

**STATE OF NEW MEXICO
TOWN OF CLAYTON**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2011

STATE OF NEW MEXICO
TOWN OF CLAYTON
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STATE OF NEW MEXICO
TOWN OF CLAYTON
Directory of Officials
June 30, 2011

ELECTED OFFICIALS

Jack Chosvig	Mayor
Noel Allen	Mayor Pro-Tem
Coby Beckner	Trustee
Leroy Montoya	Trustee
Tony Naranjo	Trustee

DEPARTMENT HEADS

Ferron Lucero	Town Manager
Karen Bray	Town Clerk
Amber Painter	Town Treasurer

HOUSING AUTHORITY

Carolita Ulibarri	Chairperson
Jeff Harris	Vice-Chairperson
Ilene Taylor	Commissioner
Rick Hood	Commissioner
Lonnie Wiseman	Commissioner

ADMINISTRATION

Angela Lucero	Executive Director
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Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.comIndependent Auditors' Report

Hector H. Balderas, State Auditor
and
Mayor and Board of Trustees
Town of Clayton
Clayton, 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 comparison for the general fund and major special revenue fund of the Town of Clayton as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Town's nonmajor governmental funds, and the budgetary comparisons for the major capital project fund, permanent fund, enterprise fund, and the nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Town of Clayton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Clayton as of June 30, 2011, 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 above present fairly, in all material respects, the financial position of each nonmajor governmental funds of the Town of Clayton, as of June 30, 2011, and changes in financial position, thereof, 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 special revenue fund, capital project fund, permanent fund, enterprise fund, and all nonmajor governmental funds referred to previously present fairly, in all material respects, the budgetary comparison for each fund of the Town of Clayton for the year ended June 30, 2011, 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 7, 2011, on our consideration of the Town of Clayton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control 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 management's discussion and analysis on pages four through seventeen is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the basic financial statements and, the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as other supplemental financial information in the table of contents, are presented for purposes of additional analysis and, are not a required part of the basic financial statements and, other opinion units listed above. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and other opinion units listed above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and, other opinion units listed above.

Fierro + Fierro, P.A.

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

November 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

The following is an overview of the financial condition for the Town of Clayton, New Mexico (Town), for the fiscal year ended June 30, 2011. This narrative highlights the major aspects of the Town's financial status for this period, and should be considered in conjunction with the information presented in other sections of this audit report.

Financial Highlights

- The Town's assets exceeded liabilities by \$21,992,764 at June 30, 2011. As a result of operations, the Town increased its net assets during the current year by \$165,605.
- Current unrestricted assets at June 30, 2011 totaled \$3,196,361. Current liabilities, including the current portion of long-term liabilities at June 30, 2011, amounted to \$650,637.
- During the fiscal year, the Town's governmental activities expended \$1,086,452 for capital assets. The business-type activities expended \$36,634.
- Investment in capital assets for the Town totaled \$20,462,813 net of accumulated depreciation at June 30, 2011. These capital assets included land, construction in progress, buildings, improvements, infrastructure, utility system, airport infrastructure and equipment.
- During the current year, the Town remitted \$203,546 for capital lease and note obligations.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Government-Wide Financial Statements (continued)

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

Detailed financial information for the Housing Authority is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages eighteen and nineteen of this report.

Fund Financial Statements

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

Governmental Funds

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

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

In addition to the general fund, the Town maintains thirteen other individual governmental funds of which eleven are classified as special revenue funds; one is classified as a capital projects fund, and one is classified as a permanent fund. Information for the general fund, municipal street fund, government assistance capital projects fund, and municipal income permanent fund, all of which are considered to be major funds, is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the other governmental funds is provided in the form of combining statements following the notes to the financial statements.

The Town adopts an annual appropriated budget for all of its funds. Budgetary comparison statement for the general fund and municipal street fund are located on pages twenty-four and twenty-five, respectively.

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Governmental Funds (continued)

Budgetary comparison statements for the other special revenues, capital projects, municipal income permanent fund and enterprise funds are located on pages sixty-five through eighty-five. The basic governmental fund financial statements can be found on page twenty through twenty-three of this report.

Proprietary Funds

The Town maintains one type of proprietary funds. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town's joint utility fund accounts for all financial activity of the water, sewer and solid waste activities. The basic proprietary fund financial statements can be found on pages twenty-six through twenty-eight of this report.

Notes to the Financial Statements

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

Other Information

The combining statements referred to earlier in connection with other governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages sixty-one through sixty-four of this report.

Government-Wide Financial Analysis

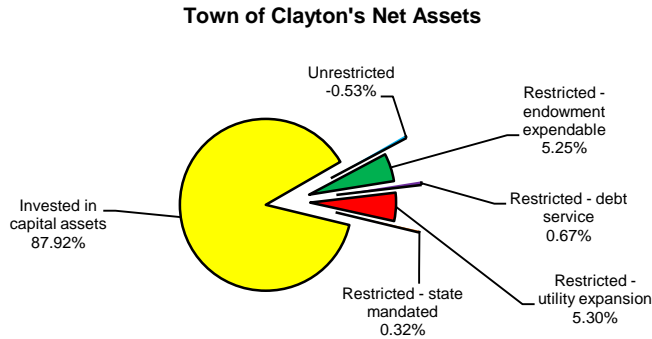
The Town has restated both the governmental and business-type activities net assets and associated assets as of June 30, 2010. Note 10 provides detail as to the restatement. The condensed financial information for the fiscal year ended June 30, 2010, presented below, has been restated.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town's primary government, assets exceeded liabilities by \$21,992,764 at the close of the most recent fiscal year. The Town's component unit – Public Housing Authority's net assets exceeded liabilities by \$1,367,412. Eighty-nine percent of the Town's net assets are composed of investment in capital assets (e.g., land, buildings, infrastructure, utility system, and equipment) less any debt, used to acquire those assets, that is still outstanding. The Town uses these assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the Town's net assets balance of \$21,992,764 at June 30, 2011, \$19,543,065 is invested in capital assets, and \$2,566,970 is restricted for debt service, state mandates, expendable endowment, and utility expansion. Unrestricted net assets are at a deficit of \$117,271. Overall, the Town has increased its net assets by \$165,605 during the current fiscal year.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Government-Wide Financial Analysis (continued)



	Governmental Activities		Business-Type Activities		Total	
	06/30/11	06/30/10	06/30/11	06/30/10	06/30/11	06/30/10
Assets:						
Current and other assets	\$ 3,393	\$ 3,852	\$ 2,235	\$ 2,009	\$ 5,628	\$ 5,861
Capital assets, net of accumulated depreciation	8,501	7,789	11,962	12,296	20,463	20,085
Total assets	11,894	11,641	14,197	14,305	26,091	25,946
Liabilities:						
Current liabilities	418	370	233	211	651	581
Long-term liabilities	508	487	2,939	3,051	3,447	3,538
Total liabilities	926	857	3,172	3,262	4,098	4,119
Net Assets:						
Invested in capital assets, net of related debt	7,876	7,214	11,667	11,958	19,543	19,172
Restricted:						
Debt service	38	38	112	112	150	150
State mandated	71	143	-	-	71	143
Expendable endowment	1,167	1,162	-	-	1,167	1,162
Utility expansion	-	-	1,179	1,178	1,179	1,178
Unrestricted	1,816	2,227	(1,933)	(2,205)	(117)	22
Total net assets	\$ 10,968	\$ 10,784	\$ 11,025	\$ 11,043	\$ 21,993	\$ 21,827

Unrestricted governmental activities cash balances changed from \$2,137,878 at June 30, 2010 to \$1,735,324 at June 30, 2011, a net decrease of \$402,554. In the general fund, cash decreased by \$230,440 from 2010 to 2011. In the municipal street fund, cash decreased by \$171,473. In both of these funds, the decreases were due to expenses exceeding revenues. The main reason for the losses in both funds was the Town received less tax revenues than expected, partly because of repayments on an over-allocation of fiscal year 2010 gross receipts tax dedications.

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Government-Wide Financial Analysis (continued)

Governmental activities capital assets increased from \$7,789,209 on June 30, 2010 to \$8,500,657 on June 30, 2011. Many municipal projects were completed during the current fiscal year, and the related costs of the projects were capitalized. Those projects include new arena lights at the fairgrounds; airport runway pavement improvements; Dr. Michael Jenkins Road completion; Walnut Street improvements; and the airport water detection filter vessel. Equipment purchased included a steel roller, asphalt zipper, two fire vehicles, and three police vehicles.

Within the business-type activities, cash increased by \$190,346 at June 30, 2011, when compared to June 30, 2010. During the current fiscal year, operating revenues provided \$234,539; non-capital and financing activities provided \$134,057; and investing activities provided \$4,669. During the current year, \$182,919 was used for capital and related financing activities.

	Governmental Activities		Business-Type Activities		Total	
	06/30/11	06/30/10	06/30/11	06/30/10	06/30/11	06/30/10
Revenues:						
Program revenues:						
Charges for services	\$ 487	\$ 393	\$ 1,152	\$ 1,105	\$ 1,639	\$ 1,498
Operating grants	1,044	1,119	-	-	1,044	1,119
Capital grants	735	2,981	-	264	735	3,245
General revenues:						
Gross receipts taxes	1,422	1,417	125	19	1,547	1,436
Property taxes	117	94	-	-	117	94
Lodgers' taxes	117	122	-	-	117	122
Franchise taxes	73	76	-	-	73	76
Public service taxes	85	98	-	-	85	98
Interest income	17	44	6	9	23	53
Donations	2	5	-	-	2	5
Insurance recoveries	-	2	37	9	37	11
Special item:						
Gain on sale of assets	3	2	5	-	8	2
Total revenues	4,102	6,353	1,325	1,406	5,427	7,759
Expenses:						
General government	739	787	-	-	739	787
Public safety	2,059	1,915	-	-	2,059	1,915
Public works	484	418	-	-	484	418
Culture and recreation	393	439	-	-	393	439
Health and welfare	192	182	-	-	192	182
Water	-	-	717	770	717	770
Wastewater	-	-	319	337	319	337
Solid waste	-	-	290	370	290	370
Interest on long-term debt	18	18	50	37	68	55
Total expenses	3,885	3,759	1,376	1,514	5,261	5,273
Transfers	(33)	(28)	33	28	-	-
Increase (decrease) in net assets	\$ 184	\$ 2,566	\$ (18)	\$ (80)	\$ 166	\$ 2,486

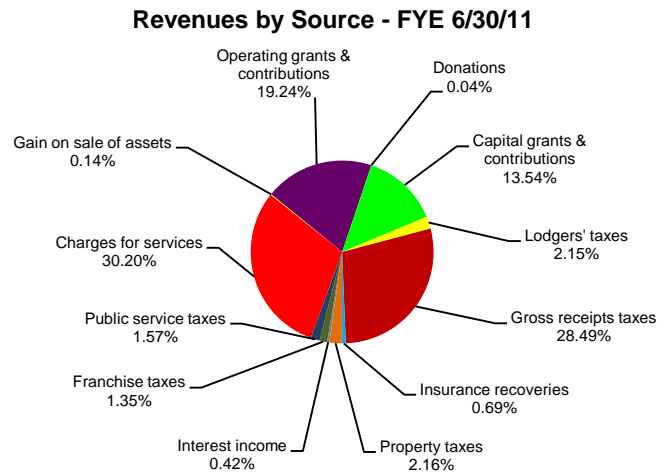
**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Government-Wide Financial Analysis (continued)

When comparing the statement of activities between both fiscal years, there is a significant decrease in capital grant revenues in both the governmental and business-type activities in the most recent fiscal year. In the governmental activities, the decrease amounted to \$2,156,695. Of the amount, \$1,862,963 can be attributed to the receipt of governmental assistance related to two road projects; the Dr. Michael Jenkins Road project and the Walnut Street project during 2010. Since the majority of the projects had been completed in 2010, a significant decrease occurred. An additional factor in the decrease in capital grants and contributions is the state government has provided less capital project awards due to their financial struggles.

In the business-type activities, the capital grant revenues totaled \$264,326 for the fiscal year ended June 30, 2010, while no capital grants revenues were received during the current fiscal year. One of the major prior year projects making up those grants included the final payment on the legislative appropriation grant for the landfill closing in the amount of \$224,932. The landfill final cover has been completed, and no additional revenues are anticipated for the landfill. Wastewater grant revenue, in the amount of \$11,675, was fully expended in 2010 on the environmental study for the lagoon project. Community Development Block Grant (CDBG) revenue, in the amount of \$27,719, was fully expended in 2010. The CDBG award was for expenses related to the water infrastructure improvements. All of those particular grants did not extend into the 2011 fiscal year.

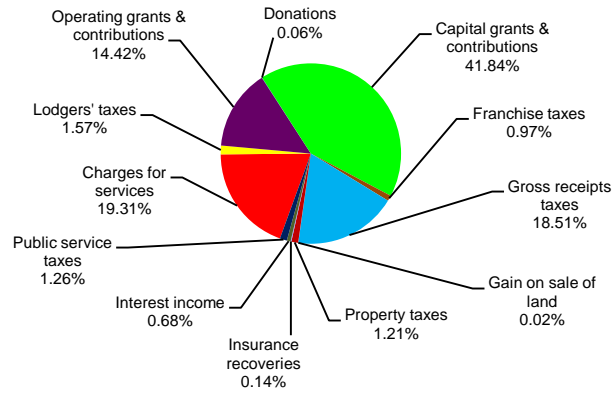
During 2011, governmental activities expenses were \$3,885,487, an increase of \$127,616 from the previous year of \$3,757,871. The largest increase in expenses was in public safety in the amount of \$144,480. The majority of the increase can be attributed to; fire along with police department vehicles placed in service during the current year, thereby increasing depreciation expense by \$30,353; airport expenses including aviation fuel increased by \$35,124; and fire vehicles maintenance expenses increased by \$61,344.



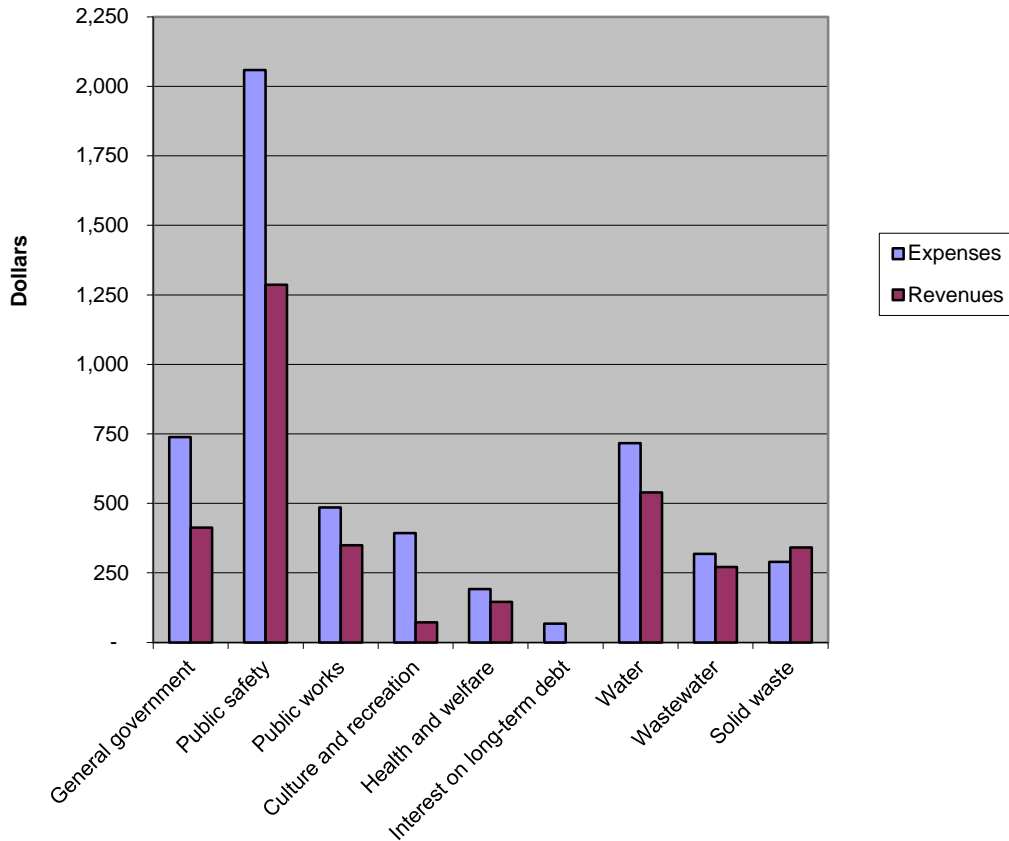
**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Government-Wide Financial Analysis (continued)

Revenues by Source - FYE 6/30/10



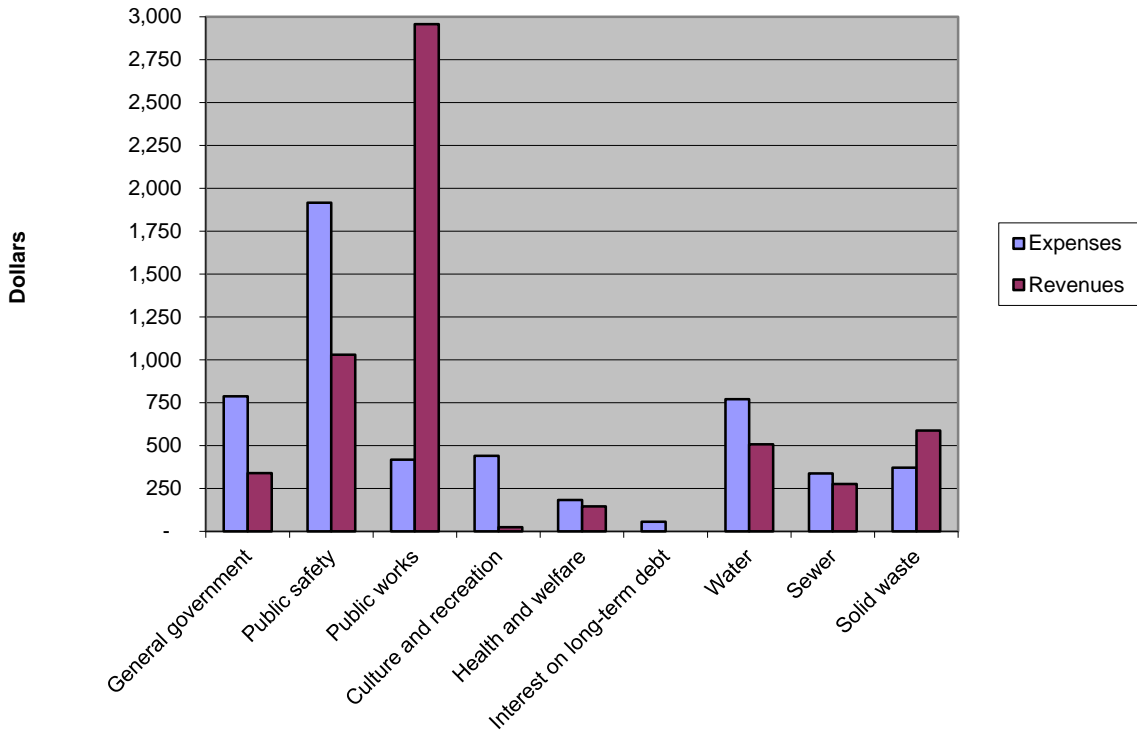
**Expenses & Program Revenues - FYE 06/30/11
(in thousands)**



**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Government-Wide Financial Analysis (continued)

Expenses & Program Revenues - FYE 06/30/10
(in thousands)



Financial Analysis of the Town's Funds

Governmental Funds

Within the general fund at June 30, 2011, cash is reflected as \$681,158. This is a decrease of \$230,440 when compared to the prior fiscal year. The largest reason for the decrease in cash, from one year to the next, is the result of operations which reflect a loss of \$237,993.

Total liabilities in the general fund increased in 2011 when compared to 2010 by \$95,989. Accounts payable in the general fund increased by \$35,441. This is due mostly to projects on going at year-end including restroom renovations at the ballpark. Due to other funds within the general fund increased by \$87,323 because of transfers that had not occurred by year-end to cover deficit cash balances within the pooled cash accounts. The majority of these transfers were owed to the municipal income permanent fund. Deferred revenues decreased by \$85,052. At June 30, 2010, the Town owed the New Mexico Taxation and Revenue Department \$75,824 in gross receipts tax revenues that had been over collected. Those revenues were paid back in equal installments over the fiscal year reducing the deferred revenues to \$5,310 at June 30, 2011, which is the non-current portion of property taxes.

STATE OF NEW MEXICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Town's Funds (continued)

Governmental Funds (continued)

In the street fund, the cash decreased from \$603,058 to \$431,585, a net change of \$171,473. This is due to expenditures exceeding revenues.

In the municipal income permanent fund, due from other funds increased by \$81,918. This increase was caused by the general fund deficit cash balance within the pooled cash accounts. This also explains the decrease in restricted cash from 2010 to 2011. This decrease is in the amount of \$76,890.

