

**STATE OF NEW MEXICO
CITY OF BAYARD**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2012

STATE OF NEW MEXICO
CITY OF BAYARD
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**STATE OF NEW MEXICO
CITY OF BAYARD**
Directory of Officials
June 30, 2012

ELECTED OFFICIALS

Charles L. Kelly	Mayor
Louis F. Baum, Sr.	Mayor Pro-Tem
Armando Arzola	Councilor
Zeke Santa Maria.....	Councilor
Chon Fierro	Councilor
José Sandoval	Municipal Judge

DEPARTMENT HEADS

Kristina V. Ortiz	Clerk-Treasurer
Anna M. Binder	Deputy Clerk-Treasurer
Wessam “Sam” Charbagi	Police Chief
Eddie Arrey	Fire Chief
David Chavez	Wastewater Plant Superintendent
Eddie S. Sedillos.....	Public Works Director

HOUSING AUTHORITY

Jim Cook.....	Chairperson
Rosemary Alvarado	Vice-Chairperson
Virginia Alvarado.....	Commissioner
Brenda Davis	Commissioner
Jovita Gonzales	Commissioner
Jolene Padilla	Executive Director

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.comIndependent Auditors' ReportHector H. Balderas, State Auditor
and
Mayor and City Council
City of Bayard
Bayard, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds, of the City of Bayard as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental funds, and the budgetary comparison for the major capital projects and enterprise funds and all nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City of Bayard's management. Our responsibility is to express opinions of 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 with 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bayard as of June 30, 2012, and the respective changes in financial position and, cash flows, where applicable, thereof 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 previously present fairly, in all material respects, the financial position of each nonmajor governmental fund of the City of Bayard, as of June 30, 2012, and changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Additionally, in our opinion, the general fund, major municipal streets fund, major library fund, library renovation fund, enterprise funds and all nonmajor governmental funds referred to previously present fairly, in all material respects, the budgetary comparison for each fund of the City of Bayard for the year ended June 30, 2012, in conformity with the budgetary basis of accounting more fully described in Note 1D, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the City of Bayard's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Bayard has omitted the management's discussion and analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements and the 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, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The additional schedules listed as other supplemental financial information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fierro + Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 28, 2012

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash	\$ 1,052,096	\$ 3,144,751	\$ 4,196,847	\$ 399,948
Receivables, net	50,748	294,744	345,492	367
Inventory	-	-	-	3,285
Prepaid expenses	-	-	-	9,819
Restricted cash	36,270	636,373	672,643	16,538
Restricted investments	25	-	25	-
Capital assets:				
Land and construction in progress	385,733	381,073	766,806	204,300
Other capital assets, net of depreciation	7,984,355	16,147,748	24,132,103	976,800
Total capital assets	<u>8,370,088</u>	<u>16,528,821</u>	<u>24,898,909</u>	<u>1,181,100</u>
Unamortized bond issuance costs	6,919	9,250	16,169	-
Total assets	<u>9,516,146</u>	<u>20,613,939</u>	<u>30,130,085</u>	<u>1,611,057</u>
LIABILITIES				
Accounts payable	19,001	31,057	50,058	8,698
Accrued salaries	17,377	17,199	34,576	2,656
Accrued payroll liabilities	-	-	-	3,250
Accrued interest payable	4,941	29,293	34,234	-
Due to others	14,000	-	14,000	-
Customer deposits	-	76,654	76,654	-
Tenant deposits	-	-	-	16,538
Deferred revenues	-	-	-	900
Long-term liabilities:				
Due within one year	45,064	141,233	186,297	4,437
Due in more than one year	340,276	1,800,490	2,140,766	606
Total liabilities	<u>440,659</u>	<u>2,095,926</u>	<u>2,536,585</u>	<u>37,085</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,001,886	14,610,326	22,612,212	1,181,100
Restricted:				
Debt service	25	210,419	210,444	-
State mandated per statutes	126,285	-	126,285	-
Unrestricted	947,291	3,697,268	4,644,559	392,872
Total net assets	<u>\$ 9,075,487</u>	<u>\$ 18,518,013</u>	<u>\$ 27,593,500</u>	<u>\$ 1,573,972</u>

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

**STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Primary Government Net (Expenses) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 372,234	\$ 59,301	\$ 199,483	\$ -	\$ (113,450)	-	\$ (113,450)	
Public safety	609,972	42,666	121,709	-	(445,597)	-	(445,597)	
Public works	219,716	130	-	194,050	(25,536)	-	(25,536)	
Culture and recreation	267,175	3,225	7,977	522,252	266,279	-	266,279	
Health and welfare	11,492	-	2,023	-	(9,469)	-	(9,469)	
Interest on long-term debt	13,165	-	-	-	(13,165)	-	(13,165)	
Total governmental activities	1,493,754	105,322	331,192	716,302	(340,938)	-	(340,938)	
Business-type activities:								
Water	679,822	648,943	-	215,841	-	\$ 184,962	184,962	
Wastewater	566,125	610,251	-	23,692	-	67,818	67,818	
Solid waste	357,318	411,008	-	-	-	53,690	53,690	
Interest on long-term debt	37,724	-	-	-	-	(37,724)	(37,724)	
Total business-type activities	1,640,989	1,670,202	-	239,533	-	268,746	268,746	
Total primary government	\$ 3,134,743	\$ 1,775,524	\$ 331,192	\$ 955,835	(340,938)	268,746	(72,192)	
Component Unit:								
Public Housing	\$ 397,866	\$ 157,848	\$ 142,915	\$ 186,783				\$ 89,680
General Revenues:								
Gross receipts taxes					420,747	143,772	564,519	-
Property taxes, levied for general purposes					28,592	-	28,592	-
Franchise taxes					51,811	-	51,811	-
Public service taxes					50,378	-	50,378	-
Interest income					2,833	10,044	12,877	990
Donations					17,741	21,270	39,011	-
Insurance dividends					-	-	-	5,810
Special Item - Gain on disposal of assets					820	-	820	-
Transfers					126,165	(126,165)	-	-
Total general revenues, special items, and transfers					699,087	48,921	748,008	6,800
Changes in net assets					358,149	317,667	675,816	96,480
Net assets, beginning of year					8,717,338	18,200,346	26,917,684	1,477,492
Net assets, end of year					\$ 9,075,487	\$ 18,518,013	\$ 27,593,500	\$ 1,573,972

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
CITY OF BAYARD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Municipal Streets Fund	Library Fund	Library Renovation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 585,047	\$ 341,928	\$ 33,519	\$ 19	\$ 91,583	\$ 1,052,096
Receivables, net	38,371	8,246	4,123	-	8	50,748
Restricted:						
Cash	-	-	36,270	-	-	36,270
Investments	-	-	-	-	25	25
Total assets	<u>\$ 623,418</u>	<u>\$ 350,174</u>	<u>\$ 73,912</u>	<u>\$ 19</u>	<u>\$ 91,616</u>	<u>\$ 1,139,139</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 11,139	\$ 2,972	\$ 4,290	\$ -	\$ 600	\$ 19,001
Accrued salaries	15,165	-	1,866	-	346	17,377
Due to others	14,000	-	-	-	-	14,000
Deferred revenues	6,052	-	-	-	-	6,052
Total liabilities	46,356	2,972	6,156	-	946	56,430
Fund Balances:						
Reserved for:						
Debt service	-	-	-	-	25	25
State mandated per statutes	-	-	67,756	-	58,529	126,285
Reserved for:						
One twelfth budget reserve	48,754	-	-	-	-	48,754
Subsequent year's expenditures	304,585	-	-	-	32,116	336,701
Unassigned	223,723	347,202	-	19	-	570,944
Total fund balances	<u>577,062</u>	<u>347,202</u>	<u>67,756</u>	<u>19</u>	<u>90,670</u>	<u>1,082,709</u>
Total liabilities and fund balances	<u>\$ 623,418</u>	<u>\$ 350,174</u>	<u>\$ 73,912</u>	<u>\$ 19</u>	<u>\$ 91,616</u>	<u>\$ 1,139,139</u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

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

Total fund balance governmental funds (page six)	\$	1,082,709
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		8,370,088
Amortization of the bond issuance costs are not financial uses and, therefore, are not reported in the funds.		6,919
Recognition of property tax revenue is reflected on full accrual basis within the statement of net assets. Governmental funds recognize property tax on the modified accrual basis.		6,052
Certain accrued interest expense is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(4,941)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(385,340)</u>
Net assets of governmental activities (page four)	\$	<u><u>9,075,487</u></u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Municipal Streets Fund	Library Fund	Library Renovation Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Gross receipts taxes	\$ 227,068	\$ 65,419	\$ 128,260	\$ -	\$ -	\$ 420,747
Property taxes	27,907	-	-	-	-	27,907
Franchise taxes	51,811	-	-	-	-	51,811
Public service taxes	19,907	30,469	-	-	2	50,378
Intergovernmental:						
Federal	-	-	137,978	373,151	-	511,129
State	216,910	194,050	19,100	-	104,788	534,848
Charges for services	52,860	130	332	-	-	53,322
Licenses and permits	3,729	-	-	-	-	3,729
Fines and forfeitures	39,336	-	-	-	-	39,336
Interest	681	2,021	-	-	131	2,833
Miscellaneous	12,401	-	15,744	48	-	28,193
Total revenues	652,610	292,089	301,414	373,199	104,921	1,724,233
Expenditures:						
Current:						
General government	344,952	-	-	-	-	344,952
Public safety	481,328	-	-	-	55,645	536,973
Public works	-	127,182	-	-	-	127,182
Culture and recreation	50,743	-	150,788	30	2,400	203,961
Health and welfare	6,932	-	-	-	4,560	11,492
Capital outlay	11,653	170,209	279,972	373,938	5,750	841,522
Debt service:						
Principal	-	-	2,000	-	29,468	31,468
Interest and other charges	-	-	5,615	-	5,460	11,075
Total expenditures	895,608	297,391	438,375	373,968	103,283	2,108,625
Excess (deficiency) revenues over expenditures	(242,998)	(5,302)	(136,961)	(769)	1,638	(384,392)
Other Financing Sources (Uses):						
Bond proceeds	-	-	221,250	-	-	221,250
Transfers in	456,503	-	263,995	3,011	6,408	729,917
Transfers (out)	(267,834)	(26,930)	(305,855)	(3,133)	-	(603,752)
Total other financing sources (uses)	188,669	(26,930)	179,390	(122)	6,408	347,415
Special Item:						
Proceeds from sale of assets	-	-	-	-	820	820
Net change in fund balances	(54,329)	(32,232)	42,429	(891)	8,866	(36,157)
Fund balance, beginning of year	631,391	379,434	25,327	910	81,804	1,118,866
Fund balance, end of year	\$ 577,062	\$ 347,202	\$ 67,756	\$ 19	\$ 90,670	\$ 1,082,709

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

STATE OF NEW MEXICO
CITY OF BAYARD
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, 2012

Amounts reported governmental funds are different from the statement of activities because:

