

**CITY OF AZTEC
STATE OF NEW MEXICO
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
Year Ended June 30, 2010**

INTRODUCTORY SECTION

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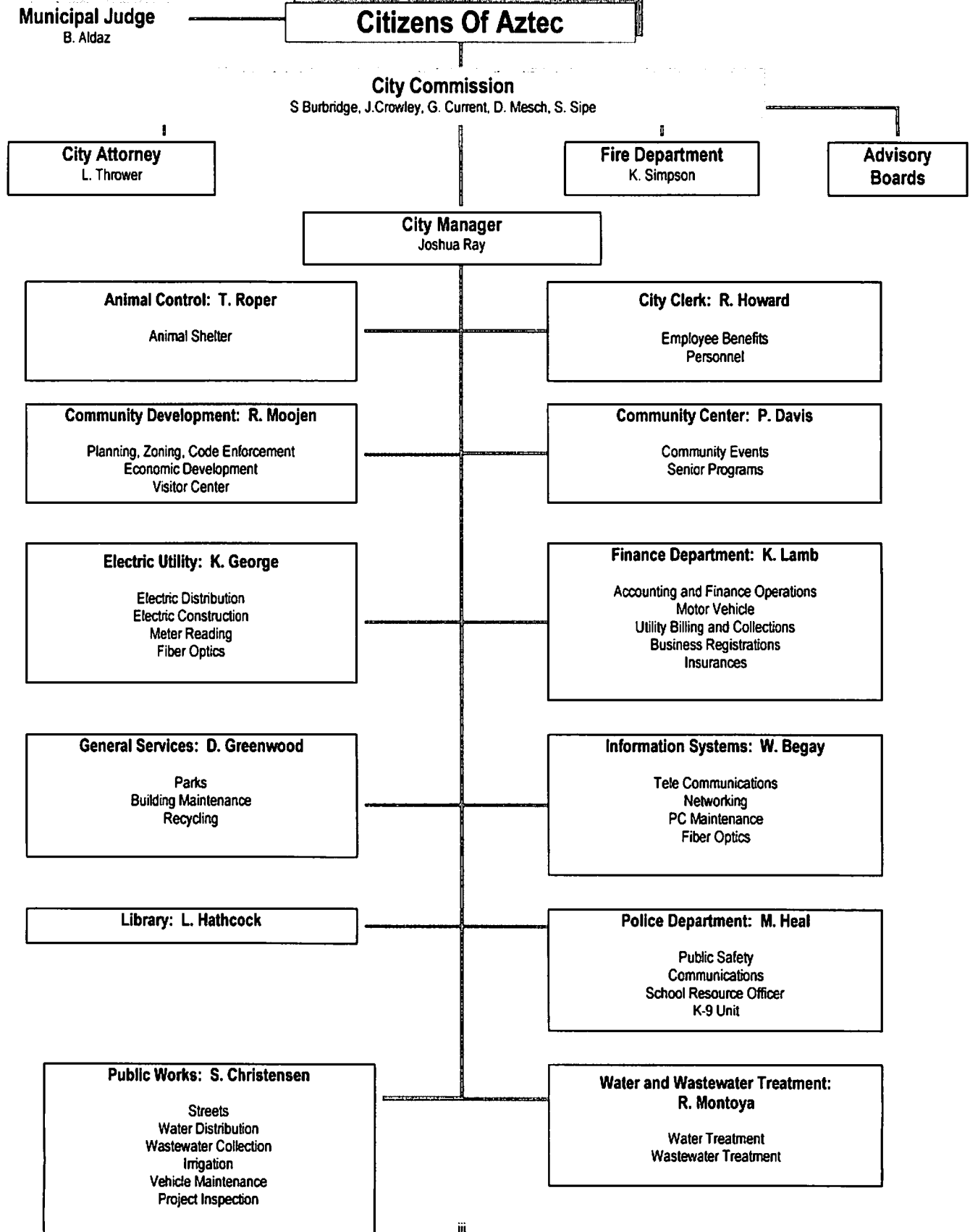
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CITY OF AZTEC, NEW MEXICO

ORGANIZATIONAL CHART

June 30, 2010



CITY OF AZTEC, NEW MEXICO
List of Principal Officials

<u>Title</u>	<u>Name</u>
Mayor	Sally Burbridge
Mayor Pro-Tem	Jim Crowley
City Commissioner	Diana C. Mesch
City Commissioner	Sherri A. Sipe
City Commissioner	Eugene L. Current
City Manager	Joshua Ray
Finance Director	Kathy Lamb

FINANCIAL SECTION

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Independent Auditor's Report

City of Aztec
Aztec, New Mexico
Honorable Mayor and City Commission, and
Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the City of Aztec, New Mexico (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental and fiduciary funds, and the budgetary comparisons for the major capital projects fund, each nonmajor governmental funds, and all enterprise funds, presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2010, 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 fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and fiduciary funds of the City, as of June 30, 2010, and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the major capital projects fund, nonmajor governmental funds, and all enterprise funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the accompanying introductory section and statistical section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subject to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.



Farmington, New Mexico
June 5, 2012

Management's Discussion and Analysis

As management of the City of Aztec, we offer readers of the City of Aztec's financial statements this narrative overview and analysis of the financial activities of the City of Aztec for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the City of Aztec exceeded its liabilities at the close of the most recent fiscal year by \$55,547,905 (*net assets*). Of this amount, \$20,171,809 (*unrestricted net assets*) may be used to meet the City's ongoing obligations.
- As of the close of the current fiscal year, the City of Aztec's governmental funds reported combined ending fund balances of \$9,902,857 an decrease of \$2,744,803 in comparison with the prior year. A total of \$9,163,551 (*unreserved fund balance*) is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,617,847 or 71.8 percent of the total general fund expenditures.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Aztec's basic financial statements. The City of Aztec's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. *The government-wide financial statements* are designed to provide readers with a broad overview of the City of Aztec's financial condition, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Aztec's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Aztec is improving or deteriorating.

The *statement of activities* presents information showing how the City of Aztec's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave, etc).

Both of the government-wide financial statements distinguish functions of the City of Aztec that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Aztec include general government, public safety, public works, culture and recreation, and health and welfare. The business-type activities of the City of Aztec include a joint utility fund comprised of electric, water, and wastewater utilities, solid waste operations and irrigation operations.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Aztec, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Aztec can be divided into two categories: (1) governmental funds and (2) proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Aztec maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital improvements fund, both of which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of *combining statements* following the notes to the financial statements (pages 31-42).

The City of Aztec adopts an annual appropriated budget for each of its funds. Budgetary comparative statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 5-9 of this report.

Proprietary funds. The City of Aztec maintains one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Aztec uses three enterprise funds to account for its electric, water, wastewater, sanitation and irrigation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the joint utility fund (electric, water, and wastewater operations), solid waste and irrigation operations and are found on pages 55-59 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Aztec's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund statements can be found on page 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-30 of this report.

Government-wide Financial Analysis

As noted earlier, over time net assets may serve as a useful indicator of a government's financial position. In the case of the City of Aztec, assets exceeded liabilities by \$55,547,905 at the close of the most recent fiscal year.

The largest portion of the City of Aztec's net assets (62.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Aztec uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Aztec's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided

from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Aztec's Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Current and other assets	11,629,960	15,135,202	13,921,147	12,471,384	25,551,107	27,606,586
Capital assets	15,660,942	16,273,714	29,108,148	23,972,995	44,769,090	40,246,709
Total assets	<u>\$27,290,902</u>	<u>\$31,408,916</u>	<u>\$43,029,295</u>	<u>\$36,444,379</u>	<u>\$70,320,197</u>	<u>\$67,853,295</u>
Long-term liabilities outstanding	4,701,104	4,905,127	7,469,363	7,146,219	12,170,467	12,051,346
Other liabilities	1,230,274	1,978,086	1,371,551	1,731,439	2,601,825	3,709,525
Total liabilities	<u>\$5,931,378</u>	<u>\$6,883,213</u>	<u>\$8,840,914</u>	<u>\$8,877,658</u>	<u>\$14,772,292</u>	<u>\$15,760,871</u>
Net assets						
Invested in capital assets, net of related debt	12,817,692	15,048,147	21,749,963	16,940,492	34,567,655	31,988,639
Restricted	739,306	857,112	69,135	92,465	808,441	949,577
Unrestricted	7,802,526	8,620,444	12,369,283	10,533,764	20,171,809	19,154,208
Total net assets	<u>\$21,359,524</u>	<u>\$24,525,703</u>	<u>\$34,188,381</u>	<u>\$27,566,721</u>	<u>\$55,547,905</u>	<u>\$52,092,424</u>

A portion of the City of Aztec's net assets (1.46%) are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$20,171,809) may be used to meet government's ongoing obligations.

At the end of the current fiscal year, the City of Aztec has achieved positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

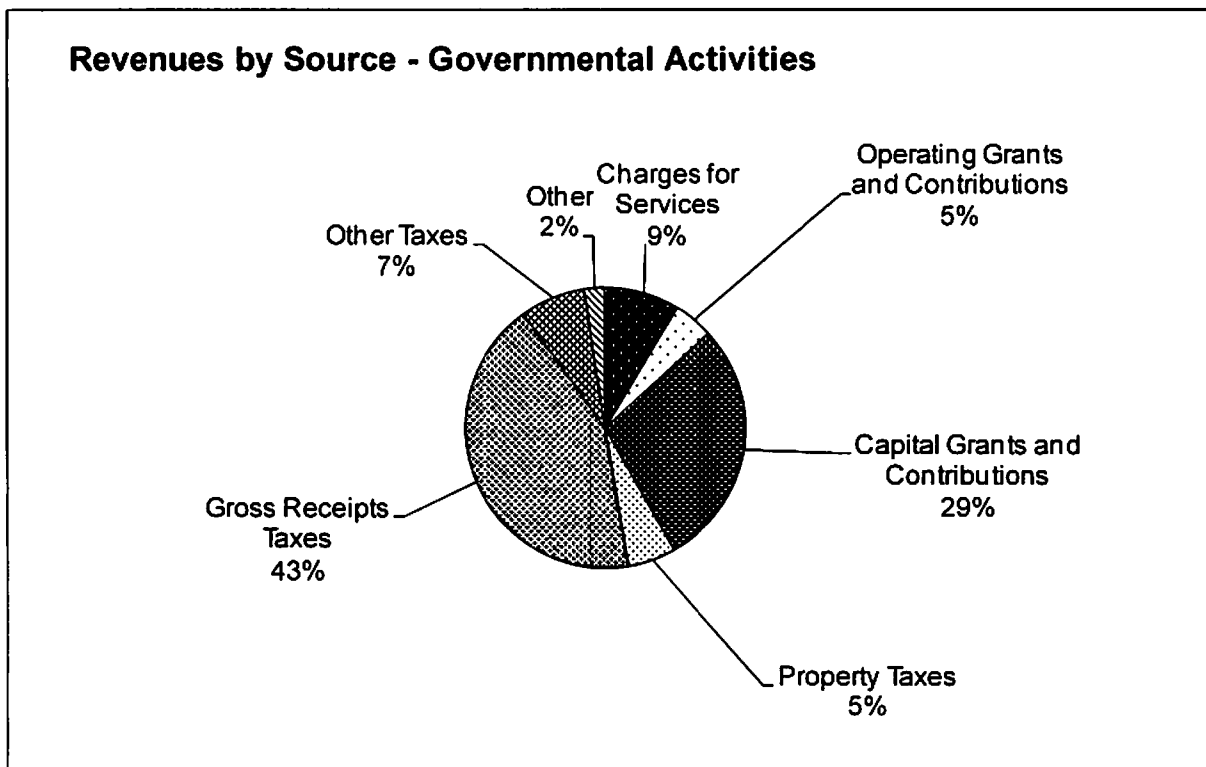
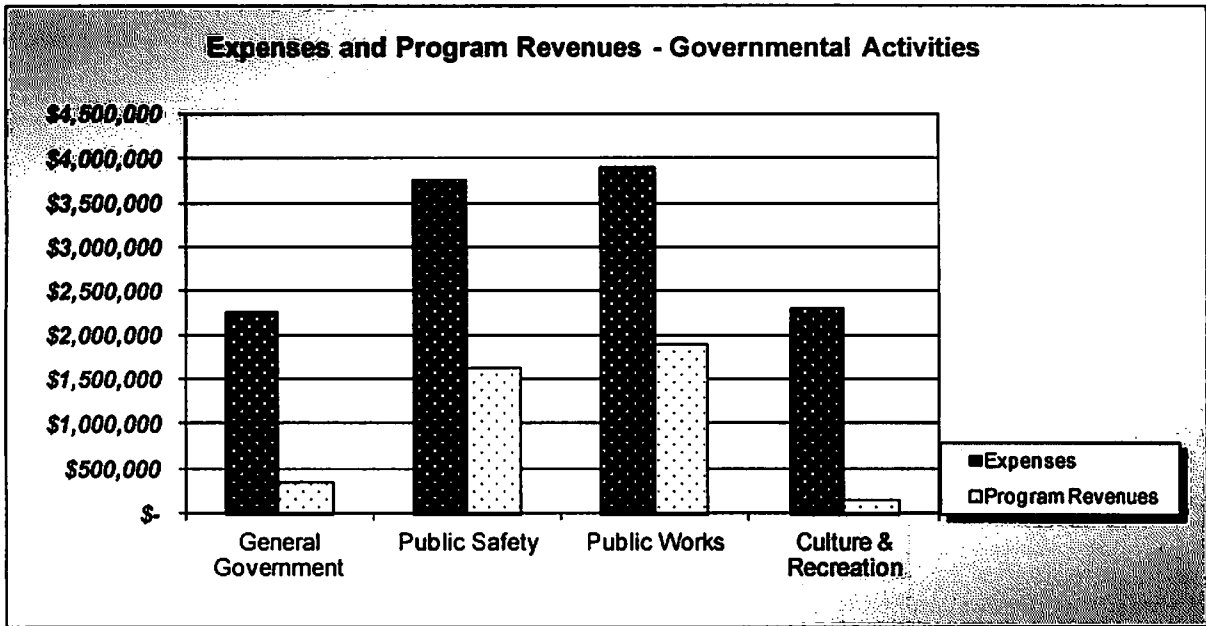
The City of Aztec's net assets increased by \$3,455,481 during the current fiscal year. This increase represents the continuing commitment of the Aztec City Commission and administration to build the financial stability of the City of Aztec.