During the current fiscal year, general fund revenues amounted to \$2,476,056, which is an increase of \$394,120 when compared to the prior fiscal year. Gross receipts tax revenues increased by \$135,284 due to the reallocation of how the Town was recording the tax revenues and the recognition of taxes earned that had been overpaid in the previous fiscal year. Intergovernmental revenues increased by \$171,009. This increase is accounted for mostly in the small cities assistance funding and the delay in joint communications billings and the New Mexico Energy, Minerals & Natural Resources Department grant received for the purchase of a fire truck. General fund charges for services revenues increased by \$83,051. This is due mostly in part to ambulance revenues and credit card sales of aviation fuel. The grassland lease revenues and library administrative services increased by \$6,243 and \$1,916 respectively. Fines and forfeitures revenues increased from 2010 by \$35,908 due to additional enforcement of traffic laws and regulations by the police department. Miscellaneous revenues decreased from 2010 due to further identification as to the type of revenues recorded within the accounts of the general fund.

Within the general fund, expenditures increased from \$2,587,581 to \$2,687,920, a net change of \$100,339 from 2010 to 2011. In general government, expenditures decreased by \$51,516 which is due to a decrease in payments to the town attorney and local organizations and a decrease in non-capital equipment purchases in the buildings and maintenance department. Public safety expenditures increased by \$69,647. As mentioned earlier, this is mostly due to the increase in airport fuel expense and fire vehicle maintenance. Culture and recreation expenditures decreased by \$33,178 in the current year primarily because of a decrease in salaries of \$29,140. Finally, capital outlay expenditures increased by \$119,821 in 2011 due mostly to the vehicles purchased in the fire and police departments.

In the municipal street fund, gross receipts tax revenues decreased from \$294,147 in 2010 to \$163,453 in 2011. This decrease can be attributed to the difference in the recognition of gross receipts tax revenues within the accounts of the municipality. Intergovernmental revenues decreased by \$25,700, in the current year, due to the reduction of funding in the co-op chip seal project. In 2010, there was a one-time \$200,000 reimbursement of expenditures from the Clayton prison facility surplus fund for the Dr. Michael Jenkins Road project. This did not occur in 2011, therefore reducing miscellaneous revenues to zero in 2011.

Capital outlay expenditures in the municipal street fund increased by \$154,383 from 2010 to 2011. The Town purchased a steel roller in the amount of \$25,000 and an asphalt zipper in the amount of \$129,383.

In the government assistance fund, intergovernmental revenues decreased from \$2,890,261 in 2010 to \$669,338 in 2011.

STATE OF NEW MEXICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Town's Funds (continued)

Governmental Funds (continued)

This was due mostly in part to the Dr. Michael Jenkins Road project being completed shortly after the 2010 fiscal year ended. The other project that was completed shortly after the beginning of the 2011 fiscal year was the Walnut Street project. The revenues available for these projects were consumed mostly in 2010 leaving substantially less revenues for the 2011 fiscal year.

Expenditures in the government assistance fund for capital outlay decreased from \$2,888,177 in 2010 to \$643,777 in 2011. This decrease is due to the majority of the Dr. Michael Jenkins road and Walnut Street projects expenditures completed during 2010 and no other major projects occurring in 2011. There was a \$25,554 increase in general government expenditures for amounts paid for engineering and architectural fees from the New Mexico Energy, Minerals & Natural Resources Department energy grant. Public works expenditures increased by \$17,075 for amounts paid to engineers from the street legislative appropriation grant.

General Fund Budgetary Highlights

During the 2011 fiscal year, the Town budgeted \$2,841,100 in general fund revenues. The actual revenues for the year were \$2,398,746, an unfavorable variance of \$442,354. This variance is due mostly in part to gross receipts tax (GRT) revenues and intergovernmental revenues being under budget.

GRT revenues were under budget by \$293,433. This is due to a decrease in infrastructure revenues that were expected to increase. Those revenues were over budgeted due to projects that were completed. Additionally, the Town owed the New Mexico Taxation and Revenue Department \$75,824 for prior years' taxes that were overpaid to the Town. Current year receipts were decreased to pay back the New Mexico Taxation and Revenue Department which contributed to the unfavorable variance in GRT revenues.

Intergovernmental revenues were under budget by \$117,465. During the fiscal year, the budget increased by \$115,640 mostly because of the New Mexico Energy, Minerals & Natural Resources Department grant of \$107,000 that was for the purchase of a fire truck. While the revenue was recognized for financial reporting, the cash was not received by the end of the fiscal year and therefore not recorded on the budgetary basis of accounting. This is the greatest cause for the unfavorable variance within the intergovernmental revenues.

During the year, total general fund expenditures were budgeted at \$3,050,891. Actual expenditures at year-end were \$2,725,539, a favorable variance of \$325,352. General government expenditures were under budget by \$109,652. The factors contributing to this favorable variance include decreases to attorney fees, administrative services, administrative salaries, and buildings and maintenance salaries.

Public safety expenditures were under budget by \$135,423 mostly due to a reduction of police salaries expenditures as police positions went unfilled for part of the year. Also, fuel expense was down in the police department as compared to what was expected. Salaries in the fire department for fire and EMS personnel were also lower than expected for the year. Joint communications salaries were lower than expected as were special services expenditures. Group insurance expense was lower than expected in the airport department.

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Financial Analysis of the Town's Funds (continued)

General Fund Budgetary Highlights (continued)

Culture and recreation expenditures were also under budget by \$64,032. In the parks department, salaries were down partly due to group insurance that was over budgeted. Also, equipment was budgeted but was not purchased. Civic center expenditures were lower than expected in salaries. This is due partly to a position that has not been filled.

Capital outlay expenditures in the general fund were originally budgeted at \$51,000 but were increased in the year to account for the NM Energy, Minerals & Natural Resources Department grant in the amount of \$107,000.

Transfers out in the general fund were not originally budgeted, but increased throughout the year to \$63,324. This was due to an increase in the amount of general funding which was used to cover expenses paid for in the fire protection fund. Also, the transfers increased to reimburse the municipal income interest fund for its transfers out to other funds.

Sale of assets were expected to bring in revenues of \$42,000, but the Town only received revenues of \$2,224, causing a variance of \$39,776. Aside from the sold assets producing less revenue than expected, some assets that were expected to be sold were not sold.

Capital Assets and Debt Administration

Capital Assets

The Town's investment in capital assets for the government as of June 30, 2011, amounts to \$20,462,813 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, utility systems, and machinery and equipment.

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

- During the current fiscal year, the Town completed two major road projects. Improvements of \$2,718,209 to Dr. Michael Jenkins Road, and \$306,065 to Walnut Street were capitalized as infrastructure.
- The Town capitalized improvements to the airport runway in the amount of \$243,101 during the current fiscal year.
- During the fiscal year, the Town purchased a fire truck and a truck for the fire department that totaled \$156,900.
- The Town purchased street equipment in the amount of \$154,383 that will be used to maintain the streets of Clayton.
- The Town purchased three police vehicles in the amount of \$66,000.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

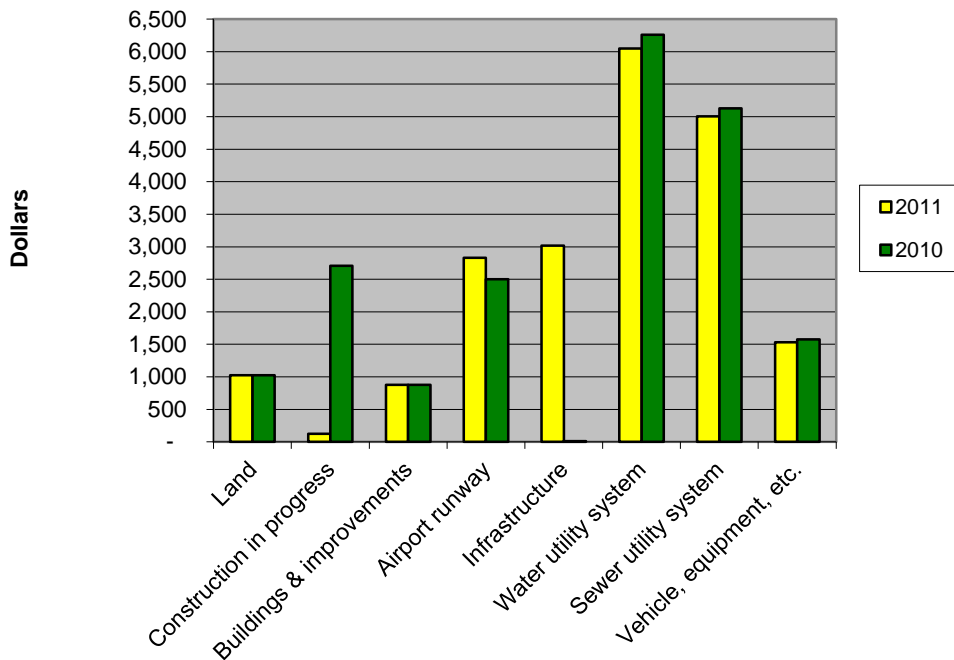
Financial Analysis of the Town's Funds (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

	Governmental Activities		Business-Type Activities		Total	
	06/30/11	06/30/10	06/30/11	06/30/10	06/30/11	06/30/10
Land	\$ 279	\$ 279	\$ 746	\$ 746	\$ 1,025	\$ 1,025
Construction in progress	85	2,695	39	12	124	2,707
Buildings & improvements	879	880	-	-	879	880
Airport runway	2,832	2,499	-	-	2,832	2,499
Infrastructure	3,017	14	-	-	3,017	14
Water utility system	-	-	6,050	6,259	6,050	6,259
Sewer utility system	-	-	5,005	5,126	5,005	5,126
Vehicles, equipment and other assets	1,409	1,422	122	153	1,531	1,575
Total	\$ 8,501	\$ 7,789	\$ 11,962	\$ 12,296	\$ 20,463	\$ 20,085

Capital Assets (net of accumulated depreciation)
(in thousands)



Additional information on the Town's capital assets can be found in note six on pages forty-six through forty-eight of this report.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Financial Analysis of the Town's Funds (continued)

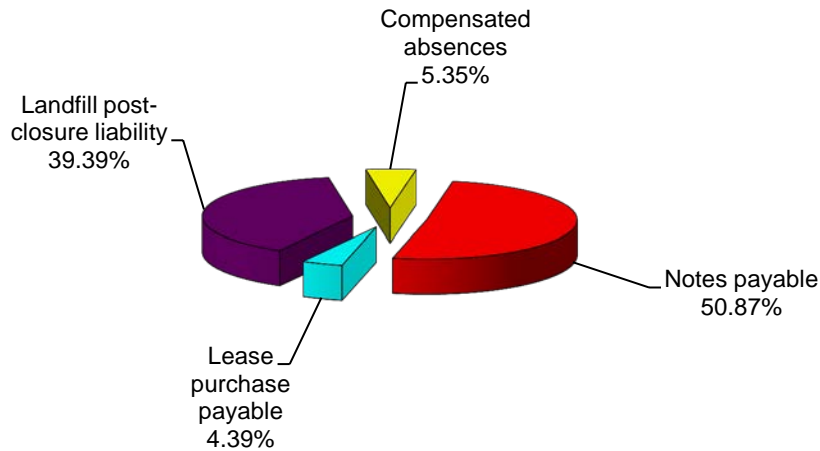
Capital Assets and Debt Administration (continued)

Long-Term Debt

At the end of the current year, the Town had total debt outstanding of \$4,098,049, which consists of notes, lease purchases, and compensated absences. The state of New Mexico Constitution provides for a legal limit of four percent (4.0%) of taxable valuation for general obligation bonds. The Town's taxable value of property in 2010 was \$26,078,164. The Town may currently issue up to \$1,043,127 in general obligation bonds.

	Long-Term Debt (In Thousands)					
	Governmental Activities		Business-Type		Total	
	06/30/11	06/30/10	06/30/11	06/30/10	06/30/11	06/30/10
Notes payable	\$ 455	\$ 554	\$ 1,513	\$ 1,596	\$ 1,968	\$ 2,150
Lease purchase payable	170	21	-	-	170	21
Landfill post-closure liability	-	-	1,524	1,547	1,524	1,547
Compensated absences	138	126	69	61	207	187
Totals	\$ 763	\$ 701	\$ 3,106	\$ 3,204	\$ 3,869	\$ 3,905

**Outstanding Long-Term Debt
June 30, 2011**



STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

Financial Analysis of the Town's Funds (continued)

Economic Factors and Next Year's Budgets and Rates

The Town of Clayton's largest revenue source is gross receipts taxes. Gross receipts tax revenues were down approximately 6% for fiscal year 2011 when compared to fiscal year 2010. The Town was required to repay an over-allocation of 2010 gross receipts tax distribution in 2011, which accounts for the majority of the negative change. Thus far in fiscal year 2012, gross receipt taxes received have exceeded 2011 distributions. The local economy has begun a slow recovery; however, the State's fiscal difficulties could potentially have an effect on the Town's overall gross receipts tax base. It is anticipated that legislation to repeal the hold harmless provision may be re-introduced by the state of New Mexico. This legislation if passed would have a negative impact the Town's gross receipts tax distribution, and overall ability to meet annual operating requirements.

The financial position of the Town remains strong; however, due to the sluggish economy overall fund balances have been reduced. This is primarily due to operating costs plus annual principal debt service requirements exceeding revenues. The governing body of the Town has recognized this trend and has elected to approve a flat budget or a budget reflective of actual revenues and expenses reported for the previous year. Currently, the Town is increasing the water and sewer rates approximately 1.5% annually; however, this may not be sufficient and a rate evaluation may be required in order to provide more financial stability to the joint utility fund.

Request for Information

This financial report is designed to provide a general overview of the Town's finances and to show the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Town Manager, 1 Chestnut, Clayton, New Mexico 88415.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF CLAYTON
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash	\$ 1,735,324	\$ 710,659	\$ 2,445,983	\$ 128,892
Receivables, net	534,467	215,911	750,378	166
Inventory	-	-	-	17,004
Prepaid expenses	-	-	-	4,665
Restricted cash	1,085,273	-	1,085,273	7,700
Restricted investments	37,818	1,290,935	1,328,753	-
Capital assets:				
Land and construction in progress	363,411	784,633	1,148,044	51,294
Other capital assets, net of depreciation	8,137,246	11,177,523	19,314,769	1,178,215
Total capital assets	8,500,657	11,962,156	20,462,813	1,229,509
Unamortized debt issuance costs	-	17,613	17,613	-
Total assets	11,893,539	14,197,274	26,090,813	1,387,936
Liabilities				
Bank overdraft	54,761	-	54,761	-
Accounts payable	80,471	44,173	124,644	7,200
Accrued salaries	19,061	3,568	22,629	1,680
Accrued payroll taxes	3,540	831	4,371	-
Accrued interest payable	4,654	8,162	12,816	-
Deposits payable	-	9,892	9,892	7,700
Deferred revenues	-	-	-	2,030
Long-term liabilities:				
Due within one year	255,019	166,505	421,524	1,914
Due in more than one year	508,101	2,939,311	3,447,412	-
Total liabilities	925,607	3,172,442	4,098,049	20,524
Net Assets				
Invested in capital assets, net of related debt	7,876,002	11,667,063	19,543,065	1,229,509
Restricted:				
Debt service	37,818	112,153	149,971	-
State mandated per statutes	71,026	-	71,026	-
Endowment:				
Expendable	1,167,191	-	1,167,191	-
Utility expansion	-	1,178,782	1,178,782	-
Unrestricted	1,815,895	(1,933,166)	(117,271)	137,903
Total net assets	\$ 10,967,932	\$ 11,024,832	\$ 21,992,764	\$ 1,367,412

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

**STATE OF NEW MEXICO
TOWN OF CLAYTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

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	\$ 739,492	\$ 29,783	\$ 383,434	\$ -	\$ (326,275)	\$ -	\$ (326,275)	
Public safety	2,059,357	415,751	502,192	367,720	(773,694)	-	(773,694)	
Public works	484,473	-	32,252	317,265	(134,956)	-	(134,956)	
Culture and recreation	393,009	8,184	13,398	49,981	(321,446)	-	(321,446)	
Health and welfare	191,497	33,169	113,146	-	(45,182)	-	(45,182)	
Interest on long-term debt	17,659	-	-	-	(17,659)	-	(17,659)	
Total governmental activities	3,885,487	486,887	1,044,422	734,966	(1,619,212)	-	(1,619,212)	
Business-type activities:								
Water	716,530	539,658	-	-	-	(176,872)	(176,872)	
Wastewater	319,481	270,913	-	-	-	(48,568)	(48,568)	
Solid waste	290,294	341,726	-	-	-	51,432	51,432	
Interest on long-term debt	50,024	-	-	-	-	(50,024)	(50,024)	
Total business-type activities	1,376,329	1,152,297	-	-	-	(224,032)	(224,032)	
Total primary government	<u>\$ 5,261,816</u>	<u>\$ 1,639,184</u>	<u>\$ 1,044,422</u>	<u>\$ 734,966</u>	(1,619,212)	(224,032)	(1,843,244)	
Component Unit:								
Public housing	<u>\$ 365,502</u>	<u>\$ 146,421</u>	<u>\$ 109,468</u>	<u>\$ 77,133</u>				(32,480)
General Revenues:								
Gross receipts taxes					1,421,814	124,712	1,546,526	-
Property taxes, levied for general purposes					117,169	-	117,169	-
Lodgers' taxes					116,805	-	116,805	-
Franchise taxes					73,365	-	73,365	-
Public service taxes					85,351	-	85,351	-
Interest income					17,021	5,604	22,625	508
Donations					2,100	-	2,100	-
Insurance recoveries					-	37,374	37,374	-
Special Item - Gain on sale of assets					2,534	5,000	7,534	-
Transfers					(33,260)	33,260	-	-
Total general revenues, special items, and transfers					1,802,899	205,950	2,008,849	508
Change in net assets					183,687	(18,082)	165,605	(31,972)
Net assets, beginning of year					10,819,257	10,240,413	21,059,670	1,399,384
Restatement					(35,012)	802,501	767,489	-
Net assets, beginning of year, restated					10,784,245	11,042,914	21,827,159	1,399,384
Net assets, end of year					<u>\$ 10,967,932</u>	<u>\$ 11,024,832</u>	<u>\$ 21,992,764</u>	<u>\$ 1,367,412</u>

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TOWN OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	Municipal Street Fund	Government Assistance Fund	Municipal Income Permanent Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 681,158	\$ 431,585	\$ 12,471	\$ -	\$ 610,110	\$ 1,735,324
Receivables, net	437,084	31,528	41,243	-	24,612	534,467
Due from other funds	-	64,856	-	81,918	5,653	152,427
Restricted:						
Cash	-	-	-	1,085,273	-	1,085,273
Investments	4,285	-	-	-	33,533	37,818
Total assets	<u>\$ 1,122,527</u>	<u>\$ 527,969</u>	<u>\$ 53,714</u>	<u>\$ 1,167,191</u>	<u>\$ 673,908</u>	<u>\$ 3,545,309</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Bank overdraft	\$ 54,761	\$ -	\$ -	\$ -	\$ -	\$ 54,761
Accounts payable	47,027	9,071	8,858	-	15,515	80,471
Accrued salaries	16,037	1,445	-	-	1,579	19,061
Accrued payroll taxes	2,983	557	-	-	-	3,540
Due to other funds	87,323	-	-	-	65,104	152,427
Deferred revenues	5,310	-	-	-	-	5,310
Total liabilities	213,441	11,073	8,858	-	82,198	315,570
Fund Balances:						
Restricted for:						
Debt service	4,285	-	-	-	33,533	37,818
State mandated per statutes	-	-	-	-	71,026	71,026
Expendable endowment	-	-	-	1,167,191	-	1,167,191
Committed for:						
Perpetual care	-	-	-	-	133,064	133,064
One twelfth budget reserve	235,660	-	-	-	-	235,660
Subsequent years' expenditures	21,818	320,607	-	-	-	342,425
Assigned	-	196,289	44,856	-	364,846	605,991
Unassigned	647,323	-	-	-	(10,759)	636,564
Total fund balances	<u>909,086</u>	<u>516,896</u>	<u>44,856</u>	<u>1,167,191</u>	<u>591,710</u>	<u>3,229,739</u>
Total liabilities and fund balances	<u>\$ 1,122,527</u>	<u>\$ 527,969</u>	<u>\$ 53,714</u>	<u>\$ 1,167,191</u>	<u>\$ 673,908</u>	<u>\$ 3,545,309</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

