finance and Insurance	3,310,799	3,697,820	3,830,965	3,604,871	4,585,155
Real Estate Rental and Leasing	25,927,392	27,547,728	15,741,394	14,558,935	22,254,822
Professional, Scientific, and Technical Services	30,486,137	32,467,200	30,554,962	58,889,647	27,113,847
Administrative, Support and Waste Management	13,990,817	12,965,432	27,553,500	11,192,196	10,461,037
Educational Services	297,664	324,264	330,326	385,275	406,835
Health Care and Social Assistance	9,098,374	9,889,987	9,699,902	9,478,284	11,181,672
Arts, Entertainment, and Recreation	123,685	574,890	662,033	507,651	590,753
Accommodation and Food Services	33,476,670	40,991,322	36,415,824	35,063,420	43,386
Other Services (except Public Administration)	67,392,248	61,069,027	43,246,188	48,012,979	59,010,849
Unclassified	3,527,645	1,488,167	1,630,632	1,510,162	1,595,190
Total Taxable	$ 745,592,937	$ 806,594,074	$ 566,099,993	$ 519,445,638	$ 666,502,617
Total Reported	$1,398,773,394	$1,288,711,106	$1,014,972,234	$1,156,377,955	$1,310,881,462

Source: New Mexico Taxation and Revenue Department RP-80 Reports.

The revenue experience set forth above is historical, and there can be no assurance that the future revenue experience of the City will be consistent with this information. In addition, due to the possibility of adverse economic conditions, the effects of which may be concentrated in certain geographic locations within the State, it is impossible to predict future revenues distributed from the State Gross Receipts Tax to municipalities in the State.

Historical Total Gross Receipts Reported For City and State

The following represents the total gross receipts reported in the City and the State. Total gross receipts and total taxable gross receipts reported in the tables below include amounts representing the sale of items which may not be subject to Gross Receipts Tax. See "PLEDGED REVENUES – *Taxed Activities*" and "PLEDGED REVENUES – *Exemptions*" herein for an explanation of activities which are subject to, or exempt from, Gross Receipts Tax.

Fiscal Year	City of Artesia Total
2018	$1,310,881,462
2017	1,156,377,955
2016	1,014,972,234
2015	1,491,782,091
2014	1,398,773,393

Calendar Year	State of New Mexico Total
2018	$115,265,854,604
2017	95,805,399,784
2016	107,507,232,815
2015	119,726,977,705
2014	107,584,699,939

Source: New Mexico Taxation and Revenue Department RP-80 Reports.

Historical Taxable Gross Receipts Reported For City and State

Fiscal Year	Taxable Gross Receipts Reported in City of Artesia
2018	$666,502,617
2017	519,455,638
2016	566,099,993
2015	904,307,251
2014	745,592,937

Calendar Year	Taxable Gross Receipts Reported in State of New Mexico
2018	$58,603,589,216
2017	46,968,795,553
2016	51,754,649,990
2015	59,811,838,324
2014	51,174,138,495

Source: New Mexico Taxation and Revenue Department RP-80 Reports.

EXISTING CITY DEBT

The table below summarizes all outstanding revenue bond obligations of the City as of March 1, 2019:

Description of Issue	Issue Date	Original Principal Amount	Date of Final Maturity	Amount Outstanding as of 3/1/2018
State-Shared Gross Receipts Tax Revenue Bonds, Series 2009[(1)]	9/30/2009	$20,000,000	6/1/2029	$12,825,000
Water and Wastewater System Revenue Bonds, Series 2010[(2)]	1/20/2010	12,885,000	6/1/2029	8,410,000
State-Shared Gross Receipts Tax Revenue Bonds, Series 2013	7/31/2013	7,000,000	6/1/2028	2,550,000
State-Shared Gross Receipts Tax Revenue Bonds, Series 2015	9/15/2015	7,000,000	6/1/2030	3,695,000
State-Shared Gross Receipts Tax Revenue Bonds, Series 2018	10/31/2018	6,190,000	6/1/2033	6,190,000

[1] The Series 2009 Bonds maturing on and after June 1, 2020 will be defeased with proceeds of the Bonds on April 16, 2019.

[2] The Series 2010 Bonds will be defeased in full on April 16, 2019 with proceeds of the City's Water and Wastewater System Refunding Revenue Bonds, Series 2019.

HISTORICAL GENERAL FINANCIAL INFORMATION FOR THE CITY

The data appearing on the pages under this heading have been excerpted from the audited financial statements of the City for the years indicated. As presented, the data does not include the related "Notes to Financial Statements" which are an integral part of the audited financial statements. The audited financial statements, including the related notes, are available on request from the City.

The General Fund of the City is not pledged to pay debt service on the Bonds, and the following charts are included for informational purposes only.

[Historical General Fund Balance Sheet Follows]

Historical General Fund Balance Sheet

	2014	2015	2016	2017	2018
Assets					
Current:					
Cash and cash equivalents	$ 6,995,923	$10,208,468	$ 6,208,491	$ 5,109,349	$ 4,471,674
Short term investments	11,866,753	11,866,753	11,866,753	11,500,000	11,500,000
Accounts receivable					
Taxes	3,931,351	3,866,681	1,937,905	1,175,576	1,255,371
Intergovernmental	319,710	7,000	12,086	14,000	4,578
Miscellaneous	319,264	749,165	5,825	9	-
Interfund receivable	21,605	9,976	9,242	9,649	11,406
Total assets	$23,454,606	$26,708,043	$20,040,302	$17,808,583	$17,243,029
Liabilities and fund balances					
Liabilities					
Accounts payable	$ 494,407	$ 431,430	$ 132,219	$ 322,261	$ 792,179
Accrued payroll liabilities	428,836	480,349	324,718	259,993	306,087
Customer deposits payable	3,882	3,277	3,277	-	-
Other accrued liabilities	3,483	3,733	3,666	-	-
Total liabilities	930,608	918,789	463,880	582,254	1,098,795
Fund balances					
Committed	-	2,149,105	-	1,434,953	1,447,229
Unassigned	22,523,998	23,640,149	19,576,422	15,791,376	14,697,005
Total fund balances	22,523,998	25,789,254	19,576,422	17,226,329	16,144,234
Total liabilities and fund balances	$23,454,606	$26,708,043	$20,040,302	$17,808,583	$17,243,029

Source: City of Artesia - Audited Financial Statements for the Fiscal Years ending June 30, 2014, 2015, 2016, 2017 and 2018.

Historical General Fund Revenues and Expenditures

The General Fund is used to account for all financial resources of the City except for those required to be accounted for in one of the other funds.

	2014	2015	2016	2017	2018
Revenues:					
Property taxes	$ 654,553	$ 668,583	$ 14,924	$ 4,479	$ -
Gross receipts taxes	21,379,155	24,926,660	17,125,658	16,203,047	16,724,344
Other taxes	654,796	710,723	785,429	538,156	694,249
State grants	977,668	59,746	276,431	291,435	111,705
Federal grants	-	494,500	-	-	-
Licenses and fees	128,999	183,803	150,438	624,842	345,259
Charges for services	961,750	1,252,057	1,063,775	934,488	824,846
Investment Income	28,453	26,145	22,921	29,062	25,364
Miscellaneous	79,285	33,220	879,501	91,032	302,186
Total Revenues	24,864,659	28,355,437	20,319,077	18,716,541	19,027,953
Expenditures:					
Current:					
General government	2,364,029	3,370,986	4,250,196	3,358,744	3,427,294
Public safety	8,910,677	8,672,486	9,966,445	8,828,145	8,993,907
Culture and recreation	1,316,661	1,305,829	1,441,742	1,207,599	1,299,008
Health and welfare	222,900	261,608	504,424	477,503	496,424
Public works	3,480,214	4,315,232	3,396,501	3,100,866	3,156,409
Capital Outlay	-	46,517	-	-	661
Total Expenditures	16,294,481	17,972,658	19,559,308	16,972,857	17,373,703
Excess (deficiency) of revenues over expenditures	8,570,178	10,382,779	759,769	1,743,684	1,654,250
Other financing sources (uses)					
Transfers out	(10,511,205)	(7,117,523)	(6,972,601)	(3,453,385)	(2,736,345)
Total other financing sources (uses)	(10,511,205)	(7,117,523)	(6,972,601)	(3,453,385)	(2,736,345)
Excess (deficiency) of revenues and other sources (uses) over expenditures	(1,941,027)	3,265,256	(6,212,832)	(1,709,701)	(1,082,095)
Fund balance - beginning of year	24,465,025	22,523,998	25,789,254	19,576,422	17,226,329
Prior period adjustment	-	-	-	(640,392)	-
Fund balance – beginning of year (restated)	24,465,025	22,523,998	25,789,254	18,936,030	17,226,329
Fund balance - end of the year	$22,523,998	$25,789,254	$19,576,422	$17,226,329	$16,144,234

Source: City of Artesia - Audited Financial Statements for the Fiscal Years ending June 30, 2014, 2015, 2016, 2017 and 2018.

THE CITY

General

The City of Artesia is located in southeastern New Mexico in Eddy County. The City was incorporated in 1905. The City is located approximately 240 miles south of Albuquerque. As of February 2019, the estimated population of the City was approximately 12,411, which represented approximately 21.67% of the total population of Eddy County.

Mayor and City Council

The City operates under a Mayor-Council form of government. Eight councilors are elected from districts for four-year terms of office with terms staggered. Non-partisan elections are held bi-annually. The Mayor is elected at large for a four-year term and serves as the Chief Executive.

Name	Term Expires
Mayor Raye Miller	2022
Manuel Madrid, Jr.	2020
Raul Rodriguez	2022
George G. Mullen	2022
Luis Florez, Mayor Pro Tem	2020
Kent Bratcher	2022
Jeff Youtsey	2020
Terry Hill	2022
Bill Rogers	2020

Administration

Aubrey Hobson, City Clerk/Treasurer. Mr. Hobson has worked in municipal government for approximately 41 years, 37 of which have been in city finance. He was previously employed at the City of Kermit, Texas and the City of Jal, New Mexico. Mr. Hobson is a Certified Municipal Clerk (CMC) and has acted as the Clerk/Treasurer for the City of Artesia for the last 14 years.