Net change in fund balances total governmental fund (page eight)	\$ (36,157)
Governmental funds report capital outlay as expenditures in the amount of \$841,522; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the amount of \$252,992. The net adjustments between the amounts is \$588,530.	588,530
Some of the City's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds. At June 30, 2011, deferred property taxes amounted to \$5,367. The deferred property taxes for the current fiscal year amounted to \$6,052, therefore, the net adjustment is \$685.	685
Accrued interest expense not due within the thirty days after year-end is not considered in the current period and is not reported in the governmental funds.	(2,090)
The issuance of law enforcement protection bonds is recorded as other financing sources within the governmental funds; however, it is recorded as a long-term liability within the statement of activities.	(221,250)
The amortization expense of the bond issuance costs associated with the issuance the law enforcement protection bonds is not recorded within the governmental funds; however, it is recorded as a net against the unamortized bond issuance costs.	(1,730)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	31,468
Increase in compensated absences liability is reflected as an expense within the statement of activities and the expenses do not require the use of current financial resources and are not recorded in the governmental fund statements.	<u>(1,307)</u>
Net change in net assets - statement of activities (page five)	<u>\$ 358,149</u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ 304,200	\$ 311,240	\$ 232,314	\$ (5,246)	\$ 227,068	\$ (78,926)
Property taxes	27,608	28,702	28,702	(795)	27,907	-
Franchise taxes	63,000	63,000	58,939	(7,128)	51,811	(4,061)
Public service taxes	33,000	34,416	19,660	247	19,907	(14,756)
Intergovernmental	140,000	278,877	289,564	(72,654)	216,910	10,687
Charges for services	41,950	74,087	53,717	(857)	52,860	(20,370)
Licenses and permits	4,450	4,805	3,729	-	3,729	(1,076)
Fines and forfeitures	35,300	37,820	39,336	-	39,336	1,516
Interest	1,500	1,500	681	-	681	(819)
Miscellaneous	19,500	46,093	26,401	(14,000)	12,401	(19,692)
Total revenues	670,508	880,540	753,043	(100,433)	652,610	(127,497)
Expenditures:						
Current:						
General government	409,146	405,260	340,922	4,030	344,952	64,338
Public safety	467,144	492,564	481,506	(178)	481,328	11,058
Culture and recreation	54,690	72,012	43,912	6,831	50,743	28,100
Health and welfare	-	2,034	2,033	4,899	6,932	1
Capital outlay	10,800	14,617	21,399	(9,746)	11,653	(6,782)
Total expenditures	941,780	986,487	889,772	5,836	895,608	96,715
(Deficiency) of revenues over expenditures	(271,272)	(105,947)	(136,729)	(106,269)	(242,998)	(30,782)
Other Financing Sources (Uses):						
Transfers in	186,555	476,583	472,696	-	472,696	(3,887)
Transfers (out)	(102,705)	(287,620)	(284,027)	-	(284,027)	3,593
Total other financing sources (uses)	83,850	188,963	188,669	-	188,669	(294)
Special Item:						
Proceeds from sale of assets	1,000	1,000	-	-	-	(1,000)
Net change in cash balances	(186,422)	84,016	51,940	\$ (106,269)	\$ (54,329)	(32,076)
Cash balance, beginning of year	533,107	533,107	533,107			-
Interfund loan	-	(117,118)	-			117,118
Cash balance, end of year	\$ 346,685	\$ 500,005	\$ 585,047			\$ 85,042
Explanation of Differences:						
Change in receivables				\$ (85,638)		
Change in accounts payable				(5,941)		
Change in accrued salaries				105		
Change in due to others				(14,000)		
Change in deferred revenues				(795)		
				<u>\$ (106,269)</u>		

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

STATE OF NEW MEXICO
CITY OF BAYARD
MUNICIPAL STREETS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ 49,000	\$ 66,365	\$ 66,364	\$ (945)	\$ 65,419	\$ (1)
Public service taxes	37,000	37,000	30,449	20	30,469	(6,551)
Intergovernmental	693,945	693,945	149,499	44,551	194,050	(544,446)
Charges for services	-	130	130	-	130	-
Interest	3,000	3,000	2,008	13	2,021	(992)
Total revenues	<u>782,945</u>	<u>800,440</u>	<u>248,450</u>	<u>43,639</u>	<u>292,089</u>	<u>(551,990)</u>
Expenditures:						
Current:						
Public works	678,436	678,436	91,383	35,799	127,182	587,053
Capital outlay	<u>229,958</u>	<u>229,958</u>	<u>214,600</u>	<u>(44,391)</u>	<u>170,209</u>	<u>15,358</u>
Total expenditures	<u>908,394</u>	<u>908,394</u>	<u>305,983</u>	<u>(8,592)</u>	<u>297,391</u>	<u>602,411</u>
Excess (deficiency) of revenues over expenditures	(125,449)	(107,954)	(57,533)	52,231	(5,302)	50,421
Other Financing Sources (Uses):						
Transfers (out)	<u>(27,106)</u>	<u>(27,106)</u>	<u>(26,930)</u>	<u>-</u>	<u>(26,930)</u>	<u>176</u>
Net change in cash balance	(152,555)	(135,060)	(84,463)	<u>\$ 52,231</u>	<u>\$ (32,232)</u>	50,597
Cash balance, beginning of year	<u>426,391</u>	<u>426,391</u>	<u>426,391</u>			<u>-</u>
Cash balance, end of year	<u>\$ 273,836</u>	<u>\$ 291,331</u>	<u>\$ 341,928</u>			<u>\$ 50,597</u>
Explanation of Differences:						
Change in receivables				\$ (2,298)		
Change in accounts payable				(35,799)		
Change in deferred revenues				45,937		
Change in capital outlay				<u>44,391</u>		
				<u>\$ 52,231</u>		

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

STATE OF NEW MEXICO
CITY OF BAYARD
LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ -	\$ 128,261	\$ 128,260	\$ -	\$ 128,260	\$ (1)
Intergovernmental	83,236	442,709	152,955	4,123	157,078	(289,754)
Charges for services	-	335	332	-	332	(3)
Miscellaneous	-	24,442	15,744	-	15,744	(8,698)
Total revenues	83,236	595,747	297,291	4,123	301,414	(298,456)
Expenditures:						
Current:						
Culture and recreation	113,275	113,275	77,001	73,787	150,788	36,274
Capital outlay	170,775	531,729	348,154	(68,182)	279,972	183,575
Debt service:						
Principal	-	4,000	2,000	-	2,000	2,000
Interest	-	9,853	5,615	-	5,615	4,238
Total expenditures	284,050	658,857	432,770	5,605	438,375	226,087
(Deficiency) of revenues over expenditures	(200,814)	(63,110)	(135,479)	(1,482)	(136,961)	(72,369)
Other Financing Sources (Uses):						
Bond proceeds	-	-	221,250	-	221,250	221,250
Transfers in	509,871	746,096	357,940	-	357,940	(388,156)
Transfers (out)	(329,225)	(658,925)	(399,800)	-	(399,800)	259,125
Total other financing sources (uses)	180,646	87,171	179,390	-	179,390	92,219
Net change	(20,168)	24,061	43,911	\$ (1,482)	\$ 42,429	19,850
Cash balance, beginning of year	25,878	25,878	25,878			-
Cash balance, end of year	\$ 5,710	\$ 49,939	\$ 69,789			\$ 19,850

Explanation of Differences:

Change in receivables	\$ 4,123
Change in accounts payable	(4,145)
Change in accrued salaries	(1,460)
	<u>\$ (1,482)</u>

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Water and Sewer Fund	Solid Waste Fund	Joint Waste Water Fund	Total
Assets:				
Current Assets:				
Cash	\$ 602,395	\$ 552,807	\$ 1,989,549	\$ 3,144,751
Receivables, net	115,043	59,974	119,727	294,744
Total current assets	717,438	612,781	2,109,276	3,439,495
Noncurrent assets:				
Restricted cash	543,119	-	93,254	636,373
Capital assets:				
Land	63,183	-	13,480	76,663
Construction in progress	-	-	304,410	304,410
Water rights	1,200,000	-	-	1,200,000
Buildings	429,861	-	1,816,465	2,246,326
Utility system and facilities	7,511,733	-	4,534,370	12,046,103
Equipment	351,860	22,581	3,023,046	3,397,487
Less accumulated amortization and depreciation	(1,926,581)	-	(815,587)	(2,742,168)
Total capital assets, net	7,630,056	22,581	8,876,184	16,528,821
Unamortized bond issuance costs	9,250	-	-	9,250
Total noncurrent assets	8,182,425	22,581	8,969,438	17,174,444
Total assets	8,899,863	635,362	11,078,714	20,613,939
Liabilities:				
Current liabilities:				
Accounts payable	13,006	8,063	9,988	31,057
Accrued salaries	10,384	2,623	4,192	17,199
Accrued interest payable	23,179	-	6,114	29,293
Customer deposits	76,654	-	-	76,654
Current maturities of:				
Bonds payable	2,188	-	-	2,188
Notes payable	64,314	-	62,090	126,404
Compensated absences	7,567	1,422	3,652	12,641
Total current liabilities	197,292	12,108	86,036	295,436
Noncurrent Liabilities:				
Bonds payable	196,700	-	-	196,700
Notes payable	512,847	-	1,082,256	1,595,103
Compensated absences	6,978	-	1,709	8,687
Total noncurrent liabilities	716,525	-	1,083,965	1,800,490
Total liabilities	913,817	12,108	1,170,001	2,095,926
Net Assets:				
Invested in capital assets, net of related debt	6,855,907	22,581	7,731,838	14,610,326
Restricted debt service	117,165	-	93,254	210,419
Unrestricted	1,012,974	600,673	2,083,621	3,697,268
Total net assets	\$ 7,986,046	\$ 623,254	\$ 9,908,713	\$ 18,518,013