Governmental activities. Governmental activities decreased the City of Aztec's net assets by \$3,166,179. Key elements of the change in net assets are as follows:

City of Aztec's Changes in Net Assets

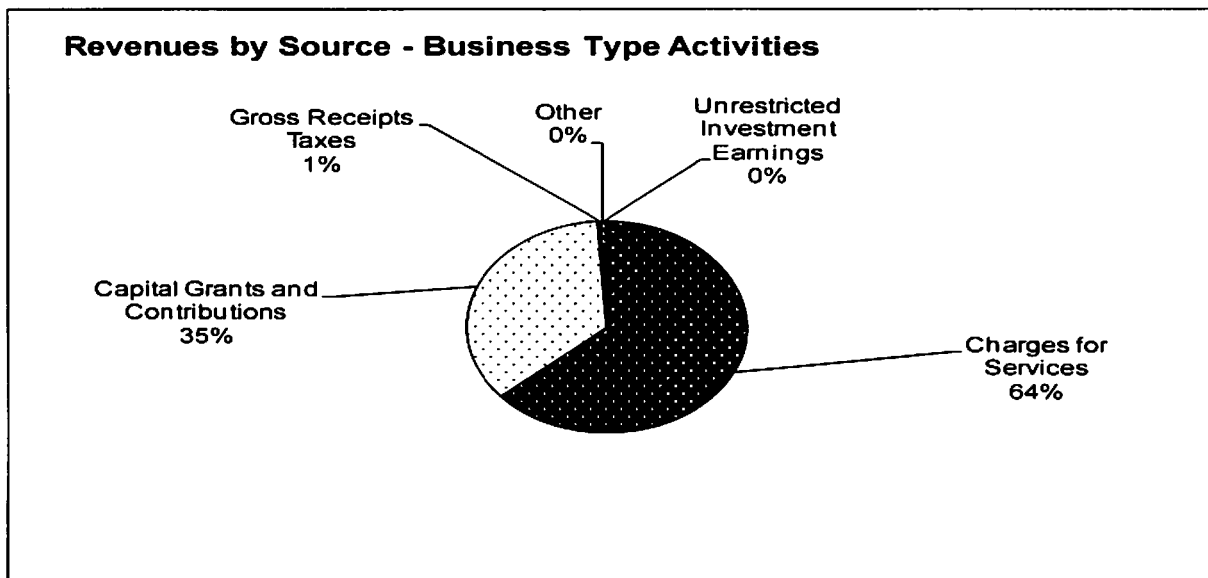
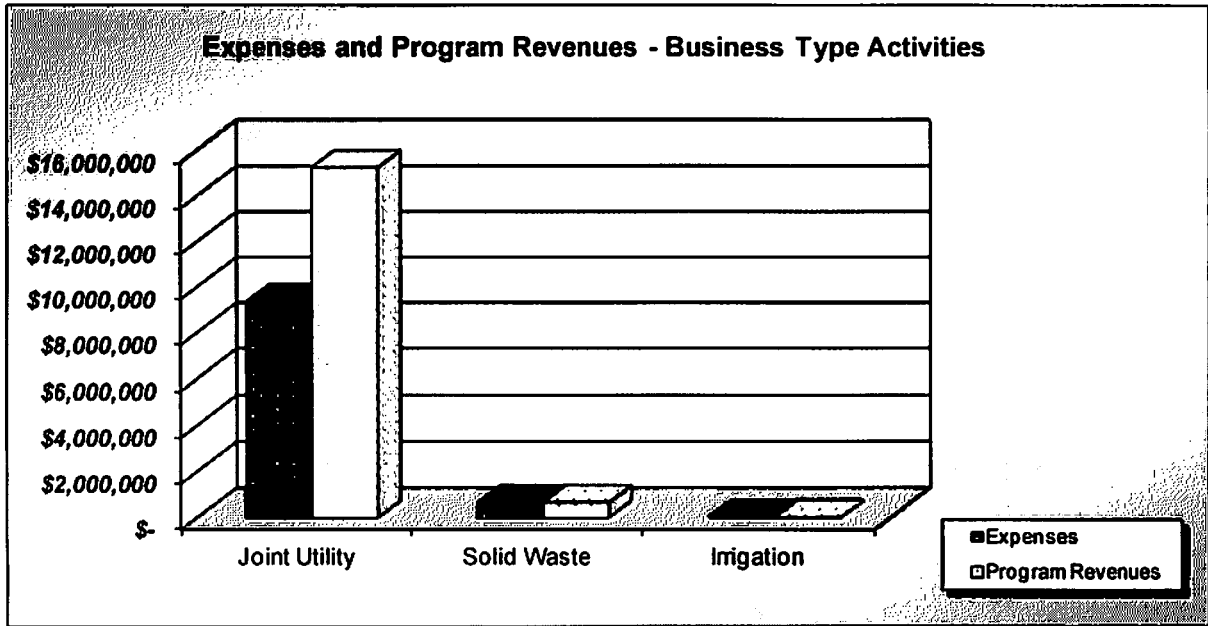
	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2009	FY 2009
Revenues:						
Program Revenues:						
Charges for Services	\$822,494	\$1,022,390	\$10,261,422	\$10,479,440	\$11,083,916	\$11,501,830
Operating Grants and contributions	437,993	429,943			437,993	429,943
Capital Grants and contributions	2,742,777	2,692,365	5,689,497	308,650	8,432,274	3,001,015
General Revenues:						
Property Taxes	522,553	537,994			522,553	537,994
GRT Taxes	4,090,147	5,384,771	85,308	112,593	4,175,455	5,497,364
Other Taxes	711,960	672,789			711,960	672,789
Other	235,353	267,121	82,295	172,500	317,648	439,621
	9,563,277	11,007,373	16,118,522	11,073,183	25,681,799	22,080,556
Expenses:						
General Government	2,257,458	1,983,249			2,257,458	1,983,249
Public Safety	3,755,435	2,862,497			3,755,435	2,862,497
Public Works	3,887,767	1,921,141			3,887,767	1,921,141
Culture & Recreation	2,289,542	1,414,843			2,289,542	1,414,843
Joint Utility			9,367,458	7,995,060	9,367,458	7,995,060
Solid Waste			660,642	649,266	660,642	649,266
Irrigation			8,016	7,159	8,016	7,159
	12,190,202	8,181,730	10,036,116	8,651,485	22,226,318	16,833,215
Increase in net assets before transfers	(2,626,925)	2,825,643	6,082,406	2,421,698	3,455,481	5,247,341
Transfers	(539,254)	(696,453)	539,254	696,453	0	0
Restatement						
Increase in net assets	(3,166,179)	2,129,190	6,621,660	3,118,151	3,455,481	5,247,341
Net assets – 6/30/09	24,525,703	22,396,513	27,566,721	24,448,570	52,092,424	46,845,083
Net assets – 6/30/10	21,359,524	24,525,703	34,188,381	27,566,721	55,547,905	52,092,424

- Property taxes decreased by \$15,441 (2.87 percent) during the year attributable to the decrease in oil and gas production;
- Gross Receipts Tax revenues decreased by \$1,321,909 (24%) during the year and is attributable to the decline in the regional economy.



Business-type activities. Business-type activities increased the City of Aztec's net assets by \$6,621,660, accounting for 100 percent of the total growth in the government's net assets. Key financial elements of the past year are as follows:

- Operating expenses are 95.7 percent of revenues, resulting in \$441,752 in operating income.
- Total joint utility fund operating revenues decreased by \$237,037 or 2.4%.
 - Electric revenues decreased by \$27,398 or 4%
 - Water revenues decreased by \$182,642 or 8.0%
 - Wastewater revenues decreased by \$26,997 or 2.6%



Financial Analysis of the Government's Funds

As noted earlier, the City of Aztec uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the June 30, 2010, the City of Aztec's governmental funds reported combined ending fund balances of \$9,902,857, an decrease of \$2,744,803 in comparison with the prior year. Approximately 92.5 percent of this total amount or \$9,163,551 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for a variety of other restricted purposes (\$739,306).

The general fund is the chief operating fund of the City of Aztec. At the end of the current fiscal year, unreserved and total fund balance of the general fund was \$4,617,847. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and total fund balance represents 71.8 percent of total general fund expenditures.

The fund balance of the City of Aztec's general fund decreased by \$177,268 during the current fiscal year.

Other key governmental-type funds, other than the general fund, include the municipal road fund and capital projects fund. The municipal road fund is funded primarily with Gross Receipt Tax (.125%) revenue and Gasoline Tax and the capital projects fund is funded primarily with Gross Receipts Tax (.375%) revenue

Proprietary funds. The City of Aztec's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the joint utility fund at the end of the year amounted to \$12,018,883, for solid waste \$224,376, and irrigation \$126,024. The total growth in net assets for the joint utility fund was \$6,586,948, for solid waste fund was \$28,679 and irrigation fund \$6,033.

Government Wide Budgetary Highlights

Differences between the original budget and the final amended budget were \$61,000 which represents less than a 1 percent increase in appropriations.

- Major adjustments included:
 - \$20,000 in local contributions (grants) to the library and senior center for their respective programs
 - \$41,000 additional appropriation for bid award for wastewater infrastructure improvements to Park Avenue.

In the general fund, actual revenue was slightly under budget by \$160,964 or 2.6%. However, actual expenditures were under budget by \$2,092,729 or 24.6%.

The joint utility fund actual revenue exceeded budgeted operating revenues by \$233,366 or 2.5% and actual operating expenses were under budget by \$1,350,594 or 10.8%.

Capital Asset and Debt Administration

Capital assets. The City of Aztec's investment in capital assets for its governmental and business type activities as of June 30, 2010, amounts to \$44,769,090 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, utility systems, machinery and equipment, park facilities, roads, highways, and bridges. The business-type capital assets accounted for \$29,108,148 or 65 percent of the total City of Aztec capital assets. Business type assets increased in net value by \$5,135,153 or 21.4%.

The governmental activities investment in capital assets accounted for \$15,660,942 or 35 percent of all capital assets owned by the City.

Major capital asset events during this fiscal year including the following:

- Completion of new wastewater treatment facility;
- Completion of raw water reservoir #3;
- Completion of animal shelter building
- Construction began on East Aztec Arterial Phase 1a April 2010;
- Construction started on Aztec Tiger Park recreational area;
- Continued regular scheduled replacement of vehicles and heavy equipment.

City of Aztec's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	FY2010	FY2009	FY2010	FY2009	FY2010	FY2008
Land	638,435	638,435	694,402	694,402	1,332,837	1,332,837
Buildings & System	5,379,889	5,115,922	27,518,973	14,887,726	32,898,862	20,003,648
Improvements	1,389,554	1,147,119	0	0	1,389,554	1,147,119
Machinery & Equipment	1,306,727	1,537,766	847,765	999,179	2,154,492	2,536,945
Infrastructure	6,123,826	5,541,786	0	0	6,123,826	5,541,786
Construction in Progress	822,511	2,292,686	47,008	7,391,688	869,519	9,684,374
Total	\$15,660,942	\$16,273,714	\$29,108,148	\$23,972,995	\$44,769,090	\$40,246,709

Capital expenses for the electric utility system scheduled in the current five-year capital improvements plan include the city-wide replacement of electric distribution poles, fiber optic network expansion and continued customer requested electric line extensions. The City expects to fund these projects from electric customer-generated revenues.

Capital expenses for the water utility system scheduled in the current five-year capital improvements plan principally include upgrades and replacements of existing facilities to maintain the existing system and meet future demand requirements. The capital expenditures are expected to total \$500,000 for fiscal years 2011 and 2012. The improvements will be funded through a combination of internally generated funds, grants and loan proceeds.

Wastewater system improvements include the completion of the wastewater treatment facility. Additional automation improvements are anticipated for fiscal years 2011 and 2012 and are expected to total \$600,000 and will be funded through internally generated funds.

Additional information on the City of Aztec's capital assets can be found in note C on pages 23-24 of this report.

Long-term debt. At the end of the current fiscal year, the City of Aztec had no bonded debt outstanding.

The City closed on the USDA RUS loan for the wastewater plant in the amount of \$860,447 and is secured by environmental gross receipts tax revenues.

Retired debt includes:

New Mexico Finance Authority loan for East Aztec Water Distribution system

New Mexico Retiree Health Care Authority surplus contribution

Additional information on the City of Aztec's long-term debt can be found in note E on pages 25-27 of this report.

Debt limitation. Article IX, Section 13 of the State Constitution limits the powers of the City to incur general obligation debt in an aggregate amount, including existing indebtedness, not to exceed four percent of the value of the taxable property in the City as shown by the last preceding general assessments. The City may, however, contract debt in excess of such limitation for the construction or purchase of a system for supplying water or a sewer system for the City. Based on the 2010 assessed valuation of \$105,460,701, the City's general obligation debt limit is \$4,218,428. The City presently has no general obligation bonds outstanding.

Future bond financing activities. None

Economic Factors and Next Year's Budgets and Rates

The governing body, with the FY2010 budget, required significant reductions to departmental budgets (both governmental and business-type activities) to reduce the use of cash reserves to balance the annual budget. A process has begun to conduct review of all city operations to streamline costs, increase efficiency and productivity.

The economic crisis of 2008 was slow to impact San Juan County; however, by the fall of 2009, city tax revenues began to decline. Immediate action was directed by the governing body which included:

Personnel positions – critical need to be documented by department and only with approval of City Manager are positions to be filled

Capital purchases – vehicle and equipment purchases, although scheduled through a managed plan, are reviewed and again, only with critical need documentation and city manager approval, are purchases allowed.

San Juan County is dependent on the energy industry and changes in federal and state regulations have impacted the industry. This will continue to have an impact on City revenues into FY2011 and potentially FY2012.

Utility rates are regularly reviewed to ensure the availability of sufficient revenues to cover operating and maintenance costs as well as providing a reserve for future capital improvements and expansion.

Requests for Information

This financial report is designed to provide a general overview of the City of Aztec's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 201 W Chaco, Aztec, NM 87410.

Basic Financial Statements

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CITY OF AZTEC, NEW MEXICO
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 6,690,983	\$ 11,184,178	\$ 17,875,161
Cash with fiscal agent	1,734,074	69,135	1,803,209
Receivables (net, where applicable, of allowances for uncollectibles)	-	1,139,591	1,139,591
Interest receivable	-	36,970	36,970
Intergovernmental receivable	3,153,078	548,229	3,701,307
Other receivables	55,439	-	55,439
Internal balances	(5,218)	5,218	-
Inventories	-	937,688	937,688
Prepays	1,604	138	1,742
Capital assets:			
Non-depreciable assets	1,460,946	741,410	2,202,356
Depreciable assets, net	14,199,996	28,366,738	42,566,734
Total assets	27,290,902	43,029,295	70,320,197
LIABILITIES:			
Accounts payable	916,388	721,508	1,637,896
Accrued payroll, taxes and benefits	278,212	209,493	487,705
Accrued interest payable	32,951	40,163	73,114
Unearned revenue	2,723	118,080	120,803
Customer deposits	-	282,307	282,307
Non-current liabilities:			
Due within one year	417,353	468,404	885,757
Due in more than one year	4,283,751	7,000,959	11,284,710
Total liabilities	5,931,378	8,840,914	14,772,292
NET ASSETS:			
Invested in capital assets, net of related debt	12,817,692	21,749,963	34,567,655
Restricted for:			
Subsequent year's statutory reserve	588,192	-	588,192
Debt service	151,114	69,135	220,249
Unrestricted	7,802,526	12,369,283	20,171,809
Total net assets	\$ 21,359,524	\$ 34,188,381	\$ 55,547,905

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,257,458	\$ 150,871	\$ 160,343	\$ 40,478	\$ (1,905,766)	\$ -	\$ (1,905,766)
Public safety	3,755,435	512,697	20,830	1,093,502	(2,128,406)	-	(2,128,406)
Public works	3,887,767	84,884	256,820	1,549,152	(1,996,911)	-	(1,996,911)
Culture and recreation	2,289,542	74,042	-	59,645	(2,155,855)	-	(2,155,855)
Total governmental activities	<u>12,190,202</u>	<u>822,494</u>	<u>437,993</u>	<u>2,742,777</u>	<u>(8,186,938)</u>	<u>-</u>	<u>(8,186,938)</u>
Business-type activities:							
Joint utility	9,367,458	9,569,623	-	5,689,497	-	5,891,662	5,891,662
Solid waste	660,642	678,640	-	-	-	17,998	17,998
Irrigation	8,016	13,159	-	-	-	5,143	5,143
Total business-type activities	<u>10,036,116</u>	<u>10,261,422</u>	<u>-</u>	<u>5,689,497</u>	<u>-</u>	<u>5,914,803</u>	<u>5,914,803</u>
Total government	<u>22,226,318</u>	<u>11,083,916</u>	<u>437,993</u>	<u>8,432,274</u>	<u>(8,186,938)</u>	<u>5,914,803</u>	<u>(2,272,135)</u>
General revenues:							
Property taxes					522,553	-	522,553
Gross receipts tax					4,090,147	85,308	4,175,455
Franchise taxes					474,311	-	474,311
Other taxes					237,649	-	237,649
Miscellaneous					176,437	-	176,437
Unrestricted investment earnings					58,916	82,295	141,211
Transfers					(539,254)	539,254	-
Total general revenues and transfers					<u>5,020,759</u>	<u>706,857</u>	<u>5,727,616</u>
Change in net assets					(3,166,179)	6,621,660	3,455,481
Net assets - beginning					24,525,703	27,566,721	52,092,424
Net assets - ending					<u>\$ 21,359,524</u>	<u>\$ 34,188,381</u>	<u>\$ 55,547,905</u>

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Balance Sheet
Governmental Funds
June 30, 2010

	General	Municipal Road	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,588,406	\$ 1,296,726	\$ -	\$ 805,851	\$ 6,690,983
Cash with fiscal agent	-	-	1,734,074	-	1,734,074
Intergovernmental receivable	1,299,852	263,610	1,511,793	77,823	3,153,078
Other receivables	52,638	-	-	2,801	55,439
Prepaid items	271	-	-	1,333	1,604
Due from other funds	250,000	13,963	-	4,500	268,463
Total Assets	\$ 6,191,167	\$ 1,574,299	\$ 3,245,867	\$ 892,308	\$ 11,903,641
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 174,563	\$ 335,265	\$ 333,324	\$ 73,236	\$ 916,388
Accrued payroll, taxes and benefits	274,895	2,597	-	720	278,212
Unearned revenue	1,390	-	-	1,333	2,723
Deferred revenue	529,780	-	-	-	529,780
Due to other funds	4,500	-	263,963	5,218	273,681
Total Liabilities	985,128	337,862	597,287	80,507	2,000,784
Fund Balances:					
Reserved for:					
Subsequent year's statutory reserve	588,192	-	-	-	588,192
Debt service	-	-	151,114	-	151,114
Unreserved, reported in:					
General fund - undesignated	4,617,847	-	-	-	4,617,847
Special revenue funds	-	1,236,437	-	805,735	2,042,172
Capital project funds	-	-	2,497,466	6,066	2,503,532
Total Fund Balances	5,206,039	1,236,437	2,648,580	811,801	9,902,857
Total Liabilities and Fund Balances	\$ 6,191,167	\$ 1,574,299	\$ 3,245,867	\$ 892,308	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,660,942
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	529,780
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Contracts and loans payable	(4,426,210)
Accrued compensated absences	(274,894)
Accrued interest payable	(32,951)
Net assets of governmental activities	\$ 21,359,524