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

Total fund balance governmental funds (page twenty)	\$	3,229,739
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		8,500,657
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.		5,310
Accrued interest payable on long-term debt as of year-end is reflected as such within the statement of net assets. Governmental funds recognize the interest as it becomes due.		(4,654)
Long-term liabilities, including notes payable, that are not due and payable in the current period, and, therefore are not reported in the funds.		<u>(763,120)</u>
Net assets of governmental activities (page eighteen)	\$	<u><u>10,967,932</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Municipal Street Fund	Government Assistance Fund	Municipal Income Permanent Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Gross receipts taxes	\$ 1,258,202	\$ 163,453	\$ -	\$ -	\$ 159	\$ 1,421,814
Property taxes	126,397	-	-	-	-	126,397
Franchise taxes	73,365	-	-	-	-	73,365
Lodgers' taxes	-	-	-	-	116,805	116,805
Public service taxes	-	84,929	-	-	422	85,351
Intergovernmental	606,758	32,252	669,338	-	476,039	1,784,387
Charges for services	315,121	-	-	-	43,423	358,544
Licenses and permits	6,775	-	-	-	-	6,775
Fines and forfeitures	83,529	-	-	-	33,040	116,569
Interest	5,909	614	-	5,028	5,470	17,021
Miscellaneous	-	-	-	-	2,100	2,100
Total revenues	2,476,056	281,248	669,338	5,028	677,458	4,109,128
Expenditures:						
Current:						
General government	691,791	-	25,554	-	-	717,345
Public safety	1,516,580	-	6,316	-	274,302	1,797,198
Public works	57,528	344,532	17,075	-	-	419,135
Culture and recreation	234,254	-	-	-	135,478	369,732
Health and welfare	-	-	-	-	176,964	176,964
Capital outlay	162,392	154,383	643,777	-	125,900	1,086,452
Debt service:						
Principal	25,375	-	-	-	94,858	120,233
Interest and other charges	-	-	-	-	22,943	22,943
Total expenditures	2,687,920	498,915	692,722	-	830,445	4,710,002
Excess (deficiency) of revenues over expenditures	(211,864)	(217,667)	(23,384)	5,028	(152,987)	(600,874)
Other Financing Sources (Uses):						
Proceeds from capital leases	-	103,506	-	-	66,000	169,506
Transfers in	40,947	-	31,951	-	106,137	179,035
Transfers (out)	(89,300)	(22,778)	-	-	(100,217)	(212,295)
Total other financing sources (uses)	(48,353)	80,728	31,951	-	71,920	136,246
Special Item:						
Proceeds from sale of assets	2,224	-	-	-	310	2,534
Net change in fund balances	(257,993)	(136,939)	8,567	5,028	(80,757)	(462,094)
Fund balances, beginning of year	1,167,079	653,835	36,289	1,162,163	672,467	3,691,833
Fund balances, end of year	\$ 909,086	\$ 516,896	\$ 44,856	\$ 1,167,191	\$ 591,710	\$ 3,229,739

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
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, 2011

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

Net change in fund balances - total governmental funds (page twenty-two)	\$	(462,094)
Governmental funds report capital outlay as expenditures in the amount of \$1,086,452; 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 \$375,004. The net adjustment is \$711,448.		711,448
Some of the Town's 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, 2010, deferred property taxes amount to \$14,538. The deferred property taxes for the current fiscal year amounted to \$5,310; therefore, the net adjustment is \$9,228.		(9,228)
Accrued interest expense not due within thirty days after year-end is not considered in the current period and is not reported in the governmental funds. The decrease of accrued interest liability from the previous year decreases the interest expense within the statement of activities.		5,284
The Town entered into two capital leases to assist in the purchase of police vehicles and equipment. The proceeds are recorded as other financing sources within the governmental funds; however, are recorded as long-term liability within the statement of net assets.		(169,506)
The repayment of principal of long-term debt consumes current financial resources of the governmental funds; however, is not recorded as an expense within the statement of activities.		120,233
Increase in the compensated absences liability is reflected as an expense within the statement of activities; however, the expense does not use current financial resources and is not recorded within the governmental funds.		<u>(12,450)</u>
Change in net assets of governmental activities (page nineteen)	\$	<u><u>183,687</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Gross receipts taxes	\$ 1,543,600	\$ 1,543,600	\$ 1,250,167	\$ (293,433)
Property taxes	121,847	121,847	121,864	17
Franchise taxes	86,400	86,400	76,230	(10,170)
Public service taxes	-	-	840	840
Intergovernmental	471,644	587,284	469,819	(117,465)
Charges for services	283,200	283,200	277,255	(5,945)
Licenses and permits	7,400	7,400	6,775	(625)
Fines and forfeitures	80,000	80,000	83,529	3,529
Interest	13,000	13,000	5,862	(7,138)
Miscellaneous	118,369	118,369	106,405	(11,964)
Total revenues	2,725,460	2,841,100	2,398,746	(442,354)
Expenditures:				
Current:				
General government	909,300	899,300	789,648	109,652
Public safety	1,620,144	1,627,440	1,492,017	135,423
Public works	59,205	59,205	57,198	2,007
Culture and recreation	296,946	296,946	232,914	64,032
Capital outlay	51,000	168,000	153,762	14,238
Total expenditures	2,936,595	3,050,891	2,725,539	325,352
(Deficiency) of revenues over expenditures	(211,135)	(209,791)	(326,793)	(117,002)
Other Financing Sources (Uses):				
Transfers in	51,000	51,000	40,947	(10,053)
Transfers (out)	-	(63,324)	(89,300)	(25,976)
Total other financing sources (uses)	51,000	(12,324)	(48,353)	(36,029)
Special Item:				
Proceeds from sale of assets	42,000	42,000	2,224	(39,776)
Net change in cash balance	(118,135)	(180,115)	(372,922)	(192,807)
Cash balance, beginning of year	911,598	911,598	911,598	-
Cash repaid from another fund	-	-	398	398
Cash advanced from other funds	-	-	87,323	87,323
Cash balance, end of year	<u>\$ 793,463</u>	<u>\$ 731,483</u>	<u>\$ 626,397</u>	<u>\$ (105,086)</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
MUNICIPAL STREET 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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Gross receipts taxes	\$ 130,000	\$ 130,000	\$ 192,984	\$ 62,984
Public service taxes	88,400	88,400	88,209	(191)
Intergovernmental	32,252	70,647	32,252	(38,395)
Interest	1,000	1,000	614	(386)
Miscellaneous	400	400	-	(400)
Total revenues	252,052	290,447	314,059	23,612
Expenditures:				
Current:				
Public works	310,006	310,006	347,021	(37,015)
Capital outlay	47,252	136,524	50,877	85,647
Total expenditures	357,258	446,530	397,898	48,632
(Deficiency) of revenues over expenditures	(105,206)	(156,083)	(83,839)	72,244
Other Financing Sources (Uses):				
Transfers (out)	-	(23,000)	(22,778)	222
Net change in cash balance	(105,206)	(179,083)	(106,617)	72,466
Cash balance, beginning of year	603,058	603,058	603,058	-
Cash advanced to other funds	-	-	(64,856)	(64,856)
Cash balance, end of year	<u>\$ 497,852</u>	<u>\$ 423,975</u>	<u>\$ 431,585</u>	<u>\$ 7,610</u>

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF CLAYTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Joint Utility Enterprise Fund</u>
Assets:	
Current assets:	
Cash	\$ 710,659
Receivables, net	<u>215,911</u>
Total current assets	926,570
Noncurrent assets:	
Restricted investments	1,290,935
Capital assets:	
Land	745,966
Construction in progress	38,667
Distribution and collection systems	17,897,583
Vehicles, equipment and other assets	736,514
Less accumulated depreciation	<u>(7,456,574)</u>
Total capital assets, net	11,962,156
Unamortized debt issuance costs	<u>17,613</u>
Total noncurrent assets	<u>13,270,704</u>
Total assets	14,197,274
Liabilities:	
Current liabilities:	
Accounts payable	44,173
Accrued salaries	3,568
Accrued payroll taxes	831
Accrued interest payable	8,162
Deposits payable	9,892
Current maturities of:	
Notes payable	84,966
Compensated absences	51,539
Landfill post-closure	<u>30,000</u>
Total current liabilities	233,131
Noncurrent liabilities:	
Notes payable	1,427,858
Compensated absences	17,179
Landfill post-closure	<u>1,494,274</u>
Total noncurrent liabilities	<u>2,939,311</u>
Total liabilities	3,172,442
Net assets:	
Invested in capital assets, net of related debt	11,667,063
Restricted:	
Debt service	112,153
Utility expansion	1,178,782
Unrestricted	<u>(1,933,166)</u>
Total net assets	<u>\$ 11,024,832</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Joint Utility Enterprise Fund</u>
Operating Revenues:	
Charges for services	\$ 1,152,297
Insurance recoveries	37,374
Total operating revenues	<u>1,189,671</u>
Operating Expenses:	
Personnel services	461,365
Utilities	135,814
Contractual services	45,827
Repairs and maintenance	50,370
Insurance claims and expenses	12,115
Other operating expenses	249,844
Depreciation	370,970
Total operating expenses	<u>1,326,305</u>
Operating (loss)	(136,634)
Non-operating revenues (expenses):	
Gross receipts taxes	124,712
Interest income	5,604
Interest expense	(50,024)
Total non-operating revenues (expenses)	<u>80,292</u>
(Loss) before transfers and special item	(56,342)
Transfers in	33,260
Special item:	
Gain from sale of assets	5,000
Change in net assets	(18,082)
Net assets, beginning of year	10,240,413
Restatement	802,501
Net assets, beginning of year, restated	<u>11,042,914</u>
Net assets, end of year	<u><u>\$ 11,024,832</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Joint Utility Enterprise Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,128,844
Cash received from insurance recoveries	37,374
Cash payments to suppliers for goods and services	(479,338)
Cash payments to employees for services	(452,341)
Net cash provided by operating activities	<u>234,539</u>
Cash Flows From Non-Capital and Financing Activities:	
Cash received from gross receipts taxes	100,982
Net change in customer deposits	(185)
Transfers in	33,260
Net cash provided by non-capital and related financing activities	<u>134,057</u>
Cash Flows From Capital and Financing Activities:	
Proceeds from sale of assets	5,000
Acquisition of capital assets	(36,634)
Principal payments on capital debt	(83,313)
Retirement of landfill post-closure liability	(18,254)
Interest and other charges on capital debt	(49,718)
Net cash (used) by capital and related financing activities	<u>(182,919)</u>
Cash Flows From Investing Activities:	
Interest income	5,649
Purchase of investments	(980)
Net cash provided by investing activities	<u>4,669</u>
Net increase in cash	190,346
Cash and cash equivalents, beginning of year	<u>120,313</u>
Cash and cash equivalents, end of year	<u>\$ 310,659</u>
Displayed as:	
Cash	\$ 710,659
Time deposits not considered cash equivalents	(400,000)
	<u>\$ 310,659</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating (loss)	\$ (136,634)
Adjustment to Reconcile Operating Loss to Net	
Cash Provided by Operating Activities:	
Depreciation	370,970
Bad debts	1,600
Changes in Assets and Liabilities:	
(Increase) in accounts receivable	(25,053)
Increase in accounts payable	14,632
Increase in accrued salaries	788
Increase in payroll taxes	44
Increase in compensated absences	8,192
Total adjustments	<u>371,173</u>
Net cash provided by operating activities	<u>\$ 234,539</u>

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

NOTES TO THE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Clayton (Town) 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 Town has the option to apply FASB pronouncements issued after that date to its business-type activities and proprietary funds, the Town has not chosen to do so.

A. Reporting Entity

The Town of Clayton is a political subdivision of the state of New Mexico and was incorporated under provisions of Chapter 3, Article 2, NMSA 1978 as amended. The Town operates under the mayor-trustee form of government. The Town provides the following authorized services: public safety, police and fire, highways and streets, water, sanitation, health and welfare, social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The Town's basic financial statements include all activities and accounts of the Town'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 Town has a publicly funded Housing Authority that is considered a component unit of the Town. The financial statements of the Town of Clayton Housing Authority have been included in the Town's financial statements as a *discretely presented* component unit. The Housing Authority is reported as a proprietary fund type. The Town is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2011.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

Complete financial statements for the Town of Clayton Housing Authority can be obtained from the housing authority's administrative office. Please address those requests to the Executive Director, Town of Clayton Housing Authority, 200 Aspen, Clayton, New Mexico 88415.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town 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 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 Town 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Town does not have any fiduciary funds.

The government-wide focus is more on the sustainability of the Town 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. Nonexchange transactions, in which the Town 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 balance 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 Town 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The Town reports the following major governmental funds:

The *general fund* is the Town'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 Town, except for items included in other funds.

The *municipal street special revenue fund* is used to account for the Town's street improvements. The major source of revenues recorded within the fund the state of New Mexico gasoline tax (Section 7-1-6.27 NMSA 1978). The fund was created by local ordinance pursuant to Section 3-34-1 NMSA 1978.

The *government assistance capital project fund* accounts for federal, state and local sources, revenues and expenditures for capital projects throughout the Town.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The *municipal income permanent fund* accounts for cash received from the sale of the Town's electric utility and interest income generated by the investments of the fund. The fund was established by local ordinance 548 on February 17, 1984 in accordance with section 6-6-19, NMSA 1978.

The Town reports the following major business-type fund:

The *joint utility fund* is used to account for the provision of water, sewer, and solid waste services to the residents of the Town. 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 Town maintains ten other governmental funds that are considered nonmajor funds; all ten are classified as special revenue. A description of each nonmajor governmental fund is as follows:

The *senior citizen's fund* accounts for the operation and maintenance of the senior citizen's meal program. Funding is provided by federal, state, and local sources. The federal funding sources are: Cash-in-Lieu of Commodities, authorized by the Older Americans Act of 1965, Titles III-B, III-C, III-D and III-F, and the United States Department of Agriculture. The state funds are authorized by the New Mexico General Appropriations Act (Chapter 3, 1999 Laws of New Mexico). The fund was established by local ordinance.

The *library fund* accounts for the state Grants-in-Aid to Public Libraries, to be used 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.

The *cemetery fund* accounts for funds received from sale of lots and donations for the purpose of maintaining a community cemetery. The fund was established by local ordinance authorized by 3-40-1, NMSA 1978.

The *lodgers' tax fund* accounts for funds received from a special local lodgers' tax that is to be used for promotion of the Town. The fund was established by local ordinance authorized by Section 3-38-13 through 3-38-24, NMSA 1978. Section 3-38-15(E) NMSA 1978, restricts the use of the tax for advertising, publicizing and promoting tourist-related attractions, facilities and events.

The *fire fund* accounts for the proceeds of the state fire allotment, and the expenditures for public safety there from. New Mexico state law requires that 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 Town's fire department.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,

C. and Financial Statement Presentation (continued)

The *recreation fund* accounts for receipts, such as the cigarette tax revenue, which is restricted for 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 *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 *local government correction 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 *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 *municipal income interest fund* accounts for the interest earned in the Town's permanent fund. The fund was established by local ordinance 548 on February 17, 1984. The fund is in compliance with Section 6-19, NMSA 1978.

D. Budgets

Budgets for all funds are prepared by management and approved by the Board of Trustees and the New Mexico Department of Finance and Administration. The 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 Board of Trustees 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets (continued)

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 legally restricted and is, therefore, presented as a restricted 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 board approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Investments in the Town'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

Activities 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.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

6. Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Purchased computer software is recorded at historical cost. The Town defines capital assets as assets with an initial, individual cost or donated value of more than \$5,000 and an estimated useful life in excess of one year.

Infrastructure fixed assets consisting of roads, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. 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.

Net revenue bond interest cost incurred during construction is capitalized when material.

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>
Utility system	10-100
Infrastructure	20-75
Buildings and other improvements	15-100
Machinery and equipment, including computer software	3-10

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Compensated Absences

Town employees may accumulate limited amounts of vacation. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned but not payable from available, expendable resources is reported in the government-wide financial statements.

Employees accrue vacation (annual leave) days as follows:

1. Forty (40) hours after 52 weeks (12 months) of full-time employment.
2. Eighty (80) hours after the second year (24 months) of employment through the fifth year (60 months).
3. One hundred twenty hours (120) after the sixth year (72 months) of employment and each year thereafter.

Normally, vacation time is not cumulative from year to year. Employees unable to utilize all their accumulated vacation pay on their anniversary date may petition the Town Manager for permission to carry the vacation pay for three additional months or request payment in the form of wages. Part-time or temporary employees are not granted vacation time.

Qualified employees accrue sick leave days as follows:

One (1) day per month (12 per year) for full-time employees up to ninety (90) days cumulative maximum. Excess sick leave over ninety (90) days will be paid at one-half (1/2) rate each anniversary of the individual employee. Sick leave reserves are payable upon separation as follows:

- a. 20% in the sixth year of employment.
- b. 40% in the seventh year of employment.
- c. 60% in the eighth year of employment.
- d. 80% in the ninth year of employment.
- e. 100% in the tenth year of employment and thereafter, up to ninety (90) days.

8. Deferred Revenues

Within the government-wide financial statements, deferred revenues represent unearned revenues advanced to the Town. 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 property taxes that are not available are recorded as deferred revenues and reflected as a liability within the balance sheet.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 activities, 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 Town, not restricted for any project or other purpose.

12. Fund Equity

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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

12. Fund Equity (continued)

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 board of trustees 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 been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the Town’s “intent” to be used for specific purposes, but are neither restricted nor committed. The board of trustees and town manager have 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 Town’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Other Matters (continued)

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 Town. 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 that are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited with Financial Institutions

The Town maintains cash in two financial institutions within Clayton, New Mexico. The Town's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the two financial institutions.

As of June 30, 2011, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited with Financial Institutions (continued)

	Per Institution	Reconciling Items	Per Financial Statements
Cash on hand	\$ -	\$ 452	\$ 452
First Nat'l Bank of NM	2,490,607	(84,512)	2,406,095
Farmer's & Stockmen's Bank	1,423,153	(353,205)	1,069,948
Total cash deposits	\$ 3,913,760	\$ (437,265)	\$ 3,476,495

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

Statement of Net Assets:	
Cash	\$ 2,445,983
Restricted cash	1,085,273
Bank overdraft	(54,761)
Total cash reported on financial statements	\$ 3,476,495

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Town. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Town carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by 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.

	First National Bank of New Mexico	Farmer's & Stockmen's Bank
Total deposit in bank	\$ 2,490,607	\$ 1,423,153
Less FDIC insurance	(500,000)	(500,000)
Uninsured public funds	1,990,607	923,153
Pledged collateral held by pledging bank's agent, but not in the Town's name	1,153,429	707,732
Uninsured and uncollateralized public funds	\$ 837,178	\$ 215,421
Total pledged collateral	\$ 1,153,429	\$ 707,732
50% pledged collateral requirement per state statute	(995,304)	(461,577)
Pledged collateral (under) over the requirement	\$ 158,125	\$ 246,155

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 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 Town does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$2,913,760 of the Town's bank balance of \$3,913,760 was exposed to custodial credit risk as follows:

	First National Bank of New Mexico	Farmer's & Stockmen's Bank	Total
Uninsured and collateral held by agent, not in Town's name	\$ 1,990,607	\$ 923,153	\$ 2,913,760

3. RESTRICTED INVESTMENTS

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

Agency	Investment	Maturity	Fair Market Value
NM State Treasurer	Investment Pool	N/A	\$ 32,289
Bank of NY Mellon Tr. Co.	Federated Gov't Oblig Fd #5	N/A	1,178,782
Bank of NY Mellon Tr. Co.	Pooled US Gov't Investments	N/A	117,682
			\$ 1,328,753

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

Statement of Net Assets:	
Restricted investments	\$ 1,328,753

The amounts considered restricted investments are debt proceeds amounts set aside to meet debt reserve requirements, and program receipts.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3. RESTRICTED INVESTMENTS (continued)

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 or construction of capital assets. As of June 30, 2011, the restricted investments are composed of the following:

Program receipts	\$ 1,178,782
Debt reserve	149,971
	\$ 1,328,753

Cash Deposited with the New Mexico State Treasurer

As of June 30, 2011, the combined balance of the Town's investment within the short-term investment fund was \$32,289. The cost basis and the fair market basis of the deposit are equal to \$32,289 (amount of investment). The investments are valued at fair value based on quoted market prices as of the valuation date. Section 6-10-10.1, NMSA 1978, empowers the state treasurer, with the advice and consent of the state Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The state treasurer's Local Government Investment Pool is not SEC registered. The fund is rated AAA_m by Standard and Poor's.

The Local Government Investment Pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the state treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the Local Government Investment Pool is voluntary.

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 portfolio's weighted average maturity is 36-day WAM.

Bank of New York Mellon Trust Company

The Town has entered into several loan agreements with the New Mexico Finance Authority (Authority) as detailed in Note 8. As part of the agreements, the Authority has placed debt reserves and program revenues into two separate accounts at the Bank of New York Mellon Trust Company. In the prior year, the Town's reserve and program revenue were invested into separate investment accounts that identified the exact U.S. government investment account for the Town's debt reserves and program revenues.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3. RESTRICTED INVESTMENTS (continued)

Bank of New York Mellon Trust Company (continued)

For the current fiscal year, the Authority has invested debt reserve funds from loan agreements of all state of New Mexico local governments within the Federated Government Obligations Fund No. 5, obligations from the U.S. Treasury, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. For all program funds available to the local governments, the Authority has placed the funds within an account that is invested in the Federated Government Obligations Fund No. 5.

The investments are valued at fair value based on quoted market prices as of the valuation date. The funds are 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 Federated Government Obligations Fund No. 5's weighted average maturity is 44-day WAM.