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

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Water and Sewer Fund	Solid Waste Fund	Joint Waste Water Fund	Total
Operating Revenues:				
Charges for services	\$ 648,943	\$ 411,008	\$ 610,251	\$ 1,670,202
Operating Expenses:				
Personnel services	345,519	85,935	139,900	571,354
Utilities	38,948	-	137,025	175,973
Contractual services	82,295	246,120	6,768	335,183
Repairs and maintenance	23,555	-	2,663	26,218
Insurance claims and expenses	16,775	10,671	14,936	42,382
Other operating expenses	86,164	14,592	67,881	168,637
Depreciation and amortization	86,566	-	196,952	283,518
Total operating expenses	<u>679,822</u>	<u>357,318</u>	<u>566,125</u>	<u>1,603,265</u>
Operating income (loss)	(30,879)	53,690	44,126	66,937
Non-Operating Revenues (Expenses):				
State shared taxes	130,839	12,933	-	143,772
Interest income	1,549	663	7,832	10,044
Miscellaneous	21,270	-	-	21,270
Interest expense	(25,994)	-	(11,730)	(37,724)
Total non-operating revenues (expenses)	<u>127,664</u>	<u>13,596</u>	<u>(3,898)</u>	<u>137,362</u>
Income before transfers	96,785	67,286	40,228	204,299
Capital Contributions and Transfers:				
Capital contributions	215,841	-	23,692	239,533
Transfers in	31,708	-	14,663	46,371
Transfers (out)	(80,433)	(34,932)	(57,171)	(172,536)
Total transfers	<u>167,116</u>	<u>(34,932)</u>	<u>(18,816)</u>	<u>113,368</u>
Change in net assets	263,901	32,354	21,412	317,667
Net assets, beginning of year	<u>7,722,145</u>	<u>590,900</u>	<u>9,887,301</u>	<u>18,200,346</u>
Net assets, end of year	<u>\$ 7,986,046</u>	<u>\$ 623,254</u>	<u>\$ 9,908,713</u>	<u>\$ 18,518,013</u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Water and Sewer Fund	Solid Waste Fund	Joint Waste Water Fund	Total
Cash Flows From Operating Activities:				
Cash received from customers	\$ 602,904	\$ 410,726	\$ 599,748	\$ 1,613,378
Cash payments to employees for services	(244,792)	(291,423)	(205,359)	(741,574)
Cash payments to suppliers for goods and services	(436,512)	(85,258)	(165,151)	(686,921)
Net cash provided by operating activities	(78,400)	34,045	229,238	184,883
Cash Flows From Non-Capital Financing Activities:				
Cash received from state shared taxes	132,729	13,119	-	145,848
Cash received from capital contributions	211,633	-	9,928	221,561
Net change in customer deposits	440	-	-	440
Net transfers in (out)	(48,725)	(34,932)	(42,508)	(126,165)
Net cash provided by non-capital and related financing activities	296,077	(21,813)	(32,580)	241,684
Cash Flows for Capital and Financing Activities:				
Acquisition of capital assets	(61,272)	(22,581)	(54,477)	(138,330)
Principal payments on capital debt	(64,540)	-	(61,475)	(126,015)
Interest on debt	(27,730)	-	(12,058)	(39,788)
Net cash (used) by capital and related financing activities	(153,542)	(22,581)	(128,010)	(304,133)
Cash Flows From Investing Activities:				
Interest income	1,488	682	7,922	10,092
Purchase of certificates of deposit	(812)	(556)	(7,241)	(8,609)
Net cash provided by investing activities	676	126	681	1,483
Net increase (decrease) in cash	64,811	(10,223)	69,329	123,917
Cash and cash equivalents, beginning of year	934,839	471,055	857,707	2,263,601
Cash and cash equivalents, end of year	\$ 999,650	\$ 460,832	\$ 927,036	\$ 2,387,518
Displayed as:				
Cash	\$ 602,395	\$ 552,807	\$ 1,989,549	\$ 3,144,751
Restricted cash	543,119	-	93,254	636,373
Time deposits not considered cash equivalents	(145,864)	(91,975)	(1,155,767)	(1,393,606)
	\$ 999,650	\$ 460,832	\$ 927,036	\$ 2,387,518

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

STATE OF NEW MEXICO
CITY OF BAYARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Joint Waste Water Fund</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (30,879)	\$ 53,690	\$ 44,126	\$ 66,937
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and amortization	86,566	-	196,952	283,518
Change in Assets and Liabilities:				
(Increase) decrease in accounts receivable	6,468	(282)	(10,503)	(4,317)
Increase (decrease) in accounts payable	(141,212)	(20,040)	(265)	(161,517)
Increase (decrease) in accrued salaries	1,878	334	407	2,619
Increase (decrease) in compensated absences	(1,221)	343	(1,479)	(2,357)
Total adjustments	<u>(47,521)</u>	<u>(19,645)</u>	<u>185,112</u>	<u>117,946</u>
Net cash provided by operating activities	<u>\$ (78,400)</u>	<u>\$ 34,045</u>	<u>\$ 229,238</u>	<u>\$ 184,883</u>

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

NOTES TO THE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bayard (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and proprietary funds, the City has chosen not to do so.

A. Reporting Entity

The City of Bayard, a political subdivision of the state of New Mexico, operates under the council-treasurer form of government. The City provides the following authorized services: public safety, public works, water, sanitation, health and welfare, culture and recreation, public improvements, planning and zoning, and general administrative services. The City's basic financial statements include all activities and accounts of the City's *financial reporting entity*. The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Based upon the application of these criteria, the City has a publicly funded Housing Authority that is considered a component unit of the City. The financial statements of the City of Bayard Housing Authority have been included in the City's financial statements as a *discretely presented* component unit. The Housing Authority is reported as a proprietary fund type. The City is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2012.

Complete financial statements for the City of Bayard Housing Authority can be obtained directly from the housing authority's administrative office. Please address requests to the Executive Director, Bayard Housing Authority, 100 Runnels Drive, P.O. Box 768, Bayard, New Mexico 88023.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund 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 on a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function of governmental-type activity) is normally covered by general revenues (property, sales, franchise, public service taxes, interest income, etc.). The City does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term is considered an indirect expense and is reported separately on the Statement of Activities.

Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements. At the present time, the City does not have any fiduciary funds.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements (continued)

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

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. 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, franchise, sales, and public service tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and wastewater, and sanitary landfill funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property, sales and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenues. Expenditures include all costs associated with the daily operation of the City, except for items included in other funds.

The *municipal street fund* accounts for gross receipts levied upon taxpayers to be used for maintenance of municipal streets. The fund is considered a special revenue fund. The authority for the fund is given by section 7-1-6.27, NMSA 1978.

The *library fund* accounts for the state Grants-in-Aid to Public Libraries, to be utilized for the acquisition of library materials. (NMSL Rule 92-1) The fund was established by local ordinance in accordance with Section 3-18-14, NMSA 1978, and is considered a special revenue fund.

The *library renovation fund* accounts for federal, state, and local sources, revenues and expenditures for the renovation of the library. The fund is considered a capital projects fund.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

The city maintains five other individual governmental funds that are considered non-major funds; all five are classified as special revenue funds. A description of each non-major governmental fund is as follows:

The *fire protection fund* accounts for proceeds of the state fire allotment, and the expenditures for public safety there from. New Mexico state law requires these funds be used to help maintain the fire department. The fund was established by local ordinance and in accordance with Section 59A-53-1, of the New Mexico State Insurance Code. Section 59A-53-8 of the code restricts the use of the funds for only the maintenance of the City's fire department.

The *juvenile recreation fund* accounts for receipts, such as the cigarette tax revenue, which is restricted use in recreational areas only. Funding source is one-third of the cigarette tax. The fund was established by local ordinance. The cigarette tax is imposed and collected as authorized by Section 7-12-1 through 7-12-17, NMSA 1978.

The *law enforcement protection fund* accounts for the state grant to be used for the repair and/or replacement of law enforcement equipment, according to state law Section 29-13.1 through 29-13.9, NMSA, 1978. The fund was established by local ordinance to comply with state statutes. Section 29-13-17A, NMSA 1978 limits distributions from the fund for law enforcement related expenditures, including, but not limited to, the purchase of equipment, expenses associated with advanced law enforcement planning and training.

The *corrections fund* accounts for the fees collected by the municipal judge, which are legally restricted to expenditure for jail related costs. The fund was established by local ordinance in order to comply with Section 35-14-11, NMSA 1978.

The *emergency medical services fund* accounts for the state emergency medical services grant, to be used for specific medical services provided through fire department activities. This state grant comes through the New Mexico Department of Health per EMS Regulation DOH 94-11. The fund was created by local ordinance. Section 24-10A-1 to 24-10A-10, NMSA 1978 provides funds to municipalities for use in the establishment and enhancement of local emergency medical services. Section 24-10A-7, NMSA 1978 restricts expenditures from the fund from only emergency medical services.

The City reports the following major business-type funds:

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,

C. and Financial Statement Presentation (continued)

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

The *solid waste fund* is used to account for the provisions of solid waste disposal for the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The *joint wastewater fund* is used to account for revenues and expenses for the maintenance of a jointly held wastewater system. The City has entered into a joint powers agreement with the Village of Santa Clara, Town of Hurley, and Ft. Bayard Special District to provide wastewater disposal for the three governments.

D. Budgets

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

The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is presented as a committed portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local Council approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Investments in the City's cash and certificates of deposit are stated at cost, which approximates fair value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

2. Interfund 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 interfund balance. Long-term advances between funds, reported in the fund financial statements as noncurrent, are offset by a nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Prepaid Items

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. Restricted Assets

Certain long-term assets are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as deposits held in trust for others.

5. Interfund Activity

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

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

6. Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. The City does not capitalize library books as the cost of the library books are generally under the capitalization threshold. Purchased computer software is recorded at historical cost.

Infrastructure capital assets consisting of roads, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. The City defines capital assets as assets with an estimated useful life in excess of one year and costing greater than \$5,000. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed when material.

Net revenue bond interest cost incurred during construction is capitalized as part of the construction project.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	20-75
Buildings and other improvements	50
Machinery and equipment, including computer software	5-30

7. Compensated Absences

City employees may accumulate limited amounts of vacation pay which are payable to the employee upon termination or retirement. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned is reported in the government-wide financial statements.

City employees do not accumulate sick leave that is paid upon termination or retirement.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

8. Deferred Revenues

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

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

9. Short-Term Obligations

No short-term debt occurred during the current fiscal year.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities within a statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Net Assets

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

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

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

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

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

12. Fund Equity Reservation and Designations

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of trustees – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Other Matters

1. Presentation

Certain reclassifications of prior year information have been made to conform to current year presentation.

2. Cash Flows

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

3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution.

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

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

**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited With Financial Institutions

The City maintains cash in one financial institution within Bayard, New Mexico. The City's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institution.

As of June 30, 2012, the amount of cash reported on the financial statements differs from the amount on deposit with the institution because of transactions in transit and outstanding checks. The location and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
AmBank	\$ 4,929,848	\$ (60,358)	\$ 4,869,490

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

Statement of Net Assets:	
Cash	\$ 4,196,847
Restricted cash	672,643
Total cash reported on financial statements	\$ 4,869,490

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the City. Deposits are collateralized with eligible securities, as described by New Mexico State Statute. Such collateral, as permitted by the state statutes, is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	AmBank
Total deposits in bank	\$ 4,929,848
Less FDIC coverage	(500,000)
Uninsured public funds	4,429,848
Pledged collateral held by pledging bank's agent, but not in the City's name	(2,695,674)
Uninsured and uncollateralized public funds	\$ 1,734,174
Total pledged collateral	\$ 2,695,674
50% pledged collateral requirement per State Statute	(2,214,924)
Pledged collateral over (under) the requirement	\$ 480,750

**STATE OF NEW MEXICO
CITY OF BAYARD**
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited With Financial Institutions (continued)

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits are owned by the public unit. Time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$4,429,848 of the City's bank balance of \$4,929,848 was exposed to custodial credit risk as follows:

	AmBank
Uninsured and collateral held by agent, not in the City's name	\$ 4,429,848

3. RESTRICTED INVESTMENTS

The amounts and description of the investments at year-end are described below:

Agency	Investment	Maturity	Fair Market Value
Bank of Albuquerque	US Government Investment Fund	N/A	\$ 25

The amounts reported as investments for the government within the financial statements are displayed as:

Statement of Net Assets: Restricted investments	\$ 25
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The amounts considered restricted investments are debt proceeds amounts set aside to meet debt reserve requirements, and program receipts. The program receipts are funds available for utilization by the Town, and are restricted for purposes described within each loan agreement. All amounts borrowed are for the purchase of construction of capital assets. As of June 30, 2012, the restricted investments are composed of the following:

Program receipts	\$ 25
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**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3. RESTRICTED INVESTMENTS (continued)

Bank of Albuquerque, N.A.

