

**STATE OF NEW MEXICO
TOWN OF CLAYTON**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2012

STATE OF NEW MEXICO
TOWN OF CLAYTON
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June 30, 2012

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STATE OF NEW MEXICO
TOWN OF CLAYTON
Directory of Officials
June 30, 2012

ELECTED OFFICIALS

Jack Chosvig	Mayor
Coby Beckner	Mayor Pro-Tem
Deano Arellano	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
Lonnie Wiseman	Vice-Chairperson
Jeff Harris	Commissioner
Rick Hood	Commissioner
Ilene Taylor	Commissioner

ADMINISTRATION

Angela Lucero	Executive Director
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www.fierrocpa.comIndependent Auditors' ReportHector 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 comparisons for the general fund and major special revenue fund of the Town of Clayton as of and for the year ended June 30, 2012, 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 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, 2012, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Clayton as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of each nonmajor governmental funds of the Town of Clayton, as of June 30, 2012, 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, 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, 2012, in conformity with the budgetary basis of accounting more fully described in Note 1D, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, 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.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and, the combining and individual fund financial statements and the budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, is not a required part of the financial statements. The additional schedules listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fierro + Fierro, P.A.

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

October 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The following is an overview of the financial condition for the Town of Clayton, New Mexico (Town), for the fiscal year ended June 30, 2012. 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 \$22,690,112 at June 30, 2012. As a result of operations, the Town increased its net assets during the current year by \$697,348.
- Current unrestricted assets at June 30, 2012 totaled \$2,750,047. Current liabilities, including the current portion of long-term liabilities at June 30, 2012, amounted to \$668,101.
- During the fiscal year, the Town's governmental activities expended \$820,519 for capital assets. The business-type activities increased its capital assets by \$841,474.
- Investment in capital assets for the Town totaled \$21,338,391 net of accumulated depreciation at June 30, 2012. These capital assets included land, construction in progress, buildings, improvements, infrastructure, utility system, airport infrastructure and equipment.
- During the current year, the Town remitted \$236,350 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, 2012

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 seventeen and eighteen 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, senior citizens 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Governmental Funds (continued)

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

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

Proprietary Funds

The Town maintains one type of proprietary fund. 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-five through twenty-seven 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-eight through fifty-four 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 fifty-five and fifty-six of this report.

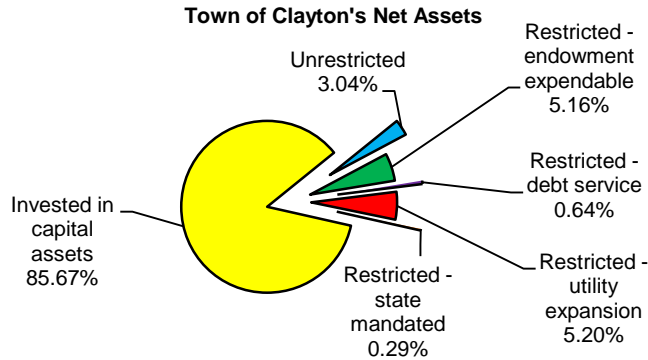
Government-Wide Financial Analysis

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 \$22,690,112 at the close of the most recent fiscal year. The Town's component unit – Public Housing Authority's net assets exceeded liabilities by \$1,370,232. Eighty-six 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 \$22,690,112 at June 30, 2012, \$19,437,262 is invested in capital assets, and \$2,564,010 is restricted for debt service, state mandates, expendable endowment, and utility expansion. At fiscal year-end, unrestricted net assets were \$688,840. Overall, the Town has increased its net assets by \$697,348 during the current fiscal year.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-Wide Financial Analysis (continued)



	Governmental Activities		Business-Type Activities		Total	
	06/30/12	06/30/11	06/30/12	06/30/11	06/30/12	06/30/11
Assets:						
Current and other assets	\$ 2,731	\$ 3,393	\$ 2,483	\$ 2,235	\$ 5,214	\$ 5,628
Capital assets, net of accumulated depreciation	8,891	8,501	12,447	11,962	21,338	20,463
Total assets	11,622	11,894	14,930	14,197	26,552	26,091
Liabilities:						
Current liabilities	363	418	306	233	669	651
Long-term liabilities	382	508	2,812	2,939	3,194	3,447
Total liabilities	745	926	3,118	3,172	3,863	4,098
Net Assets:						
Invested in capital assets, net of related debt	8,418	7,876	11,019	11,667	19,437	19,543
Restricted:						
Debt service	33	38	112	112	145	150
State mandated	66	71	-	-	66	71
Expendable endowment	1,172	1,167	-	-	1,172	1,167
Utility expansion	-	-	1,180	1,179	1,180	1,179
Unrestricted	1,188	1,816	(499)	(1,933)	689	(117)
Total net assets	\$ 10,877	\$ 10,968	\$ 11,812	\$ 11,025	\$ 22,689	\$ 21,993

Unrestricted governmental activities cash balances changed from \$1,735,324 at June 30, 2011 to \$1,217,627 at June 30, 2012, a net decrease of \$517,697. In the general fund, cash decreased by \$206,931 from 2011 to 2012. The decrease was due to expenditures exceeding revenues. The main reason for the decrease was the Town received less tax revenues than projected, partly because construction on major projects did not begin in the fiscal year as expected. Governmental activities capital assets increased from \$8,500,657 on June 30, 2011 to \$8,891,027 on June 30, 2012. During the current year, the Town increased governmental activities construction in progress by \$711,423.

STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Government-Wide Financial Analysis (continued)

Although there were no projects completed during the fiscal year, many municipal projects were in the design and planning phase or near completion. Those projects include the Senior Citizens building addition and new fire suppressant stove hood, the Luna Theater code compliance building renovation, airport runway pavement improvements, and installation of the new airport fuel farm. Equipment purchased included a new ambulance and a new vehicle.

Within the business-type activities, cash decreased by \$156,253 at June 30, 2012, when compared to June 30, 2011. During the current fiscal year, operating revenues provided \$235,336; non-capital and financing activities provided \$157,559; and investing activities provided \$7,266. During the current year, \$556,414 was used for capital and related financing activities.

	Governmental Activities		Business-Type Activities		Total	
	06/30/12	06/30/11	06/30/12	06/30/11	06/30/12	06/30/11
Revenues:						
Program revenues:						
Charges for services	\$ 426	\$ 487	\$ 1,189	\$ 1,152	\$ 1,615	\$ 1,639
Operating grants	1,179	1,044	-	-	1,179	1,044
Capital grants	632	735	733	-	1,365	735
General revenues:						
Gross receipts taxes	1,322	1,422	118	125	1,440	1,547
Property taxes	132	117	-	-	132	117
Lodgers' taxes	123	117	-	-	123	117
Franchise taxes	76	73	-	-	76	73
Public service taxes	81	85	-	-	81	85
Interest income	13	17	9	6	22	23
Donations	1	2	-	-	1	2
Insurance recoveries	-	-	-	37	-	37
Special item:						
Gain (Loss) on sale of assets	(8)	3	-	5	(8)	8
Total revenues	3,977	4,102	2,049	1,325	6,026	5,427
Expenses:						
General government	796	739	-	-	796	739
Public safety	2,098	2,059	-	-	2,098	2,059
Public works	548	484	-	-	548	484
Culture and recreation	392	393	-	-	392	393
Health and welfare	177	192	-	-	177	192
Water	-	-	663	717	663	717
Wastewater	-	-	287	319	287	319
Solid waste	-	-	297	290	297	290
Interest on long-term debt	23	18	48	50	71	68
Total expenses	4,034	3,885	1,295	1,376	5,329	5,261
Transfers	(34)	(33)	34	33	-	-
Increase (decrease) in net assets	\$ (91)	\$ 184	\$ 788	\$ (18)	\$ 697	\$ 166

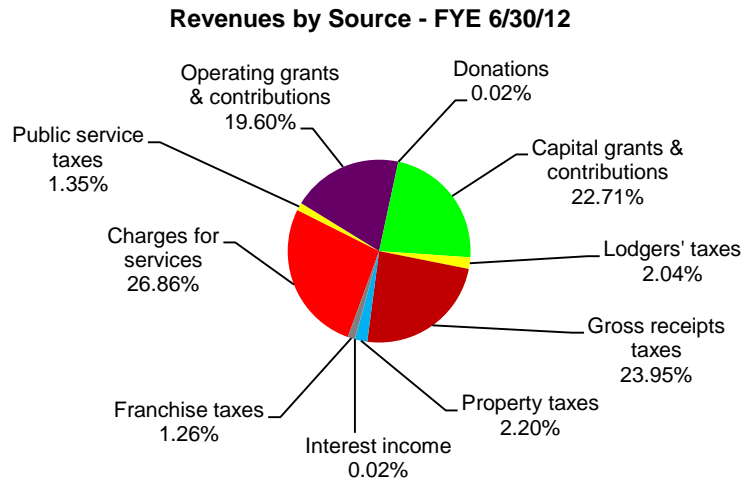
**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-Wide Financial Analysis (continued)

When comparing the statement of activities between both fiscal years, there is a significant decrease in the overall capital grant revenues in the governmental activities. The public safety activity grants revenue decrease of \$98,213 between the two years is attributable to the fact that projects have not been completed. Currently, the Town is installing a new dispatch console at the police department, a new airport fuel farm, airport pavement rehabilitation, and the snow removal equipment building at the airport. Of these projects, the airport projects are nearing completion. Public works capital grant revenues decreased from \$317,265 at June 30, 2011 to zero in the current fiscal year. The Town completed Dr. Michael Jenkins Road and Walnut Street projects in the 2011 fiscal year. Culture and recreation capital grant revenues increased by \$100,038 for phase two of the Luna Theater code compliance building renovation. Finally, health and welfare capital grant revenues increased \$212,464 for the building addition at the Senior Center. All of these projects combined resulted in an overall decrease of \$155,765 in capital grant revenues in the governmental activities. 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.