Other Employees

The City has approximately 200 employees, none of which are represented by a labor union. The City believes its relations with the employees are good. The City's police force consists of approximately 31 sworn officers. The City operates a library, museum, airport, senior citizens' center, fire station and sub-station, municipal water and sewer utility and solid waste facility. The City operates ball fields and playgrounds with paid staff members during a year round recreational program.

Retirement Plan; Other Post-Employment Benefits

Public Employees Retirement Association

The City participates in a pension plan organized on a statewide basis and operated by the State of New Mexico. The Public Employees' Retirement Association of New Mexico ("PERA"), established by Section 10-11-1 *et seq.* NMSA 1978, as amended, requires contributions to its plan (the "Plan"), computed as a percentage of salary, from both employee and employer for all full-time employees. The majority of State and municipal employees in New Mexico participate in the Plan. As required by State law, the City contributes to the plan amounts which vary from 9.5% to 21.6% of eligible employees' salaries. The City's contractual obligation under the Plan is limited to the periodic employer contributions that it is required to make for its participating employees. Statutorily required contributions to the plan made by the City for the last three fiscal years were $507,561 in Fiscal Year 2018, $602,900 in Fiscal Year 2017, and $447,674 in Fiscal Year 2016.

On June 25, 2012, the Governmental Accounting Standards Board approved Statement No. 68 which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 requires governmental participants in cost-sharing multi-employer plans, such as the City, to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. Statement No. 68 became effective for fiscal years beginning after June 15, 2014. The City's proportionate share of PERA's net pension liability was approximately $14.2 million at June 30, 2018.

PERA issues a publicly available financial report that includes financial statements and additional information. A copy of this report can be obtained from PERA at www.nmpera.org/financial-overview.

Actuarial information is shown below:

State of New Mexico Public Employees Retirement Fund
Summary Information as of June 30, 2018

Membership[(1)]	105,925
Actuarial Information	
Actuarial Accrued Liability[(2)]	$21,313,451,183
Actuarial Value of Assets	$15,252,860,672
Unfunded Actuarial Accrued Liability	$6,060,590,511

Source: PERA 2018 Comprehensive Annual Financial Statements
(1) Includes active, inactive and retired members from all divisions.
(2) Includes accrued liability of both the retired and active members.

The State Legislature enacted comprehensive pension reform legislation during the 2013 legislative session. Senate Bill 27 significantly amended the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law reduced the cost of living adjustments for all current and future retirees; delayed the application of cost of living adjustments for certain future retirees; suspended the cost of living adjustments for certain return-to-work retirees; provided for an increase in the statutory employee contribution rate of 1.5% (subject to certain requirements) for employees earning $20,000 or more in annual salary; provided for an increase in the statutory employer contribution of 0.4% beginning in fiscal year 2015; increased age and service requirements; lengthened the base average salary calculation amount from three to five years for future employees; increased the vesting period for employees from five to eight years for most members; lowered the annual service credit by 0.5% for most members; and made several other clarifying and technical changes.

In Fiscal Year 2018, PERA reported an audited Net Pension Liability ("NPL") of $6.1 billion, using methods and assumptions required under GASB Statement No. 67, the reporting standard applicable to pension plans. PERA annually prepares a "Schedule of Employer Allocations and Pension Amounts" that provides employer participants the information they need to comply with GASB Statement No. 68, including each employer's proportionate share of the NPL. This schedule is audited by PERA's independent auditors and is reviewed by the New Mexico Office of the State Auditor.

Retiree Health Care

The City does not participate in the State-sponsored New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the Retiree Health Care Authority. The City does not provide retiree healthcare coverage to City employees.

Deferred Compensation Plan

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) and the assets and liabilities are held in trust by DRC. The plan is available to all City employees who work at least 17 hours a 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 accounts of each participant.

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, 2018, 2017, and 2016 were approximately $406,226, $402,366, and $405,233, 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.

Financial Statements and Budgets

Griego Professional Services, LLC, certified public accountants, audited the City's financial statements for the fiscal year ended June 30, 2018. Copies of the financial statements for the fiscal year ended June 30, 2018 and earlier years are available for review at City Hall, 511 West Texas Avenue, New Mexico 88210.

The City adheres to a two-part procedure in adopting its annual budget. The City Council submits the budget to the Local Government Division of the State Department of Finance and Administration prior to June 1 of each year. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings to obtain public comments on the preliminary and final budget. Prior to July 31, the final budget is legally enacted through passage of a resolution after preliminary Local Government Division approval. The City is authorized to transfer budgeted amounts among departments within any fund, but must obtain approval of the Local Government Division prior to making revisions that alter the total expenditures of any fund. As a management control device, the City employs formal budgetary integration at the line item level.

Budget appropriations are allowed to carry over from one fiscal year to another. Deficit financing is not permitted under New Mexico law. The level of classification detail at which expenditures may not legally exceed appropriation for each budget item is the fund level (i.e., General, Water & Sewer, etc.).

Intergovernmental and Other Agreements

The City is party to certain agreements which impose obligations upon the City. There are no contracts or agreements in effect which potentially could have an effect on the security of the Bonds.

City Insurance Coverage

The City maintains insurance on its assets and operations as is customary and adequate, in its opinion, for similar entities insuring similar operations and assets. The City obtains both its general liability coverage and its errors and omissions liability coverage from New Mexico Self Insurers Fund. However, there can be no assurance that the City will continue to maintain the present level of coverage or that the present level of coverage will be adequate.

City Investment Policy

The City has not adopted a formal investment policy. Permitted investments are only the financial instruments allowed by Section 6-10-1 *et seq.*, NMSA 1978. Reports reflecting the City's investments are submitted on a quarterly basis and are contemporaneous with the City's General Quarterly Report to the State Department of Finance and Administration.

AREA ECONOMIC INFORMATION

The following general information concerning the economic and demographic conditions in Eddy County and the surrounding area was obtained from the sources indicated, and the City makes no representation as to the accuracy or completeness of the data presented.

Federal Law Enforcement Training Center

The Federal Law Enforcement Training Center located in the City ("FLETC-Artesia") is a substantial contributor to the local economy. FLETC-Artesia is one of three Federal Law Enforcement Training Center residential sites in the United States and is situated on approximately 3,620 acres in the northwest section of the City.

FLETC-Artesia administers advanced and specialized training programs for the United States Border Patrol (USBP), the Bureau of Indian Affairs (BIA), the Transportation Security Administration (TSA) and other partnering organizations. Specialized instructor training programs such as the Driver Instructor Training Program, Firearms Instructor Training Program, the Law Enforcement Fitness Coordinator Training Program, and the Defensive Tactics Instructor Training Program are also conducted at FLETC-Artesia.

Approximately 1,200 employees from the USBP, the BIA, the TSA, FLETC and other contractors work at FLETC-Artesia. FLETC-Artesia has approximately 1,400 students which participate in training courses on a daily basis. FLETC-Artesia students stay in local hotels, rent housing within the City or live in one of the three FLETC-Artesia dormitories which house approximately 690 students.

Education

Approximately 3,850 students attend Artesia Public Schools, which includes one high-school, one junior high-school for 8^{th} and 9^{th} graders, one intermediate school for 6^{th} and 7^{th} graders, six elementary schools and one early child center for pre-kindergarten education.

NMSU-Carlsbad offers a variety of quality educational opportunities. The college is the Eddy County provider for Adult Basic Education Services (ABE). The college offers developmental studies designed to provide students with basic skills needed to achieve academic success. Certificate programs of 30-36 credit hours are designed to provide the students with marketable and employable skills upon completion. Associate of Arts degrees are designed for individuals who plan to complete their educational goals with a baccalaureate degree. Associate of Applied Science degrees are designed for those who enter the work force upon graduation. Transfer programs are designed to provide freshman and sophomore level course work for students planning to transfer to institutions offering baccalaureate degrees. Non-credit programs offered through Community Services and Continuing Education programs provide a variety of educational, personal interest and enrichment programs for all ages.

Population and Age Distribution

The following chart sets forth historical population data and estimates for the City, Eddy County and the State of New Mexico.

Population

U.S. Census	City of Artesia	Eddy County	State of New Mexico
2019*	12,411	57,273	2,091,198
2010	11,301	53,829	2,112,957
2000	10,650	51,658	1,821,078
1990	10,775	48,605	1,515,069
1980	10,385	47,855	1,303,143
1970	10,315	41,119	1,017,055
1960	12,000	50,783	951,023
1950	8,244	40,640	681,187
1940	4,071	24,311	531,818

Source: United States Census Bureau.
*Estimated (Source: Spotlight, February 2019).

Age Distribution

Age	City of Artesia	State of New Mexico	United States
0-17	28.66%	23.25%	22.49%
18-24	9.43%	9.65%	9.56%
25-34	14.21%	13.21%	13.48%
35-44	12.92%	11.99%	12.61%
45-54	11.13%	11.51%	12.69%
55 and older	23.65%	30.39%	29.17%

Source: Spotlight, February 2019.

Income

The following table sets forth annual per capita personal income levels for the County, the State and the United States. The County's and the State's per capita income level over this period consistently has been lower than the national average.

Per Capita Personal Income

Year	Eddy County	State of New Mexico	United States
2016	$48,077	$38,474	$49,246
2015	53,609	37,973	48,451
2014	51,720	36,770	46,494
2013	47,669	34,724	44,462
2012	50,676	35,410	44,267

Source: New Mexico Department of Workforce Solutions.

Effective Buying Income

The following table reflects the percentage of households by Effective Buying Income ("EBI") and a comparison of the estimated median household income as reported by The Nielsen Company. EBI is personal income less personal tax and nontax payments. Personal income includes wages and salaries, other labor income, proprietors' income, rental income, dividends, personal interest income and transfer payments. Deductions are made for federal, state and local taxes, non-tax payments such as fines and penalties, and personal contributions for social security insurance. During the period shown in the following chart, the estimated median household income level for Eddy County compares favorably with the State but has consistently been lower than the national level.