The City has cash, in the amount of \$25, invested at the Bank of Albuquerque, N.A., Trust Department, Albuquerque, New Mexico. The cash is invested as part of note agreements and covenants the City has with the New Mexico Finance Authority. The cash is invested in an Invesco premier U.S. Government Money Portfolio fund. The fund is composed of 64.4% government agency debt; 34.9% other repurchase agreements; .6% Treasury debt; and .1% variable rate demand notes. The market value at June 30, 2012, reflected by the trust department is \$25. The investments are valued at fair market value based on quoted market prices, as of the valuation date. The fund is rated AAA_m by Standard and Poor's.

Interest Rate Risk – Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The Invesco Premier U.S. Government Money Portfolio fund weighted average maturity is 42.83-day WAM.

4. RECEIVABLES, NET

Receivables, net of allowance for doubtful accounts, at June 30, 2012, consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts receivable:		
Charges for services	\$ -	\$ 287,784
Allowance for doubtful accounts	-	(30,807)
Total	-	256,977
Taxes receivable:		
Gross receipts taxes	22,263	8,168
Franchise taxes	5,894	-
Property taxes	6,319	-
Public service taxes	7,021	-
Allowance for doubtful accounts	-	-
Total	41,497	8,168

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4. RECEIVABLES, NET (continued)

	Governmental Activities	Business-Type Activities
Intergovernmental receivables:		
Building improvement grants	4,935	-
Infrastructure improvement grants	4,208	-
Utility system improvement grants	-	29,057
Total	9,143	29,057
Interest receivables	108	542
Receivables, net	\$ 50,748	\$ 294,744

The city's policy is to provide for uncollectible amounts based upon expected defaults.

5. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1st. Property tax rates for the year are set no later than September 1st each year by the New Mexico Secretary of Finance and Administration. The rates of tax are then used by the Grant County Assessor to develop the property tax schedule by October 1st. Tax notices are sent by the Grant County Treasurer to property owners by November 1st of each year.

Taxes are payable in equal semiannual installments by November 10th and April 10th of the subsequent year. Thirty days later the bill becomes delinquent and the county treasurer assesses penalties and interest. Taxes are collected on behalf of the City by the County Treasurer, and are remitted to the City in the month following collection. The County Treasurer is statutorily required to collect taxes as an intermediary agency for all forms of government. Distribution of taxes collected is made through the County Treasurer's office.

The City is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the City is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the City. The City's total tax rate to finance general government services for the year 2011, was \$2.225 per \$1,000 for non-residential and \$1.251 for residential property. In the year 2011, there was no tax rate established for payment of bonds principal and interest.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6. CAPITAL ASSETS

Governmental activities capital assets for the fiscal year ended June 30, 2012:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Capital Assets, Not Being Depreciated:				
Land	\$ 77,534	\$ 80,555	\$ -	\$ 158,089
Construction in progress	737,918	170,209	(680,483)	227,644
	<u>815,452</u>	<u>250,764</u>	<u>(680,483)</u>	<u>385,733</u>
Total capital assets, not being depreciated	815,452	250,764	(680,483)	385,733
Other Capital Assets, Being Depreciated:				
Buildings	2,120,345	1,259,588	-	3,379,933
Infrastructure	6,754,094	11,653	-	6,765,747
Equipment	1,235,396	-	-	1,235,396
	<u>10,109,835</u>	<u>1,271,241</u>	<u>-</u>	<u>11,381,076</u>
Total other capital assets, being depreciated	10,109,835	1,271,241	-	11,381,076
Accumulated Depreciation:				
Buildings	(573,357)	(54,381)	-	(627,738)
Infrastructure	(1,705,595)	(123,382)	-	(1,828,977)
Equipment	(864,777)	(75,229)	-	(940,006)
	<u>(3,143,729)</u>	<u>(252,992)</u>	<u>-</u>	<u>(3,396,721)</u>
Total accumulated depreciation	(3,143,729)	(252,992)	-	(3,396,721)
Other capital assets, net	<u>6,966,106</u>	<u>1,018,249</u>	<u>-</u>	<u>7,984,355</u>
Total capital assets, net	<u>\$ 7,781,558</u>	<u>\$ 1,269,013</u>	<u>\$ (680,483)</u>	<u>\$ 8,370,088</u>

Depreciation expense was charged to functions (programs) as follows:

Governmental Activities:	
General government	\$ 26,577
Public safety	71,377
Public works	92,534
Culture and recreation	62,504
	<u>252,992</u>
	<u>\$ 252,992</u>

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6. CAPITAL ASSETS (continued)

Business-type activities capital assets for the fiscal year ended June 30, 2012:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 52,896	\$ 23,767	\$ -	\$ 76,663
Construction in progress	3,137,151	54,477	(2,887,218)	304,410
Total capital assets, not being depreciated	3,190,047	78,244	(2,887,218)	381,073
Other capital assets, being amortized and depreciated:				
Water rights	1,200,000	-	-	1,200,000
Buildings	731,911	1,514,415	-	2,246,326
Utility system	10,454,242	2,903,823	(1,311,962)	12,046,103
Equipment	3,536,189	63,751	(202,453)	3,397,487
Total other capital assets, being depreciated	15,922,342	4,481,989	(1,514,415)	18,889,916
Less accumulated amortization and depreciation for:				
Water rights	(117,500)	(10,000)	-	(127,500)
Buildings	(196,078)	(139,110)	-	(335,188)
Utility system	(1,551,815)	(124,591)	80,367	(1,596,039)
Equipment	(593,507)	(103,431)	13,497	(683,441)
Total accumulated amortization and depreciation	(2,458,900)	(377,132)	93,864	(2,742,168)
Other capital assets, net	13,463,442	4,104,857	(1,420,551)	16,147,748
Total capital assets, net	\$ 16,653,489	\$ 4,183,101	\$ (4,307,769)	\$ 16,528,821

7. CAPITAL ASSETS – COMPONENT UNIT

The City of Bayard Public Housing Authority's capital assets for the fiscal year ended June 30, 2012, as follows:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 15,695	\$ -	\$ -	\$ 15,695
Construction in progress	-	188,605	-	188,605
Total capital assets, not being depreciated	15,695	188,605	-	204,300

**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

7. CAPITAL ASSETS – COMPONENT UNIT (continued)

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Other Capital Assets, Being Depreciated:				
Buildings	2,221,636	-	-	2,221,636
Building and other improvements	385,360	-	(15,100)	370,260
Furniture and equipment - dwellings	125,459	-	-	125,459
Furniture and equipment - administration	67,372	-	-	67,372
Total other capital assets, being depreciated	2,799,827	-	(15,100)	2,784,727
Less accumulated depreciation for:				
Buildings	(1,343,433)	(57,181)	-	(1,400,614)
Building and other improvements	(207,963)	(11,804)	-	(219,767)
Furniture and equipment - dwellings	(123,229)	(1,054)	-	(124,283)
Furniture and equipment - administration	(61,664)	(1,599)	-	(63,263)
Total accumulated depreciation	(1,736,289)	(71,638)	-	(1,807,927)
Other capital assets, net	1,063,538	(71,638)	(15,100)	976,800
Total capital assets, net	\$ 1,079,233	\$ 116,967	\$ (15,100)	\$ 1,181,100

8. LONG-TERM OBLIGATIONS

Governmental Activities Debt

Changes in business-type activities loan activity during the year ended June 30, 2012, were as follows:

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12	Amounts Due Within One Year
Bonds payable	\$ 67,000	\$ 221,250	\$ (14,000)	\$ 274,250	\$ 15,000
Notes payable	111,420	-	(17,468)	93,952	17,879
Compensated absences	15,831	27,550	(26,243)	17,138	12,185
Total	\$ 194,251	\$ 248,800	\$ (57,711)	\$ 385,340	\$ 45,064

Bonds Payable – 2011 Law Enforcement Protection Revenue Bonds

On March 22, 2011, the City received \$67,000 of law enforcement protection revenue bonds for the purpose of purchasing police vehicles. The bonds bear interest at 4.00% per annum. The bonds principal matures in amounts commencing on August 3, 2011, and annually thereafter, in accordance with the payment schedule. The final principal maturity shall be five years from the date of the bonds issuance. Principal and interest payments are made from the law enforcement protection fund. Annual debt service requirements to maturity are as follows:

**STATE OF NEW MEXICO
CITY OF BAYARD**
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. LONG-TERM OBLIGATIONS (continued)

Bonds Payable – 2011 Law Enforcement Protection Revenue Bonds (continued)

Due in the year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 13,000	\$ 2,200	\$ 15,200
2014	13,000	1,680	14,680
2015	14,000	1,160	15,160
2016	15,000	600	15,600
	<u>\$ 55,000</u>	<u>\$ 5,640</u>	<u>\$ 60,640</u>

Bonds Payable – 2011 Gross Receipts Tax Improvement Revenue Bonds

On March 15, 2011, the City received \$221,250 of gross receipts tax improvement revenues bonds for the purpose of providing a portion of the cost of improving, constructing, and equipping the City's municipal library building. The bonds bear interest at 4.00% per annum. The bonds principal matures in amounts commencing on March 15, 2012, and annually thereafter, in accordance with the payment schedule. The final principal maturity shall be forty years from the date of the bonds issuance. Principal and interest payments are made from the library renovation fund. Annual debt service requirement for the note is as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,000	\$ 8,770	\$ 10,770
2014	2,000	8,690	10,690
2015	3,000	8,610	11,610
2016	3,000	8,490	11,490
2017	3,000	8,370	11,370
2018-2022	15,000	40,050	55,050
2023-2027	20,000	36,650	56,650
2028-2032	23,000	32,530	55,530
2033-2037	28,000	27,530	55,530
2038-2042	34,000	21,410	55,410
2043-2047	42,000	14,010	56,010
2048-2051	44,250	4,800	49,050
	<u>\$ 219,250</u>	<u>\$ 219,910</u>	<u>\$ 439,160</u>

**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

8. LONG-TERM OBLIGATIONS (continued)

Note Payable – New Mexico Finance Authority #1

The City entered into an agreement with the New Mexico Finance Authority to borrow \$175,000 in order to acquire a fire pumper truck for the fire department. The loan is to be repaid from pledged fire allotment revenues. The interest rate varies from 3.280% to 3.870%. The annual principal payment varies from \$16,830 to \$19,755. The Finance Authority is charging a .25% administrative fee. Annual debt service requirement for the note is as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 17,879	\$ 2,174	\$ 20,053
2014	18,309	1,788	20,097
2015	18,764	1,380	20,144
2016	19,245	946	20,191
2017	19,755	486	20,241
	<u>\$ 93,952</u>	<u>\$ 6,774</u>	<u>\$ 100,726</u>

Compensated Absences

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

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

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

Business-Type Activities Debt

Changes in business-type activities loan activity during the year ended June 30, 2012, were as follows:

	<u>Balance 06/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/12</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 200,987	\$ -	\$ (2,099)	\$ 198,888	\$ 2,188
Notes payable	1,845,423	-	(123,916)	1,721,507	126,404
Compensated absences	23,685	30,565	(32,922)	21,328	12,641
Total	<u>\$ 2,070,095</u>	<u>\$ 30,565</u>	<u>\$ (158,937)</u>	<u>\$ 1,941,723</u>	<u>\$ 141,233</u>

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

9. LONG-TERM OBLIGATIONS (continued)

2003 Municipal Gross Receipts Tax Revenue Bond

On August 3, 2009, the City issued \$203,000 of gross receipts tax revenue bonds for the purpose of providing a portion of the cost of improving its water and wastewater system. The bonds bear interest at 4.25% per annum. The bonds' principal matures in amounts commencing on August 3, 2010, and annually thereafter, in accordance with the payment schedule. The final principal maturity shall be forty years from the date of the bonds' issuance. Principal and interest payments are made from the water and sewer fund. Annual debt service requirements to maturity are as follows:

Due in the year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,188	\$ 8,453	\$ 10,641
2014	2,281	8,360	10,641
2015	2,378	8,263	10,641
2016	2,479	8,162	10,641
2017	2,584	8,057	10,641
2018-2022	14,799	38,406	53,205
2023-2027	18,088	35,117	53,205
2028-2032	22,272	30,933	53,205
2033-2037	27,424	25,781	53,205
2038-2042	33,771	19,434	53,205
2043-2047	41,200	12,005	53,205
2048-2050	29,424	2,539	31,963
	<u>\$ 198,888</u>	<u>\$ 205,510</u>	<u>\$ 404,398</u>

Note Payable – NM Environment Department

The City has borrowed \$290,000 for improvements to the water and sewer system. The note bears interest at a rate of \$3.00% per annum. The note matures on September 15, 2015. Principal and interest payments are made from the water and sewer fund. Annual debt service requirements to maturity are as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 12,755	\$ 1,601	\$ 14,356
2014	13,137	1,218	14,355
2015	13,532	824	14,356
2016	13,936	418	14,354
	<u>\$ 53,360</u>	<u>\$ 4,061</u>	<u>\$ 57,421</u>

**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

8. LONG-TERM OBLIGATIONS (continued)

Notes Payable – NM Environment Department (continued)

The City has two separate loan agreements due to the New Mexico Environment Department. The proceeds of the obligations, each with a face amount of \$500,000 were used to purchase water rights. These notes bear interest at 3% and mature on August 3, 2020. Principal and interest payments are made from the water and sewer fund. Annual debt service requirements, to maturity for both notes payable are as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 51,559	\$ 15,714	\$ 67,273
2014	53,106	14,168	67,274
2015	54,700	12,575	67,275
2106	56,341	10,933	67,274
2017	58,031	9,243	67,274
2018-2021	250,064	19,031	269,095
	<u>\$ 523,801</u>	<u>\$ 81,664</u>	<u>\$ 605,465</u>

The City has borrowed \$1,326,952 to aid in the completion of a new wastewater facility. The note bears interest of 1.00% per annum. The note matures on December 17, 2028. Principal and interest payments are made from the joint wastewater fund. Annual debt service requirements to maturity are as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 62,090	\$ 11,443	\$ 73,533
2014	62,711	10,823	73,534
2015	63,338	10,195	73,533
2016	63,971	9,562	73,533
2017	64,611	8,922	73,533
2018-2022	332,878	34,790	367,668
2023-2027	349,857	17,811	367,668
2028-2029	144,890	2,177	147,067
	<u>\$ 1,144,346</u>	<u>\$ 105,723</u>	<u>\$ 1,250,069</u>

**STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

9. INTERFUND TRANSFERS

	Transfers In						Total
	General Fund	Library Fund	Library Renovation Fund	Water and Sewer Fund	Joint Wastewater Fund	Non-Major Funds	
Transfers (Out):							
General Fund	\$ -	\$ 253,231	\$ -	\$ 8,195	\$ -	\$ 6,408	\$ 267,834
Municipal Street Fund	7,198	-	-	19,732	-	-	26,930
Library Fund	295,213	7,631	3,011	-	-	-	305,855
Library Renovation Fund	-	3,133	-	-	-	-	3,133
Water and Sewer Fund	65,770	-	-	-	14,663	-	80,433
Solid Waste Fund	34,932	-	-	-	-	-	34,932
Joint Wastewater Fund	53,390	-	-	3,781	-	-	57,171
	<u>\$ 456,503</u>	<u>\$ 263,995</u>	<u>\$ 3,011</u>	<u>\$ 31,708</u>	<u>\$ 14,663</u>	<u>\$ 6,408</u>	<u>\$ 776,288</u>

Transfers are used to move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

10. 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 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 7.0% to 12.8% (ranges from 3.78% to 16.65% 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% (ranges from 7.0% to 25.72%, 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, 2012, 2011, and 2010 were \$101,840, \$84,926, and \$81,918, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

11. CHANGE IN GROSS REVENUES

Charges for services within the Water and Sewer Fund and the Solid Waste Fund were increased by \$687 and \$102, respectively, due to the decrease of the allowance for doubtful accounts. Within the Joint Wastewater Fund, revenues decreased by \$169 due to the increase of the allowance for doubtful accounts.

12. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978) provides comprehensive group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into Retiree Health Care Fund and by co-payments or out-of-pocket payments to eligible retirees. The City has elected not to participate in the post-employment health insurance plan.

13. RISK MANAGEMENT

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

14. CONTINGENT LIABILITES

Amounts received or receivable from grantor 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 amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL OTHER
GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO
CITY OF BAYARD
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds					Total Other Governmental Funds
	Fire Protection Fund	Juvenile Recreation Fund	Law Enforcement Fund	Corrections Fund	Emergency Medical Services Fund	
<u>ASSETS</u>						
Cash	\$ 15,393	\$ 12,982	\$ 7,602	\$ 51,781	\$ 3,825	\$ 91,583
Receivables, net	-	-	-	8	-	8
Restricted:						
Investments	3	-	22	-	-	25
Total assets	<u>\$ 15,396</u>	<u>\$ 12,982</u>	<u>\$ 7,624</u>	<u>\$ 51,789</u>	<u>\$ 3,825</u>	<u>\$ 91,616</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 600	\$ -	\$ -	\$ -	\$ -	\$ 600
Accrued salaries	346	-	-	-	-	346
Total liabilities	946	-	-	-	-	946
Fund Balances:						
Reserved for:						
Debt service	3	-	22	-	-	25
State mandated per statutes	2,731	982	1,702	51,789	1,325	58,529
Committed for:						
Subsequent year's expenditures	11,716	12,000	5,900	-	2,500	32,116
Total fund balances	<u>14,450</u>	<u>12,982</u>	<u>7,624</u>	<u>51,789</u>	<u>3,825</u>	<u>90,670</u>
Total liabilities and fund balances	<u>\$ 15,396</u>	<u>\$ 12,982</u>	<u>\$ 7,624</u>	<u>\$ 51,789</u>	<u>\$ 3,825</u>	<u>\$ 91,616</u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds					Total Other Governmental Funds
	Fire Protection Fund	Juvenile Recreation Fund	Law Enforcement Fund	Corrections Fund	Emergency Medical Services Fund	
Revenues:						
Public service taxes	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ 2
Intergovernmental - state	73,985	-	23,000	-	7,803	104,788
Interest	3	-	-	128	-	131
Total revenues	73,988	2	23,000	128	7,803	104,921
Expenditures:						
Current:						
Public safety	43,188	-	11,737	720	-	55,645
Culture and recreation	-	2,400	-	-	-	2,400
Health and welfare	-	-	-	-	4,560	4,560
Capital outlay	5,750	-	-	-	-	5,750
Debt service:						
Principal	17,468	-	12,000	-	-	29,468
Interest and other charges	2,818	-	2,642	-	-	5,460
Total expenditures	69,224	2,400	26,379	720	4,560	103,283
Excess (deficiency) of revenues over expenditures	4,764	(2,398)	(3,379)	(592)	3,243	1,638
Other Financing Sources (Uses):						
Transfers in	-	-	-	6,408	-	6,408
Special Item:						
Proceeds from sale of assets	-	-	820	-	-	820
Net change in fund balances	4,764	(2,398)	(2,559)	5,816	3,243	8,866
Fund balances, beginning of year	9,686	15,380	10,183	45,973	582	81,804
Fund balances, end of year	<u>\$ 14,450</u>	<u>\$ 12,982</u>	<u>\$ 7,624</u>	<u>\$ 51,789</u>	<u>\$ 3,825</u>	<u>\$ 90,670</u>

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

**OTHER SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON STATEMENTS**

STATE OF NEW MEXICO
CITY OF BAYARD
FIRE PROTECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 55,000	\$ 57,430	\$ 57,430	\$ 16,555	\$ 73,985	\$ -
Interest	-	-	-	3	3	-
Total revenues	55,000	57,430	57,430	16,558	73,988	-
Expenditures:						
Current:						
Public safety	38,350	48,495	42,772	416	43,188	5,723
Capital outlay	17,000	6,855	5,750	-	5,750	1,105
Debt service:						
Principal	-	-	-	17,468	17,468	-
Interest	-	-	-	2,818	2,818	-
Total expenditures	55,350	55,350	48,522	20,702	69,224	6,828
Net change	(350)	2,080	8,908	<u>\$ (4,144)</u>	<u>\$ 4,764</u>	6,828
Cash balance, beginning of year	6,485	6,485	6,485			-
Cash balance, end of year	<u>\$ 6,135</u>	<u>\$ 8,565</u>	<u>\$ 15,393</u>			<u>\$ 6,828</u>
Explanation of Differences:						
Fire allotment intercepted				\$ 16,555		
Interest income earned by agent				3		
Change in accounts payable				(416)		
Payment of debt service				<u>(20,286)</u>		
				<u>\$ (4,144)</u>		

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

STATE OF NEW MEXICO
CITY OF BAYARD
JUVENILE RECREATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Public service taxes	\$ -	\$ 2	\$ 2	\$ -	\$ 2	\$ -
Expenditures:						
Current:						
Culture and recreation	8,000	8,000	2,400	-	2,400	5,600
Capital outlay	2,000	2,000	-	-	-	2,000
Total expenditures	10,000	10,000	2,400	-	2,400	7,600
Net change	(10,000)	(9,998)	(2,398)	\$ -	\$ (2,398)	(7,600)
Cash balance, beginning of year	15,380	15,380	15,380			-
Cash balance, end of year	\$ 5,380	\$ 5,382	\$ 12,982			\$ 7,600