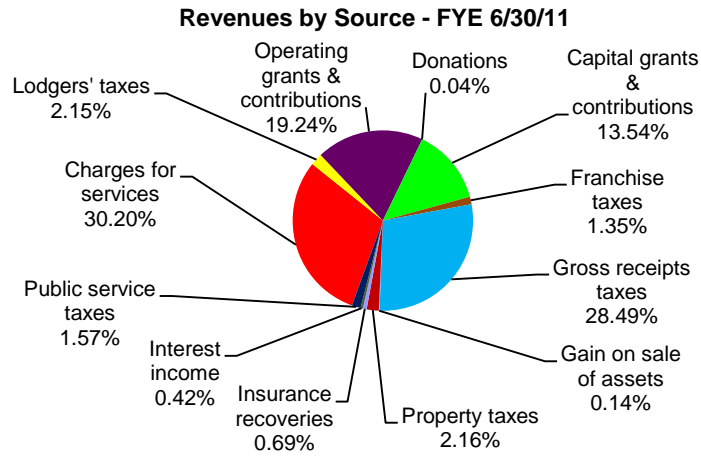
There is a significant increase in these revenues in the business-type activities in the most recent fiscal year. In the business-type activities, the capital grant revenues totaled \$733,218 for the fiscal year ended June 30, 2012, while no capital grants revenues were received during the prior fiscal year. A large portion of the capital grants was provided by Community Development Block Grant (CDBG) project for the refurbishment of a water storage tank for the municipality. At the fiscal year end, the project was near completion funded by revenues of \$506,820. Other grant revenues received were to fund engineering on the wastewater reuse project and the line extensions for the industrial park. Those revenues amounted to \$226,398.

During 2012, governmental activities expenses were \$4,032,484, an increase of \$146,997 from the previous year of \$3,885,487. The largest increase in expenses when comparing one fiscal year to the other, was in public works in the amount of \$63,075 due to various operating expenditures primarily in the street department.

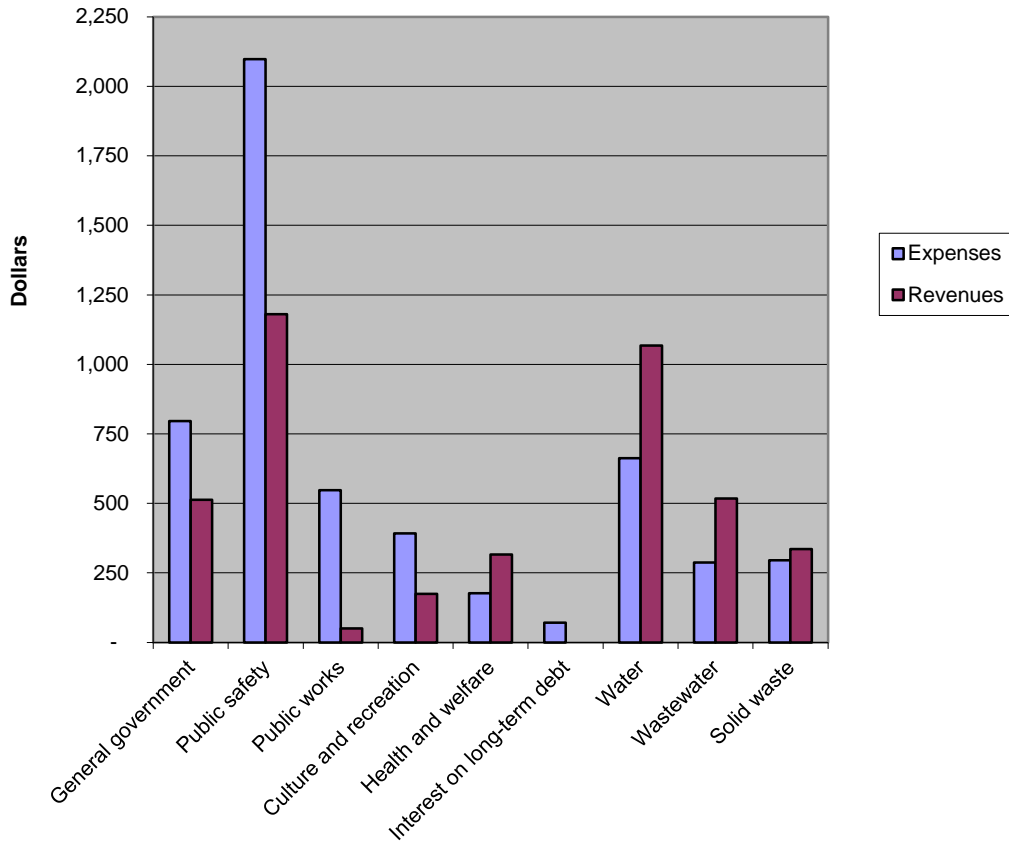


**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-Wide Financial Analysis (continued)



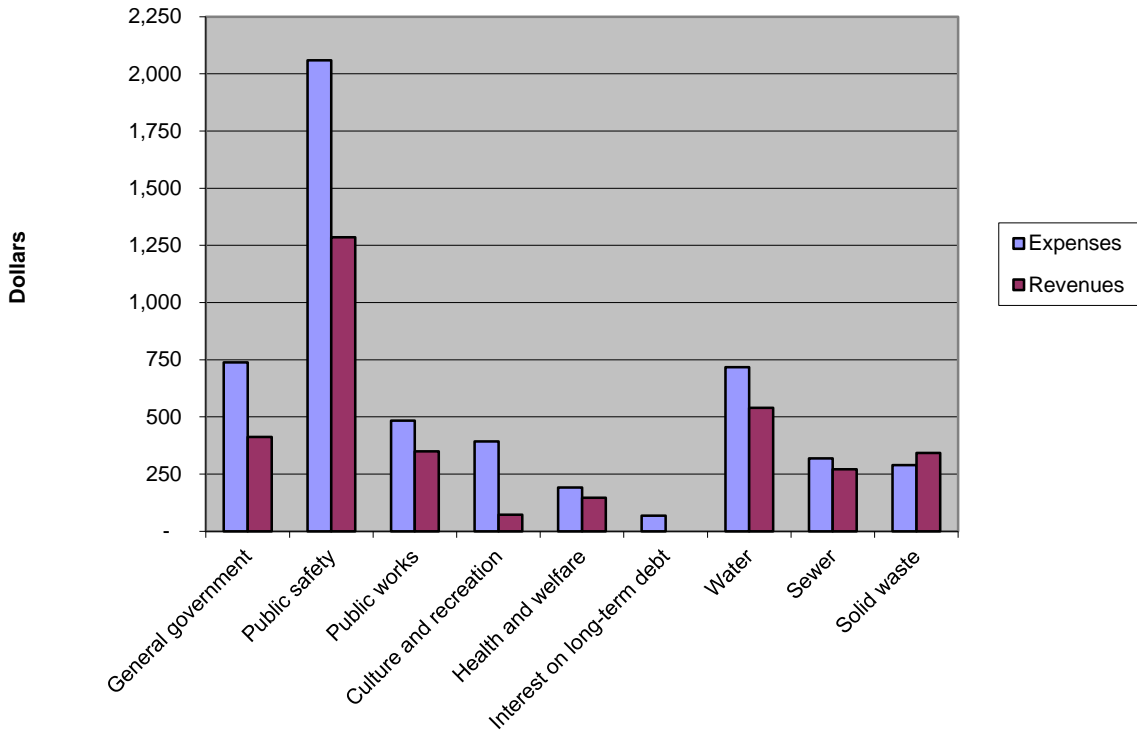
**Expenses & Program Revenues - FYE 06/30/12
(in thousands)**



**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-Wide Financial Analysis (continued)

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



Financial Analysis of the Town's Funds

Governmental Funds

Within the general fund at June 30, 2012, cash is reflected as \$474,227. This is a decrease of \$206,931 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 \$295,181. Total assets in the general fund decreased \$415,278 from 2011 to 2012. This was due to the deficiency of revenues over expenditures and the decrease in receivables. Receivables decreased a total of \$204,124, which consisted in part to a 2010 grant revenue that was not received until July 2011 in the amount of \$107,000 for a fire truck. The remainder was because of a decrease in gross receipts tax revenues as a result of amended returns filed with NM Taxation and Revenue Department. Total liabilities in the general fund decreased in 2012 when compared to 2011 by \$120,097. This majority of this decrease is attributable to reduced accounts payable and interfund loans at the end of the current year. In the current fiscal year, the senior citizens fund is considered a major fund, while in the previous year, it was considered a nonmajor fund.

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 senior citizens fund, total assets increased \$53,374 from \$11,939 at June 30, 2011. This increase is attributable to the outstanding grant revenues at fiscal year-end for the completion of the new stove hood and building addition. Total liabilities increased from \$6,263 to \$56,121 from 2011 to 2012. During the current fiscal year, the fund increased its interfund loan borrowing cash from the municipal income permanent fund in order to fund the purchase of equipment and for the building addition.

In the municipal income permanent fund, due from other funds decreased by \$31,921 and there was an increase in restricted cash of \$36,347. This was due to the payback of cash that was due from other funds, and the result of operations.

During the current fiscal year, general fund revenues amounted to \$2,400,539, which is a decrease of \$75,517 when compared to the prior fiscal year. Gross receipts tax revenues decreased by \$91,209 because projects did not get started in the fiscal year as originally expected. Intergovernmental revenues increased by \$68,458. This increase is accounted for mostly in the NM Department of Homeland Security funding for the joint communications emergency dispatch console upgrade. That funding amounted to \$52,789 in additional revenues. General fund charges for services revenues decreased by \$45,525. This is due mostly in part to a decrease in ambulance revenues.

Within the general fund, expenditures increased from \$2,687,920 to \$2,851,582, a net change of \$163,662 from 2011 to 2012. In general government, expenditures increased by \$77,665 which is due to an increase in payments to the town attorney and other professional services. Public safety expenditures increased by \$50,046. This is mostly due to additional expenses with the EMS and Fire Department. Finally, capital outlay expenditures increased by \$35,525 in 2012 due mostly to the vehicle purchased in the administrative department.

In the senior citizens fund, revenues increased \$172,252 from the prior fiscal year. The majority of this increase was in intergovernmental revenues in the amount of \$172,587 to fund the new stove hood project and building addition at the senior center. Total expenditures increased by \$200,041 due to the new stove hood project and the building addition.

General Fund Budgetary Highlights

During the 2012 fiscal year, the Town budgeted \$3,025,533 in general fund revenues. The actual revenues for the year were \$2,684,144, an unfavorable variance of \$341,389. This variance is due mostly in part to gross receipts tax (GRT) revenues and charges for services revenues being under budget.

GRT revenues were under budget by \$224,714. This is due to a decrease in infrastructure revenues that were expected to increase. Those revenues were over budgeted due to projects that were expected to be under way by fiscal year-end. Charges for services were under budget by \$97,532 of which the majority is due to the decrease in expected ambulance revenues.

During the year, total general fund expenditures were budgeted at \$3,309,650. Actual expenditures at year-end were \$2,940,794, a favorable variance of \$368,856. General government expenditures were under budget by \$88,920. The factors contributing to this favorable variance include decreases in administrative services, administrative salaries, and buildings and maintenance salaries.

**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)

General Fund Budgetary Highlights (continued)

Public safety expenditures were under budget by \$165,547 mostly due to a reduction of salaries expenditures in both the police department and fire department. Joint communications salaries were lower than expected, as were expenditures for the emergency dispatch console. Also, fuel expense was down in the police department as compared to what was expected.