Percent of Households by Effective Buying Income Groups - 2018

Effective Buying Income Group	City of Artesia	State of New Mexico	United States
Under $25,000	18.58%	26.42%	19.57%
$25,000 - $34,999	8.14%	10.23%	8.89%
$35,000 - $49,999	16.82%	13.64%	12.61%
$50,000 - $74,999	18.07%	17.13%	16.92%
Over $75,000	38.39%	32.58%	42.01%
2015 Est. Median Household Income	$50,701	$45,633	$53,706
2016 Est. Median Household Income	$49,516	$45,445	$55,551
2017 Est. Median Household Income	$58,624	$47,043	$57,462
2018 Est. Median Household Income	$62,265	$48,044	$60,133
2019 Est. Median Household Income	$57,652	$49,654	$62,279

Source: Spotlight, February 2019.

Employment

The following table provides a five-year history of unemployment rates in the County, the State and the United States.

Labor Force and Percent Unemployed

	Eddy County		**State of New Mexico**		**United States**
Year[1]	Labor Force	% Unemployed	Labor Force	% Unemployed	% Unemployed
2019[2]	32,689	3.2%	960,717	4.8%	3.7%
2018	30,480	3.8%	934,178	5.8%	4.4%
2017	28,871	5.3%	929,567	6.2%	4.4%
2016	28,441	6.5%	928,732	6.7%	4.9%
2015	29,685	4.9%	927,999	6.5%	5.3%

Source: U.S. Bureau of Labor Statistics, February 2019.
(1) Numbers are annual averages.
(2) Data for the month of January 2019. Numbers are preliminary.

Wage and Salary Employment in Eddy County

The following is a history of wage and salary employment for Eddy County as reported by the Bureau of Labor Statistics of the U.S. Department of Labor. Employment is classified according to the new North American Industry Classification System (NAICS).

	ANNUAL AVERAGE				
	2014	2015	2016	2017	2018*
Total Private	24,161	24,620	22,665	23,632	26,824
Agriculture, Forestry, Fishing & Hunting	400	353	385	387	396
Mining	7,275	7,088	5,553	6,033	7,595
Utilities	229	243	233	238	238
Construction	2,014	2,237	1,950	2,118	2,661
Manufacturing	883	954	907	924	999
Wholesale Trade	611	668	615	626	642
Retail Trade	2,659	2,772	2,759	2,716	2,871
Transportation & Warehousing	1,156	1,147	1,037	1,159	1,419
Information	239	228	204	202	217
Finance & Insurance	506	495	492	532	524
Real Estate, Rental & Leasing	499	483	393	407	500
Professional & Technical Services	526	656	641	692	1,026
Management of Companies & Enterprises	181	104	103	114	128
Administrative & Waste Services	1,217	1,238	1,336	1,373	1,352
Educational Services	237	227	242	233	169
Health Care & Social Assistance	2,565	2,688	2,757	2,723	2,777
Arts, Entertainment & Recreation	46	61	72	77	88
Accommodation & Food Services	2,269	2,305	2,350	2,408	2,476
Other Services (excluding Public Administration)	649	674	635	672	745
Government	3,667	3,732	3,823	3,777	3,440
Federal	606	624	677	686	694
State	538	517	477	460	436
Local	2,523	2,591	2,669	2,631	2,309
TOTAL WAGE & SALARY EMPLOYMENT	27,828	28,352	26,488	27,409	30,263

Source: New Mexico Department of Workforce Solutions, Quarterly Census of Employment and Wages.
* Average, Third Quarter 2018.

LITIGATION

At the time of the original delivery of the Bonds, the City will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending or, to the knowledge of the appropriate City officials, threatened, restraining or enjoining or seeking to restrain or enjoin, the issuance and delivery of the Bonds, or contesting or questioning either the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (i) the computations of the adequacy of the principal amounts and the interest thereon of the Defeasance Obligations and other funds to be deposited in the Escrow Fund, to provide for the payment, of the principal of, premium and interest on the Refunded Bonds when due or upon early redemption thereof, and (ii) the computations made supporting the conclusion that the yield on the Defeasance Obligations held pursuant to the Escrow Agreement is less than the yield on the Bonds for federal income tax purposes, will be verified by certified public accountants. Such verification will be based, in part, upon information supplied to the certified public accountant and consultant by the Financial Advisor.

LEGAL MATTERS

The City has engaged Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel in connection with the issuance of the Bonds. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon (see "TAX MATTERS") are subject to the approving legal opinion of Bond Counsel, a form of which is attached hereto as Appendix A. A signed copy of the opinion, dated the date of the original delivery of the Bonds will be delivered at the time of the original delivery of the Bonds. Certain legal matters relating to the Bonds will also be passed upon for the City by its Disclosure Counsel, Modrall, Sperling, Roehl, Harris & Sisk, P.A. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The opinions of Bond Counsel, Disclosure Counsel and counsel to the Underwriters will be dated and delivered on the date of initial delivery of the Bonds.

TAX MATTERS

General

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing laws, regulations rulings and judicial decisions, and assuming compliance with covenants described herein, interest on Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Code (as defined below) for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel is also of the opinion, based on existing laws of the State of New Mexico as enacted and construed, that interest on the Bonds is exempt from all taxation by the State of New Mexico or any political subdivision thereof.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. The City has made various representations and warranties with respect to, and has covenanted in the resolution authorizing issuance of the Bonds and other documents, instruments and certificates to comply with the applicable provisions of the Code to assure that interest on the Bonds will not become includible in gross income. Failure to comply with these covenants or the inaccuracy of these representations and warranties may result in interest on the Bonds being included in gross income from the date of issue of the Bonds. The opinion of Bond Counsel assumes compliance with the covenants and the accuracy of such representations and warranties.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Before purchasing any of the Bonds, potential purchasers should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

The opinions expressed by Bond Counsel are based upon existing law as of the date of issuance and delivery of the Bonds, and Bond Counsel expresses no opinion as of any date subsequent thereto or with respect to any pending legislation.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, it would apply to Bonds issued prior to enactment. Each purchaser of the Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

Internal Revenue Service Audit Program

The Internal Revenue Service (the" Service") has an ongoing program auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the City as the taxpayer and the Bond owners may have no right to participate in such procedure. None of the Financial Advisor, the Underwriters or the initial purchasers of the Bonds or Bond Counsel is obligated to defend the tax-exempt status of the Bonds. The City has covenanted in the Bond Ordinance not to take any action that would cause the interest on the Bonds to become includable in gross income except to the extent described above for the owners thereof for federal income tax purposes. None of the City, the Financial Advisor, the Underwriters or initial purchasers of the Bonds or Bond Counsel is responsible to pay or reimburse the costs of any Bond owner with respect to any audit or litigation relating to the Bonds.

Original Issue Discount

The Bonds may be offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a bond accrues periodically over the term of the bond as interest. The amount of original issue discount deemed received by the holder is excludable from gross income of the holder for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The accrual of original issue discount increases the holder's tax basis in the bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders of Bonds offered at an original issue discount should consult their tax advisors for an explanation of the accrual rules.

Original Issue Premium

The Bonds may be offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a bond through reductions in the holders' tax basis in the bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the bond rather than creating a deductible expense or loss. Holders of Bonds offered at an original issue premium should consult their tax advisors for an explanation of the amortization rules.

CONTINUING DISCLOSURE

The City will enter into an undertaking (the "Undertaking"), a form of which is attached hereto as Appendix C, for the benefit of the holders of the Bonds to provide certain financial information and operating data and to provide notice of certain events, pursuant to the requirements of section (b)(5)(i) of Rule 15c2-12 of the United States Securities and Exchange Commission (17 C.F.R. § 240.15c2-12). A failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Bond Ordinance.

The City has previously entered into continuing disclosure undertakings in accordance with Rule 15c2-12 with respect to its Gross Receipts Tax Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), its Water and Wastewater System Revenue Bonds, Series 2010 (the "Series 2010 Bonds"), its Gross Receipts Tax Revenue Bonds, Series 2015 (the "Series 2015 Bonds") and its Gross Receipts Tax Revenue Bonds, Series 2018 (the "Series 2018 Bonds"). The continuing disclosure undertakings entered into by the City with respect to the Series 2009 Bonds, the Series 2010 Bonds, the Series 2015 Bonds and the Series 2018 Bonds require the City to provide certain annual financial information and operating data by March 31 of each year, and to provide timely notice of certain enumerated events. The description of the continuing disclosure undertaking in the Official Statement for the Series 2010 Bonds indicated that "Annual Financial Information" included information of the type set forth under the headings "THE NET REVENUES," "THE SYSTEM," "INFORMATION CONCERNING THE MUNICIPAL GROSS RECEIPTS TAX AND REVENUES," AND "HISTORICAL GENERAL FINANCIAL INFORMATION FOR THE CITY." The continuing disclosure undertaking for the Series 2010 Bonds defines "Annual Financial Information" to include information of the type set forth under the headings "THE NET REVENUES" and "INFORMATION CONCERNING THE MUNICIPAL GROSS RECEIPTS TAX AND REVENUES." For fiscal years ending June 30, 2015 and June 30, 2016, the City omitted wastewater rates from its filings of annual financial information and operating data. Except as indicated in this paragraph, the City has been in material compliance with the requirements of outstanding continuing disclosure agreements entered into in connection with bonds issued by the City over the past five years.

UNDERWRITING

Robert W. Baird & Co., Incorporated and Stifel, Nicolaus & Company, Incorporated (the "Underwriters") have agreed to purchase the Bonds from the City pursuant to a Bond Purchase Agreement dated April __, 2019 (the "Bond Purchase Agreement"), at a price of $______________ being the principal amount of the Bonds less an underwriting discount of $______________[plus a net reoffering premium of $____________]. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

RATINGS

The Bonds have been assigned an underlying rating of "AA-" from S&P. An explanation of the significance of such rating may be obtained from S&P. Such rating reflects only the views of S&P, and is not a recommendation to buy, sell or hold the Bonds and there is no assurance that the rating will not be revised downward or withdrawn entirely by the rating agency, if, in such rating agency's judgment, circumstances so warrant. Any downward revision or withdrawal of such rating may have an effect on the market price or marketability of the Bonds.