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

4. RECEIVABLES, NET

Receivables net of allowance for doubtful accounts at June 30, 2011 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts receivable:		
Charges for services	\$ 90,779	\$ 205,830
Allowance for doubtful accounts	<u>(23,200)</u>	<u>(9,300)</u>
Total	67,579	196,530
Taxes receivable:		
Gross receipts taxes	224,727	19,270
Franchise taxes	17,963	-
Property taxes	15,243	-
Lodgers' taxes	15,088	-
Public service taxes	5,842	-
Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total	278,863	19,270

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4. RECEIVABLES, NET (continued)

Receivables net of allowance for doubtful accounts at June 30, 2011 consisted of the following (continued):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Intergovernmental receivables:		
Public safety grants	136,939	-
Building improvements grant	25,911	-
Airport improvement grants	15,332	-
Senior citizens grants	8,902	-
Total	<u>187,084</u>	<u>-</u>
Interest receivables	<u>941</u>	<u>111</u>
Receivables, net	<u><u>\$ 534,467</u></u>	<u><u>\$ 215,911</u></u>

The Town's policy is to provide for uncollectible accounts 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 Union County Assessor to develop the property tax schedule by October 1st. Tax notices are sent by the Union 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 Town by the County Treasurer, and are remitted to the Town 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 Town 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 Town is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the Town. The Town's total tax rate to finance general government services for the year 2010, was \$4.913 per \$1,000 for non-residential and \$4.785 for residential property. In the year 2010, there was no tax rate established for payment of bonds principal and interest.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6. CAPITAL ASSETS

The Town discovered two police vehicles were duplicated on the capital assets subsidiary ledger within the governmental activities capital assets. The Town has decreased the beginning governmental activities equipment and vehicles category by \$35,012.

The Town also discovered that an error in the calculation of depreciation expense within the Joint Utility fund occurred in the previous fiscal year. The business-type activities capital assets beginning of year accumulated depreciation has been decreased by \$802,501.

	Balance 06/30/10	Restatement	Restated Balance 06/30/10
Governmental Activities:			
Capital Assets:			
Land	\$ 278,730	\$ -	\$ 278,730
Construction in progress	2,695,351	-	2,695,351
Buildings and improvements	2,287,475	-	2,287,475
Airport runways	2,768,045	-	2,768,045
Infrastructure	22,984	-	22,984
Furniture, fixtures and equipment	3,130,074	(35,012)	3,095,062
Accumulated Depreciation:			
Building and improvements	(1,407,694)	-	(1,407,694)
Airport runways	(268,851)	-	(268,851)
Infrastructure	(9,193)	-	(9,193)
Furniture, fixtures and equipment	(1,672,700)	-	(1,672,700)
Net governmental activities capital assets	<u>\$ 7,824,221</u>	<u>\$ (35,012)</u>	<u>\$ 7,789,209</u>
Business-Type Activities:			
Capital Assets:			
Land	\$ 745,966	\$ -	\$ 745,966
Construction in progress	11,675	-	11,675
Water utility system	9,448,903	-	9,448,903
Sewer utility system	8,443,280	-	8,443,280
Solid waste system	5,400	-	5,400
Furniture, equipment & vehicles	726,872	-	726,872
Accumulated Depreciation:			
Water utility system	(3,992,209)	802,501	(3,189,708)
Sewer utility system	(3,317,394)	-	(3,317,394)
Solid waste system	(4,860)	-	(4,860)
Furniture, equipment & vehicles	(573,642)	-	(573,642)
Net business-type activities capital assets	<u>\$ 11,493,991</u>	<u>\$ 802,501</u>	<u>\$ 12,296,492</u>

Governmental activities capital assets for the fiscal year ended June 30, 2011 are as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

6. CAPITAL ASSETS (continued)

	Restated Balance 06/30/10	Increases	Decreases	Balance 06/30/11
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 278,730	\$ -	\$ -	\$ 278,730
Construction in progress	2,695,351	413,604	(3,024,274)	84,681
Total capital assets, not being depreciated	2,974,081	413,604	(3,024,274)	363,411
Other capital assets, being depreciated:				
Buildings and improvements	2,287,475	40,581	-	2,328,056
Airport runway	2,768,045	435,927	-	3,203,972
Infrastructure	22,984	3,036,157	-	3,059,141
Furniture, fixtures and equipment	3,095,062	377,283	(206,736)	3,265,609
Total other capital assets, being depreciated	8,173,566	3,889,948	(206,736)	11,856,778
Less accumulated depreciation for:				
Buildings and improvements	(1,407,694)	(40,884)	-	(1,448,578)
Airport runway	(268,851)	(103,110)	-	(371,961)
Infrastructure	(9,193)	(32,660)	-	(41,853)
Furniture, fixtures and equipment	(1,672,700)	(207,991)	23,551	(1,857,140)
Total accumulated depreciation	(3,358,438)	(384,645)	23,551	(3,719,532)
Other capital assets being depreciated, net	4,815,128	3,505,303	(183,185)	8,137,246
Total capital assets, net	<u>\$ 7,789,209</u>	<u>\$ 3,918,907</u>	<u>\$ (3,207,459)</u>	<u>\$ 8,500,657</u>

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

General government	\$ 19,240
Public safety	255,717
Public works	62,916
Culture and recreation	24,145
Health and welfare	12,986
	<u>\$ 375,004</u>

Business-type activities capital assets for the fiscal year ended June 30, 2011 are as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

6. CAPITAL ASSETS (continued)

	Restated Balance 06/30/10	Increases	Decreases	Balance 06/30/11
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 745,966	\$ -	\$ -	\$ 745,966
Construction in progress	11,675	26,992	-	38,667
Total capital assets, not being depreciated	757,641	26,992	-	784,633
Other capital assets, being depreciated:				
Water utility system	9,448,903	-	-	9,448,903
Sewer utility system	8,443,280	-	-	8,443,280
Solid waste system	5,400	-	-	5,400
Furniture, fixtures and equipment	726,872	9,642	-	736,514
Total other capital assets, being depreciated	18,624,455	9,642	-	18,634,097
Less accumulated depreciation for:				
Water utility system	(3,189,708)	(209,408)	-	(3,399,116)
Sewer utility system	(3,317,394)	(120,323)	-	(3,437,717)
Solid waste system	(4,860)	(540)	-	(5,400)
Furniture, fixtures and equipment	(573,642)	(40,699)	-	(614,341)
Total accumulated depreciation	(7,085,604)	(370,970)	-	(7,456,574)
Other capital assets being depreciated, net	11,538,851	(361,328)	-	11,177,523
Total capital assets, net	<u>\$ 12,296,492</u>	<u>\$ (334,336)</u>	<u>\$ -</u>	<u>\$ 11,962,156</u>

7. CAPITAL ASSETS – COMPONENT UNIT

The Town of Clayton Public Housing Authority's capital assets for the fiscal year ended June 30, 2011, are as follows:

	Balance 06/30/10	Increases	Decreases	Balance 06/30/11
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 51,294	\$ -	\$ -	\$ 51,294
Other capital assets, being depreciated:				
Buildings	1,805,791	-	-	1,805,791
Building improvements	853,698	48,100	-	901,798
Equipment and furniture	505,272	-	-	505,272
Vehicles	32,324	-	-	32,324
Total other capital assets, being depreciated	3,197,085	48,100	-	3,245,185

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7. CAPITAL ASSETS – COMPONENT UNIT (continued)

	Balance 06/30/10	Increases	Decreases	Balance 06/30/11
Less accumulated depreciation:				
Buildings	(1,213,016)	(34,510)		(1,247,526)
Building improvements	(368,730)	(51,127)		(419,857)
Equipment and furniture	(355,026)	(24,819)		(379,845)
Vehicles	(17,193)	(2,549)		(19,742)
Total accumulated depreciation	<u>(1,953,965)</u>	<u>(113,005)</u>	-	<u>(2,066,970)</u>
Other capital assets, net	<u>1,243,120</u>	<u>(64,905)</u>	-	<u>1,178,215</u>
Total capital assets, net	<u>\$ 1,294,414</u>	<u>\$ (64,905)</u>	<u>\$ -</u>	<u>\$ 1,229,509</u>

8. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2011, were as follows:

	Balance 06/30/10	Increases	Decreases	Balance 06/30/11	Amounts Due Within One Year
Leases payable	\$ 21,000	\$ 169,506	\$ (21,000)	\$ 169,506	\$ 44,760
Notes payable:					
Refurbished ambulance loan	50,750	-	(25,375)	25,375	25,375
Golf course irrigation loan	225,522	-	(24,888)	200,634	25,631
Fire pumper loan	278,110	-	(48,970)	229,140	55,404
Compensated absences	<u>126,015</u>	<u>92,950</u>	<u>(80,500)</u>	<u>138,465</u>	<u>103,849</u>
	<u>\$ 701,397</u>	<u>\$ 262,456</u>	<u>\$ (200,733)</u>	<u>\$ 763,120</u>	<u>\$ 255,019</u>

Leases Payable

The Town has entered into two lease agreements to purchase street equipment and three police vehicles. The economic substance of the two leases is that the Town is financing the acquisition of the assets through the leases and, accordingly, they are recorded in the Town's assets and liabilities. The Town has capitalized street equipment in the amount of \$129,383, and three police vehicles in the amount of \$66,000. The obligation under the street equipment lease has been recorded in the accompanying financial statement at the present value of future minimum lease payments, discounted at an interest rate of 5.00% per annum. The street equipment lease will be financed from municipal street fund resources. The obligation under the police vehicles lease has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 4.67% per annum. The police vehicles lease will be financed from law enforcement fund resources.

The future minimum obligations under capital leases at June 30, 2011, are as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. LONG-TERM OBLIGATIONS (continued)

Leases Payable (continued)

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 44,760	\$ 8,635	\$ 53,395
2013	47,231	6,164	53,395
2014	49,553	3,842	53,395
2015	27,962	1,417	29,379
	<u>\$ 169,506</u>	<u>\$ 20,058</u>	<u>\$ 189,564</u>

Refurbished Ambulance Note

On November 21, 2008, the Town entered into an agreement with the New Mexico Finance Authority to borrow \$76,125 in order to refurbish an ambulance owned by the Town. The loan does not accrue interest. The note matures on May 1, 2012. The payment of principal is paid from pledged gross receipt tax revenues.

The annual requirement to amortize the loan outstanding as of June 30, 2011, is as follows:

Due in year ending June 30:

	<u>Principal</u>
2012	<u>\$ 25,375</u>

Golf Course Irrigation Note

On March 20, 2009, the Town entered into an agreement with the New Mexico Finance Authority to borrow \$248,526 in order to purchase and install materials for improvements to the irrigation system at the municipal golf course. The note matures on May 1, 2018, and accrues interest at a blended rate of 4.057% per annum. The payment of principal and interest are paid from lodgers' tax revenues.

The annual requirement to amortize the loan outstanding as of June 30, 2011, including interest payments, is as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 25,631	\$ 8,059	\$ 33,690
2013	26,479	7,211	33,690
2014	27,416	6,274	33,690
2015	28,462	5,228	33,690
2016	29,599	4,090	33,689
2017-2018	63,047	4,328	67,375
	<u>\$ 200,634</u>	<u>\$ 35,190</u>	<u>\$ 235,824</u>

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. LONG-TERM OBLIGATIONS (continued)

Fire Pumper Note

On January 23, 2009, the Town entered into an agreement with the New Mexico Finance Authority to borrow \$278,110 in order to purchase a fire pumper. The note matures on May 1, 2015, and accrues interest at 2.376% per annum. The payment of principal and interest are paid from pledged state fire protection funds. Such funds are made available annually by the state treasurer pursuant to Section 59A-53-7, NMSA 1978.

The annual requirement to amortize the loan outstanding as of June 30, 2011, including interest payments, is as follows:

Due in year ending June 30:

	Principal	Interest	Total
2012	\$ 55,404	\$ 5,481	\$ 60,885
2013	56,570	4,314	60,884
2014	57,870	3,014	60,884
2015	59,296	1,588	60,884
	\$ 229,140	\$ 14,397	\$ 243,537

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 Long-Term Obligations

Changes in the business-type activities obligations during the year ended June 30, 2011, are as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. LONG-TERM OBLIGATIONS (continued)

Business-Type Activities Long-Term Obligations (continued)

	Balance 06/30/10	Increases	Decreases	Balance 06/30/11	Amounts Due Within One Year
Notes payable:					
NM Environment Department loan	\$ 60,754	\$ -	\$ (19,656)	\$ 41,098	\$ 20,245
Land Acquisition & Water Wells Imp #1	227,219	-	(18,844)	208,375	19,586
Land Acquisition & Water Wells Imp #2	50,626	-	(5,006)	45,620	5,018
Wastewater System Improvements loan	1,257,538	-	(39,807)	1,217,731	40,117
Compensated absences	60,526	44,606	(36,414)	68,718	51,539
Landfill Closure & Post-Closure Liability	1,547,260	-	(22,986)	1,524,274	30,000
	<u>\$ 3,203,923</u>	<u>\$ 44,606</u>	<u>\$ (142,713)</u>	<u>\$ 3,105,816</u>	<u>\$ 166,505</u>

N.M. Environment Department Note

On July 13, 1989, the Town borrowed \$300,000 from the New Mexico Environment Department. The proceeds of the note, along with appropriations from the state of New Mexico were used to make improvements to the Town's water system. The note was refinanced on January 29, 2002. The balance of the note when refinanced was \$198,731. The note accrues interest at a rate of 3.00% per annum, and the note matures on February 9, 2013. Retirements are made from revenues of the joint utility fund.

The annual requirement to amortize the loan outstanding as of June 30, 2011, including interest payments, is as follows:

Due in year ending June 30:

	Principal	Interest	Total
2012	\$ 20,245	\$ 1,233	\$ 21,478
2013	20,853	625	21,478
	<u>\$ 41,098</u>	<u>\$ 1,858</u>	<u>\$ 42,956</u>

Land Acquisition and Water Well Improvement #1

On December 21, 2000, the Town borrowed \$375,096 from the New Mexico Finance Authority. The loan proceeds were used to assist in the purchase of land and water wells for the municipal water system. The note bears interest at a blended rate of 4.115% per annum, and matures on May 1, 2020. The payment of principal and interest is paid from pledged gross receipts tax revenues.

The annual requirement to amortize the loan outstanding as of June 30, 2011, including interest payments, is as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. LONG-TERM OBLIGATIONS (continued)

Land Acquisition and Water Well Improvement #1 (continued)

Due in year ending June 30:

	Principal	Interest	Total
2012	\$ 19,586	\$ 8,242	\$ 27,828
2013	20,370	7,508	27,878
2014	21,198	6,733	27,931
2015	22,070	5,915	27,985
2016	22,989	5,053	28,042
2017-2020	102,162	10,622	112,784
	\$ 208,375	\$ 44,073	\$ 252,448

Land Acquisition and Water Well Improvement #2

On December 21, 2000, the Town borrowed \$100,000 from the New Mexico Finance Authority. The loan proceeds were used to assist in the purchase of land and water rights. The note does not bear any interest, and matures on May 1, 2020. The Town has pledged New Mexico gross receipts tax revenues to amortize the principal of the loan.

The annual requirement to amortize the loan outstanding as of June 30, 2011, is as follows:

Due in year ending June 30:

	Principal
2012	\$ 5,018
2013	5,031
2014	5,043
2015	5,056
2016	5,069
2017-2020	20,403
	\$ 45,620

Wastewater System Improvement Note

On November 13, 2009, the Town entered into an agreement with the New Mexico Finance Authority to borrow \$1,274,166 in order to install water and wastewater infrastructure from an existing well within the Town limits to the wastewater treatment facility and Highway 87. The note matures on May 1, 2034, and accrues interest at a blended rate of 3.451% per annum. The payment of principal and interest are paid from the net revenues of the Joint Utility Fund.

The annual requirement to amortize the loan outstanding as of June 30, 2011, including interest payments, is as follows:

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. LONG-TERM OBLIGATIONS (continued)

Wastewater System Improvement Note (continued)

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 40,117	\$ 37,953	\$ 78,070
2013	40,541	37,529	78,070
2014	41,062	37,008	78,070
2015	41,693	36,377	78,070
2016	42,420	35,650	78,070
2017-2021	226,363	163,987	390,350
2022-2026	260,247	130,103	390,350
2027-2031	309,170	81,180	390,350
2032-2035	216,118	18,092	234,210
	<u>\$ 1,217,731</u>	<u>\$ 577,879</u>	<u>\$ 1,795,610</u>

Landfill Closure and Post-Closure Costs

State and federal laws and regulations require that the Town's refuse disposal place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty (30) years after closure. During the prior fiscal year, the Town placed a final cover on the municipal landfill and it is considered closed. The Town has contracted with a private company to remove the solid waste from the town limits, and dispose of it at another location that is not owned by the Town. The Town anticipates expending approximately \$30,000 on post-closure monitoring during the upcoming fiscal year.

9. JAIL PROJECT REVENUE BONDS – CONDUIT DEBT

The Town has constructed a jail facility that is managed by a commercial operator for the primary purposes of housing the state of New Mexico Corrections Department prisoners at the facility. In order to construct the facility, the Town has issued revenue bonds titled, *Town of Clayton, New Mexico Jail Project Revenue Bonds, Series 2006*.

According to the bond agreement, the bonds do not constitute an indebtedness of the Town within the meaning of any constitutional, charter or statutory provision or limitation. The bonds are not general obligations of the Town and are payable and collectable solely from the net revenues derived from the jail facility. The bond holders may not look to any general or specific funds of the Town in the event of default on the bond obligation. The total amount of the bonds issued was \$77,585,000. The bonds accrue interest at rates between 4.00% and 5.00% per annum and mature on November 1, 2029. The current balance of the bonds is \$74,130,000.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

9. JAIL PROJECT REVENUE BONDS – CONDUIT DEBT (continued)

In accordance with Governmental Accounting Standards Board (GASB) interpretation of National Council on Governmental Accounting (NCGA) Statement 1, paragraph 158 *Governmental Accounting and Financial Reporting Principles*, the Town has not recorded the assets or associated special revenue bonds liability on the financial statements of the Town.

10. RESTATEMENT OF NET ASSETS

The Town discovered two police vehicles were duplicated on the capital assets subsidiary ledger within the governmental activities. The beginning net assets of the governmental activities have been decreased by \$35,012. The restated beginning of year net assets, of the governmental activities, is \$10,784,245.

The Town has discovered that an error in the calculation of depreciation expense within the Joint Utility Fund occurred in the previous fiscal year. The beginning net assets of \$10,240,413 within the Joint Utility Fund and the business-type activities have been increased by \$802,501. The restated beginning of year net assets is \$11,042,914.

11. DEFICIT FUND BALANCE

The following funds had a deficit fund balance as of June 30, 2011:

Fund	Amount
Fire Fund	\$ 7,331
Recreation Fund	2,915
Emergency Medical Services Fund	265
Law Enforcement Protection Fund	248

The deficit balances are the direct effect of the incurring program costs of the next fiscal year prior to the funding of revenue. Intergovernmental revenues for the upcoming year will fund the deficit fund balances.

12. INTERFUND BALANCES AND TRANSFERS

Receivable Fund	Payable Fund	Amount
Municipal Income Permanent Fund	General Fund	\$ 81,918
Municipal Street Fund	Other Governmental Funds	64,856
Other Governmental Funds	General Fund	5,405
Other Governmental Funds	Other Governmental Funds	248
Total fund financial statements		\$ 152,427

Interfund balances represent short-term advances for funds that receive grants on a reimbursement basis. They also represent short-term advances for deficit cash balances within pooled cash accounts.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

12. INTERFUND BALANCES AND TRANSFERS (continued)

	Transfers In				Total
	General Fund	Government Assistance Fund	Joint Utility Fund	Other Governmental Funds	
Transfers (out):					
General Fund	\$ -	\$ -	\$ 33,260	\$ 56,040	\$ 89,300
Municipal Street Fund	-	22,778	-	-	22,778
Other Governmental Funds	40,947	9,173	-	50,097	100,217
	\$ 40,947	\$ 31,951	\$ 33,260	\$ 106,137	\$ 212,295

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

**13. RECONCILIATION OF BUDGETARY
COMPARISON STATEMENTS WITH GAAP STATEMENTS**

The Town prepares its budget utilizing the cash basis of accounting which is a basis of accounting that differs from generally accepted accounting principles. The Town presents the following information that reconciles the general fund and major special revenue fund budgetary comparison statements with the statement of revenues, expenditures, and changes in fund balances. The Town's reconciliation of the remaining funds follows budgetary comparison statement of each type of fund.