Capital outlay expenditures were under budget by \$107,856 for the fiscal year. Most of this is attributable to the emergency dispatch console which was not completed and paid for by fiscal year-end as expected.

Capital Assets and Debt Administration

Capital Assets

The Town's investment in capital assets for the government as of June 30, 2012, amounts to \$21,338,391 (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 had a few projects under way but none of them were completed and capitalized at fiscal year-end.
- During the fiscal year, the Town purchased a new ambulance for \$68,500 and a new furnace/AC unit at Fire Station 1 which totaled \$9,708.
- The Town also purchased a new vehicle in the amount of \$24,495 and an entry building at the fairgrounds which totaled \$6,393.
- In the business-type activities, the town purchased a new muffin monster for the jail system for \$17,954 and a new mower for \$5,839.

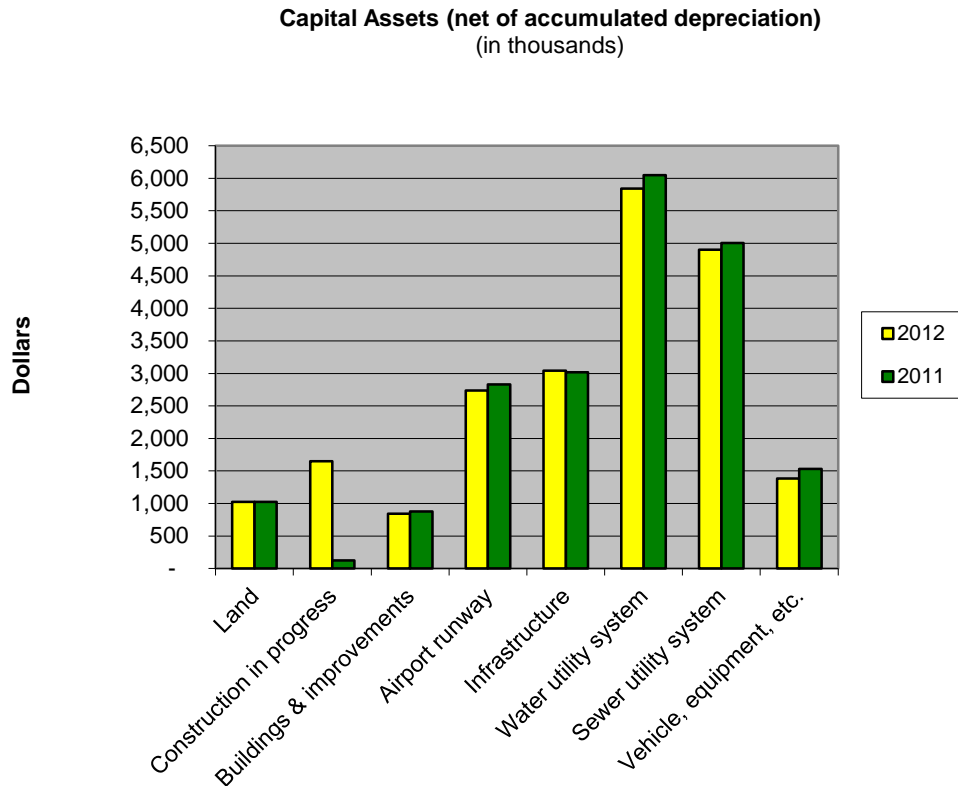
	Governmental Activities		Business-Type Activities		Total	
	06/30/12	06/30/11	06/30/12	06/30/11	06/30/12	06/30/11
Land	\$ 279	\$ 279	\$ 746	\$ 746	\$ 1,025	\$ 1,025
Construction in progress	796	85	856	39	1,652	124
Buildings & improvements	845	879	-	-	845	879
Airport runway	2,736	2,832	-	-	2,736	2,832
Infrastructure	2,954	3,017	-	-	2,954	3,017
Water utility system	-	-	5,841	6,050	5,841	6,050
Sewer utility system	-	-	4,903	5,005	4,903	5,005
Vehicles, equipment and other assets	1,281	1,409	101	122	1,382	1,531
Total	\$ 8,891	\$ 8,501	\$ 12,447	\$ 11,962	\$ 21,338	\$ 20,463

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Financial Analysis of the Town's Funds (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)



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

Long-Term Debt

At the end of the current year, the Town had total debt outstanding of \$3,599,922, which consists of notes, lease purchases, compensated absences, and post-closure landfill obligation. The state of New Mexico Constitution provides for a legal limit of four percent (4.0%) of taxable valuation for general obligation bonds. The taxable value of property in the Town of Clayton in 2011 was \$26,506,416. The Town may currently issue up to \$1,060,257 in general obligation bonds. At the present time, the Town does not have any general obligation bonds.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

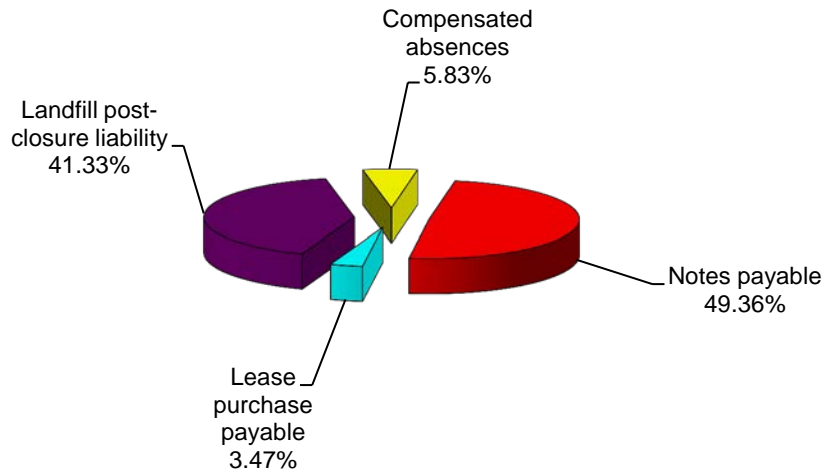
Financial Analysis of the Town's Funds (continued)

Capital Assets and Debt Administration (continued)

Long-Term Debt (continued)

	Long-Term Debt (In Thousands)					
	Governmental Activities		Business-Type		Total	
	06/30/12	06/30/11	06/30/12	06/30/11	06/30/12	06/30/11
Notes payable	\$ 349	\$ 455	\$ 1,428	\$ 1,513	\$ 1,777	\$ 1,968
Lease purchase payable	125	170	-	-	125	170
Landfill post-closure liability	-	-	1,488	1,524	1,488	1,524
Compensated absences	158	138	52	69	210	207
Totals	\$ 632	\$ 763	\$ 2,968	\$ 3,106	\$ 3,600	\$ 3,869

Outstanding Long-Term Debt
June 30, 2012



STATE OF NEW MEXICO
TOWN OF CLAYTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Financial Analysis of the Town's Funds (continued)

Economic Factors and Next Year's Budgets and Rates

Factors considered by the Town's administration in the development of fiscal year 2012-2013 budget revolve around local economic conditions. Economic recovery in Clayton and Union County has been marginal at best which is reflected in the 2012 general fund revenues received as compared to 2011; calculated comparison reflects an increase of 12%. The Town continues to experience requests from New Mexico Taxation and Revenue Department for refunds of GRT's due to amended returns. This ambiguity along with uncertainties related to what may occur during the legislative session present difficulties in budget preparation requiring the Town to maintain a flat budget.

The town's infrastructure remains a high priority. New debt will be issued for the extension of the waste water treatment plant. Rate structures will be re-evaluated during this budget cycle to insure debt service requirements and capital reserves are maintained while providing the basic services to the citizens of the community.

The Town's financial position remains strong; however fund balances continue to be reduced to meet operational requirements. This trend has been recognized and deeper cuts in expenses may be required should the trend continue.

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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash	\$ 1,217,627	\$ 554,406	\$ 1,772,033	\$ 152,026
Receivables, net	358,336	619,678	978,014	25,099
Inventory	-	-	-	15,268
Prepaid expenses	-	-	-	4,714
Restricted cash	1,121,620	-	1,121,620	7,550
Restricted investments	33,580	1,292,277	1,325,857	-
Capital assets:				
Land and construction in progress	1,074,834	1,602,314	2,677,148	114,721
Other capital assets, net of depreciation	7,816,193	10,845,050	18,661,243	1,098,376
Total capital assets	8,891,027	12,447,364	21,338,391	1,213,097
Unamortized debt issuance costs	-	16,844	16,844	-
Total assets	11,622,190	14,930,569	26,552,759	1,417,754
Liabilities				
Bank overdraft	35,941	-	35,941	-
Accounts payable	39,760	121,216	160,976	33,196
Accrued salaries	28,535	5,260	33,795	2,565
Accrued payroll taxes	3,473	669	4,142	-
Accrued sales tax	187	4,239	4,426	-
Accrued interest payable	5,339	7,708	13,047	-
Deposits payable	-	10,398	10,398	7,750
Deferred revenues	-	-	-	2,736
Long-term liabilities:				
Due within one year	249,119	156,257	405,376	1,475
Due in more than one year	382,446	2,812,100	3,194,546	-
Total liabilities	744,800	3,117,847	3,862,647	47,722
Net Assets				
Invested in capital assets, net of related debt	8,417,756	11,019,506	19,437,262	1,213,097
Restricted for:				
Debt service	33,509	112,512	146,021	-
State mandated per statutes	66,607	-	66,607	-
Endowment:				
Expendable	1,171,617	-	1,171,617	-
Utility expansion	-	1,179,765	1,179,765	-
Unrestricted	1,187,901	(499,061)	688,840	157,135
Total net assets	\$ 10,877,390	\$ 11,812,722	\$ 22,690,112	\$ 1,370,232