CITY APPROVAL

This Official Statement and its distribution and use by the Underwriters have been authorized and approved by the City and has been executed and delivered by the Mayor on behalf of the City. As of the date hereof, to my knowledge and belief, this Official Statement is true, complete and correct in all material respects, and does not include any untrue statements of material facts or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

CITY OF ARTESIA, NEW MEXICO

By: ____________________________________
Mayor

APPENDIX A

FORM OF LEGAL OPINION

_____________, 2019

City of Artesia
Artesia, New Mexico

Re: $____________ City of Artesia, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 2019

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Artesia (the “City”), New Mexico (the “State”), in connection with the issuance of its “City of Artesia, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 2019” (herein the “Bonds”), in the aggregate principal amount of $___________ pursuant to Ordinance No. ____ adopted and approved on March 12, 2019 (the “Bond Ordinance”). The Bonds are issued pursuant to the Bond Ordinance and except as otherwise expressly defined herein, capitalized terms herein have the same meanings ascribed to such terms in the Bond Ordinance.

We have examined the laws of the State and the United States of America relevant to the opinions herein, and other proceedings and documents relevant to the issuance by the City of the Bonds. As to the questions of fact material to our opinion, we have relied upon representations of the County contained in the certified proceedings and other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon such examination, it is our opinion as Bond Counsel that:

1. The Bonds are valid and binding, special, limited obligations of the City, payable as to principal and interest solely from the Pledged Revenues and from moneys in the Debt Service Fund and Reserve Fund which are pledged therefor under the Bond Ordinance (provided that the Reserve Fund is to be funded only upon the occurrence of the event provided in and subject to the provisions of the Bond Ordinance).

2. The Bond Ordinance creates a valid lien on the Pledged Revenues pledged therein for the security of the Bonds on parity with additional Parity Obligations (if any) to be issued hereafter and also creates a valid lien on the Debt Service Fund and the Reserve Fund.

3. Under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes. We are also of the opinion that interest on the Bonds is not a specific preference item for purposes of calculating the alternative minimum tax imposed on individuals under provisions contained in the Internal Revenue Code of 1986, as amended (the “Code”). Although we are of the opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient’s particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

4. The Bonds and the income from the Bonds are exempt from all taxation by the State or any political subdivision of the State.

The opinion set forth above in paragraph 3 is subject to continuing compliance by the City with covenants regarding federal tax law contained in the proceedings and other documents relevant to the issuance by the City of the Bonds. Failure to comply with these covenants may result in interest on the Bonds being included in gross income retroactive to their date of issuance.

The opinions expressed herein are based upon existing legislation as of the date of issuance and delivery of the Bonds, and we express no opinion as of any date subsequent thereto or with respect to any pending legislation. Our engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this opinion.

The obligations of the City related to the Bonds are subject to the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State and to the exercise by the United States of the powers (including bankruptcy powers) delegated to it by the United States Constitution. The obligations of the City and the security provided therefore, as contained in the Bond Ordinance, may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors rights generally, now or hereafter in effect.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result.

We are passing upon only those matters set forth in this opinion and are not passing upon the accuracy or completeness of any statement made in connection with any sale of the Bonds or upon any tax consequences arising from the receipt or accrual of interest on, or the ownership of, the Bonds except those specifically addressed in paragraphs 3 and 4 above.

Respectfully submitted,

APPENDIX B

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The City has not requested the consent of Griego Professional Services, LLC, which performed the audit of the City's Financial Statements, to the inclusion of the audit report and excerpts thereof in this Official Statement, and the auditor has not conducted a post-audit review of those Financial Statements.

STATE OF NEW MEXICO
CITY OF ARTESIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

GPS Griego Professional Services, LLC
Certified Public Accountants

INTRODUCTORY SECTION

STATE OF NEW MEXICO
CITY OF ARTESIA

Official Roster
June 30, 2018

City Council

Raye Miller	Mayor
Manuel Madrid Jr.	City Councilor, District 1
Raul Rodriguez	City Councilor, District 1
Luis Florez	City Councilor, District 2
George G. Mullen	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, 2018
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FINANCIAL SECTION

GPS 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, 2018, 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 out 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, 2018, 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 10, 2018 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

Griego Professional Services, LLC

Albuquerque, New Mexico
December 10, 2018

BASIC

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF ARTESIA
STATEMENT OF NET POSITION
JUNE 30, 2018

Exhibit A-1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 10,834,830	$ 10,518,113	$ 21,352,943
Short term investments	12,736,760	1,461,525	14,198,285
Receivables			
Other taxes	11,031	-	11,031
Intergovernmental	4,578	-	4,578
Other accounts receivable	1,272,303	508,906	1,781,209
Inventory	-	126,545	126,545
Internal balances	1,757	(1,757)	-
Restricted cash and equivalents	1,087,951	-	1,087,951
Capital assets	99,071,607	76,299,952	175,371,559
Less: accumulated depreciation	(40,648,184)	(35,048,414)	(75,696,598)
Total Assets	84,372,633	53,864,870	138,237,503
Deferred Outflow of Resources			
Related to Pensions	2,716,367	281,981	2,998,348

STATE OF NEW MEXICO
CITY OF ARTESIA
STATEMENT OF NET POSITION
JUNE 30, 2018

Exhibit A-1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Accounts payable	$ 970,010	$ 2,011	$ 972,021
Accrued payroll liabilities	306,087	40,006	346,093
Customer deposits payable	-	-	-
Other accrued liabilities	529	119,364	119,893
Accrued interest payable	82,910	-	82,910
Current portion of accrued compensated absences	286,858	41,733	328,591
Current portion of long term obligatons	2,145,000	-	2,145,000
Noncurrent Liabilities:			
Net Pension Liability	12,797,863	1,377,891	14,175,754
Bonds and Notes Payable	25,335,000	-	25,335,000
Notes & Capital Leases Payable	-	-	-
Landfill liability	-	11,345	11,345
Total Liabilities	41,924,257	1,592,350	43,516,607
Deferred Inflow of Resources			
Related to Pensions	2,229,317	134,975	2,364,292
Net Position			
Net investment in capital assets	30,943,423	41,240,193	72,183,616
Restricted for:			
Debt service	3,460,337	-	3,460,337
Capital projects	1,946,387	-	1,946,387
Special revenue funds/other purposes	5,212,003	-	5,212,003
Unrestricted	1,373,276	11,179,333	12,552,609
Total Net Position	42,935,426	52,419,526	95,354,952

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
CITY OF ARTESIA
STATEMENT OF ACTIVITIES
JUNE 30, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government				
Governmental Activities:				
General government	$ 6,220,132	$ 786,857	$ 93,804	$ -
Public safety	8,556,229	502,227	259,365	-
Culture and recreation	2,881,216	37,350	18,270	-
Health and welfare	496,424	-	-	-
Public works	7,221,920	-	-	358,484
Interest on long-term debt	1,087,724	-	-	-
Total governmental activities	26,463,645	1,326,434	371,439	358,484
Business-type activities				
Airport	705,035	324,274	-	6,916,577
Water	3,258,343	2,369,254	-	14,375
Solid Waste	1,702,697	1,809,867	-	-
Cemetary	63,002	69,326	-	-
Waste Water	1,849,713	1,570,171	-	-
Total business-type activities	7,578,790	6,142,892	-	6,930,952
Total primary government	34,042,435	7,469,326	371,439	7,289,436

General Revenues:
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

Net position - beginning of year

Total net position - end of year

Exhibit A-2

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$ (5,339,471)	$ -	$ (5,339,471)
(7,794,637)	-	(7,794,637)
(2,825,596)	-	(2,825,596)
(496,424)	-	(496,424)
(6,863,436)	-	(6,863,436)
(1,087,724)	-	(1,087,724)
(24,407,288)	-	(24,407,288)
-	6,535,816	6,535,816
-	(874,714)	(874,714)
-	107,170	107,170
-	6,324	6,324
-	(279,542)	(279,542)
-	5,495,054	5,495,054
		(18,912,234)
20,822,352	120,028	20,942,380
1,585,121	189,487	1,774,608
52,970	43,755	96,725
885,949	(885,949)	-
-	(358,837)	(358,837)
302,186	140,656	442,842
23,648,578	(750,860)	22,897,718
(758,710)	4,744,194	3,985,484
43,694,136	47,675,332	91,369,468
$ 42,935,426	$ 52,419,526	$ 95,354,952

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
CITY OF ARTESIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	MGRT Infrastucture Fund	Capital Projects Fund
Assets			
Current:			
Cash and cash equivalents	$ 4,471,674	$ 2,339,113	$ 2,078,705
Short term investments	11,500,000	-	-
Accounts receivable			
Taxes	1,255,371	-	-
Intergovernmental	4,578	-	-
Miscellaneous	-	-	-
Interfund receivable	11,406	-	-
Total assets	$ 17,243,029	$ 2,339,113	$ 2,078,705
Liabilities and fund balances			
Liabilities			
Accounts payable	$ 792,179	$ -	$ 132,315
Accrued payroll liabilities	306,087	-	-
Customer deposits payable	-	-	-
Other accrued liabilities	529	-	-
Interfund payable	-	-	-
Deferred Revenue	-	-	-
Total liabilities	1,098,795	-	132,315
Fund balances			
Nonspendable	-	-	-
Restricted	-	2,339,113	1,946,390
Committed	1,447,229	-	-
Assigned	-	-	-
Unassigned	14,697,005	-	-
Total fund balances	16,144,234	2,339,113	1,946,390
Total liabilities and fund balances	$ 17,243,029	$ 2,339,113	$ 2,078,705

Debt Service Fund	Other Governmental Funds	Total
$ 1,369,536	$ 1,849,753	$ 12,108,781
-	1,050,760	12,550,760
-	-	1,255,371
-	-	4,578
424	27,539	27,963
-	-	11,406
$ 1,369,960	$ 2,928,052	$ 25,958,859
$ -	$ 45,516	$ 970,010
-	-	306,087
-	-	-
-	-	529
-	9,649	9,649
-	-	-
-	55,165	1,286,275
-	-	-
1,369,960	2,923,583	8,579,046
-	-	1,447,229
-	-	-
-	(50,696)	14,646,309
1,369,960	2,872,887	24,672,584
$ 1,369,960	$ 2,928,052	$ 25,958,859