	General Fund	Municipal Street Fund
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 2,398,746	\$ 314,059
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	63,517	(43,902)
During the prior year, an individual taxpayer amended their reports to the NM Taxation & Revenue Department requesting a refund of sales taxes. A refund was issued and the Department determined that the Town had been overpaid tax revenues for the fiscal year ended June 30, 2010. The overpaid tax reduced the current year distributions. For budgetary purposes, the Town recorded the cash received as sales tax revenue, while for financial purposes, the deferred revenue from the previous year is recognized as earned in the current year.	75,824	11,091

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

RECONCILIATION OF BUDGETARY

13. COMPARISON STATEMENTS WITH GAAP STATEMENTS (continued)

	<u>General Fund</u>	<u>Municipal Street Fund</u>
During the year, the Town debt reserve accounts accumulated interest income. For budgetary purposes, the Town does not recognize the income as the accounts are held by a fiscal agent; for financial reporting purposes, the income is recorded.	22	-
For the budgetary basis of accounting, property taxes are recognized when received. For financial reporting, property taxes are accrued as of year-end, however, the noncurrent portion of those receivable are recorded as deferred taxes. A decrease from the prior year's deferred taxes liability results in an increase in revenue for the current year.	9,228	-
Aviation fuel sales made by customers using a bank card are used to offset fuel costs at the Town's airport. Those sales and purchases are not recorded on the Town's records for budgetary purposes. The revenues are recorded for financial reporting purposes.	35,124	-
The Town prepares payroll for the Town's Housing Authority and is reimbursed for the associated expenses, (wages, payroll taxes, employer benefits, etc.) For the budgetary basis, the Town reflects the reimbursement as revenues. For financial reporting purposes, the reimbursements reduce the expenses rather than being recorded as revenues.	<u>(106,405)</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u>\$ 2,476,056</u></u>	<u><u>\$ 281,248</u></u>
Uses/Outflows of Resources:		
Actual amounts (budgetary basis) "total charges for appropriations" from the budgetary comparison statements.	\$ 2,725,539	\$ 397,898
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	29,287	(2,988)
The Town budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis of accounting but are considered expenditures for financial reporting purposes.	4,375	499
The Town prepares payroll for the Town's Housing Authority and is reimbursed for the associated expenses, (wages, payroll taxes, employer benefits, etc.). For the budgetary basis, the Town reflects the amounts as revenues. For financial reporting purposes, the reimbursements reduce payroll expenditures rather than being recorded as revenues.	(106,405)	-

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

RECONCILIATION OF BUDGETARY

13. COMPARISON STATEMENTS WITH GAAP STATEMENTS (continued)

	General Fund	Municipal Street Fund
	<u> </u>	<u> </u>
Aviation fuel sales made by customers using a bank card are used to offset fuel cost at the Town's airport. Those sales and purchases are not recorded on the Town's records for budgetary purposes. The expenditures are recorded for financial reporting purposes.	35,124	-
During the current fiscal year, the Town purchased street equipment using a capital lease. For budgetary purposes, the Town does not budget the purchase obtained through financing agreements. For financial reporting purposes, the expenditures is included in capital outlay.	<u>-</u>	<u>103,506</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 2,687,920</u>	<u>\$ 498,915</u>
Other Sources (Uses) of Resources: Actual amounts (budgetary basis) "transfers in (out)" from the budgetary comparison statement.	\$ (48,353)	\$ (22,778)
Differences - Budget to GAAP: None.	<u>-</u>	<u>-</u>
Total other findings sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ (48,353)</u>	<u>\$ (22,778)</u>
Special Item: Actual amounts (budgetary basis) "special item" from the budgetary comparison statement.	\$ 2,224	\$ -
Differences - Budget to GAAP: None.	<u>-</u>	<u>-</u>
Total special items as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 2,224</u>	<u>\$ -</u>

14. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially, all of the Town'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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

14. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Plan Description (continued)

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 4.78% 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 Town is required to 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 Town are established in state statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by legislative acts. The Town's contributions to PERA for the fiscal years ending June 30, 2011, 2010, and 2009 were \$244,872, \$234,518, and \$221,595, respectively; equal to the amount of the required contributions for each year.

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

16. RISK MANAGEMENT

The Town 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 Town 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 Town pays an annual premium to New Mexico Self-Insured Fund for its general insurance coverage, and all risk of loss is transferred.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

17. VIOLATIONS OF FINANCE-RELATED PROVISIONS

Jail Project Revenue Bonds - The Town has issued special revenue bonds in the amount of \$77,585,000. The bond ordinance approved by the Board of Trustees requires that separate accounting records that account for all the financial activity of the prison facility be maintained by the Town.

As of June 30, 2011, the Town has not maintained separate accounting records for the prison facility. The bond ordinance also requires a copy of the Town's audited financial statements be submitted to the insurer of the bonds within forty-five days after year end. The Town did not submit its annual audited financial statements within the required deadline to the insurer. The Town intends to create separate accounting records for the prison facility and meet the filing deadlines as required by the legal documents.

18. CONTINGENT LIABILITIES

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 Town expects such amounts, if any, to be immaterial.

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Town's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Town.

SUPPLEMENTARY INFORMATION

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds					
	Senior Citizen's Fund	Library Fund	Cemetery Fund	Lodgers' Tax Fund	Fire Fund	Recreation Fund
ASSETS						
Cash	\$ 3,037	\$ 122,949	\$ 133,235	\$ 115,171	\$ -	\$ 25
Receivables, net	8,902	10	28	15,093	-	-
Due from other funds	-	-	-	-	-	-
Restricted:						
Investments	-	-	-	33,423	110	-
Total assets	<u>\$ 11,939</u>	<u>\$ 122,959</u>	<u>\$ 133,263</u>	<u>\$ 163,687</u>	<u>\$ 110</u>	<u>\$ 25</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 5,531	\$ 512	\$ 199	\$ -	\$ 2,863	\$ 1,123
Accrued salaries	732	-	-	-	-	847
Due to other funds	-	-	-	59,238	4,468	970
Total liabilities	6,263	512	199	59,238	7,331	2,940
Fund Balances:						
Reserved for:						
Debt service	-	-	-	33,423	110	-
State mandated per statutes	-	-	-	71,026	-	-
Committed for:						
Perpetual care	-	-	133,064	-	-	-
Assigned	5,676	122,447	-	-	-	-
Unassigned	-	-	-	-	(7,331)	(2,915)
Total fund balances	<u>5,676</u>	<u>122,447</u>	<u>133,064</u>	<u>104,449</u>	<u>(7,221)</u>	<u>(2,915)</u>
Total liabilities and fund balances	<u>\$ 11,939</u>	<u>\$ 122,959</u>	<u>\$ 133,263</u>	<u>\$ 163,687</u>	<u>\$ 110</u>	<u>\$ 25</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds				
	Emergency Medical Services Fund	Local Government Corrections Fund	Law Enforcement Protection Fund	Municipal Income Interest Fund	Total Other Governmental Funds
ASSETS					
Cash	\$ -	\$ 235,693	\$ -	\$ -	\$ 610,110
Receivables, net	-	579	-	-	24,612
Due from other funds	-	5,149	-	504	5,653
Restricted:					
Investments	-	-	-	-	33,533
Total assets	<u>\$ -</u>	<u>\$ 241,421</u>	<u>\$ -</u>	<u>\$ 504</u>	<u>\$ 673,908</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 85	\$ 5,202	\$ -	\$ -	\$ 15,515
Accrued salaries	-	-	-	-	1,579
Due to other funds	<u>180</u>	<u>-</u>	<u>248</u>	<u>-</u>	<u>65,104</u>
Total liabilities	265	5,202	248	-	82,198
Fund Balances:					
Reserved for:					
Debt service	-	-	-	-	33,533
State mandated per statutes	-	-	-	-	71,026
Committed for:					
Perpetual care	-	-	-	-	133,064
Assigned	-	236,219	-	504	364,846
Unassigned	<u>(265)</u>	<u>-</u>	<u>(248)</u>	<u>-</u>	<u>(10,759)</u>
Total fund balances	<u>(265)</u>	<u>236,219</u>	<u>(248)</u>	<u>504</u>	<u>591,710</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 241,421</u>	<u>\$ -</u>	<u>\$ 504</u>	<u>\$ 673,908</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds					
	Senior Citizen's Fund	Library Fund	Cemetery Fund	Lodgers' Tax Fund	Fire Fund	Recreation Fund
Revenues:						
Gross receipts taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159
Lodgers' taxes	-	-	-	116,805	-	-
Public service taxes	-	-	-	-	-	422
Intergovernmental	113,146	10,398	-	-	301,980	-
Charges for services	29,016	2,103	4,120	-	-	8,184
Fines and forfeitures	-	-	-	-	-	-
Interest	-	823	988	835	92	-
Miscellaneous	-	854	1,246	-	-	-
Total revenues	142,162	14,178	6,354	117,640	302,072	8,765
Expenditures:						
Current:						
Public safety	-	-	-	-	208,771	-
Culture and recreation	-	15,102	-	94,346	-	26,030
Health and welfare	173,837	-	3,127	-	-	-
Capital outlay	-	-	-	10,000	49,900	-
Debt service:						
Principal	-	-	-	24,888	48,970	-
Interest and other charges	-	-	-	8,802	12,873	-
Total expenditures	173,837	15,102	3,127	138,036	320,514	26,030
Excess (deficiency) of revenues over expenditures	(31,675)	(924)	3,227	(20,396)	(18,442)	(17,265)
Other Financing Sources (Uses):						
Proceeds from capital lease	-	-	-	-	-	-
Transfers in	32,000	-	-	-	3,441	16,000
Transfers (out)	-	-	-	(43,928)	-	-
Total other financing sources (uses)	32,000	-	-	(43,928)	3,441	16,000
Special Item:						
Proceeds from sale of assets	310	-	-	-	-	-
Net change in fund balances	635	(924)	3,227	(64,324)	(15,001)	(1,265)
Fund balances, beginning of year	5,041	123,371	129,837	168,773	7,780	(1,650)
Fund balances, end of year	\$ 5,676	\$ 122,447	\$ 133,064	\$ 104,449	\$ (7,221)	\$ (2,915)

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	Emergency Medical Services Fund	Local Government Corrections Fund	Law Enforcement Protection Fund	Municipal Income Interest Fund	Total Other Governmental Funds
Revenues:					
Gross receipts taxes	\$ -	\$ -	\$ -	\$ -	\$ 159
Lodgers' taxes	-	-	-	-	116,805
Public service taxes	-	-	-	-	422
Intergovernmental	26,915	-	23,600	-	476,039
Charges for services	-	-	-	-	43,423
Fines and forfeitures	-	33,040	-	-	33,040
Interest	-	2,732	-	-	5,470
Miscellaneous	-	-	-	-	2,100
Total revenues	26,915	35,772	23,600	-	677,458
Expenditures:					
Current:					
Public safety	24,537	39,812	1,182	-	274,302
Culture and recreation	-	-	-	-	135,478
Health and welfare	-	-	-	-	176,964
Capital outlay	-	-	66,000	-	125,900
Debt service:					
Principal	-	-	21,000	-	94,858
Interest and other charges	-	-	1,268	-	22,943
Total expenditures	24,537	39,812	89,450	-	830,445
Excess (deficiency) of revenues over expenditures	2,378	(4,040)	(65,850)	-	(152,987)
Other Financing Sources (Uses):					
Proceeds from capital leases	-	-	66,000	-	66,000
Transfers in	-	-	-	54,696	106,137
Transfers (out)	(2,097)	-	-	(54,192)	(100,217)
Total other financing sources (uses)	(2,097)	-	66,000	504	71,920
Special Item:					
Proceeds from sale of assets	-	-	-	-	310
Net change in fund balances	281	(4,040)	150	504	(80,757)
Fund balances, beginning of year	(546)	240,259	(398)	-	672,467
Fund balances, end of year	\$ (265)	\$ 236,219	\$ (248)	\$ 504	\$ 591,710

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

**OTHER SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON STATEMENTS**

STATE OF NEW MEXICO
TOWN OF CLAYTON
SENIOR CITIZEN'S 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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 96,239	\$ 108,893	\$ 111,500	\$ 2,607
Charges for services	31,185	31,185	29,016	(2,169)
Total revenues	127,424	140,078	140,516	438
Expenditures:				
Current:				
Health and welfare	165,552	167,506	170,683	(3,177)
Capital outlay	27,152	37,852	-	37,852
Total expenditures	192,704	205,358	170,683	34,675
(Deficiency) of revenues expenditures	(65,280)	(65,280)	(30,167)	35,113
Other Financing Sources (Uses):				
Transfers in	64,650	64,650	32,000	(32,650)
Special Item:				
Proceeds from sale of assets	-	-	310	310
Net change in cash balance	(630)	(630)	2,143	2,773
Cash balance, beginning of year	894	894	894	-
Cash balance, end of year	\$ 264	\$ 264	\$ 3,037	\$ 2,773

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 9,713	\$ 9,713	\$ 10,398	\$ 685
Charges for services	2,900	2,900	2,103	(797)
Interest	2,150	2,150	827	(1,323)
Miscellaneous	600	600	854	254
Total revenues	<u>15,363</u>	<u>15,363</u>	<u>14,182</u>	<u>(1,181)</u>
Expenditures:				
Current:				
Culture and recreation	14,033	14,033	15,618	(1,585)
Capital outlay	1,330	1,330	-	1,330
Total expenditures	<u>15,363</u>	<u>15,363</u>	<u>15,618</u>	<u>(255)</u>
Net change in cash balance	-	-	(1,436)	(1,436)
Cash balance, beginning of year	<u>124,385</u>	<u>124,385</u>	<u>124,385</u>	<u>-</u>
Cash balance, end of year	<u>\$ 124,385</u>	<u>\$ 124,385</u>	<u>\$ 122,949</u>	<u>\$ (1,436)</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
CEMETERY 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Charges for services	\$ 5,000	\$ 5,000	\$ 4,120	\$ (880)
Interest	2,000	2,000	999	(1,001)
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>1,246</u>	<u>246</u>
Total revenues	8,000	8,000	6,365	(1,635)
Expenditures:				
Current:				
Health and welfare	<u>5,250</u>	<u>5,250</u>	<u>3,194</u>	<u>2,056</u>
Net change in cash balance	2,750	2,750	3,171	421
Cash balance, beginning of year	<u>130,064</u>	<u>130,064</u>	<u>130,064</u>	<u>-</u>
Cash balance, end of year	<u><u>\$ 132,814</u></u>	<u><u>\$ 132,814</u></u>	<u><u>\$ 133,235</u></u>	<u><u>\$ 421</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
LODGERS' TAX 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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Lodgers' taxes	\$ 125,000	\$ 125,000	\$ 117,272	\$ (7,728)
Intergovernmental	-	-	4,108	4,108
Interest	1,800	1,800	766	(1,034)
Miscellaneous	20,509	20,509	-	(20,509)
Total revenues	147,309	147,309	122,146	(25,163)
Expenditures:				
Current:				
Culture and recreation	154,480	154,480	96,055	58,425
Capital outlay	-	-	10,000	(10,000)
Debt service	33,690	33,690	33,690	-
Total expenditures	188,170	188,170	139,745	48,425
(Deficiency) of revenues over expenditures	(40,861)	(40,861)	(17,599)	23,262
Other Financing Sources (Uses):				
Transfers (out)	(51,000)	(51,000)	(43,928)	7,072
Net change in cash balance	(91,861)	(91,861)	(61,527)	30,334
Cash balance, beginning of year	117,460	117,460	117,460	-
Cash advanced from another fund	-	-	59,238	59,238
Cash balance, end of year	<u>\$ 25,599</u>	<u>\$ 25,599</u>	<u>\$ 115,171</u>	<u>\$ 89,572</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
FIRE 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 234,336	\$ 240,137	\$ 240,137	\$ -
Expenditures:				
Current:				
Public safety	206,937	191,677	205,908	(14,231)
Capital outlay	<u>27,399</u>	<u>56,899</u>	<u>49,900</u>	<u>6,999</u>
Total expenditures	<u>234,336</u>	<u>248,576</u>	<u>255,808</u>	<u>(7,232)</u>
(Deficiency) of revenues over expenditures	-	(8,439)	(15,671)	(7,232)
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>10,229</u>	<u>3,441</u>	<u>(6,788)</u>
Net change in cash balance	-	1,790	(12,230)	(14,020)
Cash balance, beginning of year	7,762	7,762	7,762	-
Cash advanced from another fund	<u>-</u>	<u>-</u>	<u>4,468</u>	<u>4,468</u>
Cash balance, end of year	<u>\$ 7,762</u>	<u>\$ 9,552</u>	<u>\$ -</u>	<u>\$ (9,552)</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Gross receipts taxes	\$ 475	\$ 475	\$ 159	\$ (316)
Public service taxes	-	-	422	422
Charges for services	<u>6,760</u>	<u>6,760</u>	<u>8,184</u>	<u>1,424</u>
Total revenues	7,235	7,235	8,765	1,530
Expenditures:				
Current:				
Culture and recreation	<u>31,083</u>	<u>31,083</u>	<u>25,744</u>	<u>5,339</u>
(Deficiency) of revenues over expenditures	(23,848)	(23,848)	(16,979)	6,869
Other Financing Sources (Uses):				
Transfers in	<u>29,000</u>	<u>29,000</u>	<u>16,000</u>	<u>(13,000)</u>
Net change in cash balance	5,152	5,152	(979)	(6,131)
Cash balance, beginning of year	34	34	34	-
Cash advanced from another fund	<u>-</u>	<u>-</u>	<u>970</u>	<u>970</u>
Cash balance, end of year	<u><u>\$ 5,186</u></u>	<u><u>\$ 5,186</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ (5,161)</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 18,200	\$ 26,915	\$ 26,915	\$ -
Expenditures:				
Current:				
Public safety	16,200	22,103	24,998	(2,895)
Capital outlay	<u>2,000</u>	<u>2,715</u>	<u>-</u>	<u>2,715</u>
Total expenditures	<u>18,200</u>	<u>24,818</u>	<u>24,998</u>	<u>(180)</u>
Excess of revenues over expenditures	-	2,097	1,917	(180)
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>(2,097)</u>	<u>(2,097)</u>	<u>-</u>
Net change in cash balance	-	-	(180)	(180)
Cash balance, beginning of year	-	-	-	-
Cash advanced from another fund	<u>-</u>	<u>-</u>	<u>180</u>	<u>180</u>
Cash balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
LOCAL GOVERNMENT 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Fines and forfeitures	\$ 65,600	\$ 65,600	\$ 33,040	\$ (32,560)
Interest	3,950	3,950	2,291	(1,659)
Total revenues	69,550	69,550	35,331	(34,219)
Expenditures:				
Current:				
Public safety	39,900	39,900	37,112	2,788
Capital outlay	7,800	7,800	-	7,800
Total expenditures	47,700	47,700	37,112	10,588
Net change in cash balance	21,850	21,850	(1,781)	(23,631)
Cash balance, beginning of year	242,623	242,623	242,623	-
Cash advanced to other funds	-	-	(5,149)	(5,149)
Cash balance, end of year	<u>\$ 264,473</u>	<u>\$ 264,473</u>	<u>\$ 235,693</u>	<u>\$ (28,780)</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
LAW ENFORCEMENT 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 23,600	\$ 23,600	\$ 23,600	\$ -
Expenditures:				
Current:				
Public safety	-	-	1,182	(1,182)
Debt service	<u>23,600</u>	<u>23,600</u>	<u>22,268</u>	<u>1,332</u>
Total expenditures	<u>23,600</u>	<u>23,600</u>	<u>23,450</u>	<u>150</u>
Net change in cash balance	-	-	150	150
Cash balance, beginning of year	-	-	-	-
Cash repaid to another fund	-	-	(398)	(398)
Cash advanced by another fund	<u>-</u>	<u>-</u>	<u>248</u>	<u>248</u>
Cash balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
MUNICIPAL INCOME INTEREST 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Interest	\$ -	\$ -	\$ -	\$ -
Other Financing Sources (Uses):				
Transfers in	127,287	182,478	54,696	(127,782)
Transfers (out)	<u>(127,508)</u>	<u>(127,508)</u>	<u>(54,192)</u>	<u>73,316</u>
Total other financing sources (uses)	<u>(221)</u>	<u>54,970</u>	<u>504</u>	<u>(54,466)</u>
Net change in cash balance	(221)	54,970	504	(54,466)
Cash balance, beginning of year	-	-	-	-
Cash advanced to another fund	<u>-</u>	<u>-</u>	<u>(504)</u>	<u>(504)</u>
Cash balance, end of year	<u>\$ (221)</u>	<u>\$ 54,970</u>	<u>\$ -</u>	<u>\$ (54,970)</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BUDGETARY COMPARISON STATEMENTS
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Senior Citizen's Fund	Library Fund	Cemetery Fund
	<u> </u>	<u> </u>	<u> </u>
Sources/Inflows of Resources:			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 140,516	\$ 14,182	\$ 6,365
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for financial reporting purposes.	<u>1,646</u>	<u>(4)</u>	<u>(11)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u>\$ 142,162</u></u>	<u><u>\$ 14,178</u></u>	<u><u>\$ 6,354</u></u>
Uses/Outflows of Resources:			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statements.	\$ 170,683	\$ 15,618	\$ 3,194
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	2,842	(516)	(67)
The Town budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis of accounting but are considered expenditures for financial reporting purposes.	<u>312</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u>\$ 173,837</u></u>	<u><u>\$ 15,102</u></u>	<u><u>\$ 3,127</u></u>
Other Sources (Uses) of Resources:			
Actual amounts (budgetary basis) "transfers in (out)" from the budgetary comparison statement.	\$ 32,000	\$ -	\$ -
Differences - Budget to GAAP:			
None.	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u>\$ 32,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BUDGETARY COMPARISON STATEMENTS
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Lodgers' Tax Fund</u>	<u>Fire Fund</u>	<u>Recreation Fund</u>
Sources/Inflows of Resources:			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 122,146	\$ 240,137	\$ 8,765
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	(471)	-	-
During the fiscal year, the Town transferred program funds from a note owed to the NM Finance Authority. For budgetary purposes, the cash received is reflected as miscellaneous revenue. For financial reporting, the transaction had been recognized as a note payable in the prior year.	(4,108)	-	-
The NM Finance Authority has intercepted a portion of the state fire allotment for the payment of long-term obligations. For budgetary purposes, the Town does not record for the allotment intercepted. For financial reporting purposes, the revenues are recognized.	-	61,843	-
Interest income earned on restricted investments is not recorded by the Town for budgetary purposes, as the investment is held by a fiscal agent. For financial reporting purposes, the interest is reflected as revenue.	73	92	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 117,640</u>	<u>\$ 302,072</u>	<u>\$ 8,765</u>
Uses/Outflows of Resources:			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statements.	\$ 139,745	\$ 255,808	\$ 25,744
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	(1,709)	2,863	11
The NM Finance Authority has intercepted a portion of the state fire allotment for the payment of long-term obligations. For budgetary purposes, the Town does not record the payment of long-term debt. For financial reporting purposes, the principal and interest is recorded.	-	61,843	275
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 138,036</u>	<u>\$ 320,514</u>	<u>\$ 26,030</u>
Other Sources (Uses) of Resources:			
Actual amounts (budgetary basis) "transfers in (out)" from the budgetary comparison statement.	\$ (43,928)	\$ 3,441	\$ 16,000
Differences - Budget to GAAP:			
None.	-	-	-
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ (43,928)</u>	<u>\$ 3,441</u>	<u>\$ 16,000</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BUDGETARY COMPARISON STATEMENTS
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Emergency Medical Services Fund	Local Government Corrections Fund
	<u> </u>	<u> </u>
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 26,915	\$ 35,331
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	<u> -</u>	<u> 441</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u> \$ 26,915</u></u>	<u><u> \$ 35,772</u></u>
Uses/Outflows of Resources:		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statements.	\$ 24,998	\$ 37,112
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	<u> (461)</u>	<u> 2,700</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u> \$ 24,537</u></u>	<u><u> \$ 39,812</u></u>
Other Sources (Uses) of Resources:		
Actual amounts (budgetary basis) "transfers in (out)" from the budgetary comparison statement.	\$ (2,097)	\$ -
Differences - Budget to GAAP:		
None.	<u> -</u>	<u> -</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u> \$ (2,097)</u></u>	<u><u> \$ -</u></u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BUDGETARY COMPARISON STATEMENTS
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Law Enforcement Protection Fund	Municipal Income Interest Fund
	<u> </u>	<u> </u>
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 23,600	\$ -
Differences - Budget to GAAP:		
None.	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 23,600</u>	<u>\$ -</u>
Uses/Outflow of Resources:		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statements.	\$ 23,450	\$ -
During the current fiscal year, the Town entered into a capital lease for the purpose of purchasing police vehicles. The Town did not reflect the acquisition of vehicles on the cash basis accounting records. For financial reporting, the purchase of the vehicles is recorded.	<u>66,000</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 89,450</u>	<u>\$ -</u>
Other Sources (Uses) of Resources:		
Actual amounts (budgetary basis) "transfers in (out)" from the budgetary comparison statement.	\$ -	\$ 504
Differences - Budget to GAAP:		
During the current fiscal year, the Town entered into a capital lease for the purpose of purchasing police vehicles. The transaction is not recorded on the budgetary basis of accounting as the loan proceeds were not deposited in the accounts of the Town. For financial reporting, the loan proceeds are reflected as other financing sources.	<u>66,000</u>	<u>-</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ 66,000</u>	<u>\$ 504</u>