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General	Municipal Road	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 509,559	\$ -	\$ -	\$ -	\$ 509,559
Gross Receipts	3,407,550	170,815	511,782	-	4,090,147
Franchise	474,311	-	-	-	474,311
Other	53,906	159,623	-	24,120	237,649
Licenses and permits	55,183	-	-	7,500	62,683
Intergovernmental	554,153	202,666	1,595,398	828,553	3,180,770
Charges for services	247,114	-	-	77,662	324,776
Fines	435,035	-	-	-	435,035
Investment earnings	34,751	12,039	5,958	6,168	58,916
Miscellaneous	171,690	-	-	4,747	176,437
Total Revenues	5,943,252	545,143	2,113,138	948,750	9,550,283
EXPENDITURES:					
Current:					
General government	1,738,144	-	22,203	3,009	1,763,356
Public safety	2,163,597	-	-	245,560	2,409,157
Public works	1,020,191	393,524	-	-	1,413,715
Culture and recreation	1,126,262	-	-	17,510	1,143,772
Capital outlay	355,833	566,231	3,127,359	618,474	4,667,897
Debt service:					
Principal	24,470	-	132,377	-	156,847
Interest	1,384	-	199,704	-	201,088
Total Expenditures	6,429,881	959,755	3,481,643	884,553	11,755,832
Excess (Deficiency) of Revenues Over (Under) Expenditures	(486,629)	(414,612)	(1,368,505)	64,197	(2,205,549)
OTHER FINANCING SOURCES (USES):					
Operating transfers, in	434,430	121,500	-	125,069	680,999
Operating transfers, out	(125,069)	-	-	(1,095,184)	(1,220,253)
Total other financing sources and uses	309,361	121,500	-	(970,115)	(539,254)
Net change in fund balances	(177,268)	(293,112)	(1,368,505)	(905,918)	(2,744,803)
Fund balances - beginning	5,383,307	1,529,549	4,017,085	1,717,719	12,647,660
Fund balances - ending	\$ 5,206,039	\$ 1,236,437	\$ 2,648,580	\$ 811,801	\$ 9,902,857

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balances-total governmental funds	<u>\$ (2,744,803)</u>
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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. The detail is as follows:

Capital outlay	520,192
Depreciation expense	<u>(1,159,312)</u>
Total	<u>(639,120)</u>

Deferred revenues are not available to pay current period expenditures and therefore are not recognized in the fund financial statement. The revenues are not deferred in the governmental activities of the Statement of Net Assets.

	<u>12,994</u>
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The detail is as follows:

Principal repayments	156,847
Accrued interest payable	727
Compensated absences	<u>47,176</u>
Total	<u>204,750</u>

Change in net assets of governmental activities	<u><u>\$ (3,166,179)</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property taxes	\$ 460,764	\$ 460,764	\$ 509,559	\$ 48,795
Gross receipts tax	3,560,000	3,560,000	3,407,550	(152,450)
Franchise taxes	488,800	488,800	474,311	(14,489)
Other taxes	46,120	46,120	53,906	7,786
Licenses and permits	47,620	47,620	55,183	7,563
Intergovernmental	590,582	610,582	554,153	(56,429)
Charges for services	238,950	238,950	247,114	8,164
Fines	524,500	524,500	435,035	(89,465)
Investment earnings	90,000	90,000	34,751	(55,249)
Miscellaneous	36,880	36,880	171,690	134,810
Total Revenues	6,084,216	6,104,216	5,943,252	(160,964)
EXPENDITURES:				
Current:				
General government:				
Legislative	157,201	157,201	117,146	40,055
Economic Development	206,660	126,710	105,145	21,565
Judicial	199,215	199,215	173,832	25,383
City Manager	518,136	520,086	400,540	119,546
Finance	691,631	613,316	373,759	239,557
Legal	65,100	65,100	63,163	1,937
Motor vehicle	219,195	219,980	198,529	21,451
Planning	172,549	182,184	120,414	61,770
Information systems	190,675	194,475	185,616	8,859
Total general government	2,420,362	2,278,267	1,738,144	540,123
Public safety:				
Police	1,868,424	1,868,350	1,557,607	310,743
Fire	130,680	130,680	77,975	52,705
Animal control	554,304	554,304	528,015	26,289
Total public safety	2,553,408	2,553,334	2,163,597	389,737
Public works:				
City buildings	319,785	312,481	290,701	21,780
Streets	884,089	885,789	721,724	164,065
Shop	-	-	7,766	(7,766)
Total public works	1,203,874	1,198,270	1,020,191	178,079
Culture and recreation:				
Recreation	82,128	76,178	74,241	1,937
Parks	544,120	555,014	463,922	91,092
Library	374,387	395,969	361,722	34,247
Community center	179,663	204,991	169,362	35,629
Community support	638,356	638,356	57,015	581,341
Total culture and recreation	1,818,654	1,870,508	1,126,262	744,246
Capital outlay	480,459	596,377	355,833	240,544
Debt service:				
Principal	24,500	24,696	24,695	1
Interest	1,400	1,204	1,159	45
Total debt service	25,900	25,900	25,854	46
Total expenditures	8,502,657	8,522,656	6,429,881	2,092,729
Excess of revenues over expenditures	(2,418,441)	(2,418,440)	(486,629)	1,931,811
OTHER FINANCING SOURCES (USES):				
Transfers in	434,430	434,430	434,430	-
Transfers out	(165,000)	(165,000)	(125,069)	39,931
Total Other Financing Sources and Uses	269,430	269,430	309,361	39,931
Net change in fund balances	(2,149,011)	(2,149,010)	(177,268)	1,971,742
Fund balances - beginning	5,383,307	5,383,307	5,383,307	-
Fund balances - ending	\$ 3,234,296	\$ 3,234,297	\$ 5,206,039	\$ 1,971,742

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Municipal Road Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes:				
Gross receipts tax	\$ 175,000	\$ 175,000	\$ 170,815	\$ (4,185)
Other taxes	144,000	144,000	159,623	15,623
Intergovernmental	2,576,990	2,576,990	202,666	(2,374,324)
Investment earnings	10,000	10,000	12,039	2,039
Miscellaneous	-	-	-	-
Total Revenues	<u>2,905,990</u>	<u>2,905,990</u>	<u>545,143</u>	<u>(2,360,847)</u>
EXPENDITURES:				
Current:				
Public works	574,056	574,056	393,524	180,532
Capital outlay	3,484,336	3,484,336	566,231	2,918,105
Total Expenditures	<u>4,058,392</u>	<u>4,058,392</u>	<u>959,755</u>	<u>3,098,637</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,152,402)	(1,152,402)	(414,612)	737,790
OTHER FINANCING SOURCES (USES):				
Transfers in	121,500	121,500	121,500	-
Net change in fund balances	(1,030,902)	(1,030,902)	(293,112)	737,790
Fund balances - beginning	1,529,549	1,529,549	1,529,549	-
Fund balances - ending	<u>\$ 498,647</u>	<u>\$ 498,647</u>	<u>\$ 1,236,437</u>	<u>\$ 737,790</u>

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Business-type Activities-Enterprise Funds			
	Joint Utility	Solid Waste	Irrigation Assessment	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,855,470	\$ 203,258	\$ 125,450	\$ 11,184,178
Cash with fiscal agent	69,135	-	-	69,135
Accounts receivable (net of allowance for doubtful accounts)	1,062,428	76,589	574	1,139,591
Interest receivable	36,970	-	-	36,970
Intergovernmental receivable	548,229	-	-	548,229
Inventories	937,688	-	-	937,688
Prepaid items	138	-	-	138
Due from other funds	255,218	-	-	255,218
Total Current Assets	13,765,276	279,847	126,024	14,171,147
Noncurrent assets:				
Capital assets:				
Land and land rights	694,402	-	-	694,402
Building and system	35,804,291	-	122,550	35,926,841
Machinery and equipment	2,824,563	52,752	-	2,877,315
Construction in progress	47,008	-	-	47,008
Less accumulated depreciation	(10,342,916)	(34,499)	(60,003)	(10,437,418)
Total noncurrent assets	29,027,348	18,253	62,547	29,108,148
Total Assets	42,792,624	298,100	188,571	43,279,295
LIABILITIES				
Current liabilities:				
Accounts payable	670,298	51,210	-	721,508
Accrued payroll, taxes and benefits	205,669	3,824	-	209,493
Accrued interest payable	40,163	-	-	40,163
Unearned revenue	118,080	-	-	118,080
Customer deposits	282,307	-	-	282,307
Compensated absences, current portion	84,300	437	-	84,737
Due to other funds	250,000	-	-	250,000
Bonds, notes and loans payable - current portion	383,667	-	-	383,667
Total Current Liabilities	2,034,484	55,471	-	2,089,955
Noncurrent liabilities:				
Compensated absences	26,441	-	-	26,441
Bonds, notes and loans payable, net	6,974,518	-	-	6,974,518
Total noncurrent liabilities	7,000,959	-	-	7,000,959
Total liabilities	9,035,443	55,471	-	9,090,914
NET ASSETS				
Invested in capital assets, net of related debt	21,669,163	18,253	62,547	21,749,963
Restricted for debt service	69,135	-	-	69,135
Unrestricted	12,018,883	224,376	126,024	12,369,283
Total net assets	\$ 33,757,181	\$ 242,629	\$ 188,571	\$ 34,188,381

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities-Enterprise Funds			
	Joint Utility	Solid Waste	Irrigation Assessment	Totals
Operating revenues:				
Charges for services	\$ 9,522,366	\$ 676,222	\$ 13,159	\$ 10,211,747
Miscellaneous	47,257	2,418	-	49,675
Total Operating Revenues	9,569,623	678,640	13,159	10,261,422
Operating expenses:				
Salaries and fringe benefits	1,455,039	20,438	-	1,475,477
Purchased power, fuel and chemicals	3,471,747	-	-	3,471,747
Other operating expenses	2,885,443	634,984	3,685	3,524,112
Payments in lieu of taxes	370,000	-	-	370,000
Depreciation and amortization	968,783	5,220	4,331	978,334
Total Operating Expenses	9,151,012	660,642	8,016	9,819,670
Operating income (loss)	418,611	17,998	5,143	441,752
Nonoperating revenues (expenses):				
Intergovernmental	1,348,035	-	-	1,348,035
Investment earnings	79,970	1,435	890	82,295
Gross receipts tax	85,308	-	-	85,308
Interest expense	(216,446)	-	-	(216,446)
Total Nonoperating Revenues (Expenses)	1,296,867	1,435	890	1,299,192
Income (Loss) Before Operating Transfers	1,715,478	19,433	6,033	1,740,944
Capital contributions	4,341,462	-	-	4,341,462
Operating transfers, in	1,610,290	9,246	-	1,619,536
Operating transfers, out	(1,080,282)	-	-	(1,080,282)
Change in net assets	6,586,948	28,679	6,033	6,621,660
Total net assets - beginning	27,170,233	213,950	182,538	27,566,721
Total net assets - ending	\$ 33,757,181	\$ 242,629	\$ 188,571	\$ 34,188,381

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities-Enterprise Funds			Totals
	Joint Utility	Solid Waste	Irrigation Assessment	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers/users	\$ 9,563,019	\$ 668,055	\$ 12,793	\$10,243,867
Payments to suppliers	(7,240,327)	(633,899)	(4,434)	(7,878,660)
Payments to employees	(1,425,843)	(20,438)	-	(1,446,281)
Net cash provided by operating activities	896,849	13,718	8,359	918,926
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer to other funds	(1,080,282)	-	-	(1,080,282)
Transfer from other funds	1,610,290	9,246	-	1,619,536
Advances from / to other funds	(278,123)	-	-	(278,123)
Net cash provided (used) by noncapital financing activities	251,885	9,246	-	261,131
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental	1,348,035	-	-	1,348,035
Capital contributions	4,341,462	-	-	4,341,462
Gross receipts tax	85,308	-	-	85,308
Purchases of capital assets	(6,113,488)	-	-	(6,113,488)
Debt issued or assumed	860,447	-	-	860,447
Principal paid on capital debt	(534,764)	-	-	(534,764)
Interest paid on capital debt	(216,446)	-	-	(216,446)
Net cash provided (used) by capital and related financing activities	(229,446)	-	-	(229,446)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income received	79,970	1,435	890	82,295
Net increase in cash and cash equivalents	999,258	24,399	9,249	1,032,906
Cash and cash equivalents, July 1, 2009	9,925,347	178,859	116,201	10,220,407
Cash and cash equivalents, June 30, 2010	\$ 10,924,605	\$ 203,258	\$ 125,450	\$11,253,313

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-type Activities-Enterprise Funds</u>			<u>Totals</u>
	<u>Joint Utility</u>	<u>Solid Waste</u>	<u>Irrigation Assessment</u>	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	418,611	17,998	5,143	441,752
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	968,783	5,220	4,331	978,334
(Increase) decrease in:				
Accounts receivable	40,653	(10,585)	(366)	29,702
Interest receivable	41,613	-	-	41,613
Intergovernmental receivable	(365,149)	-	-	(365,149)
Inventories	155,099	-	-	155,099
Prepaid items	1	-	-	1
Increase (decrease) in:				
Accounts payable	(480,512)	297	(749)	(480,964)
Accrued payroll, taxes and benefits	29,196	583	-	29,779
Accrued interest payable	21,925	-	-	21,925
Unearned revenue	46,327	-	-	46,327
Customer deposits	23,045	-	-	23,045
Compensated absences	(2,743)	205	-	(2,538)
Total adjustments	478,238	(4,280)	3,216	477,174
Net cash provided by operating activities	896,849	13,718	8,359	918,926

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010

	<u>Employee Association</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 5,087</u>
Total assets	<u><u>\$ 5,087</u></u>
LIABILITIES:	
Deposits held for others	<u>\$ 5,087</u>
Total liabilities	<u><u>\$ 5,087</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Aztec, (City), New Mexico, which was incorporated in 1890, operates under a Commission / Manager form of government. Five commissioners are elected at large and one of the commissioners serves as Mayor. This reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's financial statements to be misleading or incomplete.

The City had no blended or discrete component units during the fiscal year ended June 30, 2010.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government and its component units. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect costs are not allocated to functions in the statement of activities. *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. 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 financial statements and the fiduciary fund – agency 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.

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. Derived tax revenues (gross receipts taxes, cigarette taxes and gas taxes) are recognized when the underlying transaction takes place. 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 City.

The government reports the following major governmental funds:

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

The *municipal road special revenue fund* accounts for the municipal share of gas tax proceeds restricted for street-related expenditures.

The *capital projects fund* accounts for the acquisition and construction of major capital facilities other than those projects financed by proprietary funds.

The government reports the following major proprietary funds:

The *joint utility fund* accounts for the activities of the City's utility.

The *solid waste fund* accounts for the activities of the City's solid waste services.

The *irrigation assessment fund* accounts for the activities of the City's irrigation assessment activities.

Additionally, the City reports the following agency fund type:

The *employee association trust fund* is an agency fund that accounts for employee contributions to a fund used for special occasions such as sending flowers, etc.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 City's utility and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The utilities also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury, repurchase agreements, Certificates of Deposits, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations and is not SEC registered. The reported value of the pool is the same as the fair value of the pool shares. Generally, investment income earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average daily balance of cash and investments of each fund. All investment in such pool is voluntary.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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.

The joint utility enterprise fund is responsible for billing and collecting electric, water, and wastewater charges using a cycle billing system. No billing cycles are billed in advance of services. Metered accounts are billed in arrears and have been accrued. The only unearned revenue is customer payments for prepaid electric distribution construction. Customers are required to pay 100% of the estimate prepared by the electric director. When the job is complete the actual costs of the job are prepared and the customer is either refunded the overpayment or billed for the shortage. These payments for construction are then closed to contributed capital at the end of the fiscal year. All trade receivables are shown net of an allowance for uncollectible accounts. The City is required to provide service and grant credit to a diverse customer base within its service territory. The City may require security deposits prior to providing service to customers depending upon an assessment of credit worthiness. The City reviews customer accounts receivable on a regular basis and has an accounts receivable collection policy.