STATE OF NEW MEXICO
CITY OF ARTESIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

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

Fund balances - total governmental funds	$	24,672,584
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		58,423,423
Deferred outflows and inflows of resources related to pensions are		
Deferred outflow of resources		2,716,367
Deferred inflow of resources		(2,229,317)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:		
Accrued interest		(82,910)
Current portion of accrued compensate absenses		(286,858)
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		(12,797,863)
Bonds payable		(27,480,000)
Net positon-Governmental Activities	$	42,935,426

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, 2018

	General Fund	MGRT Infrastucture Fund	Capital Projects Fund
Revenues:			
Property taxes	$ -	$ -	$ -
Gross receipts taxes	16,724,344	2,600,765	1,125,705
Other taxes	694,249	-	-
State grants	111,705	358,484	-
Federal grants	-	-	-
Licenses and fees	345,259	-	-
Charges for services	824,846	-	-
Investment income	25,364	3,076	21,839
Miscellaneous	302,186	-	-
Total Revenues	19,027,953	2,962,325	1,147,544
Expenditures:			
Current:			
General Government	3,427,294	-	-
Public safety	8,993,907	-	-
Culture and recreation	1,299,008	-	-
Health and welfare	496,424	-	-
Public works	3,156,409	-	-
Capital Outlay	661	-	6,425,770
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
Total Expenditures	17,373,703	-	6,425,770
Excess (deficiency) of revenues over expenditures	1,654,250	2,962,325	(5,278,226)
Other financing sources (uses)			
Operating transfers in	172,233	-	7,234,924
Operating transfers (out)	(2,908,578)	(4,066,585)	(1,636,033)
Total other financing sources (uses)	(2,736,345)	(4,066,585)	5,598,891
Excess (deficiency) of revenues and other sources (uses) over expenditures	(1,082,095)	(1,104,260)	320,665
Fund balance - beginning of year	17,226,329	3,443,373	1,625,725
Prior period adjustment	-	-	-
Fund balance - beginning of year(restated)	17,226,329	3,443,373	1,625,725
Fund balance - end of year	$ 16,144,234	$ 2,339,113	$ 1,946,390

The accompanying notes are an integral part of these financial statements

Debt Service Fund	Other Governmental Funds	Total
$ -	$ -	$ -
-	371,538	20,822,352
-	890,872	1,585,121
-	259,734	729,923
-	-	-
-	13,215	358,474
6,960	136,154	967,960
322	2,369	52,970
-	-	302,186
7,282	1,673,882	24,818,986
-	777,928	4,205,222
-	229,969	9,223,876
-	-	1,299,008
-	-	496,424
-	-	3,156,409
-	63,422	6,489,853
2,085,000	-	2,085,000
1,093,101	-	1,093,101
-	-	-
3,178,101	1,071,319	28,048,893
(3,170,819)	602,563	(3,229,907)
3,178,102	564,932	11,150,191
-	(1,653,046)	(10,264,242)
3,178,102	(1,088,114)	885,949
7,283	(485,551)	(2,343,958)
1,362,677	3,358,438	27,016,542
-	-	-
1,362,677	3,358,438	27,016,542
$ 1,369,960	$ 2,872,887	$ 24,672,584

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
CITY OF ARTESIA
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, 2018

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

Net change in fund balances - total governmental funds	$ (2,343,958)
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	3,628,055
Depreciation expense	(3,248,887)
Loss on disposal of assets	(358,837)
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	(520,083)
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 govermental 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	2,085,000
Change in net position of governmental activities	$ (758,710)

The accompanying notes are an integral part of these financial statements

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, 2018

	Budgeted Amounts			Variance with Final Budget-
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes	$ 13,822,550	$ 17,353,103	$ 17,445,609	$ (92,506)
Intergovernmental	544,828	616,410	107,127	509,283
Licenses and fees	540,052	634,866	358,670	276,196
Charges for services	1,085,600	1,075,454	801,712	273,742
Investment income	20,000	30,248	25,364	4,884
Miscellaneous	73,700	211,248	302,195	(90,947)
Total revenues	16,086,730	19,921,329	19,040,677	880,652
Expenditures:				
Current				
General Government	3,908,929	4,103,807	3,000,202	1,103,605
Public safety	11,514,016	9,635,741	8,937,550	698,191
Culture and recreation	1,365,476	1,386,276	1,291,543	94,733
Health and welfare	489,943	489,943	497,730	(7,787)
Public works	3,343,373	3,379,373	3,030,849	348,524
Education	-	-	-	-
Capital outlay	-	-	661	(661)
Debt service				-
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Total expenditures	20,621,737	18,995,140	16,758,535	2,236,605
Excess (deficiency) of revenues over expenditures	(4,535,007)	926,189	2,282,142	1,355,953
Other financing sources (uses):				
Operating transfers in	368,216	184,108	172,233	(11,875)
Operating transfers (out)	(5,610,880)	(3,948,037)	(2,908,578)	1,039,459
Bond proceeds	-	-	-	-
Designated cash (budgeted increase in cash)	9,777,671	2,837,740	-	(2,837,740)
Total other financing sources (uses)	4,535,007	(926,189)	(2,736,345)	(1,810,156)
Net change in fund balances	-	-	(454,203)	(454,203)
Fund balances - beginning of year	-	-	16,425,877	16,425,877
Fund balances - end of year	$ -	$ -	$ 15,971,674	$ 15,971,674

Reconciliation to GAAP Basis:	
Revenue accruals	(12,724)
Expenditure accruals	(615,168)
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)	$ (1,082,095)

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, 2018

	Budgeted Amounts			Variance with Final Budget-
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes	$ 1,954,620	$ 2,592,991	$ 2,600,765	$ 7,774
Intergovernmental	797,000	797,000	358,484	(438,516)
Licenses and fees	-	-	-	-
Charges for services	-	-	-	-
Investment income	-	-	3,075	3,075
Miscellaneous	-	-	-	-
Total revenues	2,751,620	3,389,991	2,962,324	(427,667)
Expenditures:				
Current				
General Government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Public works	-	-	-	-
Education	-	-	-	-
Capital outlay	-	-	-	-
Debt service				-
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	2,751,620	3,389,991	2,962,324	(427,667)
Other financing sources (uses):				
Operating transfers in	(7,114,833)	(7,348,483)	(4,066,585)	3,281,898
Operating transfers (out)	-	-	-	-
Bond proceeds	-	-	-	-
Designated cash (budgeted increase in cash)	4,363,213	3,958,492	-	(3,958,492)
Total other financing sources (uses)	(2,751,620)	(3,389,991)	(4,066,585)	(676,594)
Net change in fund balances	-	-	(1,104,261)	(1,104,261)
Fund balances - beginning of year	-	-	3,443,374	3,443,374
Fund balances - end of year	$ -	$ -	$ 2,339,113	$ 2,339,113

Reconciliation to GAAP Basis:	
Revenue accruals	1
Expenditure accruals	-
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)	$ (1,104,260)

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, 2018

Assets	Airport	Water
Cash and investments	$ 91	$ 2,994,555
Receivables		
Taxes	-	-
Customers (net of allowance for uncollectibles)	-	171,409
Interfund receivables	-	(12,181)
Inventory	126,545	-
Prepaid insurance	-	-
Total current assets	126,636	3,153,783
Capital assets	13,145,143	23,684,789
Less: accumulated depreciation	(4,246,599)	(8,751,506)
Total noncurrent assets	8,898,544	14,933,283
Total assets	$ 9,025,180	$ 18,087,066
Deferred Outflow of Resources		
Related to Pensions	$ 21,201	$ 133,574
Liabilities		
Current Liabilities:		
Accounts payable	$ 1,631	$ 380
Accrued payroll liabilities	9,902	16,149
Other accrued liabilities	-	105,540
Current portion of accrued compensated absences	3,854	16,501
Total current liabilities	15,387	138,570
Noncurrent Liabilities:		
Pension Liability	103,598	652,707
Noncurrent portion of landfill liability	-	-
Total non-current liabilities	103,598	652,707
Total liabilities	118,985	791,277
Deferred Inflow of Resources		
Related to Pensions	$ 10,148	$ 63,938
Net Position		
Net investment in capital assets	8,794,946	14,280,576
Restricted	-	-
Unrestricted	122,302	3,084,849
Total net position	8,917,248	17,365,425

The accompanying notes are an integral part of these financial statements

Solid Waste	Waste Water	Cemetary	Total
$ 3,425,207	$ 5,040,010	$ 519,775	$ 11,979,638
-	-	-	-
204,191	118,254	15,052	508,906
10,424	-	-	(1,757)
-	-	-	126,545
-	-	-	-
3,639,822	5,158,264	534,827	12,613,332
5,406,926	33,287,090	776,004	76,299,952
(3,600,895)	(18,147,726)	(301,688)	(35,048,414)
1,806,031	15,139,364	474,316	41,251,538
$ 5,445,853	$ 20,297,628	$ 1,009,143	$ 53,864,870
$ 76,089	$ 51,117	$ -	$ 281,981
$ -	$ -	$ -	$ 2,011
19,749	7,915	115	53,830
-	-	-	105,540
10,238	11,140	-	41,733
29,987	19,055	115	203,114
371,805	249,781	-	1,377,891
11,345	-	-	11,345
383,150	249,781	-	1,389,236
413,137	268,836	115	1,592,350
$ 36,421	$ 24,468	$ -	$ 134,975
1,806,031	15,139,364	474,316	40,495,233
-	-	-	-
3,266,353	4,916,077	534,712	11,924,293
5,072,384	20,055,441	1,009,028	52,419,526