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

**MAJOR CAPITAL PROJECT FUND
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
TOWN OF CLAYTON
GOVERNMENT ASSISTANCE 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 4,776,929	\$ 5,048,074	\$ 671,117	\$ (4,376,957)
Expenditures:				
Current:				
General government	523,600	523,600	25,554	498,046
Public safety	-	-	6,316	(6,316)
Public works	-	-	17,075	(17,075)
Capital outlay	<u>5,473,187</u>	<u>5,767,835</u>	<u>641,652</u>	<u>5,126,183</u>
Total expenditures	<u>5,996,787</u>	<u>6,291,435</u>	<u>690,597</u>	<u>5,600,838</u>
Excess (deficiency) of revenues over expenditures	(1,219,858)	(1,243,361)	(19,480)	1,223,881
Other Financing Sources (Uses):				
Loan proceeds	1,181,000	1,181,000	-	(1,181,000)
Transfers in	<u>38,858</u>	<u>62,361</u>	<u>31,951</u>	<u>(30,410)</u>
Total other financing sources (uses)	<u>1,219,858</u>	<u>1,243,361</u>	<u>31,951</u>	<u>(1,211,410)</u>
Net change in cash balance	-	-	12,471	12,471
Cash balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,471</u>	<u>\$ 12,471</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION OF THE BUDGETARY COMPARISON STATEMENT
TO THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Government Assistance Fund
Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 671,117
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	(1,779)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	\$ 669,338
Uses/Outflow of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statements.	\$ 690,597
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	2,125
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	\$ 692,722
Other Sources (Uses) of Resources:	
Actual amounts (budgetary basis) "transfers in (out)" reflected in the budgetary comparison statements.	\$ 31,951
Differences - Budget to GAAP:	
None.	-
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances.	\$ 31,951

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

**MAJOR PERMANENT FUND
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
TOWN OF CLAYTON
MUNICIPAL INCOME PERMANENT 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Interest	\$ 24,407	\$ 24,407	\$ 5,028	\$ (19,379)
Other Financing Sources (Uses):				
Transfers (out)	<u>(127,287)</u>	<u>(127,287)</u>	-	<u>127,287</u>
Net change in cash balance	(102,880)	(102,880)	5,028	107,908
Cash balance, beginning of year	1,162,163	1,162,163	1,162,163	-
Cash advanced to another fund	<u>-</u>	<u>-</u>	<u>(81,918)</u>	<u>(81,918)</u>
Cash balance, end of year	<u>\$ 1,059,283</u>	<u>\$ 1,059,283</u>	<u>\$ 1,085,273</u>	<u>\$ 25,990</u>

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION BUDGETARY COMPARISON STATEMENT AND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Municipal Income Fund</u>
Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 5,028
Differences - Budget to GAAP:	
None.	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	<u><u>\$ 5,028</u></u>

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

**MAJOR ENTERPRISE FUND
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
TOWN OF CLAYTON
JOINT UTILITY 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, 2011

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ 1,100,505	\$ 1,100,505	\$ 1,128,880	\$ 28,375
Miscellaneous	-	-	37,374	37,374
Total operating revenues	1,100,505	1,100,505	1,166,254	65,749
Operating Expenses:				
Personnel services	484,603	484,603	452,341	32,262
Utilities	119,100	119,100	124,003	(4,903)
Contractual services	92,500	92,500	45,827	46,673
Repairs and maintenance	84,500	84,500	50,390	34,110
Insurance claims and expenses	16,523	16,523	12,115	4,408
Other operating expenses	318,450	318,450	265,257	53,193
Total operating expenses	1,115,676	1,115,676	949,933	165,743
Operating income (loss)	(15,171)	(15,171)	216,321	231,492
Non-Operating Revenues (Expenses):				
State shared taxes	32,958	32,958	100,982	68,024
Sales of assets	-	-	5,000	5,000
Interest income	7,950	7,950	4,448	(3,502)
Capital outlay	(19,500)	(19,500)	(36,634)	(17,134)
Debt service - principal	(129,479)	(129,479)	(83,313)	46,166
Interest expense and other charges	-	-	(49,718)	(49,718)
Total non-operating revenues (expenses)	(108,071)	(108,071)	(59,235)	48,836
Income (loss) before transfers	(123,242)	(123,242)	157,086	280,328
Transfers:				
Transfers in	-	-	33,260	33,260
Net change in cash balance	(123,242)	(123,242)	190,346	313,588
Cash balance, beginning of year	520,313	520,313	520,313	-
Cash balance, end of year	\$ 397,071	\$ 397,071	\$ 710,659	\$ 313,588

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

**STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION BUDGETARY COMPARISON STATEMENT
AND STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Joint Utility Enterprise Fund</u>
Sources/Inflows of Operating Resources:	
Actual amounts (budgetary basis) "operating revenues" from the budgetary comparison statement.	\$ 1,166,254
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	25,017
Changes in the allowance for doubtful accounts from one year to the next does not affect the budgetary basis of accounting. For financial reporting, the change will affect reported net revenues.	<u>(1,600)</u>
Total operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets.	<u><u>\$ 1,189,671</u></u>
Uses/Outflow of Operating Resources:	
Actual amounts (budgetary basis) "operating expenses" from the budgetary comparison statement.	\$ 949,933
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis, but are considered expenditures for financial reporting purposes.	14,632
The Town budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis of accounting, but are considered expenditures for financial reporting purposes.	9,024
During the fiscal year, the Town remitted payments for monitoring the closed landfill. For budgetary purposes, the payments are considered expenditures. For financial reporting, the payments are considered a reduction of the landfill post-closure liability.	(18,254)
The Town does not budget depreciation expense; however, for financial reporting purposes, depreciation expense is recorded.	<u>370,970</u>
Total operating expenses as reported on the statement of revenues, expenses, and changes in fund net assets.	<u><u>\$ 1,326,305</u></u>
Non-Operating Revenues (Expenses):	
Actual amounts (budgetary basis) reflected in the budgetary comparison statement.	\$ (59,235)
Differences - Budget to GAAP:	
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis, but are considered revenues for the financial reporting purposes.	13,795
The Town budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are considered expenditures for financial reporting purposes.	(306)
During the prior year, an individual taxpayer amended their reports to the New Mexico Taxation & Revenue Department requesting a refund of sales taxes. A refund was issued, and the Department determined that the Town had been overpaid tax revenues for the fiscal year ended June 30, 2010. For budgetary purposes, the Town recorded the cash received as sales tax revenue, while for financial purposes the deferred revenue from the previous year is recognized as earned in the current year.	11,091
For budgetary purposes, the Town reflects the sale of assets as non-operating revenues. For financial reporting, the revenue is reflected as a special item.	(5,000)

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

STATE OF NEW MEXICO
TOWN OF CLAYTON
RECONCILIATION BUDGETARY COMPARISON STATEMENT
AND STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Joint Utility Enterprise Fund</u>
For budgetary purposes, the Town records purchase of capital assets as an expense. Such purchases are not considered expenses for financial reporting purposes, as those amounts are capitalized.	36,634
For budgetary purposes, the Town records the payment of principal of long-term debt as an expense. The reduction of the debt is not considered an expense for financial reporting purposes.	<u>83,313</u>
Total non-operating revenues (expenses) as reported on the statement of revenues, expenses, and changes in net assets.	<u>\$ 80,292</u>
Transfers:	
Actual amounts (budgetary basis) reflected in the budgetary comparison statement.	\$ 33,260
Differences - Budget to GAAP: None.	<u>-</u>
Total transfers as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 33,260</u>
Special Item:	
Actual amounts (budgetary basis) reflected in the budgetary comparison statement.	\$ -
For budgetary purposes, the Town records the sale of assets as non-operating revenues. For financial reporting, the sale of assets are reported as a special item.	<u>5,000</u>
Total special item as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 5,000</u>

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

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2011

Financial Institution/Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
First National Bank of New Mexico 201 Main Street Clayton, New Mexico 88415				
Special revenues pool	Checking	\$ 395,788	\$ (74,844)	\$ 320,944
Payroll account	Checking	10,887	(9,668)	1,219
MMDA account	MMA	1,042,152	-	1,042,152
Certificate of Deposit	CD	300,000	-	300,000
Certificate of Deposit	CD	217,780	-	217,780
Certificate of Deposit	CD	100,000	-	100,000
Certificate of Deposit	CD	400,000	-	400,000
Certificate of Deposit	CD	24,000	-	24,000
		<u>\$ 2,490,607</u>	<u>\$ (84,512)</u>	<u>\$ 2,406,095</u>
Farmer's & Stockmen's Bank P.O. Box 488 Clayton, New Mexico 88415-0488				
General fund	Checking	\$ 35,145	\$ (89,906)	\$ (54,761)
Utility pool	Checking	181,531	(12,398)	169,133
Library fund	Checking	3,330	(899)	2,431
Capital projects fund	Checking	262,473	(250,002)	12,471
Vendor account	Checking	281,155	-	281,155
Severance account	Checking	56,258	-	56,258
TOC pooled money market	MMA	392,261	-	392,261
Certificate of Deposit	CD	200,000	-	200,000
Certificate of Deposit	CD	11,000	-	11,000
		<u>\$ 1,423,153</u>	<u>\$ (353,205)</u>	<u>\$ 1,069,948</u>

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2011

First National Bank of New Mexico
201 Main Street
Clayton, New Mexico 88415

Security	CUSIP	Maturity	Par Value	Market Value
Eastern NM Univ Revs	276785UA8	04/01/14	\$ 50,000	\$ -
Dulce NM Indpt Sch Dist 21	264430HK8	03/01/19	100,000	-
FNMA Fixed Rate Note	3136FPKH9	12/30/15	-	510,507
FHLMC Fixed Rate Note	3133XGJA3	09/09/16	-	117,658
FFCB Fixed Rate Note	31331XKB7	12/27/18	-	57,902
FHLB Fixed Rate Note	313371VF0	12/15/15	-	150,762
FHLMC Fixed Rate Note	3128X2TM7	01/30/14	-	166,600
Total:			<u>\$ 150,000</u>	<u>\$ 1,003,429</u>

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

Farmers & Stockmen's Bank
P.O. Box 488
Clayton, New Mexico 88415-0488

Security	CUSIP	Maturity	Par Value	Market Value
Las Vegas, NM	51778FCL1	08/15/11	\$ 250,000	\$ -
FNMA	31398A4Y5	10/27/15	-	457,732
Total:			<u>\$ 250,000</u>	<u>\$ 457,732</u>

The holder of the security pledged by Farmers & Stockmen's Bank is the Federal Home Loan Bank of Dallas, P.O. Box 619026, Dallas, TX 75261-9026.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF JOINT POWER AGREEMENTS AND
MEMORANDUM OF AGREEMENT
JUNE 30, 2011**

JOINT COMMUNICATIONS JOINT POWERS AGREEMENT

Participants – Town of Clayton, County of Union, and Clayton Consolidated School District.

Party responsible for operations – Town of Clayton.

Description – The joint powers agreement was established between the governments for the purpose of establishing, operating, and maintaining a consolidated communications center for the joint use and benefit of the governments.

Beginning dates and ending dates of JPA – The current agreement began on July 1, 2009. The agreement is perpetual, unless terminated by one of the participants.

Total estimated amount of the project and portion applicable to the municipality – The total estimated cost of the joint communication operations is \$226,371. The Town's share of the joint communication expenses is \$112,238.

Amount the municipality contributed during the current fiscal year – \$112,238.

Audit responsibility – Town of Clayton.

Name of government where revenues and expenditures are reported – Town of Clayton.

EMERGENCY MANAGER POSITION JOINT POWERS AGREEMENT

Participants – Town of Clayton and County of Union.

Party responsible for operations – County of Union.

Description – The joint powers agreement was established between the governments for the purpose of creating a position of emergency manager, who is to manage the mitigation of, preparedness for, response and recovery from disaster or major emergencies that occur within the county and the Town.

Beginning dates and ending dates of JPA – The current agreement began during the fiscal year ended June 30, 2008. The agreement was extended for the fiscal years ended June 30, 2009 and 2010. The Town has continued with the terms of agreement with the exception of approving the extension for the fiscal year ended June 30, 2011. According to the agreement, the Town's Board of Trustees must approve the extension for one additional fiscal year. The Board of Trustees had not approved the extension.

Amount the municipality contributed during the current fiscal year - None.

Audit responsibility – County of Union.

Name of government where revenues and expenditures are reported – The County of Union reports all payroll expenses within their financial statements. The Town of Clayton reflects their portion of the expenditures as public safety within the general fund.

COUNTY FAIR COMPLEX MEMORANDUM OF AGREEMENT

Participants – Town of Clayton, and Clayton-Union County Fair Ground Fair Complex Committee.

Party responsible for operations – Clayton-Union County Fair Grounds Complex Committee.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF JOINT POWER AGREEMENTS AND
MEMORANDUM OF AGREEMENT
JUNE 30, 2011

COUNTY FAIR COMPLEX MEMORANDUM OF AGREEMENT (continued)

Description – The memorandum of agreement was established between the Town and the Committee to assist the Committee in the development and implementation of a long-range plan for improving and maintaining the facilities; managing the facility, which includes the development and enforcing of rules and regulations, and the collection of fees.

Beginning dates and ending dates of JPA – The agreement terminated on June 30, 2010; however, the Town continued with its commitment as defined under the MOA without formally extending or renewing the agreement.

Total estimated amount of the project and portion applicable to the municipality – The Town is to fund a total of \$15,600 to the Committee.

Amount the municipality contributed during the current fiscal year – \$13,546.

Audit responsibility – Town of Clayton.

Name of government where revenues and expenditures are reported – Town of Clayton.

ADDITIONAL INDEPENDENT AUDITORS' REPORT

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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 Board of Trustees
Town of Clayton
Clayton, 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 fund and the combining and individual funds and related budgetary comparisons presented as supplemental information of the Town of Clayton, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Clayton's and the Town of Clayton 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 Town of Clayton's and the Town of Clayton Public Housing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Clayton's and the Town of Clayton 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 responses, 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 responses as items 2009-04 and 2009-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Clayton's and Town of Clayton 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 Town of Clayton disclosed instances of noncompliance, or other matters that is required to be reported under *Government Auditing Standards*, and which are described as items 2009-08, 2010-01, 2010-02, 2011-01, 2011-02, and 2011-03 in the accompanying schedule of findings and responses. The results of our tests performed on the Town of Clayton'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 Town of Clayton, we also noted 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 responses as items 2008-02, 2010-03, and 2011-04.

In regard to the Town of Clayton's Public Housing Authority, we also noted 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 responses as item CU2010-02.

The Town of Clayton's and the Town of Clayton Public Housing Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Clayton's and the Town of Clayton Public Housing Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town of Clayton's Board of Trustees, Town of Clayton Public Housing Authority's Commission, management, 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.

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

November 7, 2011

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT

Item 2008-02 – Other - Credit Card Transactions

Statement of Condition – The Town has two credit cards held in its name. One card is utilized by the Town Manager and the administrative staff located within city hall, and the other credit card is held by the Fire/Emergency Medical Services (EMS) Department. The administrative credit card is used to hold hotel room reservations and purchases of miscellaneous administrative expenses. The majority of the use for the EMS Department is for meal expenses of Town employees when transferring patients to either Albuquerque or Amarillo within the municipal ambulance. For the fiscal year ended June 30, 2011, there were a total of twenty-nine transactions for items purchased with the administrative credit card, and one hundred-seven for items purchased with the EMS Department credit card, with the following discrepancies noted:

- There was an instance where the administrative card was used to reserve two motel rooms. The rooms were never used and the Town staff failed to cancel the reservations. The Town was required to remit a payment in the amount of \$134.
- There was an instance where training services were purchased with the EMS credit card. A purchase order or requisition was not created for the transaction. The amount of the purchases totaled \$350.
- There were nineteen instances where travel expenses, including lodging and airfare, were purchased with the administrative credit card. All of the expenses were for elected officials and employees of the Town. The Town failed to retain copies of the travel and per diem forms with the credit card statements providing substantiation of the travel by the Town officials and employees. The total amount expended was \$2,405.
- There were two instances where motel charges were refunded to the Town after the monthly statement was paid by the Town. In effect, the Town remitted payment for expenses not incurred. Rather than seeking a refund the credit balance on the statement was absorbed by additional purchases. Since the amounts had been recorded as travel expenses within the general ledger, the expenses used to offset the credit card credit balance were not properly recorded within the general ledger. The amount of the credit balance was \$355.
- There were ninety-eight instances where meals were purchased with the EMS Department credit card. No travel reimbursement forms were prepared; nor were purchase orders or requisitions created for these expenses. The charges varied from a low of \$1.30 at a donut shop to a high of \$41.46 at a fast food restaurant. The total amount expended was \$1,949. No reconciliation was performed by the administrative staff to determine if the Town paid a sufficient amount for meal reimbursement or whether there was an amount due back to the Town.
- There were six instances where vehicle fuel was purchased with the EMS Department credit card. A purchase order or requisition was not created for these expenses. The total amount expended was \$165.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2008-02 – Other - Credit Card Transactions (continued)

- There were three instances where travel expenses (hotel) were purchased with the EMS Department credit card. No travel request form was prepared; nor was a purchase order or requisition created for these expenses. The Town failed to retain copies of the travel and per diem forms with the credit card statements providing substantiation of the travel by the Town. The total amount expended was \$389.

Criteria – The Town has established accounting procedures for the purchase of goods and services. Such procedures would include purchase orders, purchase requisitions and the retention of the original invoice. All items are necessary in order to remit payment to the vendor. The use of the credit card does not replace the required internal control documents.

While the use of the Town's credit cards for elected officials and employees for travel expenses is allowed by state statutes the Town must adhere to the Per Diem and Mileage Act. The New Mexico Department of Finance and Administration has 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. The Town should retain documentation substantiating compliance with the Per Diem and Mileage Act.

Effect – The purpose of requiring a purchase order is to ensure sufficient funds are available for the purchase. Not complying with the established internal control procedures could allow purchases to be made that cannot be paid with the established appropriation. Not maintaining an invoice or receipt could call into question whether the Town received the goods or services. In order to render payment, the Town must insure the goods and services have been received. Proper account classification is necessary to insure that financial reports prepared by the Town represent a correct presentation of the information.

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 – The Town staff does not treat the non-travel credit card transactions in the same manner as other accounts payable transactions. As a result, the documentation retained regarding the credit card transactions does not contain all the required documents such as purchase orders and requisitions.

When motel rooms are reserved, there are occasions where the motel charges are left on the credit card. During the fiscal year, travel expenses including airline fares, lodging and other expenses were paid using the credit card and the Town failed to prepare travel and per diem documentation that provide substantiation of the travel.