The City has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the City.

Property taxes are levied and collected by San Juan County. The County remits to the City amounts collected for the applicable portion of the property taxes in the month following the date of receipt. The City recognizes property taxes as revenue on the modified accrual basis. Oil and gas taxes received from the County are recognized as revenue when received by the City.

Property taxes are levied as of January 1st on property values assessed on the same date. The tax levy is payable in two installments, November 10th and May 10th. The property taxes are considered delinquent and subject to lien, penalty, and interest, 30 days after the date on which they are due.

3. Inventories and prepaid items

Inventories are only held by the joint utility fund and are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are considered immaterial and recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, 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 City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Such assets, including infrastructure, have higher limits that must be met before they are capitalized. 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. Computer software costs, whether externally purchased or developed in-house, shall be capitalized if the total cost of the software equals or exceeds \$5,000 and has a life of at least two years. Library books are not capitalized.

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

Buildings and structures	10 - 45 years
Improvements other than buildings	10 - 50 years
Infrastructure	5 - 50 years
Machinery and equipment	5 - 30 years
Furniture and fixtures	5 - 30 years

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. A compensated absence is expensed in the related fund of the employee that earned the compensated absences.

6. *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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Bond premium and discounts are reported as other financing uses. Issuance costs, even if withheld from actual net proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Net Assets*

In the government-wide financial statements, restricted net assets are legally restricted by outside parties for a specific purpose. None of the City's net assets are restricted as a result of enabling legislation adopted by the City. Invested in capital assets, net of related debt, represents the City's investment in the book value of capital assets, less any outstanding debt that was issued to construct or acquire the capital asset. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted for all funds. All budgets are consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at fiscal year end. Carryover funds must be appropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, such appropriated balance is legally restricted and is therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended by City Commission resolution with approval by the State Department of Finance and Administration. City department heads may make transfers of appropriations within a fund. The legal level of budgetary control is the fund level. Increases or decreases of appropriations between funds require the approval of the governing Commission.

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Commission a proposed preliminary operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The budget is prepared by fund, department, and function.
2. Counties and municipalities must develop and submit a final budget, including a formal resolution approved by the governing body, to Local Government Division (LGD) no later than July 31st for analysis, any necessary corrections, and approval. The final budget submittal is comprised of, at a minimum, a revised *Budget Request Recapitulation Form* (Recap) with updated (reconciled) *Unaudited Beginning Cash Balances* and any supporting documents of the interim budget that changed from the interim to the final budget submission.
3. After the budget is adopted any supplemental appropriations must be approved by the City Commission.

The budgetary basis and GAAP basis are the same for all governmental fund types. Budgets for proprietary enterprise funds are adopted on a non-GAAP basis, using the spending measurement focus as in governmental fund types.

Encumbrance accounting is employed by the City. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are carried forward to the new fiscal year and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. The fund balances are reserved for outstanding encumbrances because the resources are not available for new spending. The City had the following encumbrances outstanding at June 30, 2010:

General fund	\$	164,894
Municipal Road Fund		1,488,384
Recreation Fund		3,962
Capital Projects Fund		73,023
Joint Utility Fund		213,946
		<hr/>
Total	\$	<u>1,944,209</u>

B. Excess of Expenditures over Appropriations

As of June 30, 2010, there were no funds reported with excess expenditures over appropriations.

C. Deficit Fund Equity

As of June 30, 2010, there were no funds reported with a deficit fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

As of June 30, 2010, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 6,250,000	1.00
State Treasurer's LGIP	9,766,077	0.14
State Treasurer's LGIP - reserve	<u>33,923</u>	<u>N/A</u>
Total Fair Value	<u>\$ 16,050,000</u>	
Portfolio weighted average maturity		<u>0.45</u>

The City has investments in the State Treasurer external investment pool (the Local Government Investment Pool). The investments are valued at fair value based on quoted market prices as of June 30, 2010. The State Treasurer Local Government Investment Pool (LGIP) is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the local government investment pool is voluntary. The LGIP has been rated by Standard & Poor's and has received an AAAM rating.

Interest rate risk. The risk that interest rate variations may adversely affect the fair value of an investment. An acceptable method for reporting interest rate risk is weighted average maturity (WAM). The State Treasurer's Office uses this method for reporting purposes for the Local Government Investment Pool. The weighted average maturity at June 30, 2010 was 50 days.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits no more than 40% of City funds invested for a period greater than two years and no funds shall be invested for a period greater than three years. The City's policy is to invest in securities with an average maturity of less than 182 days (0.5 yearly average term).

Credit risk. As directed by State Statute 6-10-36, E. and F., excess funds may be invested in securities backed by the full faith and credit of the United States Government, such as treasury notes, bills and bonds; in securities of Agencies that are guaranteed by the United States Government; bonds or negotiable securities of the State of New Mexico or of any county, municipality or school district in the State of New Mexico which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding. The LGIP is exempt from this reporting requirement.

Custodial credit risk – deposits. This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statute requires that the bank deposits be 50% collateralized and repurchase agreements be 102% collateralized. As of June 30, 2010, the City was in compliance with state statute. The City's carrying amount of deposits as of June 30, 2010 was \$8,077,678 and the bank balance was \$8,118,083. Of the bank balance, \$750,000 was covered by federal depository insurance, \$4,980,383 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and \$2,387,700 was uncollateralized, and subject to custodial credit risk.

Custodial credit risk – investments. In the case of investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The LGIP is exempt from this reporting requirement.

Collateral. Only securities backed by the full faith and credit of the United States Government will be accepted as collateral. The City may make an exception and accept as collateral securities from a governmental entity within the State of New Mexico as described by State Statute 6-10-16, B. All securities pledged as collateral shall be held by a third-party financial institution approved by the City Manager or his/her designee. Any change in the institution holding the collateral must have prior approval of the City Manager or his/her designee.

B. Receivables

Receivables as of June 30, 2010 are as follows:

	<u>General</u>	<u>Municipal Road</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Receivable, net					
Intergovernmental	\$ 1,299,852	\$ 263,610	\$ 1,511,793	\$ 77,823	\$ 3,153,078
Other receivables	52,638	-	-	2,801	55,439
Total	<u>\$ 1,352,490</u>	<u>\$ 263,610</u>	<u>\$ 1,511,793</u>	<u>\$ 80,624</u>	<u>\$ 3,208,517</u>

	<u>Joint Utility</u>	<u>Solid Waste</u>	<u>Irrigation Assessment</u>	<u>Total Enterprise Funds</u>
Receivable, net				
Accounts receivable	\$ 953,676	\$ 76,589	\$ 7,209	\$ 1,037,474
Unbilled receivable	417,304	-	-	417,304
Less allowance for doubtful accounts	<u>(308,552)</u>	<u>-</u>	<u>(6,635)</u>	<u>(315,187)</u>
Accounts receivable, net	1,062,428	76,589	574	1,139,591
Interest receivable	36,970	-	-	36,970
Intergovernmental	548,229	-	-	548,229
Total	<u>\$ 1,647,627</u>	<u>\$ 76,589</u>	<u>\$ 574</u>	<u>\$ 1,724,790</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 529,780	\$ -
Grant proceeds not yet earned	-	1,390
Total deferred revenue for governmental funds	<u>\$ 529,780</u>	<u>\$ 1,390</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Governmental activities</u>	<u>Balance July 1, 2009</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Non-Depreciable Assets:					
Land	\$ 638,435	\$ -	\$ -	\$ -	\$ 638,435
Construction in progress	2,292,686	(4,573,643)	3,103,468	-	822,511
Total non-depreciable assets	<u>2,931,121</u>	<u>(4,573,643)</u>	<u>3,103,468</u>	<u>-</u>	<u>1,460,946</u>
Depreciable Assets					
Buildings	6,825,908	(133,013)	578,773	-	7,271,668
Improvements other than buildings	1,540,109	298,698	23,273	-	1,862,080
Machinery and equipment	4,607,854	13,617	233,075	(183,700)	4,670,846
Infrastructure	10,230,066	106,645	895,647	-	11,232,358
Total depreciable assets	<u>23,203,937</u>	<u>285,947</u>	<u>1,730,768</u>	<u>(183,700)</u>	<u>25,036,952</u>
Accumulated Depreciation					
Buildings	(1,709,986)	-	(181,793)	-	(1,891,779)
Improvements other than buildings	(392,990)	47,155	(126,691)	-	(472,526)
Equipment	(3,070,088)	(7,317)	(470,414)	183,700	(3,364,119)
Infrastructure	(4,688,280)	(39,838)	(380,414)	-	(5,108,532)
Total accumulated depreciation	<u>(9,861,344)</u>	<u>-</u>	<u>(1,159,312)</u>	<u>183,700</u>	<u>(10,836,956)</u>
Total capital assets being depreciated, net	<u>13,342,593</u>	<u>285,947</u>	<u>571,456</u>	<u>-</u>	<u>14,199,996</u>
Governmental activities capital assets, net	<u>\$ 16,273,714</u>	<u>\$ (4,287,696)</u>	<u>\$ 3,674,924</u>	<u>\$ -</u>	<u>\$ 15,660,942</u>

<u>Business-type activities</u>	<u>July 1, 2009</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Non-Depreciable Assets:					
Land	\$ 694,402	\$ -	\$ -	\$ -	\$ 694,402
Construction in progress	7,391,688	(7,382,724)	38,044	-	47,008
Total non-depreciable assets	<u>8,086,090</u>	<u>(7,382,724)</u>	<u>38,044</u>	<u>-</u>	<u>741,410</u>
Depreciable Assets					
Building and systems	24,062,916	11,670,420	1,738,590	(1,545,085)	35,926,841
Equipment	2,830,210	-	49,157	(2,052)	2,877,315
Total depreciable assets	<u>26,893,126</u>	<u>11,670,420</u>	<u>1,787,747</u>	<u>(1,547,137)</u>	<u>38,804,156</u>
Accumulated Depreciation					
Buildings and systems	(9,175,190)	16,328	(794,091)	1,545,085	(8,407,868)
Equipment	(1,831,031)	(16,328)	(184,243)	2,052	(2,029,550)
Total accumulated depreciation	<u>(11,006,221)</u>	<u>-</u>	<u>(978,334)</u>	<u>1,547,137</u>	<u>(10,437,418)</u>
Total capital assets being depreciated, net	<u>15,886,905</u>	<u>11,670,420</u>	<u>809,413</u>	<u>-</u>	<u>28,366,738</u>
Business-type activities capital assets, net	<u>\$ 23,972,995</u>	<u>\$ 4,287,696</u>	<u>\$ 847,457</u>	<u>\$ -</u>	<u>\$ 29,108,148</u>

Depreciation expense was charged to functions / programs of the government as follows:

Governmental activities:	
General government	\$ 74,473
Public safety	294,093
Public works	540,454
Culture and recreation	250,292
Total depreciation expense - governmental activities	\$ 1,159,312
Business-type activities:	
Joint utility	\$ 968,783
Solid waste	5,220
Irrigation assessment	4,331
Total depreciation expense - business-type activities	\$ 978,334

Construction commitments

The City has active construction projects as of June 30, 2010. At June 30, 2010, the City's commitments with contractors were as follows:

	<u>Expended to-date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant	\$ 268,204	\$ 1,488,384

D. Interfund receivables, payables and transfers

Interfund transfers and advances consisted of the following as of June 30, 2010:

TRANSFERS		
Governmental Funds	<u>In</u>	<u>Out</u>
General fund - operating transfers	\$ 434,430	\$ 125,069
Municipal Road - operating transfers	121,500	-
Local Government Correction - operating	125,069	-
Development Fees - operating transfer	-	121,500
Capital Equipment Replacement - operating	-	973,684
Total governmental funds transfers	\$ 680,999	\$ 1,220,253
Net governmental funds transfers		\$ 539,254
Business-type funds		
Joint Utility Fund - operating transfer	\$ 1,610,290	\$ 1,080,282
Solid Waste Fund - operating transfer	9,246	-
Total business-type funds transfers	\$ 1,619,536	\$ 1,080,282
Net business-type transfers	\$ 539,254	
INTERFUND RECEIVABLE/PAYABLE		
Governmental Funds	<u>Receivable</u>	<u>Payable</u>
General fund - advance	\$ 250,000	\$ 4,500
Municipal Road - advance	13,963	-
Local Government Correction - advance	4,500	-
Community Development Block Grant - advance	-	5,218
Municipal Road - advance	-	263,963
Total governmental funds advances	\$ 268,463	\$ 273,681
Net governmental interfund		\$ 5,218
Business-type funds		
Joint Utility Fund - advance	\$ 255,218	\$ 250,000
Net enterprise interfund	\$ 5,218	

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

E. Long-term debt

General Obligation Bonds

The City has the capacity to issue general obligation bonds to provide funds for the acquisition and/or construction of major capital projects, but as of June 30, 2010 no general obligation bonds had been issued.

Revenue Bonds

The City has the capacity to issue bonds where the City pledges gross receipts tax and environmental tax revenues derived from the acquired or constructed assets to pay debt service, but as of June 30, 2010 no revenue bonds had been issued.

Contracts and Loans Payable

The City entered into a long-term loan agreement with the State of New Mexico (RIP 91-11) for construction projects totalling \$149,555, payable in annual instalments of \$14,063, including interest at 3%, through 2015. The Joint Utility Enterprise Fund reports the outstanding principal due as of June 30, 2010 of \$65,384, with a current portion of \$12,131.

The City entered into a long-term loan agreement with the State of New Mexico Finance Authority for construction and acquisition of improvements to the City's water and wastewater treatment facilities totalling \$1,919,192. The loan is payable in semi-annual instalments. Annual repayments range between \$155,000 and \$160,000 per year, including interest at 5.32%, through May 2017. The Joint Utilities Enterprise Fund reports the outstanding principal due as of June 30, 2010 of \$888,225, with a current portion of \$108,199.

The City has entered into a long-term loan agreement with the New Mexico Environmental Department (RIP 2002-07) in the original amount of \$500,000 dated June 2002. The loan is payable in annual payments of \$33,608, including interest at 3%, through May 2024. The Joint Utilities Enterprise Fund reports the outstanding principal as of June 30, 2010 of \$379,456, with a current portion of \$22,219.

The City has entered into a long-term loan agreement with the New Mexico Environmental Department (RIP 2003-02) in the original amount of \$500,000 dated March 2003. The loan is payable in annual payments of \$33,608, including interest at 3%, through May 2024. The Joint Utilities Enterprise Fund reports the outstanding principal as of June 30, 2010 of \$379,456, with a current portion of \$22,219.

The City has entered into a long-term loan agreement with the State of New Mexico Finance Authority to construct, purchase, furnish and equip a public library totalling \$1,679,942 dated September 2004. The loan is payable in semi-annual payments averaging \$146,461 per year, including interest at 3.966%, through May 2020. The General Governmental Fund on the government-wide statement of net assets reports the outstanding principal due as of June 30, 2010 of \$1,176,572, with a current portion of \$98,583.

The City has entered into a long-term loan agreement with the State of New Mexico Finance Authority for capital improvements (including a raw water reservoir) totalling \$3,367,380 dated October 24, 2008. The loan is payable in variable annual principal payments, and semi-annual interest payments with interest rate ranging from 2.03% to 4.89%, through May 2031. The General Governmental Fund on the government-wide statement of net assets reports the outstanding principal due as of June 30, 2010 of \$3,249,338, with a current portion of \$45,770.

The City has entered into a long-term loan agreement with the New Mexico Environmental Department (CWRP 2009) in the original amount of \$5,000,000 dated December 5, 2008. The loan is payable in annual payments of \$305,784, including interest at 2%, through December 2028. The Joint Utilities Enterprise Fund reports the outstanding principal as of June 30, 2010 of \$4,794,216, with a current portion of \$209,899.

The City has entered into a long-term loan agreement with the USDA Rural Utilities Service in the original amount of \$860,447 dated November 25, 2008 (funded during the fiscal year ended June 30, 2010). The loan is payable in annual payments of approximately \$45,000, including interest at 4.2%, through June 2048, and is secured by GRT Environmental Tax proceeds. The Joint Utilities Enterprise Fund reports the outstanding principal as of June 30, 2010 of \$851,447, with a current portion of \$9,000.