STATE OF NEW MEXICO

CITY OF ARTESIA

STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Airport	Water
Operating revenues:		
Charges for services	$ 324,274	$ 2,369,254
Total operating revenues	324,274	2,369,254
Operating expenses:		
Personnel services	216,276	1,143,571
Contractual services	-	40,936
Supplies and purchased power	217,414	264,234
Maintenance and materials	53,328	111,163
Utilities	9,935	296,177
Depreciation	169,091	1,110,197
Miscellaneous	38,991	292,065
Total operating expenses	705,035	3,258,343
Operating income (loss)	(380,761)	(889,089)
Non-operating revenues (expenses):		
Taxes	-	-
Interest income	-	31,114
Loss on disposal of assets	-	(358,837)
Grant revenue	6,916,577	14,375
Miscellaneous	-	-
Total non-operating revenues	6,916,577	(313,348)
Transfers in	653,511	867,215
Transfers (out)	(2,405,654)	-
Total transfers	(1,752,143)	867,215
Net Income	4,783,673	(335,222)
Total net position - beginning	4,133,575	17,700,647
Total net position - ending	$ 8,917,248	$ 17,365,425

The accompanying notes are an integral part of these financial statements

Solid Waste	Waste Water	Cemetary	Total
$ 1,809,867	$ 1,570,171	$ 69,326	$ 6,142,892
1,809,867	1,570,171	69,326	6,142,892
594,671	371,114	-	2,325,632
108,138	32,642	-	181,716
98,544	50,531	3,901	634,624
541,501	244,193	15,015	965,200
2,098	141,757	7,732	457,699
175,656	944,153	34,664	2,433,761
182,089	65,323	1,690	580,158
1,702,697	1,849,713	63,002	7,578,790
107,170	(279,542)	6,324	(1,435,898)
120,028	189,487	-	309,515
5,126	7,138	377	43,755
-	-	-	(358,837)
-	-	-	6,930,952
140,656	-	-	140,656
265,810	196,625	377	7,066,041
3,530	-	-	1,524,256
(1,990)	(2,561)	-	(2,410,205)
1,540	(2,561)	-	(885,949)
374,520	(85,478)	6,701	4,744,194
4,697,864	20,140,919	1,002,327	47,675,332
$ 5,072,384	$ 20,055,441	$ 1,009,028	$ 52,419,526

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, 2018

	Enterprise Funds	
	Airport Enterprise Fund	Water Enterprise Fund
Cash Flows From Operating Activities:		
Cash received from customers	$ 348,948	$ 2,728,587
Cash paid to suppliers and employees	(530,769)	(2,102,648)
Net Cash (Used) by Operating Activities	(181,821)	625,939
Cash Flows From Non-Capital Financing Activities		
Operating transfers	(1,752,143)	867,215
Gross receipts tax		-
Grant income	6,916,577	14,375
Interest expense	-	-
Miscellaneous income	-	-
Net Cash (Used) by Non-Capital Financing Activities	5,164,434	881,590
Cash Flows From Capital Financing Activities		
(Purchase)/transfer of capital assets	(4,983,326)	(748,386)
Principal paid on capital debt	-	-
Loss on sale of capital assets	-	(358,837)
Interest paid on capital debt	-	-
Net Cash (Used) by Capital Financing Activities	(4,983,326)	(1,107,223)
Cash Flows From Investing Activities:		
Interest income	-	31,114
Net Cash (Used) by Investing Activities	-	31,114
Net Increase/(Decrease) in Cash and Cash Equivalents	(713)	431,420
Cash and Cash Equivalents, Beginning of Year	804	2,563,135
Cash and Cash Equivalents, End of Year	$ 91	$ 2,994,555
Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities:		
Operating income (loss)	$ (380,761)	$ (889,089)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation	169,091	1,110,197
(Increase)/decrease in accounts receivable	24,674	347,152
(Increase)/decrease in interfund balances	(1)	12,181
(Increase)/decrease in inflows	8,334	51,523
Increase/(decrease) in accounts payable	1,631	(25,892)
Increase/(decrease) in accrued liabilities	(1,584)	(15,309)
Increase/(decrease) deferred outflows	(14,612)	111,064
Increase/(decrease) in pension liability	81,223	(71,929)
Increase/(decrease) in accrued compensated absences	(69,816)	(3,959)
Net Cash (Used) by Operating Activities	$ (181,821)	$ 625,939

Summary of Significant Noncash Activities:

No significant noncash transactions.

Soild Waste Enterprise Fund	Waste Water Enterprise Fund	Cemetary Fund	Total
Enterprise Funds			
$ 1,969,501	$ 1,630,674	$ 64,075	$ 6,741,785
(1,530,277)	(914,412)	(32,016)	(5,110,122)
439,224	716,262	32,059	1,631,663
1,540	(2,561)	-	(885,949)
120,028	189,487	-	309,515
-	-	-	6,930,952
-	-	-	-
140,656	-	-	140,656
262,224	186,926	-	6,495,174
(342,767)	(212,611)	(16,517)	(6,303,607)
(13,647)	-	-	(13,647)
-	-	-	(358,837)
-	-	-	-
(356,414)	(212,611)	(16,517)	(6,659,574)
5,126	7,138	377	43,755
5,126	7,138	377	43,378
350,160	697,715	15,919	1,510,641
3,075,047	4,342,295	503,856	10,485,137
$ 3,425,207	$ 5,040,010	$ 519,775	$ 11,979,638
$ 107,170	$ (279,542)	6,324	(1,435,898)
175,656	944,153	34,664	2,433,761
159,634	60,503	(5,251)	586,712
(10,424)	-	-	1,756
79,175	61,825	-	200,857
(7,239)	-	-	(31,500)
(2,735)	(1,980)	(3,678)	(25,286)
28,542	18,736	-	143,730
(88,098)	(84,760)	-	(163,564)
(2,457)	(2,673)	-	(78,905)
$ 439,224	$ 716,262	$ 32,059	$ 1,631,663

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

STATE OF NEW MEXICO Exhibit E-1
CITY OF ARTESIA
AGENCY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	Agency Funds
ASSETS	
Current Assets	
Cash and short-term investments	2,371,909
Investments	910,572
Interest receivable	1,051
Total assets	3,283,532
LIABILITIES	
Current Liabilities	
Deposits held in trust for others	3,283,532
Total liabilities	$ 3,283,532

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

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, 2018, 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, 2018.

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.

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, 2018 year end and a portion is effective for June 30, 2018 year end. Effective for June 30, 2018 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, 2018 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, 2018. 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, 2018, 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.

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.

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.

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 G*eneral 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.

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 giver 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.

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:

Assets	Years
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, 2018, 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

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.

Employment Duration	Regular Employees	Fire Employees
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.

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

Nonspendable Fund Balance: At June 30, 2018, the City of Artesia did not have any nonspendable fund balance.
Restricted and Committed Fund Balance: At June 30, 2018, the City has presented restricted fund balance on the governmental funds balance sheet in the amount of $6,599,937 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 that 8.33% or 1/12th to be cause for concern, barring unusual or deliberate circumstances. This equals $1,447,229 as a committed balance at June 30, 2018.

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.

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, 2018 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.

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, 2018.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. 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, 2018, $39,423,376, of the City's bank balances of $40,173,376 was exposed to custodial credit risk, $18,226,637 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.

NOTE 3. Deposits & Investments (Continued)

Cash & Cash Equivalents (Continued)

	First America Bank	Western Bank	Total
Amount of deposits	$ 39,490,522	$ 682,854	$ 40,173,376
FDIC Coverage	(500,000)	(250,000)	(750,000)
Total uninsured public funds	38,990,522	432,854	39,423,376
Collateralized by securities held by pledging institutions or by its trust department or agent in other that the City's name	20,528,963	667,776	21,196,739
Uninsured and unallocated	$ 18,461,559	$ (234,922)	$ 18,226,637
Collateral requirement (50% of uninsured funds)	$ 19,495,261	$ 216,427	$ 19,711,688
Pledged Collateral	20,528,963	667,776	21,196,739
Over (Under) collateralized	$ 1,033,702	$ 451,349	$ 1,485,051

Investments

The City's investments at June 30, 2018 include the following:

Investments	Rating	Western Average Maturity	Fair Value
US Treasury Money Market Mutual Funds	AA+	>90 Days	$ 910,572
			$ 910,572

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, 2018, 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).

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 $910,572.

NOTE 4. Receivables

Receivables as of June 30, 2018, are as follows:

	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total
Taxes	10,770	-	-	10,770
Intergovernmental	4,578	-	-	4,578
Miscellaneous	1,244,601	424	27,539	1,272,564
Net Receivables	$ 1,259,949	$ 424	$ 27,539	$ 1,287,912

The above receivables are deemed 100% collectable.

Proprietary fund receivables as of June 30, 2018 are as follows:

	Airport	Water	Solid Waste	Waste Water	Cemetary
Taxes	$ -	$ -	$ -	$ -	$ -
Customer Receivables	-	222,136	249,365	143,765	15,052
Allowance for doubtful accounts	-	(51,466)	(45,174)	(25,511)	-
Net Receivables	$ -	$ 171,409	$ 204,191	$ 118,254	$ 15,052

	Total
Taxes	$ -
Customer Receivables	630,318
Allowance for doubtful accounts	(122,151)
Net Receivables	$ 508,167

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, 2018 is as follows:

	Due to Other Funds	Due from Other Funds
Major Funds		
General Fund	$ —	$ 11,406
Water Fund	—	10,424
Solid Waste Fund	12,181	—
Nonmajor Funds		
Commission on Aging Fund	5,384	—
RSVP Program Fund	4,265	—
Total	$ 21,830	$ 21,830

All interfund balances are short-term in nature.