The majority of the EMS credit card expenditures were for the meal expenses of ambulance personnel that transport residents of the Town and Union County to larger municipalities for medical care. Allowing the EMS employees to purchase meals with the Town's credit card has been a matter of practice for a number of years; however, the Town has failed to maintain proper documentation such as travel reimbursement forms to substantiate the expenditure.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2008-02 – Other - Credit Card Transactions (continued)

Recommendation – Due to the late completion of the audit report for the fiscal year ended June 30, 2010, the Town has not implemented any of the changes suggested for credit card transactions for the current fiscal year. We recommend the Town develop administrative procedures to ensure that proper document such as travel reimbursement forms, purchase orders and requisitions are maintained to substantiate the purchases. All travel reimbursements must comply with the Per Diem and Mileage Act.

View of Responsible Officials and Planned Corrective Actions – Recommendation in the 2010 audit was that no meals should be purchased by EMS personnel with the credit card and employees should purchase their own meal by their own means and request reimbursement upon their return to town.

Management understands the importance of internal control on such transactions. Management also acknowledges that EMS calls or transfers are typically made outside of normal business hours and that the employees may not have the means to cover their meals and it is not reasonable for the Town to expect for them to come in and complete a travel request.

Requisition forms as well as travel reimbursement forms will be required, completed and reviewed on all transactions upon the employees return. State Statute on travel and per diem will be adhered to with dual signatures for approval required prior to payment of the transaction on the credit card.

Item 2009-04 – Material Weakness - Preparation of Financial Statements and Disclosures

Statement of Condition – At the present time, the Town's accounting staff lacks a sufficient understanding of generally accepted accounting principles (GAAP) for governmental entities, which includes financial reporting. Currently, the Town staff is unable to prepare the governments financial statements or detect material misstatements within their financial statements. We have determined there is an ineffective oversight of the Town's financial reporting by those charged with governance.

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.*"

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

*Item 2009-04 – Material Weakness – Preparation of
Financial Statements and Disclosures (continued)*

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

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

SAS 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.”*

Furthermore, the New Mexico State Auditor Rule Section 2.2.2.8J (2) states, *“The financial statements are the responsibility of the agency. The agency shall maintain adequate accounting records, prepare financial statements in accordance with accounting principles generally accepted in the United States of America, and provide complete, accurate, and timely information to the IPA as requested to meet the audit report due date imposed in Subsection A of 2.2.2.9 NMAC.”*

Effect – The failure of the Town personnel to demonstrate a level of expertise regarding governmental financial reporting increases the risk that a material misstatement of the Town’s financial statements, is more than inconsequential, and the possibility exists that such misstatements would not be prevented or detected in a timely manner.

Cause – In the past, the Town did not place an emphasis on financial reporting as their primary objective was maintaining complete and accurate accounting records that reported all cash transactions. The State of New Mexico and, in particular, the New Mexico Department of Finance and Administration requires that all accounting, reports and budgets be prepared on the cash basis of accounting that if different from accounting as required by GAAP.

The Town’s upper management realizing that changes were needed within their accounting staff for various reasons employed a new town treasurer in January 2011. The present treasurer has sufficient accounting education to implement the necessary changes to their accounting methods, so the Town is able at a minimum to understand all necessary adjustments and supporting documents needed to convert their cash basis accounting to accounting as required by GAAP.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

*Item 2009-04 – Material Weakness – Preparation of
Financial Statements and Disclosures (continued)*

When the new treasurer began her duties her first priority was to review the accounting data for the fiscal year ended June 30, 2011, to determine what work were necessary to stabilize the fiscal year. Once that project was complete, her focus changed to the fiscal year ended June 30, 2010. She spent most of her time balancing between the two fiscal years in order to have the audit completed for the fiscal year ended June 30, 2010, as soon as possible. The audit for the fiscal year ended June 30, 2010 was completed during August 2011.

In July 2011, the Town had the treasurer attended a four day course on government accounting and financial reporting in order to begin her formal training beyond her daily work experience. The Town intends to invest in additional training for their accounting staff.

Recommendation – We believe the Town is moving in the right direction in regards to its accounting. The Town manager is determined to correct the deficiencies noted and has hired employees with sufficient education or experience. We applaud the Town's effort in correcting this deficiency, by employing qualified personnel and provide formal continuing education regarding these matters. We suggest the Town continue on its present course of educating its accounting staff.

Views of Responsible Officials and Planned Corrective Actions – The Town will continue to support continuing education programs for the treasurer and clerk positions and will have staff attend seminars regarding governmental accounting and financial reporting.

Item 2009-08 – Material Weakness - Capital Assets Subsidiary Records

Statement of Condition – Since the implementation of Government Accounting Standards Board Statement 34, which requires the Town to separately account for governmental and business-type activities capital assets, the Town has maintained its capital assets subsidiary ledger on an electronic work sheet. This work sheet has its limitations and does not meet the requirements of accounting for capital assets as required by the New Mexico General Services Department.

During our observation of capital assets, we noted the Town is not consistently using a tagging system for all capital assets. Additionally, the Town did not conduct a physical inventory of capital assets at the end of the fiscal year ended June 30, 2011.

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, 2.20.1.8, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department requires the Town implement a systematic and well documented system for accounting of capital assets.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2009-08 – Material Weakness - Capital Assets Subsidiary Records (continued)

Criteria (continued) – The information to be recorded and maintained must include, at a minimum, the following:

- 1) Agency name or commonly used initials used to identify the agency.
- 2) Capital asset number.
- 3) A description using words meaningful for identification.
- 4) Location, specifically a building and room number.
- 5) Manufacturer's name.
- 6) Model number or model name.
- 7) Serial number or vehicle identification number.
- 8) Estimated useful life.
- 9) Date acquired.
- 10) Cost.
- 11) Fund and organization that purchased the asset.

The system must be capable of generating lists of capital assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation (if needed), betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

The New Mexico State Administrative Code, Title 2, Chapter 20 Part 1, section 15 A (3) of the administrative code for fixed assets requires that governments tag all fixed assets. Section 2.20.1.16 requires the Town to conduct a physical inventory of its capital assets at the end of each fiscal year. While reconciling the differences between items reflected on the capital assets work sheet and those on hand for the fiscal year ended June 30, 2010 the Town performed a physical inventory however, the inventory was not performed for the fiscal year ended June 30, 2011.

Effect – The inability to keep detailed information as described above allows opportunity for errors to occur and not to be detected on a timely basis. Not tagging all assets allows the possibility for errors to occur between actual assets owned and the subsidiary ledger. Finally, not conducting an annual physical inventory could allow assets that are no longer on site for whatever reason to be included in the subsidiary ledger.

Cause – When the Town implemented the new reporting model, the accounting staff made the decision to utilize an electronic work sheet rather than purchasing additional accounting software such as a capital asset management system. No changes have been made to the initial method of accounting for capital assets. Due to the numerous changes in personnel within the administrative staff, the tagging of assets has not been kept current.

In regards to the physical observation of the capital assets inventory, the Town had completed the inventory for the fiscal year ended June 30, 2010 during April 2011. The Town did not consider it necessary to conduct another inventory so soon after the completion of the previous year's inventory.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2009-08 – Material Weakness - Capital Assets Subsidiary Records (continued)

Recommendation – We recommend the Town discontinue utilizing the current accounting system for capital assets and establish a system that meets the requirements of the New Mexico Administrative Code, in particular, Title 2, Chapter 20, Part 1, 2.20.1.8, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls*. The Town should invest in a software package that has the capabilities to meet the requirements of the code. We recommend that all assets owned by the Town be properly tagged with an identification number which is reflected in the subsidiary ledger. Finally, we recommend the Town implement the requirement to conduct annual inventories of all capital assets which can be performed by the administrative staff and each department of the Town.

Views of Responsible Officials and Planned Corrective Actions – The Town’s accounting program includes an asset management module that will capture all capital purchases. It is noted that proper training has not been received by staff to accurately maintain and manage the software. Training will be scheduled along with on-site inspections conducted annually by administrative staff and department heads.

Item 2010-01 – Other - Prison Facility

Statement of Condition – The Town has constructed a prison facility for the purpose of housing town and other incarcerating jurisdictions’ prisoners, including individuals incarcerated by the state of New Mexico, and under the care of the New Mexico Department of Corrections. In order to construct the facility, furnish it and begin operations, the Town issued special purpose revenue bonds in the amount of \$77,585,000. The bonds were sold on September 19, 2006, and after the original issue premium, original issue discount and the underwriters’ discount yielded \$79,513,977 to the Town.

Prior to the issuance of the bonds, several legal documents were prepared. One such document was ordinance number 651 (referred to as the bond ordinance) which provides the Town’s legal authority to issue the bonds and the Town’s responsibilities in regards to financial and other matters. The bonds are special purpose bonds that are payable and collectible solely from the net revenues of the prison project. The bonds are not considered indebtedness or debt of the Town or the state of New Mexico or any other subdivision of the State. The registered owner or owners of the bonds may not look to any general or other funds of the Town for the payment of principal or interest. The Town has not transferred any legal ownership of the prison facility to any other party or entity.

In order to manage the financial aspects of the bond issuance and retirement, the Town has appointed U.S. Bank National Association to serve as Trustee. Some of the Trustee’s duties include: receipting and accounting for cash received including bond proceeds and revenues generated from the project; allocating the cash receipts into the proper funds and accounts; and disbursing funds for such items as payment of bond interest, principal, debt reserve requirements, operating expenses, and other items. At the present time, the Town is relying on the Trustee to account for all revenues and expenses for the project as they have not established a separate set of accounting records.

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TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2010-01 – Other - Prison Facility (continued)

Statement of Condition (continued) - Within the bond ordinance there is a provision for the establishment of a surplus account within the trust fund. According to the bond ordinance section 23 (d), *“Amounts on deposit in the surplus account may be applied, at the written direction of the Town, to pay costs which under generally accepted accounting principles constitute capital costs necessarily incurred for the maintenance and betterment of the Facility, including without limitation buildings, structures and equipment, the related costs of all architectural, engineering, legal and other professional services and other costs reasonably necessary and incidental thereto.”*

During the past, the Town has obtained funds from the surplus account that met the requirements of the bond ordinance; however, items purchased or constructed have not been recorded on any accounting records of the Town, and the Town does not have the budgetary authority to make the purchase. For example, during the current fiscal year, the Town purchased a tractor with a purchase price of \$37,943. That piece of equipment is not reflected in any of the Town’s capital assets subsidiary ledgers, and the Town did not budget for the expenditure. Authorized payments to vendors, on the Town’s behalf, are made directly from the surplus account by-passing the accounts and funds of the Town.

This audit finding was first reported to the Town in the audit report for the fiscal year ended June 30, 2010, which was completed during August 2011. The Town has not had a lot of time to correct many of the problem reported however they are repeated as they need to be resolved.

Criteria – The Town has not complied with the bond ordinance, other legal documents regarding the bond issuance and state statutes as discussed below:

- Section 31 (w) of the bond ordinance requires the following: *“Books of Account. The Town shall at all times keep or cause to be kept proper and adequate books of account showing all receipts derived from and disbursements of moneys with respect to the Facility. Such records shall be available for inspection and copying by the Trustee and its employees and agents as all times during the normal business hours and shall be audited annually by an Independent Accountant acceptable to the Trustee.”* The Town is not maintaining separate accounting records that accounts for all assets, liabilities, revenues and expenses of the prison project and as a result, no audit of those records has occurred.
- Section 47 (b) of the bond ordinance requires the following: *“Financial statements. Within (90) days of the end of the Town’s fiscal year, a copy of the Town’s audited financial statements and a copy of the annual budget of the Town and within forty-five (45) days after the close of each quarter of the Town’s fiscal year, a copy of the unaudited financial statements of the Town shall be sent to CIFG Assurance North America, Inc., 825 Third Avenue, 6th Floor, New York, New York, Attention: Surveillance, or to other such address as the Insurer may specify from time to time by notice to the Town.”* The Town did not submit audited financial statements for the fiscal years ended June 30, 2010 and 2011 within 90 days as required.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2010-01 – Other - Prison Facility (continued)

Criteria (continued) –

- As part of the bond issuance, the Town signed a continuing disclosure agreement. The purpose of the agreement is to require the Town make certain disclosures in order to allow the underwriters of the bonds to comply with certain requirements. According to the document, one of the Town's requirements is to present audited financial statements by January 1st of each year. The Town did not submit audited financial statements for the fiscal year ended June 30, 2010 by January 1, 2011.
- The Town has not established a fund to account for the financial activity of the prison facility. Additionally, the Town has failed to submit a budget to the New Mexico Department of Finance and Administration Local Government Division that includes the prison facility as required by New Mexico State Statutes Section 6-6-2 NMSA 1978. The Town's Board of Trustees and management have the ability to expend funds from the surplus account maintained by the bond trustee; however, the Town does not have budgetary authority within a prison fund to expend those funds. For example, during the current fiscal year the Town expended \$37,943 from the surplus account for the purchase of a tractor; however, the Town did not have the budgetary authority established within a prison facility fund. Section 6-6-6 NMSA 1978 states the local public body may not expend beyond the established budget. Since there is no established budget, the Town did not have the authority to expend any funds.

Effect – Section 34 (c) of the bond ordinance states the following regarding noncompliance with the ordinance, "Default of any Provision. Any failure by the Town to observe or perform any covenant, condition or agreement on its part to be observed or performed (other than as referred to in Section 34(a) [Nonpayment of Principal] or Section 34(b) [Nonpayment of Interest], which failure continues for a period of thirty days after written notice specifying the failure and requesting that it be remedied has been given to the Town by the Trustee or by the registered owners of 66-2/3% in principal amount of the Bonds then outstanding (or, in the case of the covenant in Section 47(e) [Accounting], the Insurer) or, if the failure cannot reasonable be cured within such thirty-day period, the Town does not begin such cure within such thirty-day period or fails to pursue such cure with reasonable diligence."

Section 35 states, "Remedies Upon Default. Upon the happening and continuance of any Event of Default, the Trustee may, and, upon the written request of the registered owner or owners of not less than 66-2/3% in principal amount of the Bonds then outstanding, the Trustee shall, without further notice, take one or any combination of the following remedial steps:

- Acceleration. Declare all of the principal of and all accrued interest on any Bonds then outstanding to be immediately due and payable, whereupon such principal and interest shall be immediately due and payable, provided that payment under the Policy shall not be accelerated unless the Insurer elects, in its sole discretion, to pay principal due upon such acceleration together with any interest accrued to the date of acceleration; or

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SCHEDULE OF FINDINGS AND RESPONSES
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PRIMARY GOVERNMENT (continued)

Item 2010-01 – Other - Prison Facility (continued)

Effect (continued) –

- *Other Remedies. Take whatever action at law or in equity may appear necessary or desirable to protect and enforce the rights of any registered owner of Bonds under this ordinance by mandamus or other suit, action or special proceedings in equity or at law, in any court or competent jurisdiction, either for specific performance of any covenant or agreement contained herein or in an award or execution of any power herein granted for the enforcement of any power, legal or equitable remedy as such registered owner or owners may deem most effectual to protect and enforce the rights aforesaid, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of any registered owner, or to require the Board to act as if it were the trustee of an express trust, or any combination of such remedies...* The paragraph also states, “*The failure so to proceed shall not relieve the Town or any of its officers, agents or employees of any liability for failure to perform any duty.*”

Noncompliance with New Mexico state statutes could subject officials and employees to penalties and fines required by state statute.

Cause – We suspect that several factors contributed to the noncompliance with the items discussed above as detailed below:

- The Governmental Accounting Standards Board (GASB) issues pronouncements and statements that dictate generally accepted accounting principles (GAAP) in the United States of America for governmental entities including state and local governments. GASB also issues interpretations regarding other items that are generally considered GAAP by the government accounting and financial reporting community. As mentioned above, the Town has issued special purpose revenue bonds for the prison construction. According to GASB guidance, those bonds are considered to conduit debt. In 1995, GASB issued an interpretation to clarify the accounting treatment of conduit debt. In that interpretation GASB stated that special purpose bonds such as this issue should not be reported in the reporting entity financial statements, rather a note disclosure would suffice.
- The Town is a smaller municipality that does not have a lot of expertise regarding government financial reporting. The Town relies heavily upon the auditors to prepare the financial statements that present fairly in accordance with GAAP. We have deduced that when the bonds were issued, the auditor concluded the bond issuance was conduit debt and made the appropriate disclosure. However, there appears to have been a breakdown of communication between the auditor and the Town’s staff to ensure that compliance with the bond issuance was met. For whatever reason, the prior Town manager and clerk-treasurer did not set up separate accounting records or establish the proper budgetary authority for items purchased from the surplus account. The auditor failed to disclose the noncompliance with the ordinance.

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SCHEDULE OF FINDINGS AND RESPONSES
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PRIMARY GOVERNMENT (continued)

Item 2010-01 – Other - Prison Facility (continued)

Cause (continued) –

- Since the issuance of the bonds, the Town has hired a new town manager and two town treasurers. The current town manager followed in the steps of his predecessor regarding management of the prison facility. The Town Manager assumed the Town was in compliance. The Town Treasurer (chief financial officer or comptroller), who was employed when the bond issue was completed, left her employment with a short notice and the Town fell behind in its accounting function. Her replacement fell behind on the treasurer's duties, as she was required to assist with the clerk's position that was vacant with short notice. The current Town Treasurer has spent a lot of time ensuring the accounting records are current, and has not had the opportunity to study the bond agreements and ordinances.

Recommendation – We recommend the following:

1. The Town should establish a fund and book of accounts for the prison facility financial activity. All assets, liabilities, equity, revenues and expenses should be recorded within the accounts. Financial activity within the trust accounts of the Trustee should be incorporated within the fund. The Town should begin at the inception of the financial activity and capitalize all construction costs within the fund. A detailed listing of all capital assets should be part of the accounting records.
2. The Town should establish a budget for the prison facility fund in accordance with New Mexico state statutes.
3. The prison facility fund financial statements should be prepared annually and audited on an annual basis. In order to comply with current GASB requirements, we recommend the financial statements be issued under a separate cover from the basic financial statements issued for the other funds of the Town.
4. With the assistance of the Town's bond attorney, the Town should seek clarification regarding the submission of annual audited financial statements in accordance with the bond ordinance and the continuing disclosure agreement. Both documents state the Town will submit annual financial statements of the Town; however, due to the current position of GASB regarding special purpose revenue bonds, the prison financial activity is not included within the basic financial statements of the Town. Clarification should be obtained to determine if both set of financial statements should be submitted or if the financial statements of the prison activity would suffice. Once a determination is made, the Town should submit the audited financial statements on a timely basis as required.

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TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

PRIMARY GOVERNMENT (continued)

Item 2010-01 – Other - Prison Facility (continued)

Views of Responsible Officials and Planned Corrective Actions – Our response is summarized as follows:

- The contract agreement between the Town and GEO, who provides contract management of the prison facility, requires them to provide audited financial statements on an annual basis. GEO has been informed that they have not complied with this portion of the agreement and could be in breach of contract. GEO has agreed to construct statements dated back to inception of the facility and will have the statements audited.
- The Town has provided financial statements to the various reporting agencies but not within the ninety days as required. The ninety day requirement is not realistic and will need to be changed. The Town will consult with the bond attorney and make the necessary changes.
- Administrative expenses for the facility have been budgeted in professional fees within the general fund, and reimbursed out of the prison surplus fund. The auditor is correct in stating that some purchases were made directly out of the prison surplus fund. Rather than create another fund, management will either budget the expense in the appropriate department and or complete a budget adjustment and resolution for the expense and reimbursement if the expense was not initially authorized.

Item 2010-02 – Other - Allocation of Interest Bearing Bank Deposits

Statement of Condition – The Town maintains cash in interest bearing accounts at First National Bank of New Mexico in the amount of \$2,083,931, and at Farmers & Stockmen’s Bank in the amount of \$940,674 at June 30, 2011. The Town attempted to allocate the funds as required by State statute which, in this particular case, should have been approximately 50 percent at each institution. The Town made an error in its calculation and allocated 68.90% to First National Bank and 31.10% to Farmers & Stockmen’s Bank.

Criteria – Section 6-10-36C NMSA 1978 states in part, *“Public money placed in interest-bearing deposits in banks and savings and loan associations shall be equitably distributed among all banks and savings and loan associations having their main or staffed branch offices within the geographical boundaries of the governmental unit that have qualified as public depositories. The deposits shall be in the proportion that each bank’s or savings and loan association’s deposits bear to the total deposits of all banks and savings and loan associations.”*

Effect – Non-compliance with New Mexico state statutes subjects Town officials and personnel to punishment, as defined by state statutes.

Cause – The Town attempted to allocate the funds as required by State statute and made an error in the calculation.

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TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2010-02 – Other - Allocation of Interest Bearing Bank Deposits (continued)

Recommendation – We suggest the Town allocate the cash in the interest bearing accounts in accordance with State statute.

Views of Responsible Officials and Planned Corrective Actions – Cash will be allocated appropriately according to state statute.