Long-term debt service requirements to maturity are as follows:

Governmental activities

Fiscal year ended:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2011	\$ 144,353	\$ 195,545	\$ 339,898
June 30, 2012	149,400	190,680	340,080
June 30, 2013	153,943	185,372	339,315
June 30, 2014	158,826	179,684	338,510
June 30, 2015	165,939	173,644	339,583
June 30, 2016-2020	931,643	762,000	1,693,643
June 30, 2021-2025	1,037,429	552,480	1,589,909
June 30, 2026-2030	1,368,325	283,105	1,651,430
June 30, 2031	316,052	15,470	331,522
Debt service requirements	<u>4,425,910</u>	<u>\$ 2,537,980</u>	<u>\$ 6,963,890</u>
Less current portion	<u>(144,353)</u>		
Long-term debt, net of current portion	<u>\$ 4,281,557</u>		

Business-type activities

Fiscal year ended:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2011	\$ 383,667	\$ 205,593	\$ 589,260
June 30, 2012	396,201	193,431	589,632
June 30, 2013	408,222	180,728	588,950
June 30, 2014	421,702	167,551	589,253
June 30, 2015	435,339	153,779	589,118
June 30, 2016-2020	1,828,881	573,067	2,401,948
June 30, 2021-2025	1,658,385	365,156	2,023,541
June 30, 2026-2030	1,259,341	189,788	1,449,129
June 30, 2031-2035	115,000	109,108	224,108
June 30, 2036-2040	143,000	82,418	225,418
June 30, 2041-2045	176,000	49,310	225,310
June 30, 2046-2048	132,447	10,555	143,002
Debt service requirements	<u>7,358,185</u>	<u>\$ 2,280,484</u>	<u>\$ 9,638,669</u>
Less current portion	<u>(383,667)</u>		
Long-term debt, net of current portion	<u>\$ 6,974,518</u>		

Changes in Long-term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Balance			Balance	
	June 30, 2009	Additions	Reductions	June 30, 2010	Due Within One Year
<u>Governmental activities</u>					
Contracts and loans payable:					
NM Finance Authority	\$ 1,271,999	\$ -	\$ (95,427)	\$ 1,176,572	\$ 98,583
NM Retiree Health Care	24,470	-	(24,470)	-	-
NM Finance Authority - Capital Projects	3,286,588	-	(36,950)	3,249,638	45,770
Total contracts and loans payable	4,583,057	-	(156,847)	4,426,210	144,353
Compensated absences	322,070	225,289	(272,465)	274,894	273,000
Total Governmental Activities	<u>\$ 4,905,127</u>	<u>\$ 225,289</u>	<u>\$ (429,312)</u>	<u>\$ 4,701,104</u>	<u>\$ 417,353</u>
<u>Business-type Activities</u>					
Contracts and loans payable:					
State Rural Infrastructure	\$ 77,162	\$ -	\$ (11,778)	\$ 65,384	\$ 12,131
State Rural Infrastructure	401,208	-	(21,752)	379,456	22,219
State Rural Infrastructure	401,208	-	(21,752)	379,456	22,219
NM Finance Authority	991,156	-	(102,931)	888,225	108,199
NM Finance Authority	150,588	-	(150,588)	-	-
NM Retiree Health Care	11,180	-	(11,180)	-	-
NM Environmental Department	5,000,000	-	(205,783)	4,794,217	209,899
USDA RUS Loan	-	860,447	(9,000)	851,447	9,000
Total contracts and loans payable	7,032,502	860,447	(534,764)	7,358,185	383,667
Compensated absences	113,716	82,440	(85,415)	110,741	84,737
Total Business-type Activities	<u>\$ 7,146,218</u>	<u>\$ 942,887</u>	<u>\$ (620,179)</u>	<u>\$ 7,468,926</u>	<u>\$ 468,404</u>

F. Reserved fund balances

Fund equity was reserved for the following purposes:

Subsequent years expenditures: The New Mexico Department of Finance and Administration (DFA) requires that 1/12th of the general fund budgeted expenditures (\$588,192) be reserved as subsequent year expenditures to maintain an adequate cash flow until the next significant property tax collection.

Debt service: These amounts represent cash reserves required by loan agreements.

V. OTHER INFORMATION

A. Risk management

The City is also exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. In addition, the City is party to numerous pending or threatened lawsuits, under which it may be required to pay certain amounts upon final disposition of these matters. The City has historically retained these risks, except where it has determined that commercial insurance is more cost beneficial or legally required. The City has covered all claim settlements and judgments out of its General Fund resources, except where specifically identifiable to an enterprise fund. The City currently reports substantially all of its risk management activities, except worker's compensation, in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Current liabilities are reported when the liability has matured. These losses include an estimate of claims that have been incurred but not reported.

B. Contingent liabilities

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

C. Jointly governed organizations

Joint Powers Agreement for Consolidated Communications Authority. The City is a participant with San Juan County, the City of Farmington and the City of Bloomfield in a joint powers agreement to build, maintain, and operate a centralized communications system for dispatch and emergency response. The City was obligated to contribute \$7,500 per year until the Capital Equipment Fund reached a balance of \$250,000. Thereafter, the City is obligated to contribute 6% of an amount necessary to maintain that balance. During the year ended June 30, 2010, the City contributed \$0 to the Authority. Complete financial statements for the Consolidated Communications Authority can be obtained from San Juan County, New Mexico.

Joint Powers Agreement for the San Juan Water Commission. The City is a participant with the cities of Farmington and Bloomfield, the County of San Juan, and the San Juan Rural Waters Users Association in a joint powers agreement to create a countywide entity responsible for water planning and use. Much of the impetus to form the Commission came from the Animas La Plata water project and the subsequent need to develop methods to equitably share the related costs and benefits. In addition to this specific project the Commission is also authorized to acquire additional water rights and provide for the equitable distribution of such water. The Commission is financed by a San Juan County mill levy on real and personal property of approximately 3 mills. During the year ended June 30, 2010 the City did not make any financial contribution to the Commission. Complete financial statements may be obtained by contacting the San Juan Water Commission.

D. Employee Retirement Systems and Plans

Pension Plan – Public Employees Retirement Association

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

Funding Policy. Plan members are required to contribute from 9.15% to 16.30%, depending upon the plan (i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The City is required to contribute from 9.15% to 21.25% (depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the City are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The City's contributions to PERA for the fiscal years ending June 30, 2010, 2009, and 2008 were \$409,714, \$425,728, and \$406,664, respectively, which equal the amount of the required contributions for each fiscal year.

E. Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. The City contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. For employees who are not members of an enhanced retirement plan the contribution rates will be:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY2011	1.666%	.833%
FY2012	1.834%	.917%
FY2013	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY2011	2.084%	1.042%
FY2012	2.292%	1.146%
FY2013	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The City's contributions to the RCHA for the years ended June 30, 2010, 2009 and 2008 were \$46,556, \$49,245, and \$46,018, respectively, which equal the required employer contributions for each year.

F. Subsequent Events

In September 2008, the State Treasurer Local Government Investment Pool (LGIP) portfolio, like many investment funds throughout the country, experienced significant market volatility. One of the LGIP investments, the Reserve Primary money market fund was downgraded from "AAA" to "D" on September 16, 2008. The LGIP shares in the Reserve Primary Fund were initially frozen until the fund's liquidation process could begin. In order to maintain the LGIP's "AAA" rating, the LGIP temporarily sold this security to the State's General Fund investment pool at par under a put agreement. By June 30, 2011, 97.3% of the LGIP Reserve Primary Fund holding had been recovered (carrying value of \$25,698).

The State Treasurer is participating in a lawsuit against the Reserve on behalf of the State Treasurer's portfolios and LGIP participants. Additionally, the Securities and Exchange Commission (SEC) filed a civil lawsuit in federal court against the operators of the Reserve seeking to expedite the distribution of the Reserve's remaining assets to investors. For more information on the Reserve Contingency fund see the State Treasurer's website at http://www.stonm.org/files_uploads/1835.pdf.

G. Subsequent Accounting Standard Pronouncements

In February 2009, the GASB adopted Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010. This statement establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The City is analyzing the effect that this statement will have on its financial statements.

Combining and Individual Fund Statements and Schedules

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MAJOR GOVERNMENTAL FUNDS

Capital Projects Fund

Capital Projects Fund - This fund was created by City management to account for the acquisition and construction of major capital facilities other than those projects financed by proprietary funds.

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CITY OF AZTEC, NEW MEXICO
Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ 531,000	\$ 531,000	\$ 511,782	\$ (19,218)
Intergovernmental	1,600,000	1,600,000	1,595,398	(4,602)
Investment earnings	35,000	35,000	5,958	(29,042)
Total Revenues	2,166,000	2,166,000	2,113,138	(52,862)
EXPENDITURES:				
Current:				
General government	519,500	519,500	14,573	504,927
Public works	-	-	-	-
Capital outlay	3,508,077	3,508,077	3,127,359	380,718
Debt service:				
Principal payments	140,579	140,579	140,007	572
Interest payments	199,205	199,205	199,704	(499)
Total Expenditures	4,367,361	4,367,361	3,481,643	885,718
Net change in fund balances	(2,201,361)	(2,201,361)	(1,368,505)	832,856
Fund balances - beginning	4,017,085	4,017,085	4,017,085	-
Fund balances - ending	\$ 1,815,724	\$ 1,815,724	\$ 2,648,580	\$ 832,856

The notes to the financial statements are an integral part of this statement.

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Law Enforcement Protection Fund - This fund was established by City management to account for law enforcement protection monies received from the State to be disbursed for law enforcement related expenditures pursuant to NMSA 29-13-7.

Local Government Correction Fund - City management established this fund to account for correction fees assessed to City trustees sentenced to serve time in the County detention center and subsequently paid to the County, pursuant to NMSA 33-3-25.

Economic Development Fund – This fund was established pursuant to NMSA 1978 Sec 5-10-1, as adopted by City Ordinance 99-235, to allow public support of economic development to foster, promote, and enhance local economic development efforts while continuing to protect against the unauthorized use of public money and other public resources. The statute also allows the City to enter into joint power agreements to plan and support regional economic development projects.

Development Fees Fund – This fund was established by the City management to account for impact fees collected as provided by NMSA 5-8-1 through 5-8-42 and City Ordinance 2004-310. Impact fees may be used for a variety of expenditures except maintenance or operation costs.

Lodgers Tax Fund – This fund was established pursuant to NMSA 3-38-15 to account for the City's occupancy tax imposed on lodging establishments and restricted to tourism and promotion uses.

State Fire Fund - City management established this fund to account for state grants restricted for the purchase of fire fighting equipment and other approved fire department needs pursuant to NMSA 59A-53-8.

Recreation Fund – NMSA 7-12-15.B authorizes the establishment of the fund to account for the City's share of a state cigarette tax legally restricted for the operation of recreation facilities.

Emergency Medical Services Fund - City management established this fund to account for State grants restricted to expenditures for the purchase of emergency medical equipment as provided by NMSA 24-10A-7.

Airport fund – City management established this fund to account for the activities of the City's airport operations and account for operating and capital grants.

Capital Projects Funds

Capital Equipment Replacement Fund - City management established this fund to accumulate funding of future capital equipment purchases.

Community Development Block Grant Fund – City management established this fund to account for federal grant monies received for water, sewer, and street capital expenditures.

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CITY OF AZTEC, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue Funds						
	Law Enforcement Protection	Local Government Correction	Economic Development	Development Fees	Lodgers Tax	State Fire	Recreation
ASSETS:							
Cash and cash equivalents	\$ 1,865	\$ 8,123	\$ 111,294	\$ 35,741	\$ 20,680	\$ 544,928	\$ 40,198
Intergovernmental receivable	-	-	-	-	-	-	1,341
Other receivables	-	-	-	-	1,388	-	-
Prepaid and other assets	-	-	-	-	-	-	-
Due from other funds	-	4,500	-	-	-	-	-
Total Assets	\$ 1,865	\$ 12,623	\$ 111,294	\$ 35,741	\$ 22,068	\$ 544,928	\$ 41,539
LIABILITIES:							
Accounts payable	\$ 1,229	\$ 12,104	\$ -	\$ -	\$ 1,511	\$ -	\$ -
Other current liabilities	10	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Total Liabilities	1,239	12,104	-	-	1,511	-	-
FUND BALANCES:							
Reserved for encumbrances	-	-	-	-	-	-	-
Unreserved, undesignated	626	519	111,294	35,741	20,557	544,928	41,539
Total Fund Balances	626	519	111,294	35,741	20,557	544,928	41,539
Total Liabilities and Fund Balances	\$ 1,865	\$ 12,623	\$ 111,294	\$ 35,741	\$ 22,068	\$ 544,928	\$ 41,539

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

				Capital Projects Funds			Total Nonmajor Governmental Funds
	Emergency Medical Services	Airport	Total Special Revenue	Capital Equipment Replacement	Community Development Block Grant	Total Capital Projects	
ASSETS:							
Cash and cash equivalents	\$ 654	\$ 29,481	\$ 792,964	\$ 1,721	\$ 11,166	\$ 12,887	\$ 805,851
Intergovernmental receivable	-	47,345	48,686	-	29,137	29,137	77,823
Other receivables	-	1,413	2,801	-	-	-	2,801
Prepaid and other assets	-	1,333	1,333	-	-	-	1,333
Due from other funds	-	-	4,500	-	-	-	4,500
Total Assets	\$ 654	\$ 79,572	\$ 850,284	\$ 1,721	\$ 40,303	\$ 42,024	\$ 892,308
LIABILITIES:							
Accounts payable	\$ -	\$ 27,652	\$ 42,496	\$ -	\$ 30,740	\$ 30,740	\$ 73,236
Other current liabilities	210	500	720	-	-	-	720
Unearned revenue	-	1,333	1,333	-	-	-	1,333
Due to other funds	-	-	-	-	5,218	5,218	5,218
Total Liabilities	210	29,485	44,549	-	35,958	35,958	80,507
FUND BALANCES:							
Reserved for encumbrances	-	-	-	-	-	-	-
Unreserved, undesignated	444	50,087	805,735	1,721	4,345	6,066	811,801
Total Fund Balances	444	50,087	805,735	1,721	4,345	6,066	811,801
Total Liabilities and Fund Balances	\$ 654	\$ 79,572	\$ 850,284	\$ 1,721	\$ 40,303	\$ 42,024	\$ 892,308

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

Special Revenue Funds

	<u>Law</u> <u>Enforcement</u> <u>Protection</u>	<u>Local</u> <u>Government</u> <u>Correction</u>	<u>Economic</u> <u>Development</u>	<u>Development</u> <u>Fees</u>	<u>Lodgers</u> <u>Tax</u>	<u>State</u> <u>Fire</u>	<u>Recreation</u>
REVENUES:							
Taxes:							
Gross receipts tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	12,816	-	11,304
Licenses and permits	-	-	-	7,500	-	-	-
Intergovernmental	29,600	-	-	-	-	203,819	-
Charges for services	-	77,662	-	-	-	-	-
Investment earnings	174	-	832	240	168	4,111	308
Miscellaneous	-	-	-	-	-	-	219
Total Revenues	29,774	77,662	832	7,740	12,984	207,930	11,831
EXPENDITURES:							
Current:							
General government	-	-	-	-	-	-	-
Public safety	32,602	203,284	-	-	-	9,674	-
Public works	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	15,218	-	2,292
Capital outlay	-	-	-	-	-	-	13,788
Debt service:							
Principal payments	-	-	-	-	-	-	-
Interest payments	-	-	-	-	-	-	-
Total Expenditures	32,602	203,284	-	-	15,218	9,674	16,080
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,828)	(125,622)	832	7,740	(2,234)	198,256	(4,249)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	125,069	-	-	-	-	-
Transfers out	-	-	-	(121,500)	-	-	-
Total other financing sources (uses)	-	125,069	-	(121,500)	-	-	-
Net change in fund balances	(2,828)	(553)	832	(113,760)	(2,234)	198,256	(4,249)
Fund balances - beginning	3,454	1,072	110,462	149,501	22,791	346,672	45,788
Fund balances - ending	\$ 626	\$ 519	\$ 111,294	\$ 35,741	\$ 20,557	\$ 544,928	\$ 41,539

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

			<u>Capital Projects Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Emergency Medical Services</u>	<u>Airport</u>	<u>Total Special Revenue</u>	<u>Capital Equipment Replacement</u>	<u>Community Development Block Grant</u>	
REVENUES:						
Taxes:						
Gross receipts tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	24,120	-	-	24,120
Licenses and permits	-	-	7,500	-	-	7,500
Intergovernmental	-	160,189	393,608	-	434,945	828,553
Charges for services	-	-	77,662	-	-	77,662
Investment earnings	-	335	6,168	-	-	6,168
Miscellaneous	-	4,528	4,747	-	-	4,747
Total Revenues	-	165,052	513,805	-	434,945	948,750
EXPENDITURES:						
Current:						
General government	-	3,009	3,009	-	-	3,009
Public safety	-	-	245,560	-	-	245,560
Public works	-	-	-	-	-	-
Culture and recreation	-	-	17,510	-	-	17,510
Capital outlay	-	169,741	183,529	-	434,945	618,474
Debt service:						
Principal payments	-	-	-	-	-	-
Interest payments	-	-	-	-	-	-
Total Expenditures	-	172,750	449,608	-	434,945	884,553
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(7,698)	64,197	-	-	64,197
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	125,069	-	-	125,069
Transfers out	-	-	(121,500)	(973,684)	-	(1,095,184)
Total other financing sources (uses)	-	-	3,569	(973,684)	-	(970,115)
Net change in fund balances	-	(7,698)	67,766	(973,684)	-	(905,918)
Fund balances - beginning	444	57,785	737,969	975,405	4,345	979,750
Fund balances - ending	\$ 444	\$ 50,087	\$ 805,735	\$ 1,721	\$ 4,345	\$ 6,066

The notes to the financial statements are an integral part of this statement.