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

Transfers from the General Fund to:	
Airport Fund	$ 653,510
Capital Projects Fund	945,215
Debt Service	1,309,853
Total transfers from the General Fund	$ 2,908,578
Transfers from MGRT Infrastructure Fund:	
General Fund	$ 172,233
Debt Service Fund	1,099,431
Capital Projects Fund	2,794,921
Total transfers from the MGRT Infrastructure Fund	$ 4,066,585
Transfers from Capital Projects Fund to:	
Water Fund	$ 867,215
Debt Service Fund	768,818
Total transfers from the Capital Projects Fund	$ 1,636,033
Transfers to Debt Service Fund from:	
General Fund	$ 1,309,853
MGRT Infrastructure	972,363
Capital Projects Fund	895,886
Total transfers from the Debt Service Fund	$ 3,178,102
Transfers from non-major funds to:	
Lodger’s Tax to Lodger’s Tax Promotional Fund	$ 564,932
Capital Projects Fund	1,088,114
Total transfers from non-major funds	$ 1,653,046
Transfers to non-major funds from:	
Lodger’s Tax Promotional Fund to Lodger’s Tax	$ 564,932
Total transfers from non-major funds	$ 564,932
Transfers to the Water Fund from:	
General Fund	$ 37,256
Capital Projects Fund	829,959
Total transfers from the Water Fund	$ 867,215
Transfers from the Waste Water Fund to:	
General Fund	$ (2,561)
Total transfers from the Waste Water Fund	$ (2,561)

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

Transfers (to) from the Solid Waste Fund:	
Wastewater Fund	$ 2,560
Capital Projects Fund	(1,020)
Total transfers from the Solid Waste Fund	$ 1,540
Transfers to (from) the Airport Fund:	
General Fund	$ 653,511
Capital Projects Fund	(2,405,654)
Total transfers from the Airport Fund	$ (1,752,143)

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows. Land and construction in progress are not subject to depreciation.

Capital Assets used in Governmental Activities:	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets not depreciated					
Land	$ 1,843,142	$ 102,000	$ —	$ —	$ 1,945,142
Construction in Progress	5,742,167	—	(1,463,645)	—	4,278,522
Total not being depreciated	$ 7,585,309	$ 102,000	$ (1,463,645)	$ —	$ 6,223,664
Capital assets being depreciated					
Buildings	$ 34,632,155	$ —	$ —	$ —	$ 34,632,155
Improvements	8,587,346	258,254	—	—	8,845,600
Infrastructure	34,725,583	3,873,417	—	—	38,599,000
Equipment	10,069,653	858,029	(119,238)	(37,256)	10,771,188
Total being depreciated	$ 88,014,737	$ 4,989,700	$ (119,238)	$ (37,256)	$ 92,847,943
Total capital assets	$ 92,958,785	$ 5,091,700	$ (1,582,883)	$ (37,256)	$ 99,071,607
Less accumulated depreciation					
Buildings	$ 7,444,976	$ 910,582	$ —	$ —	$ 8,355,558
Improvements	3,193,539	467,100	—	—	3,660,639
Infrastructure	19,681,791	1,069,570	—	—	20,751,361
Equipment	7,235,485	801,635	(119,238)	(37,256)	7,880,626
Total accumulated depreciation	$ 37,555,791	$ 3,248,887	$ (119,238)	$ (37,256)	$ 40,648,184
Net capital assets	$ 58,044,255	$ 1,842,813	$ (1,463,645)	$ —	$ 58,423,423

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

General Government	$ 1,130,613
Public Safety	84,471
Public Works	451,595
Culture and Recreation	1,582,208
Total	$ 3,248,887

NOTE 6. Capital Assets (Continued)

Capital Assets used in Business-Type Activities:	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets not depreciated					
Land	$ 165,622	$ 81,380	—	$ —	$ 247,002
Construction in Progress	2,110,475	—	(2,110,475)	—	—
Total not being depreciated	$ 2,276,097	$ 81,380	$ (2,110,475)	$ —	$ 247,002
Capital assets being depreciated					
Buildings	$ 742,543	$ —	$ —	$ —	$ 742,543
Improvements	1,498,806	—	—	—	1,498,806
Utility System	54,489,769	998,779	(112,513)	—	55,376,035
Airport Infrastructure	4,664,200	7,093,801	—	—	11,758,001
Equipment	6,876,721	561,703	(798,115)	37,256	6,677,565
Total being depreciated	$ 68,272,039	$ 8,654,283	$ (910,628)	$ 37,256	$ 76,052,950
Total capital assets	$ 70,548,136	$ 8,735,663	$ (3,021,103)	$ 37,256	$ 76,299,952
Less accumulated depreciation					
Buildings	$ 483,409	$ 13,122	$ —	$ —	$ 496,531
Improvements	183,790	51,768	—	—	235,558
Utility System	24,431,993	1,906,645	(112,513)	—	26,226,125
Airport Infrastructure	3,315,517	144,886	—	—	3,460,403
Equipment	4,751,735	317,340	(476,534)	37,256	4,629,797
Total accumulated depreciation	$ 33,166,444	$ 2,433,761	$ (589,047)	$ 37,256	$ 35,048,414
Net capital assets	$ 37,381,692	$ 6,301,902	$ (2,432,056)	$ —	$ 41,251,538

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

Waste Water	$ 944,153
Solid Waste	175,656
Water	1,110,197
Airport	169,091
Cemetery	34,664
Total	$ 2,433,761

NOTE 7. Long-term Debt

Governmental Activities

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the government-wide Statement of Net Position:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Bonds Payable	$ 29,565,000	$ -	$ 2,085,000	$ 27,480,000	$ 2,145,000
Compensated Absences	355,694	391,667	460,503	286,858	286,858
Total Long-Term Debt	$ 29,920,694	$ 391,667	$ 2,545,503	$ 27,766,858	$ 2,440,694

Interest expense paid on long-term debt for governmental activities totaled $1,087,724 for the year ended June 30, 2018.

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%	$ 8,410,000
Revenue Bonds Series 2013	$ 7,000,000	6/1/2028	2.660%	$ 2,550,000
Revenue Bonds Series 2016	$ 7,000,000	6/1/2030	2.000-3.000%	$ 3,695,000
New Mexico Gross Receipts Tax	$ 20,000,000	6/1/2029	2.750-4.625%	$ 12,825,000

NOTE 7. Long-term Debt (Continued)

The annual requirements to amortize the Bonds as of June 30, 2018, including interest payments, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
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	2,395,000	701,110	3,096,110
2024-2028	13,200,000	2,140,430	15,340,430
2029-2033	2,955,000	126,700	3,081,700
Total	$ 27,480,000	$ 6,529,681	$ 34,009,681

Business-Type Activities

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the proprietary Statement of Net Position:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Bonds Payable	$ —	$ —	$ —	$ —	$ —
Landfill Closure	24,992	—	13,647	11,345	—
Compensated Absences	51,747	56,980	66,994	41,733	41,733
Total Long-Term Debt	$ 76,739	$ 56,980	$ 80,641	$ 53,078	$ 41,733

No interest expense was paid on long-term debt for business-type activities for the year ended June 30, 2018.

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 $11,345 as of June 30, 2018, 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, 2018. 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, 2018, 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.

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, 2018, 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/2017-CAFR_12.22.2017_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 FY17 annual audit report at http://www.nmpera.org/assets/uploads/downloads/comprehensive-annual-financial-reports/2017-CAFR_12.22.2017_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 $507,561 for the year ended June 30, 2018.

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, 2017. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2017, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date 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 preformed 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, 2017. 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 2017 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, 2018, City of Artesia reported a liability of $4,094,772 for its proportionate share of the net pension liability. At June 30, 2018, City of Artesia's proportion was 0.2980 percent, which was an decrease of .0152 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, City of Artesia recognized PERA Fund Municipal General Division pension expense of $507,561. At June 30, 2018, 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:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 160,897	$ 209,722
Changes of assumptions	188,830	42,314
Net difference between projected and actual Earnings on pension plan investments	335,951	-
Changes in proportion and differences between the City's contributions and proportionate Share of contributions	152,305	149,078
City's contributions subsequent to the measurement date	—	—
Total	$ 837,983	$ 401,114

$837,983 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:

NOTE 9. PERA Pension Plan (Continued)

Fiscal Year Ending June 30,		
2019	$	128,217
2020		384,470
2021		22,363
2022		(98,181)
2023		—

For PERA Fund Division Municipal Police Division, at June 30, 2018, the City reported a liability of $4,838,420 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was .8709 percent, which was a decrease of .0515 percent from its proportion measured as of June 30, 2016, due to the insignificance of the difference.

For the year ended June 30, 2018, the City recognized PERA Fund Division Municipal Police Members pension expense of $667,476. 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:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 293,862	$ 904,012
Changes of assumptions	287,870	112,509
Net difference between projected and actual Earnings on pension plan investments	389,668	—
Changes in proportion and differences between the City's contributions and proportionate Share of contributions	277,541	202,957
City's contributions subsequent to the measurement date	—	—
Total	$ 1,248,941	$ 1,219,478

$1,248,941 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 Ending June 30,		
2019	$	54,058
2020		284,610
2021		(195,270)
2022		(113,935)
2023		—

For PERA Fund Division Municipal Fire Division, at June 30, 2018, the City reported a liability of $5,242,561 for its proportionate share of the net pension liability. At June 30, 2017, the City's proportion was .9163 percent, which was an increase of .1227 percent from its proportion measured as of June 30, 2016, due to the insignificance of the difference.

NOTE 9. PERA Pension Plan (Continued)

For the year ended June 30, 2018, the City recognized PERA Fund Division Municipal Fire Members pension expense of $734,421. At June 30, 2018, 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:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 171,180	$ 656,455
Changes of assumptions	207,259	32,868
Net difference between projected and actual Earnings on pension plan investments	196,801	—
Changes in proportion and differences between the City's contributions and proportionate Share of contributions	336,184	54,377
City's contributions subsequent to the measurement date	—	—
Total	$ 911,424	$ 743,700

$911,424 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, 2016. 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 Ending June 30,	
2019	$ 151,093
2020	208,357
2021	(135,026)
2022	(56,700)
2023	—

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:	
Investment rate of return	7.48% annual rate, net of investment expense
Payroll growth	2.25% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	2.75% annual rate

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 7.51 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 7.51% 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 (6.51%) or one percentage point higher (8.51%) than the single discount rate.

Muni General Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City's proportionate share of the net pension liability	$ 6,417,860	$ 4,094,772	$ 2,162,801

Muni Police Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City's proportionate share of the net pension liability	$ 7,715,938	$ 4,838,420	$ 2,476,991

Muni Fire Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
City's proportionate share of the net pension liability	$ 7,026,388	$ 5,242,561	$ 3,772,524

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY17 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, 2018.