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

STATE OF NEW MEXICO
CITY OF BAYARD
LAW ENFORCEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Basis	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 20,000	\$ 23,820	\$ 23,000	\$ -	\$ 23,000	\$ (820)
Expenditures:						
Current:						
Public safety	5,000	11,805	11,737	-	11,737	68
Debt service:						
Principal	15,500	12,515	12,000	-	12,000	515
Interest	-	2,645	2,642	-	2,642	3
Total expenditures	20,500	26,965	26,379	-	26,379	586
(Deficiency) of revenues over expenditures	(500)	(3,145)	(3,379)	-	(3,379)	(234)
Special Item:						
Proceeds from sale of assets	-	-	820	-	820	820
Net change	(500)	(3,145)	(2,559)	\$ -	\$ (2,559)	586
Cash balance, beginning of year	10,161	10,161	10,161			-
Cash balance, end of year	\$ 9,661	\$ 7,016	\$ 7,602			\$ 586

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

STATE OF NEW MEXICO
CITY OF BAYARD
CORRECTIONS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Interest	\$ 300	\$ 300	\$ 120	\$ 8	\$ 128	\$ (180)
Expenditures:						
Current:						
Public safety	10,000	10,000	720	-	720	9,280
(Deficiency) of revenues over expenditures	(9,700)	(9,700)	(600)	8	(592)	9,100
Other Financing Sources (Uses):						
Transfers in	10,000	10,000	6,408	-	6,408	(3,592)
Net change	300	300	5,808	\$ 8	\$ 5,816	5,508
Cash balance, beginning of year	45,973	45,973	45,973			-
Cash balance, end of year	\$ 46,273	\$ 46,273	\$ 51,781			\$ 5,508
Explanation of Differences:						
Change in receivables				\$ 8		

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

STATE OF NEW MEXICO
CITY OF BAYARD
EMERGENCY MEDICAL SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 6,305	\$ 8,328	\$ 7,803	\$ -	\$ 7,803	\$ (525)
Expenditures:						
Current:						
Health and welfare	6,305	6,305	4,560	-	4,560	1,745
Net change	-	2,023	3,243	\$ -	\$ 3,243	1,220
Cash balance, beginning of year	582	582	582			-
Cash balance, end of year	\$ 582	\$ 2,605	\$ 3,825			\$ 1,220

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

**MAJOR CAPITAL PROJECT FUND
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
CITY OF BAYARD
LIBRARY RENOVATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 500,000	\$ 500,000	\$ 480,859	\$ (107,708)	\$ 373,151	\$ (19,141)
Interest	-	20	-	-	-	(20)
Miscellaneous	-	-	48	-	48	48
Total revenues	500,000	500,020	480,907	(107,708)	373,199	(19,113)
Expenditures:						
Current:						
Culture and recreation	-	30	30	-	30	-
Capital outlay	500,000	500,000	480,736	(106,798)	373,938	19,264
Total expenditures	500,000	500,030	480,766	(106,798)	373,968	19,264
Excess (deficiency) of revenues over expenditures	-	(10)	141	(910)	(769)	151
Other Financing Sources (Uses):						
Transfers in	-	3,012	57,321	-	57,321	54,309
Transfers (out)	-	(120,120)	(57,443)	-	(57,443)	62,677
Total other financing sources (uses)	-	(117,108)	(122)	-	(122)	116,986
Net change	-	(117,118)	19	\$ (910)	\$ (891)	117,137
Cash balance, beginning of year	-	-	-			-
Interfund loan		117,118	-			(117,118)
Cash balance, end of year	\$ -	\$ -	\$ 19			\$ 19
Explanation of Differences:						
Change in receivables				\$ (107,708)		
Change in accounts payable				106,798		
				\$ (910)		

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

**MAJOR ENTERPRISE FUNDS
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
CITY OF BAYARD
WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	\$ 528,625	\$ 603,059	\$ 602,904	\$ (6,468)	\$ 596,436	\$ (155)
Miscellaneous	31,500	44,729	53,067	20,710	73,777	8,338
Total operating expenses	560,125	647,788	655,971	14,242	670,213	8,183
Operating Expenses:						
Personnel services	361,080	361,692	344,862	657	345,519	16,830
Utilities	27,200	38,280	38,280	668	38,948	-
Contractual services	401,255	345,564	83,917	(1,622)	82,295	261,647
Repairs and maintenance	23,400	32,209	22,419	1,136	23,555	9,790
Insurance claims and expenses	25,000	25,000	16,775	-	16,775	8,225
Other operating expenses	101,250	114,658	83,401	2,763	86,164	31,257
Depreciation and amortization	-	-	-	86,566	86,566	-
Total expenditures	939,185	917,403	589,654	90,168	679,822	327,749
Operating income (loss)	(379,060)	(269,615)	66,317	(75,926)	(9,609)	335,932
Non-Operating Revenues (Expenses):						
State shared taxes	93,000	132,729	132,729	(1,890)	130,839	-
Interest income	4,300	4,300	1,488	61	1,549	2,812
Capital outlay	(25,000)	(215,931)	(205,429)	205,429	-	(10,502)
Debt service - principal	(69,743)	(66,955)	(64,540)	64,540	-	(2,415)
Interest expense and other charges	(50,312)	(78,363)	(27,730)	1,736	(25,994)	(50,633)
Total non-operating revenues (expenses)	(47,755)	(224,220)	(163,482)	269,876	106,394	(60,738)
Capital contributions	50,000	214,106	211,633	4,208	215,841	(2,473)
Transfers:						
Transfers in	73,956	212,028	196,138	-	196,138	(15,890)
Transfers (out)	(123,317)	(264,355)	(244,863)	-	(244,863)	19,492
Total transfers	(49,361)	(52,327)	(48,725)	-	(48,725)	3,602
Net change	(426,176)	(332,056)	65,743	\$ 198,158	\$ 263,901	397,799
Cash balance, beginning of year	1,079,771	1,079,771	1,079,771			-
Cash balance, end of year	\$ 653,595	\$ 747,715	\$ 1,145,514			\$ 397,799

Explanation of Differences:

Change in receivables	\$ 12,352
Change in investments	61
Addition in capital assets	61,272
Change in accounts payable	144,980
Change in accrued salaries	(1,878)
Change in accrued interest payable	1,736
Change in deposits payable	440
Change in compensated absences	1,221
Debt service	64,540
Amortization expense	(10,250)
Depreciation expense	(76,316)
	<u>\$ 198,158</u>

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

STATE OF NEW MEXICO
CITY OF BAYARD
SOLID WASTE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	\$ 358,000	\$ 410,728	\$ 410,726	\$ 282	\$ 411,008	\$ (2)
Operating Expenses:						
Personnel services	94,238	101,124	85,258	677	85,935	15,866
Contractual services	467,447	460,561	266,074	(19,954)	246,120	194,487
Repairs and maintenance	1,000	1,000	-	-	-	1,000
Insurance claims and expenses	15,000	15,000	10,671	-	10,671	4,329
Other operating expenses	16,350	16,350	14,678	(86)	14,592	1,672
Total expenditures	594,035	594,035	376,681	(19,363)	357,318	217,354
Operating income (loss)	(236,035)	(183,307)	34,045	19,645	53,690	217,352
Non-Operating Revenues (Expenses):						
State shared taxes	9,700	13,120	13,119	(186)	12,933	1
Interest income	1,100	1,100	682	(19)	663	418
Capital outlay	(25,000)	(25,000)	(22,581)	22,581	-	(2,419)
Total non-operating revenues (expenses)	(14,200)	(10,780)	(8,780)	22,376	13,596	(2,000)
Transfers:						
Transfers (out)	(34,256)	(34,932)	(34,932)	-	(34,932)	-
Net change	(284,491)	(229,019)	(9,667)	\$ 42,021	\$ 32,354	219,352
Cash balance, beginning of year	562,474	562,474	562,474			-
Cash balance, end of year	<u>\$ 277,983</u>	<u>\$ 333,455</u>	<u>\$ 552,807</u>			<u>\$ 219,352</u>
Explanation of Differences:						
Change in receivables				\$ 77		
Addition of capital assets				22,581		
Change in accounts payable				20,040		
Change in accrued salaries				(334)		
Change in compensated absences				(343)		
				<u>\$ 42,021</u>		

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

STATE OF NEW MEXICO
CITY OF BAYARD
JOINT WASTEWATER FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	\$ 581,000	\$ 590,783	\$ 589,783	\$ 10,503	\$ 600,286	\$ (1,000)
Miscellaneous	15,000	15,000	9,965	-	9,965	(5,035)
Total operating revenues	596,000	605,783	599,748	10,503	610,251	(6,035)
Operating Expenses:						
Personnel services	150,443	150,480	140,972	(1,072)	139,900	9,508
Utilities	124,800	137,975	137,975	(950)	137,025	-
Contractual services	7,800	7,800	6,768	-	6,768	1,032
Repairs and maintenance	9,300	9,300	2,578	85	2,663	6,722
Insurance claims and expenses	25,000	25,000	14,936	-	14,936	10,064
Other operating expenses	49,500	55,955	43,102	24,779	67,881	12,853
Depreciation expense	-	-	-	196,952	196,952	-
Total expenditures	366,843	386,510	346,331	219,794	566,125	40,179
Operating income (loss)	229,157	219,273	253,417	(209,291)	44,126	34,144
Non-Operating Revenues (Expenses):						
Interest income	18,000	18,000	7,922	(90)	7,832	10,078
Capital outlay	(703,304)	(688,796)	(78,656)	78,656	-	(610,140)
Debt service - principal	(60,866)	(61,476)	(61,475)	61,475	-	(1)
Interest expenses and other charges	(12,666)	(12,666)	(12,058)	328	(11,730)	(608)
Total non-operating revenues (expenses)	(758,836)	(744,938)	(144,267)	140,369	(3,898)	(600,671)
Capital contributions	-	9,929	9,928	13,764	23,692	(1)
Transfers:						
Transfers in	8,500	84,604	84,604	-	84,604	-
Transfers (out)	(57,058)	(123,332)	(127,112)	-	(127,112)	(3,780)
Total transfers	(48,558)	(38,728)	(42,508)	-	(42,508)	(3,780)
Net change	(578,237)	(554,464)	76,570	\$ (55,158)	\$ 21,412	631,034
Cash balance, beginning of year	2,006,233	2,006,233	2,006,233			-
Cash balance, end of year	\$ 1,427,996	\$ 1,451,769	\$ 2,082,803			\$ 631,034
Explanation of Differences:						
Change in receivables				\$ 24,177		
Addition in capital assets				54,477		
Change in accounts payable				265		
Change in accrued salaries				(407)		
Change in compensated absences				1,479		
Change in accrued interest payable				328		
Change in long-term debt				61,475		
Depreciation expense				(196,952)		
				\$ (55,158)		

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

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2012

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
AmBank				
P.O. Box 2677				
Silver City, NM 88062-2677				
Checking accounts:				
General	Checking	\$ 3,199,847	\$ (59,298)	\$ 3,140,549
EMS	Checking	3,900	(75)	3,825
Historical tourism	Checking	10,082	30	10,112
Regional wastewater	Checking	320	-	320
Community Center	Checking	4,477	25	4,502
CDBG project	Checking	19	-	19
RUS improvement	Checking	1,059	(1,040)	19
Certificate of deposit	CD	122,365	-	122,365
Certificate of deposit	CD	360,956	-	360,956
Certificate of deposit	CD	91,975	-	91,975
Certificate of deposit	CD	92,023	-	92,023
Certificate of deposit	CD	117,983	-	117,983
Certificate of deposit	CD	88,127	-	88,127
Certificate of deposit	CD	183,651	-	183,651
Certificate of deposit	CD	488,795	-	488,795
Certificate of deposit	CD	61,348	-	61,348
Certificate of deposit	CD	24,539	-	24,539
Certificate of deposit	CD	59,977	-	59,977
Certificate of deposit	CD	18,405	-	18,405
		<u>\$ 4,929,848</u>	<u>\$ (60,358)</u>	<u>\$ 4,869,490</u>