Governmental Funds

**Statement of Revenues, Expenditure and Changes in
Fund Balances – Budget and Actual**

CITY OF AZTEC, NEW MEXICO
Law Enforcement Protection Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	29,600	29,600	29,600	-
Investment earnings	120	120	174	54
Total Revenues	<u>29,720</u>	<u>29,720</u>	<u>29,774</u>	<u>54</u>
EXPENDITURES:				
Current:				
Public safety	27,603	32,603	32,602	1
Capital outlay	5,000	-	-	-
Total Expenditures	<u>32,603</u>	<u>32,603</u>	<u>32,602</u>	<u>1</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,883)	(2,883)	(2,828)	55
Fund balances - beginning	3,454	3,454	3,454	-
Fund balances - ending	<u>\$ 571</u>	<u>\$ 571</u>	<u>\$ 626</u>	<u>\$ 55</u>

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Local Government Correction Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Charges for services	90,000	90,000	77,662	(12,338)
Total Revenues	<u>90,000</u>	<u>90,000</u>	<u>77,662</u>	<u>(12,338)</u>
EXPENDITURES:				
Current:				
Public safety	255,000	255,000	203,284	51,716
Capital outlay	-	-	-	-
Total Expenditures	<u>255,000</u>	<u>255,000</u>	<u>203,284</u>	<u>51,716</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(165,000)</u>	<u>(165,000)</u>	<u>(125,622)</u>	<u>39,378</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	165,000	165,000	125,069	(39,931)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>165,000</u>	<u>165,000</u>	<u>125,069</u>	<u>(39,931)</u>
Net change in fund balances	-	-	(553)	(553)
Fund balances - beginning	1,072	1,072	1,072	-
Fund balances - ending	<u>\$ 1,072</u>	<u>\$ 1,072</u>	<u>\$ 519</u>	<u>\$ (553)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Economic Development Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Investment earnings	2,000	2,000	832	(1,168)
Total Revenues	2,000	2,000	832	(1,168)
EXPENDITURES:				
Current:				
General government	100,000	100,000	-	100,000
Capital outlay	-	-	-	-
Total Expenditures	100,000	100,000	-	100,000
 Net change in fund balances	 (98,000)	 (98,000)	 832	 98,832
 Fund balances - beginning	 110,462	 110,462	 110,462	 -
Fund balances - ending	\$ 12,462	\$ 12,462	\$ 111,294	\$ 98,832

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Development Fees Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	7,500	7,500
Investment earnings	480	480	240	(240)
Total Revenues	480	480	7,740	7,260
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	480	480	7,740	7,260
OTHER FINANCING SOURCES (USES):				
Transfers out	(121,500)	(121,500)	(121,500)	-
Net change in fund balances	(121,020)	(121,020)	(113,760)	7,260
Fund balances - beginning	149,501	149,501	149,501	-
Fund balances - ending	\$ 28,481	\$ 28,481	\$ 35,741	\$ 7,260

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Lodgers Tax Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Other taxes	17,000	17,000	12,816	(4,184)
Investment earnings	400	400	168	(232)
Total Revenues	17,400	17,400	12,984	(4,416)
EXPENDITURES:				
Current:				
Culture and recreation	29,445	29,445	15,218	14,227
Capital outlay	-	-	-	-
Total Expenditures	29,445	29,445	15,218	14,227
 Net change in fund balances	 (12,045)	 (12,045)	 (2,234)	 9,811
Fund balances - beginning	22,791	22,791	22,791	-
Fund balances - ending	\$ 10,746	\$ 10,746	\$ 20,557	\$ 9,811

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
State Fire Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	154,169	154,169	203,819	49,650
Investment earnings	12,000	12,000	4,111	(7,889)
Miscellaneous	-	-	-	-
Total Revenues	166,169	166,169	207,930	41,761
EXPENDITURES:				
Current:				
Public safety	118,624	118,624	9,674	108,950
Capital outlay	45,369	45,369	-	45,369
Total Expenditures	163,993	163,993	9,674	154,319
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,176	2,176	198,256	196,080
Fund balances - beginning	346,672	346,672	346,672	-
Fund balances - ending	\$ 348,848	\$ 348,848	\$ 544,928	\$ 196,080

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Recreation Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Other taxes	10,596	10,596	11,304	708
Investment earnings	750	750	308	(442)
Miscellaneous	-	-	219	219
Total Revenues	11,346	11,346	11,831	485
EXPENDITURES:				
Current:				
Culture and recreation	10,000	9,000	2,292	6,708
Capital outlay	17,640	18,640	13,788	4,852
Total Expenditures	27,640	27,640	16,080	11,560
 Net change in fund balances	 (16,294)	 (16,294)	 (4,249)	 12,045
 Fund balances - beginning	 45,788	 45,788	 45,788	 -
Fund balances - ending	\$ 29,494	\$ 29,494	\$ 41,539	\$ 12,045

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Emergency Medical Services Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Investment earnings	-	-	-	-
Total Revenues	-	-	-	-
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	444	444	444	-
Fund balances - ending	\$ 444	\$ 444	\$ 444	\$ -

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Airport Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	175,000	175,000	160,189	(14,811)
Investment earnings	600	600	335	(265)
Miscellaneous	2,600	2,600	4,528	1,928
Total Revenues	178,200	178,200	165,052	(13,148)
EXPENDITURES:				
Current:				
General government	15,200	15,200	3,009	12,191
Capital outlay	175,000	175,000	169,741	5,259
Total Expenditures	190,200	190,200	172,750	17,450
Net change in fund balances	(12,000)	(12,000)	(7,698)	4,302
Fund balances - beginning	57,785	57,785	57,785	-
Fund balances - ending	\$ 45,785	\$ 45,785	\$ 50,087	\$ 4,302

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Capital Equipment Replacement Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-
Total Revenues	-	-	-	-
EXPENDITURES:				
Capital outlay	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(973,684)	(973,684)	(973,684)	-
Total other financing sources (uses)	(973,684)	(973,684)	(973,684)	-
Net change in fund balances	(973,684)	(973,684)	(973,684)	-
Fund balances - beginning	975,405	975,405	975,405	-
Fund balances - ending	\$ 1,721	\$ 1,721	\$ 1,721	\$ -

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Community Development Block Grant Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Gross receipts tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	411,499	411,499	434,945	23,446
Total Revenues	411,499	411,499	434,945	23,446
EXPENDITURES:				
Capital outlay	411,499	411,499	434,945	(23,446)
Net change in fund balances	-	-	-	-
Fund balances - beginning	4,345	4,345	4,345	-
Fund balances - ending	<u>\$ 4,345</u>	<u>\$ 4,345</u>	<u>\$ 4,345</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Enterprise Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets Budget and Actual (Non-GAAP Budgetary Basis)

Joint Utility Fund - The following funds are used to account for the activities of the City's electric, water and wastewater utility operations.

Solid Waste Fund - This fund is used to account for the City's solid waste services. The operation of the service is performed under a contract with the City by a private enterprise.

Irrigation Assessment Fund - This fund is used to account for the activities of the City's irrigation assessment activities.

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CITY OF AZTEC, NEW MEXICO
Statement of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual (Non-GAAP Budgetary Basis)
Joint Utility Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues:				
Charges for Sales and Services:				
Joint utility	\$ 9,290,557	\$ 9,290,557	\$ 9,522,366	\$ 231,809
Other revenues	45,700	45,700	47,257	1,557
Total Operating Revenues	9,336,257	9,336,257	9,569,623	233,366
Operating expenses:				
Salaries and fringe benefits	1,637,208	1,624,208	1,455,039	169,169
Purchased power	3,694,155	3,694,155	3,471,747	222,408
Other operating expenses	3,471,691	3,420,040	2,885,443	534,597
Payments in lieu of taxes	370,000	370,000	370,000	-
Capital outlay	3,351,785	3,436,936	3,012,516	424,420
Total Operating Expenses	12,524,839	12,545,339	11,194,745	1,350,594
Operating income	(3,188,582)	(3,209,082)	(1,625,122)	1,583,960
Nonoperating revenues (expenses):				
Intergovernmental	1,142,862	1,142,862	1,348,035	205,173
Investment earnings	144,200	144,200	79,970	(64,230)
Gross receipts tax	80,000	80,000	85,308	5,308
Issuance of loans payable	797,399	797,399	855,192	57,793
Principal payments	(626,123)	(626,218)	(534,951)	91,267
Interest expense	(238,166)	(238,071)	(216,446)	21,625
Total Nonoperating Revenues (Expenses)	1,300,172	1,300,172	1,617,108	316,936
Income (Loss) Before Other Sources (Uses)	(1,888,410)	(1,908,910)	(8,014)	1,900,896
Contributed capital	250,000	250,000	4,341,462	4,091,462
Operating transfers, in	1,657,008	1,677,508	1,610,290	(67,218)
Operating transfers, out	(1,127,000)	(1,147,500)	(1,080,282)	67,218
Change in net assets	(1,108,402)	(1,128,902)	4,863,456	5,992,358
Total net assets - beginning	27,170,233	27,170,233	27,170,233	-
Total net assets - ending	\$ 26,061,831	\$ 26,041,331	32,033,689	\$ 5,992,358
RECONCILIATION TO GAAP BASIS:				
Add back capital expenditures			3,012,516	
Less depreciation expense			(968,783)	
Less issuance of loans payable			(855,192)	
Add back principal payments			534,951	
			\$ 33,757,181	

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual (Non-GAAP Budgetary Basis)
Solid Waste Fund
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues:				
Charges for Sales and Services:				
Solid waste	\$ 652,500	\$ 652,500	\$ 676,222	\$ 23,722
Other revenues	-	-	2,418	2,418
Total Operating Revenues	<u>652,500</u>	<u>652,500</u>	<u>678,640</u>	<u>26,140</u>
Operating expenses:				
Salaries and fringe benefits	22,350	22,350	20,438	1,912
Purchased power, fuel and chemicals	-	-	-	-
Other operating expenses	658,560	658,560	634,984	23,576
Capital outlay	-	-	-	-
Total Operating Expenses	<u>680,910</u>	<u>680,910</u>	<u>655,422</u>	<u>25,488</u>
Operating income	<u>(28,410)</u>	<u>(28,410)</u>	<u>23,218</u>	<u>51,628</u>
Nonoperating revenues (expenses):				
Investment earnings	2,000	2,000	1,435	(565)
Interest expense	-	-	-	-
Other fiscal charges	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>2,000</u>	<u>2,000</u>	<u>1,435</u>	<u>(565)</u>
Income (Loss) Before Operating Transfers	<u>(26,410)</u>	<u>(26,410)</u>	<u>24,653</u>	<u>51,063</u>
Capital contributions	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Operating transfers, in	9,246	9,246	9,246	-
Operating transfers, out	<u>(13,413)</u>	<u>(13,413)</u>	<u>-</u>	<u>13,413</u>
Change in net assets	<u>(30,577)</u>	<u>(30,577)</u>	<u>33,899</u>	<u>64,476</u>
Total net assets - beginning	<u>213,950</u>	<u>213,950</u>	<u>213,950</u>	<u>-</u>
Total net assets - ending	<u>\$ 183,373</u>	<u>\$ 183,373</u>	<u>247,849</u>	<u>\$ 64,476</u>
RECONCILIATION TO GAAP BASIS:				
Add back capital expenditures			-	
Less depreciation expense			<u>(5,220)</u>	
			<u>\$ 242,629</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF AZTEC, NEW MEXICO
Statement of Revenues, Expenses and Changes in Fund Net Assets
Budget to Actual (Non-GAAP Budgetary Basis)
Irrigation Assessment Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues:				
Charges for Sales and Services:				
Irrigation	\$ 13,159	\$ 13,159	\$ 13,159	\$ -
Other revenues	-	-	-	-
Total Operating Revenues	13,159	13,159	13,159	-
Operating expenses:				
Salaries and fringe benefits	-	-	-	-
Other operating expenses	12,700	12,700	3,685	9,015
Capital outlay	-	-	-	-
Total Operating Expenses	12,700	12,700	3,685	9,015
Operating income (loss)	459	459	9,474	9,015
Nonoperating revenues (expenses):				
Investment earnings	1,200	1,200	890	(310)
Interest expense	-	-	-	-
Other fiscal charges	-	-	-	-
Total Nonoperating Revenues (Expenses)	1,200	1,200	890	(310)
Income (Loss) Before Operating Transfers	1,659	1,659	10,364	8,705
Capital contributions	-	-	-	-
Operating transfers, in	-	-	-	-
Change in net assets	1,659	1,659	10,364	8,705
Total net assets - beginning	182,538	182,538	182,538	-
Total net assets - ending	\$ 184,197	\$ 184,197	192,902	\$ 8,705
RECONCILIATION TO GAAP BASIS:				
Add back capital expenditures			-	
Less depreciation expense			(4,331)	
			\$ 188,571	

The notes to the financial statements are an integral part of this statement.

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**Fiduciary Funds
Agency Funds**

**Statement of Changes in Fiduciary Net Assets
Agency Funds**

Employee Association Trust Fund – Agency fund that accounts for employee contributions that are used for special occasions such as sending flowers, etc.

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CITY OF AZTEC, NEW MEXICO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
AGENCY FUNDS
Year Ended June 30, 2010

	<u>Balance</u> <u>June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>2010</u>
<u>ASSETS</u>				
<u>Cash:</u>				
Employee Association Trust Fund	\$ 4,194	\$ 4,453	\$ 3,560	\$ 5,087
	<u>4,194</u>	<u>4,453</u>	<u>3,560</u>	<u>5,087</u>
Total assets	<u>\$ 4,194</u>	<u>\$ 4,453</u>	<u>\$ 3,560</u>	<u>\$ 5,087</u>
<u>LIABILITIES</u>				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Deposits held for others	<u>4,194</u>	<u>4,453</u>	<u>3,560</u>	<u>5,087</u>
Total liabilities	<u>\$ 4,194</u>	<u>\$ 4,453</u>	<u>\$ 3,560</u>	<u>\$ 5,087</u>

The notes to the financial statements are an integral part of this statement.