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, 2018, 2017, and 2016 were approximately $406,226, $402,366, and $405,233, 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.

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.

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, 2018:

Commission on Aging Fund	$	5,384
RSVP Program Fund		4,265
CDBG Rehab Fund		3
	$	9,652

B. Excess of expenditures over appropriations. No funds exceed approved budgetary authority for the year ended June 30, 2018:

C. Designated cash appropriations. No funds had designated cash appropriations in excess of available balances for the year ended June 30, 2018:

NOTE 15. Subsequent Events

The date to which events occurring after June 30, 2018, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 10, 2018 which is the date on which the financial statements were available to be issued. The City issued a bond in the amount of $6,200,000 for the purpose of defraying the cost of public facility and infrastructure replacement and improvements.

NOTE 16. Joint Powers Agreements and Memorandums of Understanding

<u>Utilization of Sanitary Landfill</u>

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

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 $10,618,726 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 November 2016, GASB Statement No. 83 *Certain Asset Retirement Obligations*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

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

In April 2018, GASB Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

NOTE 18. Subsequent Pronouncements (continued)

In August 2018, GASB Statement No. 90 *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

NOTE 19 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.

NOTE 19 Governmental Fund Balance (Continued)

Detail relating to the fund balance classifications is displayed below:

	General Fund	MGRT Infrastructure Fund	Capital Projects Fund	Debt Service	Other Governmental Funds
Fund balances					
Nonspendable					
Prepaid Items	$ -	$ -	$ -	$ -	$ -
Restricted					
Capital Projects	-	2,339,113	1,946,390	-	-
Debt Service	-		-	1,369,960	-
City Projects	-	-	-	-	753,986
Law Enforcement	-	-	-	-	161,086
Economic Development	-	-	-	-	1,368,358
Emergency Services	-	-	-	-	1
Lodger's Tax	-	-	-	-	349,990
Gas Tax	-	-	-	-	276,961
Forfeitures	-	-	-	-	13,201
Committed	1,447,229	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	14,697,005	-	-	-	(50,697)
Total fund balances	$16,144,234	$2,339,113	1,946,390	1,369,960	$ 2,872,886

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, 2018

	2018 Municipal General	2017 Municipal General	2016 Municipal General	2015 Municipal General	2018 Municipal Police
Proportion of the net pension liability	0.2980%	0.3132%	0.2847%	0.2910%	0.8709%
Proportionate share of the net pension liability	4,094,772	5,003,883	2,902,763	2,270,112	4,838,420
Covered-employee payroll	4,549,841	4,511,965	4,608,441	4,937,428	2,662,296
Proportionate share of the net pension liability (asset) as a percentage of it's covered-employee payroll	90%	111%	63%	46%	182%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%	73.74%

*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	507,561	547,559	614,796	652,306	667,476
Contributions in relation to the contractually required contribution	460,689	547,559	614,796	652,306	553,026
Contribution deficiency (excess)	46,872	-	-	-	114,450
City's covered-employee payroll	4,549,841	4,511,965	4,608,441	4,937,428	2,662,296
Contributions as a percentage of covered-employee payroll	10%	10%	13%	13%	19%

** 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 FY17 audit available at http://www.pera.state.nm.us/pdf/AuditFinancialStatements /366_Public_Employees_Retirement_Association_2017.pdf.

Changes of assumptions. The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2017 report is available at http://www.nmpera.org/assets/uploads/downloads/retirement-fund-valuation-reports/6-30-2017-PERA-Valuation-Report-FINAL.pdf.

Changes in assumption resulted in a decrease of $1.374 trillion to the total pension liability for the PERA Fund and an increase of 0.40% to the funded ratio for the year ended June 30, 2017. See more details of actuarial methods and assumptions on Note 2 on page 33 of PERA's Schedule of Employer Allocations and Pension amounts at http://osanm.org/media/audits/366-B_PERA_Schedule_of_Employer_Allocations_FY2017.pdf

2017 Municipal Police	2016 Municipal Police	2015 Municipal Police	2018 Municipal Fire	2017 Municipal Fire	2016 Municipal Fire	2015 Municipal Fire
0.9224%	0.8197%	0.7967%	0.9163%	0.7936%	0.7936%	0.7955%
6,805,742	3,941,577	2,597,155	5,242,561	6,198,041	4,095,914	3,320,412
2,618,275	2,673,531	2,310,712	1,853,317	1,727,060	1,783,482	1,466,219
260%	147%	112%	283%	359%	230%	226%
69.18%	76.99%	81.29%	73.74%	69.18%	76.99%	81.29%

588,407	582,143	520,607	734,421	368,927	390,701	322,832
588,407	582,143	520,607	373,590	368,927	390,701	322,832
-	-	-	360,831	-	-	-
2,618,275	2,673,531	2,310,712	1,853,317	1,727,060	1,783,482	1,466,219
19%	22%	23%	40%	21%	22%	22%

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

Section 1. Recitals. This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the City Council of the City of Artesia, New Mexico (the "City"), in connection with the issuance of the City of Artesia, New Mexico Gross Receipts Tax Refunding Revenue Bonds, Series 2019 (the "Bonds"). The Bonds are being issued pursuant to City Ordinance No. 1048 adopted by the City Council on March 12, 2019 (the "Bond Ordinance"). Pursuant to the Bond Ordinance, to allow the purchaser of the Bonds to comply with the Rule (defined below), the City is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds (the "Owners"). This Undertaking is intended to satisfy the requirements of the Rule.

Section 2. Definitions.

(a) "Annual Financial Information" means the financial information (which will be based on financial statements prepared in accordance with generally accepted accounting principles, as in effect from time to time ("GAAP"), for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB")) and operating data with respect to the City, delivered at least annually pursuant to Sections 3(a) and 3(b) of this Undertaking, consisting of information of the type set forth under the captions "THE PLEDGED REVENUES" in the Official Statement.

(b) "Audited Financial Statements" means the City's annual financial statements which financial statements have been audited as may then be required or permitted by the laws of the State.

(c) "EMMA" means the MSRB's Electronic Municipal Market Access system located on its website at emma.msrb.org.

(d) "Event Information" means the information delivered pursuant to Section 3(d) of this Undertaking.

(e) "Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided however that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

(f) "MSRB" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, telephone (703) 797-6600, fax (703) 797-6708.

(g) "Official Statement" means the Official Statement dated April __, 2019, delivered in connection with the original issue and sale of the Bonds.

(h) "Report Date" means March 31 of each year, beginning in 2020.

(i) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240, Section 240.15c2-12), as the same may be amended from time to time.

(j) "SEC" means the United States Securities and Exchange Commission.

(k) "State" means the State of New Mexico.

Section 3. Provision of Annual Financial Information and Reporting of Event Information.

(a) The City, or its designated agent, will provide the Annual Financial Information for the preceding fiscal year to EMMA on or before each Report Date while the Bonds are outstanding.

(b) If Audited Financial Statements are not provided as a part of the Annual Financial Information, the City will provide Audited Financial Statements to EMMA when and if available.

(c) The City, or its designated agent, may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the City, which have been submitted to EMMA or filed with the SEC; provided, however, that if the document so referenced is a "final official statement" within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) At any time the Bonds are outstanding and the City obtains knowledge of the occurrence of any of the following events with respect to the Bonds, the City shall file, in a timely manner not in excess of ten (10) business days after the occurrence of the event, a notice of such occurrence with EMMA:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) modifications to rights of Bondholders, if material;

(viii) bond calls, if material, or tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) rating changes on the Bonds;

(xii) bankruptcy, insolvency, receivership or a similar event with respect to the City or an obligated person;

(xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee, or a change of name of a trustee, if material.

(xv) the incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and

(xvi) a default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(e) The City or its designated agent will provide, in a timely manner not in excess of ten (10) business days after the occurrence of the event, to EMMA, notice of any: (i) failure of the City to timely provide the Annual Financial Information as specified in Sections 3(a) and 3(b); (ii) changes in its fiscal year-end; and (iii) amendment of this Undertaking.

Section 4. Method of Transmission. Unless otherwise required by law and subject to technical and economic feasibility, the City, or its designated agent, will employ such methods of electronic or physical information transmission as is requested or recommended from time to time by EMMA, the MSRB and the SEC.

Section 5. Enforcement. The obligations of the City under this Undertaking are for the benefit of the Owners. Each Owner is authorized to take action to seek specific performance by court order to compel the City to comply with its obligations under this Undertaking, which action will be the exclusive remedy available to it or any other Owner. The City's breach of its obligations under this Undertaking will not constitute an event of default under the Bond Ordinance and none of the rights and remedies provided by the Bond Ordinance will be available to the Owners with respect to such a breach.

Section 6. Term. The City's obligations under this Undertaking will be in effect from and after the issuance and delivery of the Bonds and will extend to the earliest of (i) the date all principal and interest on the Bonds has been paid or legally defeased pursuant to the terms of the Bond Ordinance; (ii) the date on which the City is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Undertaking are determined to be invalid or unenforceable by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments. The City may amend this Undertaking from time to time, without the consent of any Owner, upon the City's receipt of an opinion of independent counsel experienced in federal securities laws to the effect that such amendment:

(a) is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the City;

(b) this Undertaking, as amended, would have complied with the Rule at the time of the initial issue and sale of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and

(c) the amendment does not materially impair the interests of the Owners.

Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Beneficiaries. This Undertaking binds and inures to the sole benefit of the City and the Owners and creates no rights in any other person or entity.

Section 9. Requesting Information. Persons seeking to obtain the Annual Financial Information, including the Audited Financial Statements, may obtain such information by contacting the City Clerk/Treasurer at 511 West Texas Avenue, Artesia, New Mexico 88210.

Section 10. Special Funds. This Undertaking is subject to the availability of necessary funds from annual Pledged Revenues (as defined in the Bond Ordinance) and shall not constitute a general obligation of the City.

Section 11. Governing Law. This Undertaking is governed by and is to be construed in accordance with the law of the State.

Date: ___________, 2019

CITY OF ARTESIA, NEW MEXICO

By: ___________________________________
Raye Miller, Mayor