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, 2012**

Functions/Programs	Expenses	Program Revenues			Primary Government Net (Expenses) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 795,716	\$ 18,299	\$ 494,491	\$ -	\$ (282,926)	\$ -	\$ (282,926)	
Public safety	2,097,737	364,449	547,290	269,507	(916,491)	-	(916,491)	
Public works	547,548	430	49,921	-	(497,197)	-	(497,197)	
Culture and recreation	392,192	11,771	13,679	150,019	(216,723)	-	(216,723)	
Health and welfare	176,645	30,605	73,269	212,464	139,693	-	139,693	
Interest on long-term debt	22,646	-	-	-	(22,646)	-	(22,646)	
Total governmental activities	4,032,484	425,554	1,178,650	631,990	(1,796,290)	-	(1,796,290)	
Business-type activities:								
Water	662,623	561,342	-	506,820	-	405,539	405,539	
Wastewater	287,245	291,498	-	226,398	-	230,651	230,651	
Solid waste	296,494	336,399	-	-	-	39,905	39,905	
Interest on long-term debt	48,377	-	-	-	-	(48,377)	(48,377)	
Total business-type activities	1,294,739	1,189,239	-	733,218	-	627,718	627,718	
Total primary government	\$ 5,327,223	\$ 1,614,793	\$ 1,178,650	\$ 1,365,208	(1,796,290)	627,718	(1,168,572)	
Component Unit:								
Public Housing Authority	\$ 367,083	\$ 153,838	\$ 120,227	\$ 95,435				2,417
General Revenues:								
Gross receipts taxes					1,321,583	118,151	1,439,734	-
Property taxes, levied for general purposes					132,237	-	132,237	-
Lodgers' taxes					122,799	-	122,799	-
Franchise taxes					75,634	-	75,634	-
Public service taxes					80,953	-	80,953	-
Interest income					13,385	8,517	21,902	403
Donations					1,035	-	1,035	-
Special Item - Gain on sale of assets					(8,374)	-	(8,374)	-
Transfers					(33,504)	33,504	-	-
Total general revenues, special items, and transfers					1,705,748	160,172	1,865,920	403
Change in net assets					(90,542)	787,890	697,348	2,820
Net assets, beginning of year					10,967,932	11,024,832	21,992,764	1,367,412
Net assets, end of year					\$ 10,877,390	\$ 11,812,722	\$ 22,690,112	\$ 1,370,232

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, 2012**

	General Fund	Senior Citizens Fund	Municipal Income Permanent Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 474,227	\$ 50	\$ -	\$ 743,350	\$ 1,217,627
Receivables, net	232,960	65,263	-	60,113	358,336
Due from other funds	-	-	49,997	-	49,997
Restricted:					
Cash	-	-	1,121,620	-	1,121,620
Investments	62	-	-	33,518	33,580
Total assets	\$ 707,249	\$ 65,313	\$ 1,171,617	\$ 836,981	\$ 2,781,160
LIABILITIES AND FUND BALANCES					
Liabilities:					
Bank overdraft	\$ 35,941	\$ -	\$ -	\$ -	\$ 35,941
Accounts payable	16,554	4,718	-	18,488	39,760
Accrued salaries	23,886	1,406	-	3,243	28,535
Accrued payroll taxes	3,054	-	-	419	3,473
Accrued sales taxes	-	-	-	187	187
Due to other funds	-	49,997	-	-	49,997
Deferred revenues	13,909	-	-	-	13,909
Total liabilities	93,344	56,121	-	22,337	171,802
Fund Balances:					
Restricted for:					
Debt service	-	-	-	33,509	33,509
State mandated per statutes	-	-	-	66,607	66,607
Expendable endowment	-	-	1,171,617	-	1,171,617
Committed for:					
Perpetual care	-	-	-	131,506	131,506
One twelfth budget reserve	237,694	-	-	-	237,694
Subsequent years' expenditures	124,802	-	-	209,101	333,903
Assigned	-	9,192	-	375,110	384,302
Unassigned	251,409	-	-	(1,189)	250,220
Total fund balances	613,905	9,192	1,171,617	814,644	2,609,358
Total liabilities and fund balances	\$ 707,249	\$ 65,313	\$ 1,171,617	\$ 836,981	\$ 2,781,160

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, 2012

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

Total fund balance governmental funds (page nineteen)	\$	2,609,358
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		8,891,027
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.		13,909
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.		(5,339)
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>(631,565)</u>
Net assets of governmental activities (page seventeen)	\$	<u><u>10,877,390</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, 2012

	General Fund	Senior Citizens Fund	Municipal Income Permanent Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Gross receipts taxes	\$ 1,166,993	\$ -	\$ -	\$ 154,590	\$ 1,321,583
Property taxes	123,638	-	-	-	123,638
Franchise taxes	75,634	-	-	-	75,634
Lodgers' taxes	-	-	-	122,799	122,799
Public service taxes	-	-	-	80,953	80,953
Intergovernmental:					
Federal	52,789	21,156	-	110,557	184,502
State	622,427	264,577	-	739,134	1,626,138
Charges for services	269,596	28,681	-	11,423	309,700
Licenses and permits	11,014	-	-	-	11,014
Fines and forfeitures	75,490	-	-	29,350	104,840
Interest	2,938	-	4,426	6,021	13,385
Miscellaneous	20	-	-	1,015	1,035
Total revenues	2,400,539	314,414	4,426	1,255,842	3,975,221
Expenditures:					
Current:					
General government	769,456	-	-	1,847	771,303
Public safety	1,566,626	-	-	262,190	1,828,816
Public works	59,677	-	-	388,603	448,280
Culture and recreation	232,531	-	-	135,487	368,018
Health and welfare	-	161,465	-	4,438	165,903
Capital outlay	197,917	212,413	-	410,189	820,519
Debt service:					
Principal	25,375	-	-	126,009	151,384
Interest and other charges	-	-	-	21,961	21,961
Total expenditures	2,851,582	373,878	-	1,350,724	4,576,184
Excess (deficiency) of revenues over expenditures	(451,043)	(59,464)	4,426	(94,882)	(600,963)
Other Financing Sources (Uses):					
Transfers in	288,199	62,980	-	51,312	402,491
Transfers (out)	(146,423)	-	-	(289,572)	(435,995)
Total other financing sources (uses)	141,776	62,980	-	(238,260)	(33,504)
Special Item:					
Sale of assets	14,086	-	-	-	14,086
Net change in fund balances	(295,181)	3,516	4,426	(333,142)	(620,381)
Fund balances, beginning of year	909,086	5,676	1,167,191	1,147,786	3,229,739
Fund balances, end of year	\$ 613,905	\$ 9,192	\$ 1,171,617	\$ 814,644	\$ 2,609,358

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, 2012

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

Net change in fund balances - total governmental funds (page twenty-one)	\$	(620,381)
<p>Governmental funds report capital outlay as expenditures in the amount of \$820,519; 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 \$407,689. The net adjustment is \$412,830.</p>		
		412,830
<p>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, 2011, deferred property taxes amount to \$5,310. The deferred property taxes for the current fiscal year amounted to \$13,909; therefore, the net adjustment is \$8,599.</p>		
		8,599
<p>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.</p>		
		(685)
<p>The Town removed capital assets that were sold or disposed and had a remaining book value. The amount charged to the accounts did not consume financial resources within the governmental funds; however, that amount decreased the gross proceeds producing an expense on the on the statement of activities.</p>		
		(22,460)
<p>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.</p>		
		151,384
<p>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.</p>		
		<u>(19,829)</u>
Change in net assets of governmental activities (page eighteen)	\$	<u><u>(90,542)</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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ 1,471,600	\$ 1,471,600	\$ 1,246,886	\$ (79,893)	\$ 1,166,993	\$ (224,714)
Property taxes	129,960	129,960	129,150	(5,512)	123,638	(810)
Franchise taxes	93,600	93,600	76,001	(367)	75,634	(17,599)
Intergovernmental	643,421	826,001	822,381	(147,165)	675,216	(3,620)
Charges for services	298,400	298,400	200,868	68,728	269,596	(97,532)
Licenses and permits	7,400	7,400	11,014	-	11,014	3,614
Fines and forfeitures	73,000	73,000	75,490	-	75,490	2,490
Interest	13,000	13,000	3,150	(212)	2,938	(9,850)
Miscellaneous	5,400	112,572	119,204	(119,184)	20	6,632
Total revenues	2,735,781	3,025,533	2,684,144	(283,605)	2,400,539	(341,389)
Expenditures:						
Current:						
General government	852,752	992,136	903,216	(133,760)	769,456	88,920
Public safety	1,679,814	1,702,624	1,537,077	29,549	1,566,626	165,547
Public works	58,931	58,931	60,338	(661)	59,677	(1,407)
Culture and recreation	240,356	241,556	233,616	(1,085)	232,531	7,940
Capital outlay	145,133	314,403	206,547	(8,630)	197,917	107,856
Debt service:						
Principal	-	-	-	25,375	25,375	-
Total expenditures	2,976,986	3,309,650	2,940,794	(89,212)	2,851,582	368,856
(Deficiency) of revenues over expenditures	(241,205)	(284,117)	(256,650)	(194,393)	(451,043)	27,467
Other Financing Sources (Uses):						
Transfers in	320,120	320,120	294,988	(6,789)	288,199	(25,132)
Transfers (out)	(139,268)	(148,105)	(153,212)	6,789	(146,423)	(5,107)
Total other financing sources (uses)	180,852	172,015	141,776	-	141,776	(30,239)
Special Item:						
Proceeds from sale of capital assets	42,000	42,000	14,086	-	14,086	(27,914)
Net change	(18,353)	(70,102)	(100,788)	\$ (194,393)	\$ (295,181)	(30,686)
Cash balance, beginning of year	681,158	681,158	681,158			-
Interfund loan	-	-	(142,084)			(142,084)
Bank overdraft	-	-	35,941			35,941
Cash balance, end of year	<u>\$ 662,805</u>	<u>\$ 611,056</u>	<u>\$ 474,227</u>			<u>\$ (136,829)</u>
Explanation of Differences:						
Change in receivables				\$ (204,124)		
Change in investments				(4,223)		
Change in accounts payable				30,473		
Change in accrued salaries				(7,849)		
Change in accrued payroll taxes				(71)		
Change in deferred revenues				(8,599)		
				<u>\$ (194,393)</u>		

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

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

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 261,718	\$ 315,696	\$ 229,372	\$ 56,361	\$ 285,733	\$ (86,324)
Charges for services	31,500	31,500	28,681	-	28,681	(2,819)
Total revenues	293,218	347,196	258,053	56,361	314,414	(89,143)
Expenditures:						
Current:						
Health and welfare	169,717	173,695	161,604	(139)	161,465	12,091
Capital outlay	189,130	239,130	212,413	-	212,413	26,717
Total expenditures	358,847	412,825	374,017	(139)	373,878	38,808
(Deficiency) of revenues over expenditures	(65,629)	(65,629)	(115,964)	56,500	(59,464)	(50,335)
Other Financing Sources (Uses):						
Transfers (out)	70,629	70,629	62,980	-	62,980	(7,649)
Net change	5,000	5,000	(52,984)	\$ 56,500	\$ 3,516	(57,984)
Cash balance, beginning of year	3,037	3,037	3,037			-
Interfund loan	-	-	49,997			49,997
Cash balance, end of year	\$ 8,037	\$ 8,037	\$ 50			\$ (7,987)
Explanation of Differences:						
Change in receivables				\$ 56,361		
Change in accounts payable				813		
Change in accrued salaries				(674)		
				\$ 56,500		