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**Capital Assets Used in the Operation of
Governmental Funds**

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CITY OF AZTEC, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Schedule by Source
June 30, 2010

	2010
Governmental Funds Capital Assets:	
Land	\$ 638,435
Buildings & Structures	7,271,668
Improvements Other than Buildings	1,862,080
Equipment & Machinery	4,670,846
Infrastructure	11,232,358
Construction (Projects) in Process	822,511
Total Governmental Funds Capital Assets	\$ 26,497,898
 Investment in Governmental Funds Capital Assets by Source:	
General Fund	\$ 11,986,697
Special revenue funds	6,186,973
Capital projects funds	7,345,013
Donations	979,215
Total Governmental Funds Capital Assets	\$ 26,497,898

CITY OF AZTEC, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
For the Year Ended June 30, 2010

FUNCTION AND ACTIVITY	Land	Buildings & Improvements	Improvements Other than Buildings	Furniture & Fixtures	Equipment & Machinery	Vehicles & Heavy Equip	Infrastructure	Construction in Progress	Total
General Government:									
Legislative	\$ -	\$ 12,398	\$ 1,865	\$ 2,018	\$ 7,995	\$ -	\$ -	\$ -	\$ 24,276
Judicial	-	-	-	-	47,200	-	-	-	47,200
Executive	63,587	149,933	1,605	19,293	9,473	61,361	-	-	305,252
Finance Administration	-	402,118	-	-	125,431	-	-	-	527,549
Motor Vehicle	-	448,102	-	-	19,259	-	-	-	467,361
Community Development	-	-	-	7,317	7,865	38,426	-	-	53,608
Information Systems	-	2,412	-	-	145,524	18,984	-	-	166,920
Municipal Building Maint	-	56,336	20,880	-	16,494	11,094	5,226	-	110,030
Fleet Maintenance	-	-	-	-	-	-	-	-	-
Total General Government	63,587	1,071,299	24,350	28,628	379,241	129,865	5,226	-	1,702,196
Public Safety:									
Police	-	568,383	8,750	7,589	368,151	547,538	-	-	1,500,411
Fire	35,051	411,471	31,523	-	295,677	1,352,354	-	-	2,126,076
Animal Control	-	953,827	32,656	-	35,236	85,727	-	-	1,107,446
Total Public Safety	35,051	1,933,681	72,929	7,589	699,064	1,985,619	-	-	4,733,933
Public Works:									
Streets	103,153	77,149	75,368	-	550,068	204,670	10,777,152	542,804	12,330,364
Electric	-	-	-	-	-	-	18,646	3,909	22,555
Total Public Works	103,153	77,149	75,368	-	550,068	204,670	10,795,798	546,713	12,352,919
Culture and Recreation:									
Parks & Recreation	426,644	259,752	1,660,333	-	365,823	204,705	132,847	103,858	3,153,962
Library	-	1,947,936	-	37,156	38,620	-	-	-	2,023,712
Airport	10,000	42,008	9,040	-	11,676	-	298,487	171,940	543,151
Total Culture and Recreation	436,644	2,249,696	1,669,373	37,156	416,119	204,705	431,334	275,798	5,720,825
Health and Welfare:									
Community Center	-	204,544	20,060	2,135	24,971	-	-	-	251,710
NESJC Family Center	-	1,735,299	-	-	1,016	-	-	-	1,736,315
Total Health and Welfare	-	1,939,843	20,060	2,135	25,987	-	-	-	1,988,025
Total Capital Assets	\$ 638,435	\$ 7,271,668	\$ 1,862,080	\$ 75,508	\$ 2,070,479	\$ 2,524,859	\$ 11,232,358	\$ 822,511	\$ 26,497,898

CITY OF AZTEC, NEW MEXICO
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended June 30, 2010

FUNCTION AND ACTIVITY	<u>Capital Assets June 30, 2009</u>	<u>Additions/ Reclassifications</u>	<u>Deductions/ Reclassifications</u>	<u>Capital Assets June 30, 2010</u>
GENERAL GOVERNMENT:				
Legislative	\$ 24,276	\$ -	\$ -	\$ 24,276
Judicial	47,200	-	-	47,200
Executive	306,449	-	(1,197)	305,252
Finance Administration	527,549	-	-	527,549
Motor Vehicle	461,375	5,987	(1)	467,361
Community Development	53,609	-	(1)	53,608
Information Systems	168,696	-	(1,776)	166,920
Municipal Building Maint	110,033	-	(3)	110,030
Fleet Maintenance	<u>159,637</u>	<u>-</u>	<u>(159,637)</u>	<u>-</u>
Total General Government	<u>1,858,824</u>	<u>5,987</u>	<u>(162,615)</u>	<u>1,702,196</u>
PUBLIC SAFETY:				
Police	1,493,267	7,145	(1)	1,500,411
Fire	2,122,120	3,955	1	2,126,076
Animal Control	<u>915,443</u>	<u>206,153</u>	<u>(14,150)</u>	<u>1,107,446</u>
Total Public Safety	<u>4,530,830</u>	<u>217,253</u>	<u>(14,150)</u>	<u>4,733,933</u>
PUBLIC WORKS:				
Streets	12,664,999	3,801,865	(4,136,500)	12,330,364
Electric	<u>18,646</u>	<u>3,909</u>	<u>-</u>	<u>22,555</u>
Total Public Works	<u>12,683,645</u>	<u>3,805,774</u>	<u>(4,136,500)</u>	<u>12,352,919</u>
CULTURE AND RECREATION:				
Parks & Recreation	2,676,612	477,349	1	3,153,962
Airport	373,410	169,741	-	543,151
Library	<u>2,023,712</u>	<u>-</u>	<u>-</u>	<u>2,023,712</u>
Total Culture and Recreation	<u>5,073,734</u>	<u>647,090</u>	<u>1</u>	<u>5,720,825</u>
HEALTH AND WELFARE:				
Community Center	251,710	-	-	251,710
NESJC Family Center	<u>1,736,315</u>	<u>-</u>	<u>-</u>	<u>1,736,315</u>
Total Health and Welfare	<u>1,988,025</u>	<u>-</u>	<u>-</u>	<u>1,988,025</u>
Total Capital Assets	<u>\$ 26,135,058</u>	<u>\$ 4,676,104</u>	<u>\$ (4,313,264)</u>	<u>\$ 26,497,898</u>

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**Additional Disclosures Required by the
New Mexico State Auditor**

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CITY OF AZTEC, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2010

	<u>Wells</u> <u>Farqo Bank</u>	<u>Citizens</u> <u>Bank</u>	<u>Four Corners</u> <u>Community</u> <u>Bank</u>	<u>Total</u>
Checking account	\$ 583,650	\$ 1,284,433	\$ -	\$ 1,868,083
Certificates of deposit	-	1,000,000	5,250,000	6,250,000
Deposits, at June 30, 2010	<u>583,650</u>	<u>2,284,433</u>	<u>5,250,000</u>	<u>8,118,083</u>
FDIC Insurance	250,000	250,000	250,000	750,000
Uninsured amount	<u>333,650</u>	<u>2,034,433</u>	<u>5,000,000</u>	<u>7,368,083</u>
Less 50 percent	166,825	1,017,217	2,500,000	3,684,042
Amount requiring pledged collateral	<u>166,825</u>	<u>1,017,217</u>	<u>2,500,000</u>	<u>3,684,042</u>
Pledged collateral at June 30, 2010	<u>1,246,660</u>	<u>2,875,412</u>	<u>2,612,300</u>	<u>6,734,372</u>
Excess (deficiency) of pledged collateral	\$ 1,079,835	\$ 1,858,196	\$ 112,300	\$ 3,050,331
Pledged collateral (market value) located at:	Minneapolis, MN	Dallas, TX	Dallas, TX	
FNCL; #31413SGT5; 11/01/2037	\$ 1,246,660	\$ -	\$ -	\$ 1,246,660
FHLB; #31417YBR7; 05/15/2015	-	2,875,412	-	2,875,412
Fmgtn Mun Sch; #311441JD2; 09/01/2016	-	-	1,201,980	1,201,980
Fmgtn Mun Sch; #311441HM4; 09/01/2016	-	-	210,944	210,944
Aztec Mun Sch; #054879GD7; 10/01/2018	-	-	70,231	70,231
Fmgtn NM GRT Bonds; #311455EY1; 06/15/2013	-	-	214,144	214,144
Fmgtn NM GRT Bonds; #311455EZ8; 06/15/2013	-	-	211,560	211,560
Bloomfield NM GRT; #094072BQ7; 06/15/2013	-	-	114,787	114,787
Los Lunas NM Sch; #545562KL3; 06/01/2013	-	-	230,879	230,879
Los Lunas NM Sch; #545559CR5; 06/01/2013	-	-	255,045	255,045
Bloomfield NM GRT; #094072BM6; 06/15/2013	-	-	102,730	102,730
Totals	\$ 1,246,660	\$ 2,875,412	\$ 2,612,300	\$ 6,734,372
Reconciliation to Financial Statements:				
Total per banks	\$ 583,650	\$ 2,284,433	\$ 5,250,000	\$ 8,118,083
Reconciling items:				
Deposits in transit	10	38,200	-	38,210
Outstanding checks	(130)	(78,485)	-	(78,615)
Total per books	<u>\$ 583,530</u>	<u>\$ 2,244,148</u>	<u>\$ 5,250,000</u>	<u>8,077,678</u>
NM Treasurer Investment Pool				9,766,077
NM Treasurer Investment Pool - Reserve				33,923
Cash with fiscal agent				1,803,209
Cash on hand				<u>2,570</u>
Total per financial statements				<u>\$ 19,683,457</u>
Financial Statements:				
Cash and cash equivalents:				
Governmental activities				\$ 6,690,983
Business-type activities				11,184,178
Fiduciary activities				5,087
Cash with fiscal agent:				
Governmental activities				1,734,074
Business-type activities				69,135
Total per financial statements				<u>\$ 19,683,457</u>

**CITY OF AZTEC, NEW MEXICO
SCHEDULE OF JOINT POWER AGREEMENTS
FOR THE YEAR ENDING JUNE 30, 2010**

Participants (including City of Aztec)	Responsible Party	Description	Dates of Agreement	Total Project	City Share	FY10 Amount	Audit Responsibility
City of Bloomfield	City of Aztec	Operation of Aztec Animal Shelter	b. 5/15/08 t. none	t. variable	1/4 of salary cost of animal control officer 1/4 of salary cost of vet tech/director 1/3 operation costs	\$ 46,272	City of Aztec
San Juan County	City of Aztec	Operation of Aztec Animal Shelter	b. 5/15/02 t. none	variable	1/4 of salary cost of animal control officer 1/4 of salary cost of vet tech/director 1/3 operation costs	\$ 191,530	City of Aztec
San Juan County	San Juan County	County jail operations	b. 10/05/04 t. none	variable	\$63.23/day/prisoner through 6/30/10; rate recalculated July 1 in subsequent years	\$ 203,284	San Juan County
Cities of Bloomfield & Farmington, San Juan County, San Juan County Crimestoppers, Inc.	San Juan County Crimestoppers, Inc.	Crime prevention program	b. 9/16/96 t. None	variable	pro-rata share of costs	\$ 6,127	San Juan County Crimestoppers, Inc.
Cities of Bloomfield & Farmington; San Juan County; rural water associations	San Juan Water Commission	Water rights protection/acquisition/distribution	b. 3/28/86 t. none	variable	.5% of mill levy assessed on property taxes	\$4,143 est	San Juan Water Commission
Cities of Bloomfield & Farmington; San Juan County	San Juan County Communications Authority	Unified dispatch service	b. 5/24/92 t. none	variable	Once maximum Capital Equipment Replacement Fund balance reached, pro-rata share will be assessed to maintain CERF balance; Aztec share 6%	\$ -	San Juan County Communications Authority
Cities of Bloomfield & Farmington and San Juan County	City of Farmington	<u>Municipal Planning Organization</u>	b. 10/09 t. 9/2012	variable	pro-rata share (10%) of costs of MPO (operational and special projects)	\$ 3,450	City of Farmington
City Farmington	City of Farmington	Operation of regional mass transit	b. 10/08 t. 9/09	t. variable	agreement specific to amount obligated	\$ 17,657	City of Farmington

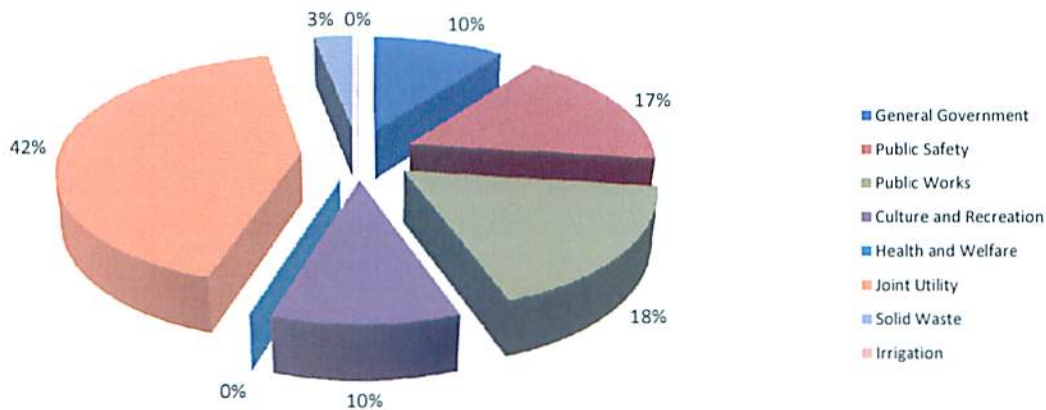
STATISTICAL SECTION

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FISCAL YEARS 2003-2010

Fiscal Year	General Government	Public Safety	Public Works	Culture and Recreation	Health and Welfare	Joint Utility	Solid Waste	Irrigation	Total
2003	\$689,296	\$1,523,840	\$908,832	\$657,178	\$83,627	\$4,961,298	\$485,906	\$28,963	\$9,338,940
2004	\$894,271	\$1,297,823	\$654,237	\$840,454	\$0	\$5,395,009	\$506,412	\$28,467	\$9,616,673
2005	\$1,274,513	\$1,905,168	\$990,905	\$668,126	\$154,996	\$5,743,024	\$533,877	\$24,550	\$11,295,159
2006	\$1,381,532	\$2,135,358	\$1,853,128	\$1,012,513	\$0	\$5,972,592	\$566,775	\$25,108	\$12,947,006
2007	\$1,815,671	\$2,229,695	\$3,532,321	\$1,055,677	\$0	\$7,866,973	\$588,533	\$6,812	\$17,095,682
2008	\$2,110,680	\$2,733,897	\$2,084,200	\$1,285,597	\$0	\$8,177,753	\$610,138	\$7,008	\$17,009,273
2009	\$1,983,249	\$2,862,497	\$1,921,141	\$1,414,843	\$0	\$7,995,060	\$649,266	\$7,159	\$16,833,215
2010	\$2,257,458	\$3,755,435	\$3,887,767	\$2,289,542	\$0	\$9,367,458	\$660,642	\$8,016	\$22,226,318

GOVERNMENT-WIDE EXPENSES BY FUNCTION - 6/30/10

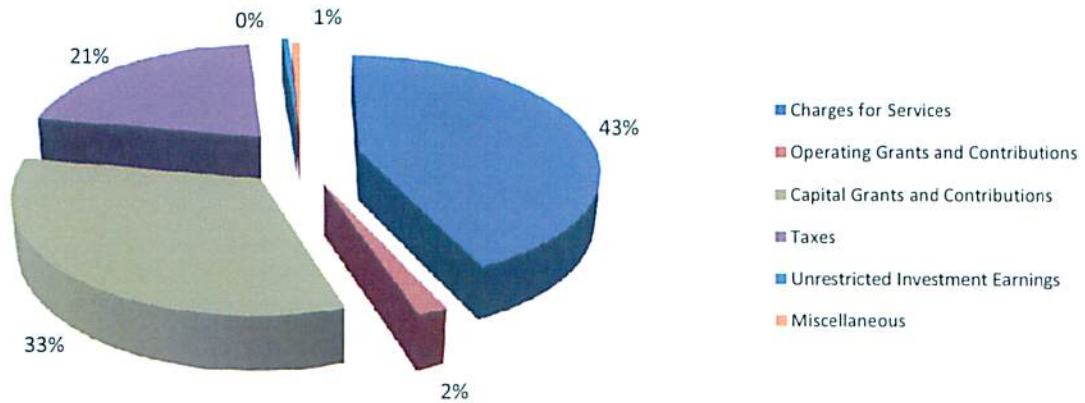


* FY2003 is the first year government-wide information is presented

FISCAL YEARS 2003-2010

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Unrestricted Investment Earnings	Miscellaneous		
2003	\$ 6,424,542	\$ 1,105,994	\$ 1,055,236	\$ 3,100,672	\$ 252,496	\$ 18,701	\$ 11,957,641	
2004	\$ 6,611,231	\$ 1,979,897	\$ 82,379	\$ 3,544,746	\$ 185,475	\$ 284,536	\$ 12,688,264	
2005	\$ 7,653,908	\$ 388,499	\$ 480,962	\$ 4,869,374	\$ 282,097	\$ 137,725	\$ 13,812,565	
2006	\$ 9,018,379	\$ 1,035,880	\$ 803,768	\$ 5,196,920	\$ 487,632	\$ 123,171	\$ 16,665,750	
2007	\$ 10,210,039	\$ 1,296,919	\$ 2,117,376	\$ 5,862,344	\$ 695,269	\$ 116,688	\$ 20,298,635	
2008	\$ 11,249,454	\$ 1,063,924	\$ 1,131,066	\$ 6,850,087	\$ 662,879	\$ 107,739	\$ 21,065,149	
2009	\$ 11,501,830	\$ 429,943	\$ 3,001,015	\$ 6,708,147	\$ 337,024	\$ 102,597	\$ 22,080,556	
2010	\$ 11,083,916	\$ 437,993	\$ 8,432,274	\$ 5,409,968	\$ 141,211	\$ 176,437	\$ 25,681,799	