Item 2010-03 – Other - Travel and Per Diem

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 selected throughout the fiscal year, and contained the following discrepancies:

- We selected three travel transactions for the month of August 2010, and we discovered the form, utilized by the Town during that time period, did not adequately address instances where the employees were advanced eighty percent (80%) for their travel, the final settlement and certification of the travel. Subsequent to that time period, the Town revamped the reimbursement form to correct the deficiency in record keeping.
- There were seven instances where employees did not receive their entire reimbursement due to miscalculation of the hours traveled. The total amount not reimbursed the employees was \$80.
- There was one instance where a Board Trustee was paid one-hundred percent (100%) of mileage, in advance, instead of the eighty percent (80%) as required by the New Mexico Travel and Per Diem Act. The amount advanced for the mileage was \$630.
- There was one instance where the employee claimed one additional day of travel. The error was not corrected during the review and approval process. The employee was over paid by \$73.
- We noted two separate mileage reimbursements to the City of Albuquerque from Clayton, in which, two different miles accrued were used. The miles accrued should have been the same for both employees.
- There was one instance where the employee received one-hundred percent (100%) advance for actual lodging and meals and parking fee prior to departure. The amount was \$173.
- There was one instance where the Mayor received one-hundred percent (100%) advance for per diem prior to departure. The amount advanced should have been eighty (80%) percent. The amount was overpaid was \$8.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

PRIMARY GOVERNMENT (continued)

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

Criteria – The New Mexico Department of Finance and Administration has 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.

Section 2.48.2.8 B (3) provides guidance regarding partial day reimbursement when the return is made from overnight travel.

Section 2.42.2.10 A states, “...employee’s request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals...”

Section 2.42.2.11 D (1) states that mileage accrued shall be determined “pursuant to the mileage chart of the official state highway and transportation department for distances in New Mexico ...”

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

Cause – Early in the fiscal year, the Town’s travel request form did not adequately allow for the Town to properly document the amounts requested, advanced, and the final settlement with the employee after the travel has been completed. The Town has improved its reimbursement form during the fiscal year. Errors in the mileage rate calculation and the incorrect mileage accrued was due to not fully understanding the administrative code. The remainder of the discrepancies was caused by a lack of understanding the Per Diem and Mileage Act, and in particular the administrative rule.

Recommendation – We recommend the Town review the Per Diem and Mileage Act and the administrative code to ensure compliance with the Act. We recommend the Town review the internal control procedures currently in practice to evaluate whether they are adequate to provide reasonable assurance that all travel and per diem calculations are correct.

Views of Responsible Officials and Planned Corrective Actions – The Town will develop Standard Operating Procedures to ensure mileage and per diem rates are calculated correctly. The Town Treasurer will authorize and review all per diem requests. Within the SOP, the Town will only authorize per diem rates only (80% advance and 20% upon travel return) versus actual expenses to traveler, to avoid confusion.

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SCHEDULE OF FINDINGS AND RESPONSES
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PRIMARY GOVERNMENT (continued)

Item 2011-01 – Other - Capital Lease

Statement of Condition – On January 12, 2011, the Town entered into a lease/purchase agreement with First National Bank of New Mexico located in Clayton, New Mexico. The purpose of the lease was to finance the acquisition of street equipment. The principal amount of the lease is \$103,506 and interest is accrued at a rate of 5% per annum. The lease is not in compliance with the New Mexico Attorney General's interpretation of a case ruled upon by the New Mexico Supreme Court. As a result, the Town has violated the State Constitution by incurring debt without taxpayer's approval. In addition to the legality of the lease, we noted the 5% interest rate used in the final lease document was not the 4.5% rate authorized by the Town Trustees in resolution number 10-25.

Criteria – The New Mexico Constitution article IX section 12 prohibits local municipalities from entering into debt arrangements without voters' approval. In attempt to be in compliance with the state constitution, state and local governments have opted to use lease agreements as a means to finance the purchase of real estate and equipment; however, the New Mexico Supreme Court has held that it is unconstitutional for agencies to enter into lease purchase agreement after January 9, 1989, unless special revenue funds are the designated source of payments for the agreements. The New Mexico Attorney General has interpreted the Supreme Court decision stating that **any** agreement which is in effect for more than one fiscal year must have a provision allowing the agency to terminate the agreement at will at any time or at least at the end of each fiscal year, without penalty. Furthermore, the agency must have no "equitable or moral" duty to continue to make payments under the contract.

The agreement must also contain a non-appropriation clause allowing for termination of the agreement in the event the agency decides not to appropriate funds for each fiscal year. The lease agreement entered into with the bank does not have a provision to terminate the agreement at will, nor does it have a non-appropriation clause allowing for termination of the agreement in the event the Town decides not to appropriate funds. The agreement places an equitable duty to continue to make payments or face default at which time the creditor has the legal right to retrieve the equipment.

Effect – Non-compliance with the state of New Mexico constitution subjects officials and employees to penalties and provisions established by the constitution.

Cause – The Town attempted to be in compliance with the state constitution; however, the document prepared failed to meet the requirements established in the State Supreme Court decision and the New Mexico Attorney General's interpretation.

Recommendation – We recommend the Town take one of the following actions: (1) remit payment in full on the remaining balance of the lease; or (2) entering into another lease agreement with the current creditor or another creditor that meets the requirements established by the New Mexico Supreme Court or the New Mexico Attorney General's office thereby canceling the current lease agreement. The Town should also reconcile the interest rate used within the lease document and the resolution issued by the Board of Trustees.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

PRIMARY GOVERNMENT (continued)

Item 2011-01 – Other - Capital Lease (continued)

Views of Responsible Officials and Planned Corrective Actions – The Town has corrected the language in the existing lease agreement and the participating agency has agreed to the changes. The Town believes that the document is now in compliance with the state constitution.

Item 2011-02 – Other - Public Purchasing

Statement of Condition – During the course of our testing of compliance with public purchasing, we noted the following deviations:

- The Town purchased three police vehicles utilizing a capital lease agreement. The purchase price of the three vehicles was \$20,000, \$20,500 and \$25,500. The vehicle with a purchase price of \$20,000 qualified as small purchase; however, the Town did not retain any documentation to substantiate the solicitation of quotes. Additionally, the Town did not solicit sealed bids for the other two vehicles.
- The Town purchased a 4-wheel drive vehicle at a cost of \$49,900. The Town did not solicit sealed bids for the purchase.
- The Town purchased a steel roller with a \$25,000. The Town failed to solicit sealed bids after the receipt of three quotes, which indicated the purchase price was going to be greater than \$20,000.
- During the fiscal year, the Town had repair work done on a water well which amounted to \$22,369. According to the Town, the vendor was determined to be a sole source for the procurement due to the size of the well casing and the pump. The Town failed to retain the justification for the procurement method which should have included written determinations and approvals.

Criteria – Sections 13-1-28 through 13-1-199 NMSA 1978 referred to as the *Procurement Code* details what is required of local governments to comply with purchasing requirements. The New Mexico General Services Department – State Purchasing Division has issued procurement regulations within the New Mexico Administrative Code (NMAC) that embody the procurement code and provide detailed explanation of the code.

Section 1.4.1.15 NMAC states, “*all procurement shall be achieved by competitive sealed bids except procurement achieved pursuant to the following methods: (A) competitive sealed proposals, (B) small purchases; (C) sole source procurement; emergency procurement; (D) procurement under existing contracts; and (F) purchases from anti-poverty program businesses.*”

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

PRIMARY GOVERNMENT (continued)

Item 2011-02 – Other - Public Purchasing (continued)

Criteria (continued) – Section 1.4.1.51A NMAC (small purchases) states, “*Quotation to be obtained. Insofar as practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding five thousand dollars (\$5,000) but not exceeding twenty thousand dollars (\$20,000), no fewer than three businesses shall be solicited to submit written quotations that are recorded and placed in the procurement file...*”

Section 1.4.1.57 D NMAC (Records of Sole Source Procurements) states, “*The justification for the procurement method which shall include any written determinations and written approvals required by any provisions of Sections 1.4.1.53 through 1.4.1.57 of this rule.*”

Effect – Section 13-1-193 NMSA 1978 states: “*Any person, firm or corporation that knowingly violates any provision of the Procurement Code [13-1-28 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code. The attorney general or the district attorney in the jurisdiction in which the violation occurs is empowered to bring a civil action for the enforcement of any provision of the Procurement Code. Any penalty collected under the provisions of this section shall be credited to the general fund of the political subdivision in which the violation occurred and on whose behalf the suit was brought.*”

Cause – On occasion, equipment is purchased by other municipal departments not within Town Hall, without giving the proper consideration as to the procurement code. By the time the administrative staff reviews all the documentation, the commitment for the equipment has been given by the department heads.

Recommendation – We recommend that the administrative staff spend time providing education as to what is required by the procurement code to the other departments. Further, we recommend that the administrative staff be more proactive in getting involved with purchases from other departments that require a sealed solicitation. Finally, we recommend all items purchased in respect to the Procurement Code be approved by the Board of Trustees in a public meeting.

Views of Responsible Officials and Planned Corrective Actions – The Town agrees with auditor’s recommendation. Department heads will be provided additional education on the Code. Staff will monitor purchase requests closely to assure adherence to the code.

Item 2011-03 – Other - Grant Compliance

Statement of Condition – The Town entered into two separate grant agreements with the New Mexico Economic Department (Department) for renovations of the Luna Theater owned by the municipality and street construction. The Luna theater award amounted to \$200,000 and the street construction award amounted to \$312,698. The Town failed to comply with a provision within each agreement to account for the revenues, and expenditures within a separate fund. The revenues and expenditures were accounted for within the Town’s Government Assistance Capital Project Fund that contained revenues and expenditures from other grant awards.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

PRIMARY GOVERNMENT (continued)

Item 2011-03 – Other - Grant Compliance (continued)

Criteria – Within each agreement there is a section that defines ineligible activities and within that section the agreement states; “*funds must accounted for by a separate Main Street Project Fund established for this contract.*”

Effect – Within each agreement the department has placed a provision that reads as follows; “*The DEPARTMENT, by written notice to the GRANTEE, shall have the right to suspend or to terminate this Grant Agreement if, at any time, in the judgment of the DEPARTMENT, the terms of this Agreement have been violated or the activities described in the project description do not progress satisfactorily. In this regard, the DEPARTMENT may demand repayment of all or part of the funds disbursed to the GRANTEE.*”

Cause – The Town overlooked the provision to establish a separate Main Street Project Fund.

Recommendation – As both projects have been completed, we recommend in the future the administrative staff thoroughly review all the aspects of the agreements, prior to executing the documents to ensure the Town is able and willing to comply with all provisions. Once executed, the administrative staff must comply with all provisions.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor’s recommendation. This was an oversight on management’s part, although all funds were allocated and disbursed for the intended purpose; a separate fund was not set up. All provisions will be thoroughly reviewed in the future.

Item 2011-04 – Other - Legal Compliance with Adopted Budget

Statement of Condition – During the review of the Town’s individual budget comparison statements, we discovered the following deviations concerning the authorized budget and expenditures:

- Within the library fund, the Town had budgetary authority of \$15,363. Expenditures for the year amounted to \$15,618; therefore, the Town exceeded its budgetary authority within the fund by \$255.
- Within the fire fund, the Town had budgetary authority of \$248,576. Expenditures for the year amounted to \$255,808; therefore, the Town exceeded its budgetary authority within the fund by \$7,232.
- Within the emergency medical services fund, the Town had budgetary authority of \$24,818. Expenditures for the year amounted to \$24,998; therefore, the Town exceeded its budgetary authority within the fund by \$180.
- In the original budget of the municipal income interest fund, the Town projected a deficit cash balance in the amount of \$221 at year-end.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2011-04 – Other - Legal Compliance with Adopted Budget (continued)

Criteria – Section 6-6-6 NMSA 1978 states that no governing authority or official shall allow or approve claims in excess of the approved budget. The excess expenditures beyond the authorized budget within the library, fire, and emergency medical services funds violated section 6-6-6 NMSA 1978.

Section 6-6-11 NMSA 1978 states it is unlawful for the municipal governing body to become indebted. By establishing an end of year projected deficit cash balance of \$221 within the original budget of the municipal income interest fund, the Town has violated section 6-6-11 NMSA 1978.

Effect – Noncompliance with New Mexico state statutes could subject officials and Town employees to penalties and fines required by state statutes.

Cause – Management failed to monitor budget constraints within the library, fire and emergency medical services fund. A clerical error was made when the original budget was established for the municipal income interest fund.

Recommendation – We recommend the Town's staff and Board of Trustees review the Town's budget, by fund, to ensure expenditures do not exceed total budget availability. We recommend the budget review be completed monthly or quarterly. If necessary, changes are needed to the budget due to unforeseen circumstances, the Town staff should prepare any additional budget adjustment resolutions necessary to ensure the Town does not spend unauthorized funds in any fund.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor's recommendations. This was obviously an oversight and miscalculation on management's part. A budget review will be conducted quarterly, and if required, budget adjustment resolutions will be prepared to ensure that unauthorized expenditures are nonexistent.

Item 2011-05 – Other - Joint Powers Agreement and Memorandum of Agreement

Statement of Condition – The Town has entered into a joint powers agreement (JPA) with Union County to govern the position of emergency manager, who provides services for both the Town and the County. The agreement expired on June 30, 2010, and was not extended by the Board of Trustees; however, the Town remained committed to the agreement during the fiscal year ended June 30, 2011. The Town remitted \$8,576 during August 2011, which contributed for expenses for the fiscal year ended June 30, 2011.

The Town has entered into a memorandum of agreement (MOA) with the county fair complex committee, to assist the committee in the development and implementation of a long-range plan for improving, maintaining, and managing the facilities. The MOA expired on June 30, 2010 and was not renewed by the Town; however, the Town remained committed to the agreement during the fiscal year ended June 30, 2011, by remitting \$13,546 during the fiscal year.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

PRIMARY GOVERNMENT (continued)

Item 2011-05 – Other - Joint Powers Agreement and Memorandum of Agreement (continued)

Criteria – According to the emergency manager JPA the agreement may be extended in one-year increments for up to four years. The JPA states that the Union County Board of Commissioners and the Town Board of Trustees must approve any extension of the agreement.

The county fair complex committee MOA does not have a provision for an extension of the agreement and it simply expired on June 30, 2010.

Effect – Both the JPA and MOA are legal documents that detail the responsibilities and duties of all involved parties. Without a current executed document, disagreements could arise which could result in additional responsibilities for the Town including additional financial commitment.

Cause – All parties in the JPA overlooked the need to extend the JPA. Additionally, both the Town and the fair complex committee overlooked that the agreement had expired on June 30, 2010, and a new agreement needed to be executed for the fiscal year ended June 30, 2011.

Recommendation – We recommend the Town ensure that JPAs and MOAs for the current fiscal year are properly executed. In order to avoid this problem in future years, we recommend Town establish administrative procedures to ensure that all JPAs and MOAs are legally executed for each fiscal year.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor’s recommendations. Procedures will be implemented to ensure that all agreements are properly and legally executed.

COMPONENT UNIT

Item CU2010-02 – Other - Travel and Per Diem

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was one transaction, as it was the only transaction for the fiscal year, and contained the following discrepancy:

- We noted an instance of where the executive director was paid an advance of 100% for actual expenses for meals totaling \$60. There was no reconciliation of actual expenses upon return from travel.

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 2.42.2.10A states, “*Upon written request accompanied by a travel voucher, governing board of local public bodies may approve an employee’s request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals...*”

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

COMPONENT UNIT (continued)

Item CU2010-02 – Other - Travel and Per Diem (continued)

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

Cause – The Board of Commissioners were not aware of a maximum allowed by the New Mexico Mileage and Per Diem Act for travel advanced.

Recommendation – We recommend the Authority review the Travel and Per Diem Act concerning travel advances and all aspects of the Act. We recommend Authority staff reevaluate their internal control procedures over the calculation of advanced and reimbursement amounts for employee travel and per diem.

Views of Responsible Officials and Planned Corrective Actions – Housing Authority staff and Commissioners have already implemented a “Travel Request and Reimbursement Form” to help prevent future errors. This form was presented to the auditor for review at the time of the one finding. In the future, the Travel and Per Diem Act will be referred to before reimbursements occur. This, along with the “Travel Request and Reimbursement Form”, should correct future errors.

STATUS OF PRIOR YEAR’S AUDIT FINDINGS – PRIMARY GOVERNMENT

Item 2008-02 – Credit Card Usage – In the prior year’s audit report, we noted several discrepancies regarding credit card purchases including the retention of proper documentation to substantiate purchases. We noted the Town incurred travel expenditures and failed to retain travel and per diem documentation. During the current fiscal year, we noted similar discrepancies regarding the use of the Town’s credit cards. The prior year’s finding is not considered resolved. The prior year’s finding has been modified and repeated as Item 2008-02.

Item 2008-03 – Audit Report – In the prior year’s audit report, we noted the audit report for the fiscal year ended June 30, 2010 was not submitted to the office of the New Mexico State Auditor on a timely basis. The audit report, for the fiscal year ended June 30, 2011, was submitted to the office of the New Mexico State Auditor on a timely basis. The prior year’s finding has been resolved.

Item 2009-04 – Internal Control over Financial Reporting – In the prior year’s audit report, we noted that individuals responsible for the accounting and financial reporting functions for the Town, lacks the skills and knowledge to apply generally accepted accounting principles in preparing the Town’s financial statement. The Town has made changes in personnel and provided continuing governmental accounting and reporting education for the accounting staff; however, they have not reached a level of knowledge in order to resolve the finding. Therefore, the finding has been modified and repeated as Item 2009-04.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

STATUS OF PRIOR YEAR'S AUDIT FINDINGS – PRIMARY GOVERNMENT (continued)

Item 2009-08 – Capital Assets Subsidiary Records – In the prior year's audit report, we noted the Town 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 year, we noted the same weaknesses in the capital assets subsidiary records. We also noted the Town's staff failed to perform a physical inventory of all capital assets owned by the Town as of June 30, 2011. The prior year's audit finding has been modified and repeated as Item 2009-08.

Item 2010-01 – Prison Facility – In the prior year's audit report, we noted the Town did not comply with certain legal documents regarding the prison facility bonds issued in September 2006. The Town is obtaining clarification from the bond attorney regarding some of the issues raised within the audit finding. Since the items have not been clarified, the Town has not taken any action to resolve the audit finding; therefore, the audit finding has been modified and repeated as Item 2010-01.

Item 2010-02 – Allocation of Interest Bearing Bank Deposits – In the prior year's audit report, we noted the Town failed to adhere to New Mexico state statutes regarding the allocation of interest bearing accounts deposited with financial institutions located within the Town. The Town attempted to correct the deficiency; however, the calculation the Town used contained errors and amounts allocated with the financial institutions failed to meet state statutes. The prior year's audit finding has been modified and repeated as Item 2010-02.

Item 2010-03 – Travel and Per Diem – In the prior year's audit report, we noted several errors in the reimbursement of travel related expenses to the Board of Trustee members and employees of the Town. During the current year, we noted similar errors; therefore, the audit finding has been modified and repeated as Item 2010-03.

STATUS OF PRIOR YEAR'S AUDIT FINDINGS – COMPONENT UNIT

Item CU2007-03 – Tenant Eligibility – In the previous year's audit report, it was noted the tenant files did not contain all of the information required by the United States Department of Housing and Urban Development. During the current year, our audit tests did not reveal any errors in regards to record retention. The finding has been resolved.

Item CU2010-01 – FY 2008 – 2009 Audit Report Discussion – In the previous year's audit report, it was noted that the Authority discussed the audit report, prior to the approval and release by the New Mexico State Auditor's office, in a public meeting. During the fiscal year, the Authority did not discuss the audit report prior to approval and release by the New Mexico State Auditor's office. This finding is considered resolved.

Item CU2010-02 – Travel and Per Diem – In the previous year's audit report, it was noted the Authority failed to follow the requirements of the Mileage and Per Diem Act for reimbursement of employee travel expenses. During the fiscal year, the Authority failed to make the necessary adjustments concerning the Mileage and Per Diem Act. This finding has been modified and is repeated as Item 2010-02.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

STATUS OF PRIOR YEAR'S AUDIT FINDINGS – COMPONENT UNIT (continued)

Item CU2010-03 – Budget Authority – In the previous year's audit report, it was noted that the Authority expended funds in excess of their authorized budget within the Low Rent Fund. During the fiscal year, the Authority monitored their budget closely and made the necessary budgetary adjustments resolutions to ensure the Authority did not expend more than their authorized budget. This finding is considered resolved.

STATE OF NEW MEXICO
TOWN OF CLAYTON
EXIT CONFERENCE AND
PREPARATION OF FINANCIAL STATEMENTS
JUNE 30, 2011

The audit report for the fiscal year ended June 30, 2011, was discussed during the exit conference held on November 23, 2011. Present for the Town was Jack Chosvig, mayor; Ferron Lucero, Town manager; Karen Bray, Town clerk; and Amber Painter, Town treasurer. Present for the auditing firm was Ed Fierro, CPA.

PUBLIC HOUSING AUTHORITY
EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2011, was discussed during the exit conference held on November 23, 2011. Present for the Public Housing Authority was Carlota Ulibarri, chairperson; and Angela Lucero, executive director. Present for the auditing firm was Ed Fierro, CPA.

FINANCIAL STATEMENT PREPARATION

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the financial statements of the Town of Clayton as of June 30, 2011. The Town's along with the Housing Authority's upper management have reviewed and approved the financial statements and related notes, and they believe that the Town's and the Housing Authority's books and records adequately support them.