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, 2012**

	<u>Joint Utility Enterprise Fund</u>
Assets:	
Current assets:	
Cash	\$ 554,406
Receivables, net	<u>619,678</u>
Total current assets	1,174,084
Noncurrent assets:	
Restricted investments	1,292,277
Capital assets:	
Land	745,966
Construction in progress	856,348
Distribution and collection systems	17,914,037
Vehicles, equipment and other assets	728,920
Less accumulated depreciation	<u>(7,797,907)</u>
Total capital assets, net	12,447,364
Unamortized debt issuance costs	<u>16,844</u>
Total noncurrent assets	<u>13,756,485</u>
Total assets	14,930,569
Liabilities:	
Current liabilities:	
Accounts payable	121,216
Accrued salaries	5,260
Accrued payroll taxes	669
Accrued sales tax	4,239
Accrued interest payable	7,708
Deposits payable	10,398
Current maturities of:	
Notes payable	86,795
Compensated absences	39,462
Landfill post-closure	<u>30,000</u>
Total current liabilities	305,747
Noncurrent liabilities:	
Notes payable	1,341,063
Compensated absences	13,154
Landfill post-closure	<u>1,457,883</u>
Total noncurrent liabilities	<u>2,812,100</u>
Total liabilities	3,117,847
Net Assets:	
Invested in capital assets, net of related debt	11,019,506
Restricted:	
Debt service	112,512
Utility expansion	1,179,765
Unrestricted	<u>(499,061)</u>
Total net assets	<u>\$ 11,812,722</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, 2012

	<u>Joint Utility Enterprise Fund</u>
Operating Revenues:	
Charges for services	\$ 1,189,239
Operating Expenses:	
Personnel services	402,845
Utilities	120,910
Contractual services	24,433
Repairs and maintenance	47,680
Insurance claims and expenses	14,703
Other operating expenses	279,525
Depreciation	<u>356,266</u>
Total operating expenses	<u>1,246,362</u>
Operating (loss)	(57,123)
Non-operating revenues (expenses):	
Gross receipts taxes	118,151
Interest income	8,517
Interest expense	<u>(48,377)</u>
Total non-operating revenues (expenses)	<u>78,291</u>
Income before contributions and transfers	21,168
Capital contributions	733,218
Transfers in	<u>33,504</u>
Change in net assets	787,890
Net assets, beginning of year	<u>11,024,832</u>
Net assets, end of year	<u><u>\$ 11,812,722</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, 2012

	<u>Joint Utility Enterprise Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,157,542
Cash payments to suppliers for goods and services	(504,789)
Cash payments to employees for services	<u>(417,417)</u>
Net cash provided by operating activities	235,336
Cash Flows From Non-Capital and Related Financing Activities:	
Cash received from gross receipts taxes	123,549
Net change in customer deposits	506
Transfers in	<u>33,504</u>
Net cash provided by non-capital and related financing activities	157,559
Cash Flows From Capital and Related Financing Activities:	
Capital contributions	359,924
Acquisition of capital assets	(746,893)
Principal payments on capital debt	(84,966)
Retirement of landfill post-closure liability	(36,391)
Interest and other charges on capital debt	<u>(48,088)</u>
Net cash (used) by capital and related financing activities	(556,414)
Cash Flows From Investing Activities:	
Interest income	8,608
Purchase of investments	<u>(1,342)</u>
Net cash provided by investing activities	<u>7,266</u>
Net (decrease) in cash	(156,253)
Cash and cash equivalents, beginning of year	<u>310,659</u>
Cash and cash equivalents, end of year	<u><u>\$ 154,406</u></u>
Displayed as:	
Cash	\$ 554,406
Time deposits not considered cash equivalents	<u>(400,000)</u>
	<u><u>\$ 154,406</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating (loss)	\$ (57,123)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	356,266
Bad debts	8,200
Changes in Assets and Liabilities:	
(Increase) in accounts receivable	(44,136)
(Decrease) in accounts payable	(17,538)
Increase in accrued salaries	1,692
(Decrease) in payroll taxes liability	(162)
Increase in accrued sales tax	4,239
(Decrease) in compensated absences	<u>(16,102)</u>
Total adjustments	<u>292,459</u>
Net cash provided by operating activities	<u><u>\$ 235,336</u></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, 2012

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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The Town is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2012. 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, 2012

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, 2012

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 *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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The *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 eleven other governmental funds that are considered nonmajor funds; ten are classified as special revenue funds, and one is classified as a capital projects fund. A description of each nonmajor governmental fund is as follows:

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 *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 Section 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, 2012

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.

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

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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets (continued)

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

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

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Prepaid Items

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

4. Restricted Assets

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

5. Interfund Activity

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

6. Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. 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, 2012

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, 2012

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, 2012

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, 2012

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, 2012, 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, 2012**

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	1,534,929	(74,008)	1,460,921
Farmer's & Stockmen's Bank	1,533,124	(136,785)	1,396,339
Total cash deposits	\$ 3,068,053	\$ (210,341)	\$ 2,857,712

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

Statement of Net Assets:	
Cash	\$ 1,772,033
Restricted cash	1,121,620
Bank overdraft	<u>(35,941)</u>
Total cash reported on financial statements	<u>\$ 2,857,712</u>

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	\$ 1,534,929	\$ 1,533,124
Less FDIC insurance	<u>(500,000)</u>	<u>(500,000)</u>
Uninsured public funds	1,034,929	1,033,124
Pledged collateral held by pledging bank's agent, but not in the Town's name	<u>631,762</u>	<u>1,315,728</u>
Uninsured and uncollateralized public funds	<u>\$ 403,167</u>	<u>\$ -</u>
Total pledged collateral	\$ 631,762	\$ 1,315,728
50% pledged collateral requirement per state statute	<u>(517,465)</u>	<u>(516,562)</u>
Pledged collateral (under) over the requirement	<u>\$ 114,297</u>	<u>\$ 799,166</u>

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited with Financial Institutions (continued)

A detailed listing of the pledged collateral is contained in the supplemental financial information section 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, 2012, \$2,068,053 of the Town's bank balance of \$3,068,053 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	\$ 1,034,929	\$ 1,033,124	\$ 2,068,053

3. RESTRICTED INVESTMENTS

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

Agency	Investment	Maturity	Fair Market Value
Bank of Albuquerque	US Government Investment Fund	N/A	\$ 28,011
Bank of NY Mellon Tr. Co.	US Government Investment Fund	N/A	1,297,846
			\$ 1,325,857

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

Statement of Net Assets:	
Restricted investments	\$ 1,325,857

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, 2012

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, 2012, the restricted investments are composed of the following:

Program receipts	\$ 1,178,782
Debt reserve	<u>149,971</u>
	<u><u>\$ 1,328,753</u></u>

Bank of Albuquerque, N.A.

The Town has cash, in the amount of \$28,011, invested at the Bank of Albuquerque, N.A., Trust Department, Albuquerque, New Mexico. The cash is invested as part of note agreements and covenants the Town has with the New Mexico Finance Authority. The cash is invested in an Invesco premier U.S. Government Money Portfolio fund. The fund is composed of 64.4% government agency debt; 34.9% other repurchase agreements; .6% Treasury debt; and .1% variable rate demand notes. The market value at June 30, 2012, reflected by the trust department is \$28,011. The investments are valued at fair market value based on quoted market prices, as of the valuation date. The fund is rated AAA_m by Standard and Poor's.

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

Bank of New York Mellon Trust Company

The Town has entered into several loan agreements with the New Mexico Finance Authority (Authority). 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.

The Town's reserve funds, in the amount of \$118,081, are invested at the trust company in a fund that is composed of eighty percent of U.S. Treasury notes and twenty percent in Federated Government Obligations Fund Number 5. The Town's program funds in the amount of \$1,179,765 are invested in a fund that is composed of sixty-one percent in U.S. Treasury notes and thirty-nine percent in Federated Government Obligations Fund Number 5.

The investments are valued at fair value based on quoted market prices as of the valuation date. The Federated Government Obligations Fund No. 5 is rated AAA_m by Standard and Poor's.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3. RESTRICTED INVESTMENTS (continued)

Bank of New York Mellon Trust Company (continued)

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 49-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, 2012 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts receivable:		
Charges for services	\$ 99,496	\$ 249,966
Allowance for doubtful accounts	(30,018)	(17,500)
Total	69,478	232,466
Taxes receivable:		
Gross receipts taxes	136,237	13,872
Franchise taxes	17,596	-
Property taxes	18,330	-
Lodgers' taxes	14,674	-
Public service taxes	7,209	-
Allowance for doubtful accounts	-	-
Total	194,046	13,872
Intergovernmental receivables:		
Public safety grants	8,303	-
Airport improvement grants	9,578	-
Senior citizens grants	65,263	-
Public works	11,525	-
Water system improvements	-	271,563
Waste water system improvements	-	101,731
Total	94,669	373,294
Interest receivables	143	46
Receivables, net	<u>\$ 358,336</u>	<u>\$ 619,678</u>

The Town’s policy is to provide for uncollectible accounts based upon expected defaults.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 2011, was \$4.938 per \$1,000 for non-residential and \$4.834 for residential property. In the year 2011, there was no tax rate established for payment of bonds principal and interest.