GOVERNMENT-WIDE REVENUES 06/30/10



* FY2003 is the first year government-wide information is presented

CITY OF AZTEC, NEW MEXICO
 GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)

Table 3

LAST TEN FISCAL YEARS

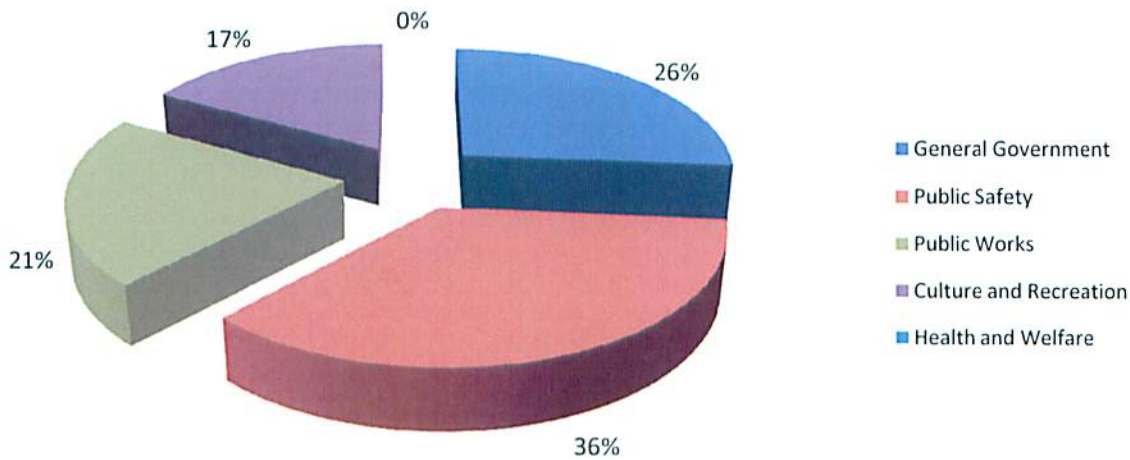
<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Culture and Recreation</u>	<u>Health and Welfare</u>	<u>Total</u>
2001	655,360	1,169,421	505,153	525,834	-	2,855,768
2002	721,507	1,224,225	444,515	498,457	51,612	2,940,316
2003	670,845	1,424,983	526,260	529,051	83,627	3,234,766
2004	732,116	1,672,449	556,468	714,856	-	3,675,889
2005	1,169,293	1,693,441	542,743	566,252	153,691	4,125,420
2006	1,169,572	1,908,208	1,499,247	887,098	-	5,464,125
2007	1,632,016	1,967,451	3,123,766	910,885	-	7,634,118
2008	1,665,357	2,421,134	1,651,035	1,068,047	-	6,805,573
2009	1,833,036	2,651,381	1,625,807	1,205,663	-	7,315,887
2010	1,763,356	2,409,157	1,413,715	1,143,772	-	6,730,000

(1) Includes general, special revenue and debt service funds.

(2) Excludes capital outlay and debt service expenditures.

Source: City of Aztec, New Mexico, Comprehensive Annual Financial Reports

**GOVERNMENTAL
 FUND EXPENDITURES - 06/30/10**



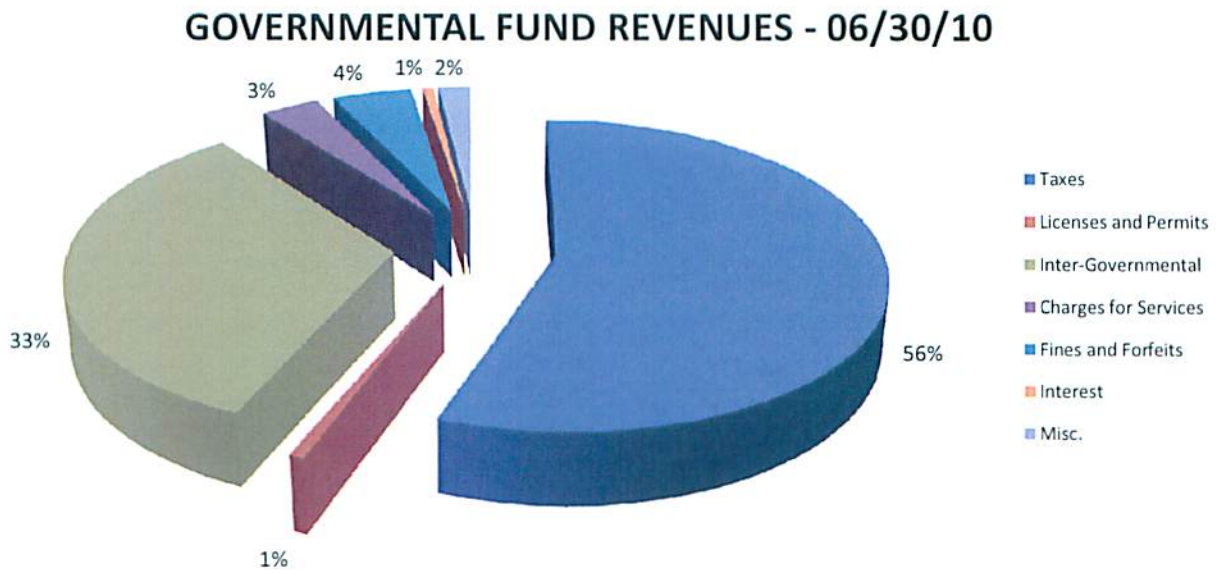
CITY OF AZTEC, NEW MEXICO
 GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)

Table 4

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-Governmental</u>	<u>Charges for Services</u>	<u>Fines and Forfeits</u>	<u>Interest</u>	<u>Misc.</u>	<u>Total</u>
2001	2,876,912	43,216	635,913	156,425	282,744	173,226	72,274	4,240,710
2002	2,957,743	47,126	625,123	200,881	399,395	122,285	63,345	4,415,898
2003	3,100,672	49,882	1,157,418	216,645	429,043	101,470	64,626	5,119,756
2004	3,528,837	51,725	1,329,107	260,505	406,335	104,229	60,051	5,740,789
2005	4,432,986	57,564	904,050	300,250	523,400	168,847	76,636	6,463,733
2006	5,073,253	143,461	1,696,330	331,608	492,108	277,530	123,171	8,137,461
2007	5,726,747	109,720	3,190,059	336,988	475,466	343,285	116,688	10,298,953
2008	6,690,398	162,575	1,928,934	380,726	550,722	333,053	107,739	10,154,147
2009	6,532,742	57,827	3,122,308	398,851	565,712	164,524	102,597	10,944,561
2010	5,311,666	62,683	3,180,770	324,776	435,035	58,916	176,437	9,550,283

(1) Includes general, special revenue and debt service funds.
 Source: City of Aztec, New Mexico, Comprehensive Annual Financial Reports



SINGLE AUDIT SECTION

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CITY OF AZTEC, NEW MEXICO
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

<u>Federal Grantor/Pass - Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-Through Program From:			
New Mexico Department of Finance and Administration			
Community Development Block Grants - Entitlement Grants	14.218	07-C-NR-1-01-G-07	\$ <u>434,945</u>
 <u>U.S. Federal Highway Administration</u>			
Pass-Through Program From:			
New Mexico Department of Transportation			
ARRA - Highway Planning and Construction	20.205	ESF1050	<u>202,666</u>
 <u>U.S. Federal Aviation Administration</u>			
Direct Program: Airport Improvement Program	20.106	3-35-0056-002-2009	<u>161,254</u>
 <u>U.S. Department of Agriculture</u>			
Direct Program: Disposal Systems for Rural Communities	10.760		<u>704,002</u>
 <u>U.S. Environmental Protection Agency</u>			
Direct Program: Congressionally Mandated Projects - FY08 STAG Program	66.202	XP-96671901-0	212,711
Direct Program: Congressionally Mandated Projects - FY09 STAG Program	66.202	XP-96671901-1	<u>488,000</u>
			<u>700,711</u>
 <u>U.S. Department of Justice</u>			
Direct program: ARRA - Edward Byrne Memorial Justice Assistance			
Grant (JAG) Programs/Grants to State and Territories	16.803	2009-SB-B9-2306	<u>28,215</u>
 Total Expenditures of Federal Awards			 \$ <u>2,231,793</u>

See accompanying notes to Schedule of
Expenditures of Federal Awards.

**CITY OF AZTEC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

NOTE 1 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

All federal grant operations of the City of Aztec (the "City") are included in the scope of the Office of Management and Budget ("OMB") Circular A-133 audit (the "Single Audit"). The Single Audit was performed in accordance with the provisions of the OMB Circular Compliance Supplement. Compliance testing of all requirements as described in the Compliance Supplement was performed for the grant programs noted below. These programs represent all federal award programs and other grants with fiscal 2010 cash and non-cash expenditures to ensure coverage of at least 50 percent (high risk auditee) of federally granted funds. Actual coverage is 82% of total cash and non-cash federal award program expenditures.

	<u>Fiscal Year</u> <u>2010</u> <u>Expenditure</u>
Major Federal Award Program Description	
14.218 – Community Development Block Grants – Entitlement Grants	\$434,945
10.760 – Disposal Systems for Rural Communities	704,002
66.202 – Congressionally Mandated Projects	700,711

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grants to the City that had activity during the fiscal year ended June 30, 2010. This schedule has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the City has met the qualifications for the respective grants.

Accrued and deferred reimbursements

Various reimbursement procedures are used for Federal awards received by the City. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year-end represent an excess of reimbursable expenditures over receipts to date. Generally, accrued or deferred balances covered by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance With
Government Auditing Standards**

City of Aztec
Aztec, New Mexico
Honorable Mayor and City Commission, and
Hector H. Balderas, New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund, and the combining and individual funds and related budgetary comparison presented as supplemental information of the City of Aztec, New Mexico (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated June 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, as finding 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

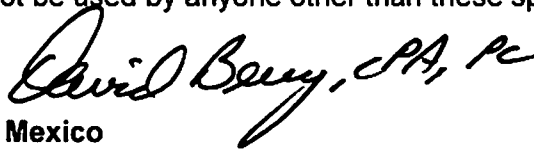
Compliance and Other Matters

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

We noted one instance of noncompliance that are required to be reported under Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs, as finding 2004-1.

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

This report is intended solely for the information and use of the City Commission, City management, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive, flowing style.

Farmington, New Mexico
June 5, 2012

**Report on Compliance
With Requirements Applicable to Each
Major Program and Internal Control Over
Compliance in Accordance With
OMB Circular A-133**

City of Aztec
Aztec, New Mexico
Honorable Mayor and City Commission, and
Hector H. Balderas, New Mexico State Auditor

Compliance

We have audited the City of Aztec, New Mexico (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

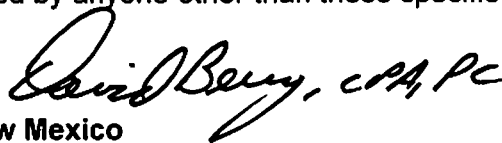
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the City Council, City management, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style.

Farmington, New Mexico
June 5, 2012

**CITY OF AZTEC
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
Year Ended June 30, 2010**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Aztec.
2. One significant deficiency and no material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies and no material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. One audit finding relative to the major federal award programs for the City is reported in Part C of this Schedule.
7. The program tested as major programs included:

	<u>Fiscal Year</u> <u>2010</u>
	<u>Expenditure</u>
Major Federal Award Program Description	
14.218 – Community Development Block Grants – Entitlement Grants	\$434,945
10.760 – Disposal Systems for Rural Communities	704,002
66.202 – Congressionally Mandated Projects	700,711

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a high-risk auditee.

**CITY OF AZTEC
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
Year Ended June 30, 2010**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Prior Year Findings	Status
2004-1 Failure to File Audit Report by Due Date	Repeated
2009-1 Noncompliance with OMB Circular No. A-133.320(a)	Repeated

Current Year Findings

2004-1 Failure to File Audit Report by Due Date

Condition

The New Mexico State Auditor requires the audit to be completed and submitted by December 1st following the entity's June 30th year end. The audited financial statements have been submitted late for the years ended June 30, 2004, 2005, 2006, 2007, 2008, 2009 and 2010. The June 30, 2004, 2005, 2006, 2007, 2008 and 2009 audits have been approved by the State Auditor. The June 30, 2010 audited financial statements have been submitted for approved in June 2012.

Criteria

According to the State of New Mexico, Office of the State Auditor publication 2 NMAC 2.2 – Requirements for Contracting and Conducting Audits of Agencies, Section 9.1, the filing date of the audit reports for cities and villages is December 1st following the end of the fiscal year.

Cause

The prior audit reports (years ended June 30, 2004, 2005, 2006, 2007, 2008, 2009 and 2010) have been submitted to the Office of the State Auditor late.

Effect

According to the state source referred to above, "Failure to file the audit report by the due date set in Section 9.1 is considered non-compliance with 2 NMAC 2.2 and shall be a current year finding." Each entity shall submit a statement to the State Auditor's Office providing an explanation for the delay in submission.

Recommendation

The audit should be completed by the required due date of the State Auditor.

Management Response

The City terminated the three year contract with the FY04 auditing firm when it became apparent that services would not be completed in accordance with the contract. A contract was negotiated with another firm for the FY05 audit. However, due to unforeseen circumstances, they will not be able to continue providing services. The City solicited RFPs for audit services beginning with the FY06 fiscal year and has contracted with a local firm. The FY10 audited financial statements are being submitted late due to the FY04, FY05, FY06, FY07, FY08 and FY09 audited financial statements late submission.

2010-1 Capital Assets and Long-Term Debt Reconciliations

Condition

Capital assets and long-term debt balances are not reconciled to detail records and the general ledger activity on a timely basis.

Criteria

Good accounting controls require that adequate control be maintained over capital assets and long-term debt balances. The control balances should be reconciled to the detailed records and the general ledger activity on a timely basis.

Effect

Errors could occur and not be detected on a timely basis. Also, the necessary information for footnote disclosures is not available on a timely basis to prepare the financial statements.

Cause

The City has not established policies and procedures to properly reconcile the capital assets and long-term debt balances to detail records and the general ledger activity on a timely basis.

Recommendation

The City should establish policies and procedures to properly reconcile the capital assets and long-term debt balances to detail records and the general ledger activity on a timely basis.

Response

Governmental Long Term Debt: Monthly debt reserve payments were posted to principal and interest accounts through the course of the year. The reserve account is reconciled monthly to statements provided by NMFA.

NMFA draws interest and principal payments from the debt reserve account; the principal and interest paid to the reserve account are reflected in the accounts payable account within the Capital Projects Fund.

The City will change the posting of monthly payments to the debt reserve account, record principal and interest payments at the time the debt obligation is drawn from the reserve account and recognize the accrued interest through the fiscal year closing entries mirroring the process used in the enterprise funds.

Capital Assets:The City will establish a policy and procedure to ensure the accurate and timely reporting of capital assets.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM

Current Year Findings

2009-1 Noncompliance with OMB Circular No. A-133.320(a)

Condition

The audit reporting package was not submitted in a timely manner.

Criteria

OMB Circular A-133.320(a) states that the reporting package shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report (July 5, 2012) or 9 months after the end of the audit period (March 31, 2011).

Cause

The City was required to perform a single audit for the year ended June 30, 2010. The City's audits have been submitted late for the last 6 years.

Effect

The City is not in compliance with OMB Circular A-133.320(a), requiring the audit report be submitted on a timely basis.

Recommendation

The City should complete its future audits on a timely basis and, if required, submit the reporting package to the Federal Audit Clearinghouse on a timely basis.

Management Response

The City will complete its future audits on a timely basis and, if required, will submit the reporting package to the Federal Audit Clearinghouse on a timely basis.

Financial Statement Presentation

The City's financial statements were prepared by David Berry, CPA, PC. Management has reviewed and approved these financial statements. Management is responsible for ensuring that the books and records from which the financial statements were prepared adequately support the financial assertions contained therein, in conformity with generally accepted accounting principles and that the records are current and in balance.

**CITY OF AZTEC
EXIT CONFERENCE
Year Ended June 30, 2010**

An exit conference was held on July 9, 2012. In attendance were:

For the City of Aztec:

Jim Crowley
Joshua Ray
Kathy Lamb

Mayor Pro-Tem
City Manager
Finance Director

For David Berry, CPA, PC (auditors):

David Berry, CPA