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012

AmBank
P.O. Box 2677
Silver City, NM 88062-2677

Security	CUSIP	Maturity	Par Value	Market Value
Belen N Mex Cons Sch Dist No 2	077581MK9	08/01/15	\$ 100,000	\$ -
Chama By ISD #19	157670DM9	08/01/14	80,000	-
Clovis NM Mun Sch Dist 1	189414GP4	08/21/11	200,000	-
Dulce N Mex Indpt Sch Dist	264430GQ6	06/01/14	200,000	-
Fed Farm Credit	31331J2M4	11/22/16	-	520,592
FHLB 9M-9014	313371PC4	12/12/14	-	505,082
Grants & Cibola Cnty NM Sch Dist	388240CV3	10/01/12	125,000	-
Hatch Valley Mun Sch	418839BY1	08/01/14	100,000	-
Lea Cnty NM Sch Dist	521513AS0	06/15/16	200,000	-
Los Lunas N Mex Sch Dist No	545562MA5	07/15/12	175,000	-
Luna County NM School District	550340DN0	08/01/18	200,000	-
Roswell NM	778550FQ1	08/01/16	200,000	-
Torrance Etc Cnty NM Sch	891400LN1	07/15/13	90,000	-
		Total	<u>\$ 1,670,000</u>	<u>\$ 1,025,674</u>

The holder of the security pledged by AmBank is the Federal Home Loan Bank of Dallas, 8500 Freepoint Parkway South, Suite 100, Irving, TX 75063-2547.

**STATE OF NEW MEXICO
CITY OF BAYARD
JOINT POWERS AGREEMENT
JUNE 30, 2012**

JOINT WASTEWATER AGREEMENT

- A. **Participants** – City of Bayard, Village of Santa Clara, Town of Hurley, and Fort Bayard Special District.
- B. **Party responsible for operations** – City of Bayard.
- C. **Description** – Operation and maintenance of joint use sewer system.
- D. **Beginning and ending of agreement** – Agreement began on September 11, 1963. The agreement remains in effect until canceled by the participating governments.
- E. **Total estimated amount of project and portion applicable to City** – The joint powers agreement is an ongoing joint venture to allow the Village of Santa Clara, Town of Hurley, and Fort Bayard Special District to dispose of waster water into the City of Bayard sewer system. As of June 30, 2012, the governments have expended \$9,573,856 for the construction and upgrades of the new wastewater facility. The governments desire to make improvements to the discharge for purposes of recycling. The anticipated cost of the improvements is \$4,000,000.
- F. **Amount contributed in the current fiscal year** – The Village of Santa Clara contributed \$194,838; Town of Hurley contributed \$176,778; and Fort Bayard Special District contributed \$525 toward operating revenue, with the residents of Bayard contributing the remainder of operating revenues. Additionally, the City of Bayard transferred a net amount of \$42,508 from other funds.
- G. **Audit Responsibility** – The City of Bayard is responsible for the annual audit of all the financial activity.
- H. **Fiscal Agent** – The City of Bayard is the fiscal agent.
- I. **Name of government where revenues and expenditures are recorded** – City of Bayard.

SUPPLEMENTAL FEDERAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Grant Number	Award Amount	Expenditures
U.S. Department of Agriculture/Rural Utilities Services				
Community Facilities Loans & Grants - ARRA Water & Waste Disposal Systems for Rural Communities	10.766		\$ 370,000	\$ 361,158
	10.770		2,700,776	<u>16,605</u>
Total U.S. Department of Agriculture/Rural Utilities Services				377,763
U.S. Department of Housing and Urban Development				
Community Development Block Grant	14.228	10-C-RS-I-03-G-15	500,000	318,839
Community Development Block Grant	14.228	10-C-RS-I-06-G-113	50,000	<u>47,529</u>
Total U.S. Department of Housing and Urban Development				<u>366,368</u>
Total Expenditures of Federal Awards				<u><u>\$ 744,131</u></u>

STATE OF NEW MEXICO
CITY OF BAYARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City of Bayard (City). The City is defined in Note 1 of the City's financial statements. All federal awards received, including those received by the City's Public Housing Authority and through other agencies, are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using both modified accrual basis of accounting, which is described in Note 1, to the City's financial statements, and the full accrual basis of accounting. All governmental expenditures of the City of Bayard, (primary government) are presented in accordance with the modified accrual basis of accounting. All proprietary fund expenses of the City and the Housing Authority (component unit) expenses are presented in accordance with accrual basis of accounting.

3. FEDERAL EXPENDITURES

The accompanying schedule of expenditures of federal awards includes all federal expenditures including the value of federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end.

4. RECONCILIATION OF FINANCIAL STATEMENTS TO FEDERAL AWARDS

Federal expenditures on the schedule of expenditures of federal awards amount to \$744,131. The amount of expenditures within the funds is reflected within the financial statements as follows:

<u>Special Revenues Funds</u>	
Library Fund	
Culture and recreation	\$ 50,441
Capital outlay	279,972
 <u>Capital Project Funds</u>	
Library Renovation Fund	
Capital outlay	373,151
 <u>Proprietary Funds</u>	
Water and Sewer Fund	
Capital outlay	16,605
Joint Wastewater Fund	
Capital outlay	23,962
Total schedule of federal awards	\$ 744,131

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

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

Hector H. Balderas, State Auditor
and
Mayor and City Council
City of Bayard
Bayard, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information and the budgetary comparisons of the general fund and major special revenue funds and the combining and individual funds and related budgetary comparisons presented as supplemental information of the City of Bayard, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 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

Management of City of Bayard and the City of Bayard Public Housing Authority are responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Bayard's and the City of Bayard Public Housing Authority'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 of Bayard's and the City of Bayard Public Housing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Bayard's and the City of Bayard Public Housing Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-01 and 2009-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bayard's and City of Bayard Public Housing Authority's financial statements are free of material misstatement, we performed tests of their 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 performed on the City of Bayard disclosed no instances of noncompliance, or other matters that is required to be reported under *Government Auditing Standards*. The results of our tests performed on the City of Bayard's Public Housing Authority disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

In regard to the City of Bayard, we noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 2010-03 and 2011-01.

In regard to the City of Bayard's Public Housing Authority, we noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items CU2012-01 and CU2012-02.

The City of Bayard's and the City of Bayard Public Housing Authority'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 of Bayard's and the City of Bayard Public Housing Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City of Bayard's Council, City of Bayard Public Housing Authority Commission, others within the entities, the New Mexico State Auditor, the New Mexico State Legislature, New Mexico Department of Finance and Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 28, 2012

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

Report on Compliance with Requirements That Could Have a
Direct and Material Effect to Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited City of Bayard's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Bayard's major federal programs for the year ended June 30, 2012. City of Bayard's major federal programs are identified in the summary of auditors' 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 City of Bayard's management. Our responsibility is to express an opinion on City of Bayard'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 City of Bayard'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 City of Bayard's compliance with those requirements.

In our opinion, City of Bayard complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Bayard 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 City of Bayard'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 and to test and report on internal control over compliance with OMB Circular A-133, 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 City of Bayard's internal control over compliance.

A *deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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



Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 28, 2012

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2009-01 – Material Weakness – Financial Statements and Disclosures

Statement of Condition – The City relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). At the present time the accounting staff is unable to prepare such statements, as well as, the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements. During the fiscal year ended June 30, 2012, the City staff assisted the auditing firm in gathering some of the necessary information in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP. While the preparation of some of the schedules is a step in the right direction the City must display a level of expertise regarding financial reporting in accordance with GAAP in order to reduce the deficiency noted in internal controls regarding financial reporting.

Criteria – Auditing standards adopted in the United States of America in particular Statement on Auditing Standards (SAS) 115, paragraph 3 states the following: *“Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity’s objective of reliable financial reporting.”*

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

SAS 112 paragraph 11 provides examples of factors that may affect the likelihood that a control, or combination of controls could fail to prevent or detect a misstatement. One such example is *“The nature of the financial statements accounts, disclosures, and assertions involved.”* SAS 115 paragraph 5 provides an explanation of a deficiency in internal control as either a deficiency in design or in operation. Paragraph 6 states *“A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected or corrected on a timely basis.”* SAS 115 paragraph 15 provides a list of indicators of a material weakness in internal control. One such example is *“Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.”*

Effect – Since the City personnel lack the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the City’s financial statements, that is more than inconsequential, will not be prevented or detected.

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2009-01 – Material Weakness – Financial Statements and Disclosures (continued)

Effect (continued) – Furthermore, since the City accounting staff lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

Cause –The employees maintain the City’s accounting records on the cash basis of accounting which is required by the state of New Mexico. The employees have not received accounting training which would provide knowledge regarding the differences between the cash basis of accounting and the accrual basis of accounting and how to convert accounting records from one basis to another. Furthermore, the staff has not received training or continuing education regarding the Government Accounting Standard Board (GASB) pronouncements. Such training would include the regular attendance of courses that update the accounting profession as to changes in the guidance issued by GASB. City employees lack the proper abilities and training to prepare financial statements in accordance with generally accepted accounting principles.

The City continues the tradition of the past, by requiring the independent auditor prepare the financial statements and the notes to the statements, as they perform the annual audit. In the past this may have been sufficient; however, the accounting profession (American Institute of Certified Public Accountants) by issuance of risk assessment statements on auditing standards, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

Recommendation – We understand the City Council has to be mindful of the economic conditions facing the state of New Mexico and the City when considering budget appropriations and charges to such appropriations; however, the Council should place proper financial resources in training the accounting staff. Such training at the minimum would include accounting courses that would instruct the staff of GAAP considerations in regards to government financial reporting. With that in mind, we recommend the City staff receive the proper training in regards to financial reporting in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions – City staff will continue to seek training for the preparation of the financial statement as required by GAAP.

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2009-02 – Material Weakness – Capital Assets Subsidiary Records

Statement of Condition – In order to be in compliance with the Government Accounting Standards Board (GASB) Statement No. 34, the City engaged a company to perform a complete physical inventory of all capital assets owned by the City. Upon completion, the company provided a computer software program that contained all the assets that were inventoried. The software and the data stored in the program composed the City's capital assets subsidiary ledgers. The staff has opted to use another accounting program to serve as its capital assets subsidiary ledger. At this time, the staff is entering the capital asset data into the new program. During our audit we noted the following discrepancies regarding the original ledger:

- The reports generated by the program do not provide information that can be readily used for the preparation of financial statements in accordance with generally accepted accounting principles.
- The company provided identification numbers that were placed on the movable capital assets. During our tests of the listing of the assets, we discovered that the City staff has not kept the inventory list current and complete. We noted items on the list that were no longer owned by the City.
- The City does not reconcile the capital outlay accounts on the general ledger with the subsidiary capital assets ledger.