6. CAPITAL ASSETS

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

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 278,730	\$ -	\$ -	\$ 278,730
Construction in progress	84,681	711,423	-	796,104
	<u>363,411</u>	<u>711,423</u>	<u>-</u>	<u>1,074,834</u>
Total capital assets, not being depreciated				
	363,411	711,423	-	1,074,834
Other capital assets:				
Buildings and improvements	2,328,056	6,393	-	2,334,449
Airport runway	3,203,972	-	-	3,203,972
Infrastructure	3,059,141	-	-	3,059,141
Furniture, fixtures and equipment	3,265,609	102,703	(285,601)	3,082,711
	<u>11,856,778</u>	<u>109,096</u>	<u>(285,601)</u>	<u>11,680,273</u>
Total other capital assets				
	11,856,778	109,096	(285,601)	11,680,273

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6. CAPITAL ASSETS (continued)

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Less accumulated depreciation for:				
Buildings and improvements	(1,448,578)	(40,466)	-	(1,489,044)
Airport runway	(371,961)	(95,900)	-	(467,861)
Infrastructure	(41,853)	(63,021)	-	(104,874)
Furniture, fixtures and equipment	(1,857,140)	(208,302)	263,141	(1,802,301)
Total accumulated depreciation	(3,719,532)	(407,689)	263,141	(3,864,080)
Other capital assets, net	8,137,246	(298,593)	(22,460)	7,816,193
Governmental activities capital assets, net	<u>\$ 8,500,657</u>	<u>\$ 412,830</u>	<u>\$ (22,460)</u>	<u>\$ 8,891,027</u>

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

General government	\$ 21,884
Public safety	255,873
Public works	96,410
Culture and recreation	23,711
Health and welfare	9,811
	<u>\$ 407,689</u>

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

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 745,966	\$ -	\$ -	\$ 745,966
Construction in progress	38,667	817,681	-	856,348
Total capital assets, not being depreciated	784,633	817,681	-	1,602,314
Other capital assets:				
Water utility system	9,448,903	-	-	9,448,903
Sewer utility system	8,443,280	17,954	(1,500)	8,459,734
Solid waste system	5,400	-	-	5,400
Furniture, fixtures and equipment	736,514	5,839	(13,433)	728,920
Total other capital assets	18,634,097	23,793	(14,933)	18,642,957

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. CAPITAL ASSETS (continued)

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Less accumulated depreciation for:				
Water utility system	(3,399,116)	(209,015)	-	(3,608,131)
Sewer utility system	(3,437,717)	(120,214)	1,500	(3,556,431)
Solid waste system	(5,400)	-	-	(5,400)
Furniture, fixtures and equipment	(614,341)	(27,037)	13,433	(627,945)
Total accumulated depreciation	<u>(7,456,574)</u>	<u>(356,266)</u>	<u>14,933</u>	<u>(7,797,907)</u>
Other capital assets, net	<u>11,177,523</u>	<u>(332,473)</u>	<u>-</u>	<u>10,845,050</u>
Business-type activities capital assets, net	<u>\$ 11,962,156</u>	<u>\$ 485,208</u>	<u>\$ -</u>	<u>\$ 12,447,364</u>

7. CAPITAL ASSETS – COMPONENT UNIT

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

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 51,294	\$ -	\$ -	\$ 51,294
Construction in progress	-	63,427	-	63,427
Total capital assets, not being depreciated	51,294	63,427	-	114,721
Other capital assets:				
Buildings	1,805,791	-	-	1,805,791
Building improvements	901,798	32,008	-	933,806
Equipment and furniture	505,272	-	-	505,272
Vehicles	32,324	-	-	32,324
Total other capital assets, being depreciated	3,245,185	32,008	-	3,277,193
Less accumulated depreciation for:				
Buildings	(1,247,526)	(34,510)	-	(1,282,036)
Building improvements	(419,857)	(54,077)	-	(473,934)
Equipment and furniture	(379,845)	(20,710)	-	(400,555)
Vehicles	(19,742)	(2,550)	-	(22,292)
Total accumulated depreciation	<u>(2,066,970)</u>	<u>(111,847)</u>	<u>-</u>	<u>(2,178,817)</u>
Other capital assets, net	<u>1,178,215</u>	<u>(79,839)</u>	<u>-</u>	<u>1,098,376</u>
Component unit capital assets, net	<u>\$ 1,229,509</u>	<u>\$ (16,412)</u>	<u>\$ -</u>	<u>\$ 1,213,097</u>

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2012, were as follows:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12	Amounts Due Within One Year
Leases payable	\$ 169,506	\$ -	\$ (44,974)	\$ 124,532	\$ 47,349
Notes payable:					
Refurbished ambulance loan	25,375	-	(25,375)	-	-
Golf course irrigation loan	200,634	-	(25,631)	175,003	26,479
Fire pumper loan	229,140	-	(55,404)	173,736	56,570
Compensated absences	138,465	92,796	(72,967)	158,294	118,721
	<u>\$ 763,120</u>	<u>\$ 92,796</u>	<u>\$ (224,351)</u>	<u>\$ 631,565</u>	<u>\$ 249,119</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, 2012, are as follows:

Due in year ending June 30:

	Principal	Interest	Total
2013	\$ 47,349	\$ 5,749	\$ 53,098
2014	49,548	3,550	53,098
2015	27,635	1,261	28,896
	<u>\$ 124,532</u>	<u>\$ 10,560</u>	<u>\$ 135,092</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.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

8. LONG-TERM OBLIGATIONS (continued)

Golf Course Irrigation Note (continued)

The payment of principal and interest are paid from lodgers' tax revenues.

The annual requirement to amortize the loan outstanding as of June 30, 2012, including interest payments, is as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	30,848	2,842	33,690
2018	32,199	1,486	33,685
	<u>\$ 175,003</u>	<u>\$ 27,131</u>	<u>\$ 202,134</u>

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, 2012, including interest payments, is as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 56,570	\$ 4,314	\$ 60,884
2014	57,870	3,014	60,884
2015	59,296	1,588	60,884
	<u>\$ 173,736</u>	<u>\$ 8,916</u>	<u>\$ 182,652</u>

Compensated Absences

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

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

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

8. LONG-TERM OBLIGATIONS (continued)

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, 2012, are as follows:

	Balance 06/30/11	Increases	Decreases	Balance 06/30/12	Amounts Due Within One Year
Notes payable:					
NM Environment Department loan	\$ 41,098	\$ -	\$ (20,245)	\$ 20,853	\$ 20,853
Land Acquisition & Water Wells Imp #1	208,375	-	(19,586)	188,789	20,370
Land Acquisition & Water Wells Imp #2	45,620	-	(5,018)	40,602	5,031
Wastewater System Improvement	1,217,731	-	(40,117)	1,177,614	40,541
Compensated absences	68,718	19,831	(35,933)	52,616	39,462
Landfill Closure & Post-Closure Liability	1,524,274	-	(36,391)	1,487,883	30,000
	<u>\$ 3,105,816</u>	<u>\$ 19,831</u>	<u>\$ (157,290)</u>	<u>\$ 2,968,357</u>	<u>\$ 156,257</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, 2012, including interest payments, is as follows:

Due in year ending June 30:

	Principal	Interest	Total
2013	<u>\$ 20,853</u>	<u>\$ 625</u>	<u>\$ 21,478</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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. LONG-TERM OBLIGATIONS (continued)

Land Acquisition and Water Well Improvement #1 (continued)

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, 2012, including interest payments, is as follows:

Due in year ending June 30:

	Principal	Interest	Total
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	23,957	4,143	28,100
2018-2020	78,205	6,479	84,684
	\$ 188,789	\$ 35,831	\$ 224,620

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, 2012, is as follows:

Due in year ending June 30:

	Principal
2013	\$ 5,031
2014	5,043
2015	5,056
2016	5,069
2017	5,082
2018-2020	15,321
	\$ 40,602

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.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

8. LONG-TERM OBLIGATIONS (continued)

Wastewater System Improvement Note (continued)

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, 2012, including interest payments, is as follows:

Due in year ending June 30:

	Principal	Interest	Total
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	43,245	34,825	78,070
2018-2022	231,973	158,377	390,350
2023-2027	268,806	121,544	390,350
2028-2032	320,942	69,408	390,350
2033-2034	146,932	9,208	156,140
	\$ 1,177,614	\$ 539,926	\$ 1,717,540

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 fiscal year ended June 30, 2010, 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.

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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 \$71,670,000.

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. DEFICIT FUND BALANCE

The following funds had a deficit fund balance as of June 30, 2012:

Fund	Amount
Fire Fund	\$ 323
Recreation Fund	447
Emergency Medical Services Fund	419

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.

11. EXCESS EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2012, the Town incurred expenditures over appropriations of the following amounts and funds:

Fund	Amount
Law Enforcement Fund	\$ 2

The Town will establish a procedure to ensure appropriate controls over the purchasing process, including timely budget adjustments where required.

12. INTERFUND BALANCES AND TRANSFERS

Receivable Fund	Payable Fund	Amount
Municipal Income Permanent Fund	Senior Citizens Fund	\$ 49,997

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

12. INTERFUND BALANCES AND TRANSFERS (continued)

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.

	Transfers In				Total
	General Fund	Senior Citizens Fund	Joint Utility Fund	Other Governmental Funds	
Transfers (out):					
General Fund	\$ -	\$ 62,980	\$ 33,504	\$ 49,939	\$ 146,423
Other Governmental Funds	288,199	-	-	1,373	289,572
	\$ 288,199	\$ 62,980	\$ 33,504	\$ 51,312	\$ 435,995

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. BAD DEBT EXPENSE

Governmental Activities - During the current fiscal year, the Town recorded bad debt expense by reducing gross ambulance fees of \$179,934 by \$6,818. Ambulance fees are reflected as public safety charges for services revenue in the government-wide statement of activities and charges for services within the general fund.

Business-Type Activities - The Town recorded bad debt expense of \$8,200 by reducing water sales by \$4,230; wastewater sales by \$1,848 and solid waste sales by \$2,122.

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. 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Funding Policy

Plan members are required to contribute from 7.0% to 12.8% (ranges from 3.78% to 16.65% depending upon the plan – i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Town is required to from 11.30% to 23.40% (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, 2012, 2011, and 2010 were \$254,093, \$244,872, and \$234,518, 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.

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, 2012, 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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

17. VIOLATIONS OF FINANCE-RELATED PROVISIONS (continued)

The Town did not submit any audited financial statements related to the prison activity 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, 2012**

	Special Revenue Funds										Capital Projects Fund	Total Other Government Funds	
	Municipal Streets Fund	Library Fund	Cemetery Fund	Lodgers' Tax Fund	Fire Fund	Recreation Fund	Emergency Medical Services Fund	Local Governmental Corrections Fund	Law Enforcement Protection Fund	Municipal Income Interest Fund	Total Special Revenue Funds		Government Assistance Fund
Assets													
Cash and cash equivalents	\$ 154,920	\$ 121,736	\$ 131,644	\$ 51,932	\$ 1,352	\$ 1,308	\$ -	\$ 240,250	\$ -	\$ -	\$ 703,142	\$ 40,208	\$ 743,350
Receivables, net	35,823	19	18	14,675	-	-	-	-	-	50,535	9,578	60,113	
Restricted assets:													
Investments	-	-	-	33,509	9	-	-	-	-	33,518	-	33,518	
Total assets	\$ 190,743	\$ 121,755	\$ 131,662	\$ 100,116	\$ 1,361	\$ 1,308	\$ -	\$ 240,250	\$ -	\$ -	\$ 787,195	\$ 49,786	\$ 836,981
Liabilities and Fund Balances													
Liabilities:													
Accounts payable	\$ 2,965	\$ 1,162	\$ 156	-	\$ 1,684	\$ 540	\$ 419	\$ 1,738	\$ -	\$ -	\$ 8,664	\$ 9,824	\$ 18,488
Accrued salaries	2,215	-	-	-	-	1,028	-	-	-	-	3,243	-	3,243
Accrued payroll taxes	419	-	-	-	-	-	-	-	-	419	-	419	
Accrued sales tax	-	-	-	-	-	187	-	-	-	187	-	187	
Total liabilities	5,599	1,162	156	-	1,684	1,755	419	1,738	-	-	12,513	9,824	22,337
Fund balances:													
Reserved for:													
Debt service	-	-	-	33,509	-	-	-	-	-	33,509	-	33,509	
State mandated per statutes	-	-	-	66,607	-	-	-	-	-	66,607	-	66,607	
Committed for:													
Perpetual care	-	-	131,506	-	-	-	-	-	-	131,506	-	131,506	
Subsequent years' expenditures	88,607	-	-	-	-	-	104,800	-	-	193,407	15,694	209,101	
Assigned	96,537	120,593	-	-	-	-	133,712	-	-	350,842	24,268	375,110	
Unreserved	-	-	-	-	(323)	(447)	(419)	-	-	(1,189)	-	(1,189)	
Total fund balances	185,144	120,593	131,506	100,116	(323)	(447)	(419)	238,512	-	-	774,682	39,962	814,644
Total liabilities and fund balances	\$ 190,743	\$ 121,755	\$ 131,662	\$ 100,116	\$ 1,361	\$ 1,308	\$ -	\$ 240,250	\$ -	\$ -	\$ 787,195	\$ 49,786	\$ 836,981

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, 2012

	Special Revenue Funds										Capital Projects Fund	Total Other Governmental Funds	
	Municipal Streets Fund	Library Fund	Cemetery Fund	Lodgers' Tax Fund	Fire Fund	Recreation Fund	Emergency Medical Services Fund	Local Governmental Corrections Fund	Law Enforcement Protection Fund	Municipal Income Interest Fund	Total Special Revenue Funds		Government Assistance Fund
Revenues:													
Gross receipts taxes	\$ 154,247	\$ -	\$ -	\$ -	\$ -	\$ 343	\$ -	\$ -	\$ -	\$ -	\$ 154,590	\$ -	\$ 154,590
Lodgers' taxes	-	-	-	122,799	-	-	-	-	-	-	122,799	-	122,799
Public service taxes	80,953	-	-	-	-	-	-	-	-	80,953	-	-	80,953
Intergovernmental													
Federal	-	-	-	-	-	-	-	-	-	-	-	110,557	110,557
State	49,921	9,735	-	-	356,715	-	15,007	-	24,200	-	455,578	283,556	739,134
Charges for services	430	-	1,900	-	-	9,093	-	-	-	-	11,423	-	11,423
Fines and forfeitures	-	-	-	-	-	-	-	29,350	-	-	29,350	-	29,350
Interest	493	745	634	439	9	-	-	3,701	-	-	6,021	-	6,021
Miscellaneous	-	669	346	-	-	-	-	-	-	-	1,015	-	1,015
Total revenues	286,044	11,149	2,880	123,238	356,724	9,436	15,007	33,051	24,200	-	861,729	394,113	1,255,842
Expenditures:													
Current:													
General government	-	-	-	-	-	-	-	-	-	-	-	1,847	1,847
Public safety	-	-	-	-	200,742	-	16,958	30,758	-	-	248,458	13,732	262,190
Public works	388,603	-	-	-	-	-	-	-	-	-	388,603	-	388,603
Culture and recreation	-	13,003	-	93,012	-	29,472	-	-	-	-	135,487	-	135,487
Health and welfare	-	-	4,438	-	-	-	-	-	-	-	4,438	-	4,438
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	410,189	410,189
Debt service:													
Principal	24,174	-	-	25,631	55,404	-	-	-	20,800	-	126,009	-	126,009
Interest and other charges	5,019	-	-	8,059	5,481	-	-	-	3,402	-	21,961	-	21,961
Total expenditures	417,796	13,003	4,438	126,702	261,627	29,472	16,958	30,758	24,202	-	924,956	425,768	1,350,724
Excess (deficiency) of revenues over expenditures	(131,752)	(1,854)	(1,558)	(3,464)	95,097	(20,036)	(1,951)	2,293	(2)	-	(63,227)	(31,655)	(94,882)
Other Financing Sources (Uses):													
Transfers in	-	-	-	-	-	22,504	1,797	-	250	-	24,551	26,761	51,312
Transfers (out)	(200,000)	-	-	(869)	(88,199)	-	-	-	-	(504)	(289,572)	-	(289,572)
Total other financing sources and (uses)	(200,000)	-	-	(869)	(88,199)	22,504	1,797	-	250	(504)	(265,021)	26,761	(238,260)
Net change in fund balances	(331,752)	(1,854)	(1,558)	(4,333)	6,898	2,468	(154)	2,293	248	(504)	(328,248)	(4,894)	(333,142)
Fund balances, beginning of year	516,896	122,447	133,064	104,449	(7,221)	(2,915)	(265)	236,219	(248)	504	1,102,930	44,856	1,147,786
Fund balances, end of year	\$ 185,144	\$ 120,593	\$ 131,506	\$ 100,116	\$ (323)	\$ (447)	\$ (419)	\$ 238,512	\$ -	\$ -	\$ 774,682	\$ 39,962	\$ 814,644

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

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ 168,900	\$ 168,900	\$ 162,844	\$ (8,597)	\$ 154,247	\$ (6,056)
Public service taxes	88,400	88,400	79,586	1,367	80,953	(8,814)
Intergovernmental	86,122	86,122	38,396	11,525	49,921	(47,726)
Charges for services	-	-	430	-	430	430
Interest	1,000	1,000	493	-	493	(507)
Miscellaneous	400	400	-	-	-	(400)
Total revenues	344,822	344,822	281,749	4,295	286,044	(63,073)
Expenditures:						
Current:						
Public works	328,430	328,430	394,077	(5,474)	388,603	(65,647)
Capital outlay	111,122	111,122	-	-	-	111,122
Debt service	25,877	25,877	29,193	-	29,193	(3,316)
Total expenditures	465,429	465,429	423,270	(5,474)	417,796	42,159
(Deficiency) of revenues over expenditures	(120,607)	(120,607)	(141,521)	9,769	(131,752)	(20,914)
Other Financing Sources (Uses):						
Transfers (out)	(200,000)	(200,000)	(200,000)	-	(200,000)	-
Net change	(320,607)	(320,607)	(341,521)	\$ 9,769	\$ (331,752)	(20,914)
Cash balance, beginning of year	431,585	431,585	431,585			-
Interfund loan	-	-	64,856			64,856
Cash balance, end of year	<u>\$ 110,978</u>	<u>\$ 110,978</u>	<u>\$ 154,920</u>			<u>\$ 43,942</u>
Explanation of Differences:						
Change in receivables				\$ 4,295		
Change in accounts payable				6,106		
Change in accrued salaries				(770)		
Change in accrued payroll taxes				138		
				<u>\$ 9,769</u>		

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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 8,700	\$ 8,700	\$ 9,735	\$ -	\$ 9,735	\$ 1,035
Interest	2,000	2,000	736	9	745	(1,264)
Miscellaneous	-	1,500	669	-	669	(831)
Total revenues	10,700	12,200	11,140	9	11,149	(1,060)
Expenditures:						
Current:						
Culture and recreation	14,165	14,165	12,353	650	13,003	1,812
Net change	(3,465)	(1,965)	(1,213)	\$ (641)	\$ (1,854)	752
Cash balance, beginning of year	122,949	122,949	122,949			-
Cash balance, end of year	<u>\$ 119,484</u>	<u>\$ 120,984</u>	<u>\$ 121,736</u>			<u>\$ -</u>
Explanation of Differences:						
Change in receivables				\$ 9		
Change in accounts payable				(650)		
				<u>\$ (641)</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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Charges for services	\$ 5,000	\$ 5,000	\$ 1,900	\$ -	\$ 1,900	\$ (3,100)
Interest	1,500	1,500	644	(10)	634	(856)
Miscellaneous	1,000	1,000	346	-	346	(654)
Total revenues	7,500	7,500	2,890	(10)	2,880	(4,610)
Expenditures:						
Current:						
Health and welfare	5,250	5,250	4,481	(43)	4,438	769
Net change	2,250	2,250	(1,591)	\$ 33	\$ (1,558)	(3,841)
Cash balance, beginning of year	133,235	133,235	133,235			-
Cash balance, end of year	\$ 135,485	\$ 135,485	\$ 131,644			\$ -
Explanation of Differences:						
Change in receivables				\$ (10)		
Change in accounts payable				43		
				\$ 33		

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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis
	Original	Final				Variance With Final Budget Over (Under)
Revenues:						
Lodgers' taxes	\$ 148,150	\$ 148,150	\$ 123,214	\$ (415)	\$ 122,799	\$ (24,936)
Interest	1,800	1,800	356	83	439	(1,444)
Total revenues	149,950	149,950	123,570	(332)	123,238	(26,380)
Expenditures:						
Current:						
Culture and recreation	108,210	108,210	93,012	-	93,012	15,198
Debt service	33,690	33,690	33,689	1	33,690	1
Total expenditures	141,900	141,900	126,701	1	126,702	15,199
Excess (deficiency) of revenues over expenditures	8,050	8,050	(3,131)	(333)	(3,464)	(11,181)
Other Financing Sources (Uses):						
Transfers (out)	(5,578)	(5,578)	(869)	-	(869)	4,709
Net change	2,472	2,472	(4,000)	\$ (333)	\$ (4,333)	(6,472)
Cash balance, beginning of year	115,171	115,171	115,171			-
Interfund loan	-	-	(59,239)			(59,239)
Cash balance, end of year	\$ 117,643	\$ 117,643	\$ 51,932			\$ (65,711)
Explanation of Differences:						
Change in receivables				\$ (418)		
Change in investments				86		
Rounding				(1)		
				\$ (333)		