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

Effect – The City capital assets subsidiary ledgers are not capable of generating data necessary for the financial statements without a significant amount of manipulation. The data maintained within the subsidiary ledger is not reconciled to the general ledger causing errors to occur in the accumulation of information within the subsidiary ledger. The current condition of the capital assets subsidiary ledger makes the preparation of the financial statements difficult.

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2009-02 – Material Weakness – Capital Assets Subsidiary Records (continued)

Cause – The City staff is unable to properly utilize the reporting function of the capital asset subsidiary software. The staff does not understand the relationship between the City's general ledger capital outlay accounts within the governmental and proprietary funds and the subsidiary ledger. The staff does not understand the concept of capitalization of capital assets within both the governmental and business-type activities.

Recommendation – We recommend City staff receive additional training regarding the maintenance of the capital assets subsidiary ledgers, and in particular, training should include the reporting function of the program. Additionally, City staff should receive training regarding the concept of capitalization of capital expenditures. Once the training has occurred, we recommend the City thoroughly review the subsidiary records and make the appropriate adjustments.

Views of Responsible Officials and Planned Corrective Actions – City staff has been working on creating the capital assets subsidiary records as needed. The records will be inputted into the financial system software so they can be tracked and reconciled to the general ledger.

Item 2010-03 – Other – Compliance with Travel and Per Diem Reimbursement

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was twenty-five transactions, which were haphazardly selected throughout the fiscal year, and contained the following discrepancies:

- There were twenty-four instances that required mileage (actual or per diem) reimbursement. Of those twenty-four instances, two instances had the mileage reimbursement rate calculated incorrectly. For both instances, the employee was overpaid. The variance totaled \$10.
- There was one instance where an employee was overpaid for their meal reimbursement due to a miscalculation of the amount owed. The amount the employee was overpaid was \$5.

Criteria – The New Mexico Department of Finance and Administration have issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

Section 2.42.23.8 B (2) provides guidance regarding the per diem computation. In particular, subsection one discusses the partial day per diem computation methods.

**STATE OF NEW MEXICO
CITY OF BAYARD**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2010-03 – Other – Compliance with Travel and Per Diem Reimbursement (continued)

Effect – Non-compliance with the state of New Mexico Per Diem and Mileage Act subjects officials and employees to penalties as required by state statutes.

Cause – Errors in the mileage rate calculation, and the incorrect mileage accrued, was due to not fully understanding the administrative code. The staff failed to review and modify the IRS rate at the beginning of the fiscal year. City staff failed to correctly calculate the meal reimbursement amount.

Recommendation – We recommend the administrative staff review the Per Diem and Mileage Act, and the administrative code to ensure compliance with the Act. We recommend City staff re-evaluate their internal control procedures over the calculation and reimbursement amounts for employee travel and per diem. Furthermore, we recommend the City amend their travel and per diem policy to reflect the correct allowable mileage reimbursement rates.

Views of Responsible Officials and Planned Corrective Actions – Staff has corrected the mileage rate reimbursed for travel.

Item 2011-01 – Other – Agency Credit Cards

Statement of Condition – During our testing of thirty-five credit card transactions that totaled \$5,127, we noted the following deviations:

- We noted one instance, in the amount of \$113, where a Councilor charged one night of lodging on the City credit card that was for personal use.

Criteria – When the City Council authorized the use of credit cards, all councilors and employees could only use the credit card for the following purchases: motel, meals, gasoline (if using a City vehicle), and online purchasing, if the vendor does not accept purchase orders. All purchases charged on the credit card require the receipt to be provided to the accounts payable clerk upon return. Furthermore, no personal purchases are allowed to be made using the City's credit cards.

Effect – If the City does not monitor the usage of its credit cards and allows personal expenses or a lack of receipt requirements, it runs the risk that purchases may be made in excess of the approved budget limitations.

Cause – The City has agency credit cards to be used for approved travel purposes and approved dates.

Recommendation – We recommend the administrative staff review the City's policies and procedures concerning the authorized use of its credit cards. After such review, all necessary changes or adjustments should be instituted as soon as possible.

STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENTS FINDINGS

Primary Government

Item 2011-01 – Other – Agency Credit Cards (continued)

Views of Responsible Officials and Planned Corrective Actions – City staff found the additional charge during the travel reconciliation for the city councilor. The city councilor failed to have the hotel staff correct the billing of the stay to his personal card. Staff deducted the charged amount from his payroll check.

Component Unit

Item 2012-01 – Other – Board of Commissioners' Official Minutes

Statement of Condition – During the review of the Authority's Board of Commissioners' board minutes, we discovered four instances where a draft copy of the Board of Commissioners' minutes were prepared and ready for approval at the subsequent Board of Commissioners' regular meeting; however, the Board failed to approve the minutes.

Criteria – Section 10-15-1G NMSA 1978 (Open Meetings Act) requires that draft minutes be prepared within ten working days after the meeting and be approved, amended or disapproved at the next meeting where a quorum is present.

Effect – Noncompliance with the New Mexico State Statutes could subject officials and employees to penalties and fines.

Cause – The Board of Commissioners and the staff believed the Commissioners that were present at the previous meeting had to be present at the meeting where the board minutes were being approved.

Recommendation – We recommend the Authority implement administrative procedures to ensure compliance with New Mexico state statutes. Furthermore, we recommend the Authority's Attorney provide training to the Authority's Board of Commissioners and staff concerning the requirements of the Open Meetings Act.

Views of Responsible Officials and Planned Corrective Actions – The Authority concurs with the auditors' recommendation and the Authority will assure that the Board of Commissioners minutes are being approved at the subsequent Board of Commissioners regular meeting.

Item 2012-02 – Other – Cash Receipts

Statement of Condition – During our testing of the numerical sequence of cash receipts for October 2011, we discovered ten of the seventy receipts issued, had their date modified after the issuance of the receipt. All ten instances happened at the end of the month.

**STATE OF NEW MEXICO
CITY OF BAYARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION II – FINANCIAL STATEMENTS FINDINGS

Component Unit

Item 2012-01 – Other – Board of Commissioners' Official Minutes (continued)

Criteria – Internal controls are established to safe guard the assets of the Authority. The use of pre-numbered receipts aids in ensuring the receipt of funds enters the accounting system and the entire population of receipts generated for a particular accounting period can be determined and verified if necessary. Once the funds are receipted into the accounting system the transaction becomes a part the accounting system thus aiding in the safe guarding of assets.

Effect – By changing the date of the receipt, tenant's balances to the Authority could be incorrect and possibly charge the tenant a late fee. Furthermore, by changing the date of the receipts, the Authority could misstate the financial statements at month end.

Cause – The Authority's staff failed to deposit the funds the subsequent day and thus changed the date on the receipts to correspond with the date deposited.

Recommendation – We recommend accounting procedures be established to ensure all receipts are dated on the date received and the money deposited no later than the next business day. There should be no modification of the receipt date, once the receipt has been issued by the Authority.

Views of Responsible Officials and Planned Corrective Actions – The Authority concurs with the auditors' recommendation and will ensure all receipts are dated on the date received and money deposited no later than the next business day.

SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS COMMUNITY FACILITIES LOANS AND GRANTS CFDA NO.10.766 AND COMMUNITY DEVELOPMENT BLOCK GRANT CFDA NO. 14.228

None.

SECTION IV – PRIOR YEARS' AUDIT FINDINGS

Primary Government

Item 2009-01 – Financial Statements and Disclosures – In the prior year's audit report, we noted that individuals responsible for the accounting and financial reporting functions for the City, lack the skills and knowledge to apply generally accepted accounting principles in preparing the City's financial statements. During the current fiscal year, the City was unable to provide additional governmental accounting training to the individuals responsible for the preparation of the City's financial statements. The prior year's audit finding has been modified and repeated as Item 2009-01.

**STATE OF NEW MEXICO
CITY OF BAYARD**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION IV – PRIOR YEARS’ AUDIT FINDINGS (continued)

Primary Government (continued)

Item 2009-02 – Capital Asset Subsidiary Records – In the prior year’s audit report, we noted the City did not have sufficient internal controls to safeguard its capital assets, track asset additions and deletions, or maintain an accurate depreciation schedule. During the current fiscal year, the City continued to prepare their capital asset subsidiary ledger; however, the report was not completed at the end of the fiscal year. The prior year’s audit finding has been modified and repeated as Item 2009-02.

Item 2010-01 – Compliance with Series 2009 Bond Ordinance – In the prior year’s audit report, we noted the City failed to create an account for the pledged tax revenues as required by the Series 2009 Bond Ordinance. During the current fiscal year, the City did create the account as per the ordinance. The prior year’s audit finding has been resolved.

Item 2010-03 – Compliance with Travel and Per Diem Requirements – In the prior year’s audit report, we noted the City failed to follow the per diem and mileage requirements as set forth by the state of New Mexico. During the current year, the City failed to make the necessary changes to their travel and per diem policy to be in compliance with the Mileage and Per Diem Act. The prior year’s audit finding has been modified and repeated as Item 2010-03.

Item 2011-01 – Agency Credit Cards – In the prior year’s audit report, we noted the City failed to follow their internal control policy concerning the usage of the City’s credit cards. During the current year, the City failed to implement the necessary changes for the usage of the credit cards. The prior year’s audit finding has been modified and repeated as Item 2011-01.

Item 2011-02 – Collateral of Public Monies – In the prior year’s audit report, we noted the City failed to review and ensure their financial institution was in compliance with pledged collateral requirements as per state statutes. During the current year, the City met with their financial institution to ensure there was sufficient pledged collateral. The prior year’s audit finding has been resolved.

Component Unit

Item 2010-02 – Travel and Per Diem – During the previous year’s audit, it was noted the Authority failed to follow the reimbursements of the Mileage and Per Diem Act for reimbursement of employee travel expenses. During the fiscal year, the Authority made the necessary adjustments concerning the Mileage and Per Diem Act. This finding has been resolved.

**STATE OF NEW MEXICO
CITY OF BAYARD
EXIT CONFERENCE AND
FINANCIAL STATEMENT PREPARATION
JUNE 30, 2012**

**CITY OF BAYARD
EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2012, was discussed during the exit conference held on November 30, 2012. Present for the City was Charles Kelly, mayor; and Kristina V. Ortiz, City clerk-treasurer. Present for the auditing firm was Dominic Fierro, audit manager.

**PUBLIC HOUSING AUTHORITY
EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2012, was discussed during the exit conference held on November 30, 2012. Present for the Public Housing Authority was Rosemary Alvarado, vice-chairperson; and Jolene Padilla, executive director. Present for the City of Bayard was Charles Kelly, mayor; and Kristina V. Ortiz, city clerk-treasurer. Present from the auditing firm was Dominic Fierro, audit manager.

FINANCIAL STATEMENT PREPARATION

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the financial statements of the City of Bayard as of June 30, 2012. The City's along with the Housing Authority's upper management have reviewed and approved the financial statements and related notes, and they believe that the City's and the Housing Authority's books and records adequately support them.