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, 2012**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 295,940	\$ 295,940	\$ 295,940	\$ 60,775	\$ 356,715	\$ -
Interest	-	-	-	9	9	-
Total revenues	<u>295,940</u>	<u>295,940</u>	<u>295,940</u>	<u>60,784</u>	<u>356,724</u>	<u>-</u>
Expenditures:						
Current:						
Public safety	181,785	184,485	201,921	(1,179)	200,742	(17,436)
Debt service	-	-	-	60,885	60,885	-
Total expenditures	<u>181,785</u>	<u>184,485</u>	<u>201,921</u>	<u>59,706</u>	<u>261,627</u>	<u>(17,436)</u>
Excess of revenues over expenditures	114,155	111,455	94,019	1,078	95,097	(17,436)
Other Financing Sources (Uses):						
Transfers in	-	6,789	6,789	(6,789)	-	-
Transfers (out)	(114,155)	(114,155)	(94,988)	6,789	(88,199)	19,167
Total other financing sources (uses)	<u>(114,155)</u>	<u>(107,366)</u>	<u>(88,199)</u>	<u>-</u>	<u>(88,199)</u>	<u>19,167</u>
Net change	-	4,089	5,820	<u>\$ 1,078</u>	<u>\$ 6,898</u>	1,731
Cash balance, beginning of year	-	-	-			-
Interfund loan	-	-	(4,468)			(4,468)
Cash balance, end of year	<u>\$ -</u>	<u>\$ 4,089</u>	<u>\$ 1,352</u>			<u>\$ (2,737)</u>
Explanation of Differences:						
Fire allotment intercepted				\$ 60,775		
Interest income earned by agent				9		
Change in accounts payable				1,179		
Payment of debt service				(60,885)		
				<u>\$ 1,078</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, 2012**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	\$ 475	\$ 475	\$ 343	\$ -	\$ 343	\$ (132)
Charges for services	6,410	6,410	9,280	(187)	9,093	2,870
Total revenues	6,885	6,885	9,623	(187)	9,436	2,738
Expenditures:						
Current:						
Culture and recreation	33,547	33,547	29,874	(402)	29,472	3,673
(Deficiency) of revenues over expenditures	(26,662)	(26,662)	(20,251)	215	(20,036)	6,411
Other Financing Sources (Uses):						
Transfers in	29,000	29,504	22,504	-	22,504	(7,000)
Net change	2,338	2,842	2,253	\$ 215	\$ 2,468	(589)
Cash balance, beginning of year	25	25	25			-
Interfund loan	-	-	(970)			(970)
Cash balance, end of year	\$ 2,363	\$ 2,867	\$ 1,308			\$ (1,559)
Explanation of Differences:						
Change in accounts payable				\$ 583		
Change in accrued salaries				(181)		
Change in accrued sales tax				(187)		
				\$ 215		

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, 2012

	<u>Budgeted Amounts</u>		Actual on Budgetary Basis	Budget to GAAP Budget	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>				
Revenues:						
Intergovernmental	\$ 14,985	\$ 15,007	\$ 15,007	\$ -	\$ 15,007	\$ -
Expenditures:						
Current:						
Public safety	<u>14,942</u>	<u>16,761</u>	<u>16,624</u>	<u>334</u>	<u>16,958</u>	<u>137</u>
Excess (deficiency) of revenues over expenditures	43	(1,754)	(1,617)	(334)	(1,951)	137
Other Financing Sources (Uses):						
Transfers in	<u>-</u>	<u>1,797</u>	<u>1,797</u>	<u>-</u>	<u>1,797</u>	<u>-</u>
Net change	43	43	180	<u>\$ 334</u>	<u>\$ (154)</u>	137
Cash balance, beginning of year	-	-	-			-
Interfund loan	<u>-</u>	<u>-</u>	<u>(180)</u>			<u>(180)</u>
Cash balance, end of year	<u>\$ 43</u>	<u>\$ 43</u>	<u>\$ -</u>			<u>\$ (43)</u>
Explanation of Differences:						
Change in accounts payable				<u>\$ (334)</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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Fines and forfeitures	\$ 42,000	\$ 42,000	\$ 29,350	\$ -	\$ 29,350	\$ (12,650)
Interest	3,500	3,500	4,280	(579)	3,701	780
Total revenues	45,500	45,500	33,630	(579)	33,051	(11,870)
Expenditures:						
Current:						
Public safety	40,000	40,000	34,222	(3,464)	30,758	5,778
Capital outlay	3,800	3,800	-	-	-	3,800
Total expenditures	43,800	43,800	34,222	(3,464)	30,758	9,578
Net change	1,700	1,700	(592)	\$ 2,885	\$ 2,293	(2,292)
Cash balance, beginning of year	235,693	235,693	235,693			-
Interfund loan	-	-	5,149			5,149
Cash balance, end of year	\$ 237,393	\$ 237,393	\$ 240,250			\$ 2,857
Explanation of Differences:						
Change in receivables				\$ (579)		
Change in accounts payable				3,464		
				\$ 2,885		

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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 24,200	\$ 24,200	\$ 24,200	\$ -	\$ 24,200	\$ -
Expenditures:						
Debt service	23,952	24,200	24,202	-	24,202	(2)
Excess (deficiency) of revenues over expenditures	248	-	(2)	-	(2)	(2)
Other Financing Sources (Uses):						
Transfers in	-	250	250	-	250	-
Net change	248	250	248	\$ -	\$ 248	(2)
Cash balance, beginning of year	-	-	-			-
Interfund loan	-	-	(248)			(248)
Cash balance, end of year	\$ 248	\$ 250	\$ -			\$ (250)

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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Financing Sources (Uses):						
Transfers (out)	-	(504)	(504)	-	(504)	-
Net change	-	(504)	(504)	\$ -	\$ (504)	-
Cash balance, beginning of year	-	-	-			-
Interfund loan	-	504	504			-
Cash balance, end of year	\$ -	\$ -	\$ -			\$ -

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

**OTHER CAPITAL PROJECTS 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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 1,163,168	\$ 1,163,168	\$ 425,778	\$ (31,665)	\$ 394,113	\$ (737,390)
Expenditures:						
Current:						
General government	396,870	396,870	1,847	-	1,847	395,023
Public safety	15,000	15,000	13,732	-	13,732	1,268
Capital outlay	800,673	800,673	409,223	966	410,189	391,450
Total expenditures	<u>1,212,543</u>	<u>1,212,543</u>	<u>424,802</u>	<u>966</u>	<u>425,768</u>	<u>787,741</u>
Excess (deficiency) of revenues over expenditures	(49,375)	(49,375)	976	(32,631)	(31,655)	50,351
Other Financing Sources (Uses):						
Transfers in	39,252	39,252	26,761	-	26,761	(12,491)
Net change	(10,123)	(10,123)	27,737	<u>\$ (32,631)</u>	<u>\$ (4,894)</u>	37,860
Cash balance, beginning of year	12,471	12,471	12,471			-
Cash balance, end of year	<u>\$ 2,348</u>	<u>\$ 2,348</u>	<u>\$ 40,208</u>			<u>\$ 37,860</u>
Explanation of Differences:						
Change in receivables				\$ (31,665)		
Change in accounts payable				<u>(966)</u>		
				<u>\$ (32,631)</u>		

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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Actual on GAAP Basis	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Interest	\$ 5,000	\$ 5,000	\$ 4,426	\$ -	\$ 4,426	\$ (574)
Other Financing Sources (Uses):						
Transfer (out)	-	-	-	-	-	-
Net change	5,000	5,000	4,426	\$ -	\$ 4,426	(574)
Cash balance, beginning of year	1,085,273	1,085,273	1,085,273			-
Interfund loan repaid	-	-	81,918			81,918
Interfund loan advanced	-	-	(49,997)			(49,997)
Cash balance, end of year	<u>\$ 1,090,273</u>	<u>\$ 1,090,273</u>	<u>\$ 1,121,620</u>			<u>\$ 31,347</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, 2012

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Variance With Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Charges for services	\$ 1,167,643	\$ 1,170,643	\$ 1,158,048	\$ 31,191	\$ 1,189,239	\$ (12,595)
Operating Expenses:						
Personal services	501,428	501,428	417,417	(14,572)	402,845	84,011
Utilities	109,100	109,100	139,661	(18,751)	120,910	(30,561)
Contractual services	232,100	232,100	65,556	(41,123)	24,433	166,544
Repairs and maintenance	84,500	74,500	39,885	7,795	47,680	34,615
Insurance claims and expenses	12,932	12,932	14,703	-	14,703	(1,771)
Other operating expenses	307,850	320,850	281,375	(1,850)	279,525	39,475
Depreciation expense	-	-	-	356,266	356,266	-
Total operating expenses	<u>1,247,910</u>	<u>1,250,910</u>	<u>958,597</u>	<u>287,765</u>	<u>1,246,362</u>	<u>292,313</u>
Operating income (loss)	(80,267)	(80,267)	199,451	(256,574)	(57,123)	279,718
Non-Operating Revenues (Expenses):						
State shared taxes	128,600	128,600	123,549	(5,398)	118,151	(5,051)
Interest income	4,000	4,000	7,266	1,251	8,517	3,266
Capital outlay	(6,888,048)	(6,888,048)	(746,893)	746,893	-	6,141,155
Debt service - principal	(151,479)	(151,479)	(133,054)	133,054	-	18,425
Interest expense and other charges	-	-	-	(48,377)	(48,377)	-
Total non-operating revenues (expenses)	<u>(6,906,927)</u>	<u>(6,906,927)</u>	<u>(749,132)</u>	<u>827,423</u>	<u>78,291</u>	<u>6,157,795</u>
Special Items:						
Debt proceeds	2,358,265	2,358,265	-	-	-	(2,358,265)
Capital contributions	4,718,883	4,718,883	359,924	373,294	733,218	(4,358,959)
Transfers:						
Transfers in	-	-	33,504	-	33,504	33,504
Net change	89,954	89,954	(156,253)	<u>\$ 944,143</u>	<u>\$ 787,890</u>	(246,207)
Cash balance, beginning of year	<u>710,659</u>	<u>710,659</u>	<u>710,659</u>			<u>-</u>
Cash balance, end of year	<u>\$ 800,613</u>	<u>\$ 800,613</u>	<u>\$ 554,406</u>			<u>\$ (246,207)</u>
Explanation of Differences:						
Change in receivables				\$ 395,567		
Change in investments				1,342		
Additions to capital assets				746,893		
Change in accounts payable				17,538		
Change in accrued salaries				(1,692)		
Change in accrued payroll taxes				162		
Change in accrued sales taxes				(4,239)		
Change in accrued interest payable				454		
Change in deposits payable				(506)		
Change in compensated absences				16,102		
Change in long-term debt				121,357		
Depreciation expense				(356,266)		
Bad debts				8,200		
Amortization of debt issuance costs				(769)		
				<u>\$ 944,143</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, 2012

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	\$ 128,422	\$ (69,082)	\$ 59,340
Payroll account	Checking	6,300	(4,926)	1,374
MMDA account	MMA	976,207	-	976,207
Certificate of Deposit	CD	300,000	-	300,000
Certificate of Deposit	CD	24,000	-	24,000
Certificate of Deposit	CD	100,000	-	100,000
		<u>\$ 1,534,929</u>	<u>\$ (74,008)</u>	<u>\$ 1,460,921</u>
Farmer's & Stockmen's Bank P.O. Box 488 Clayton, New Mexico 88415-0488				
General Fund	Checking	\$ 124,440	\$ (160,381)	\$ (35,941)
Utility Pool	Checking	20,275	(8,430)	11,845
Library Fund	Checking	570	-	570
Capital Projects Fund	Checking	41,726	(24,921)	16,805
Vendor account	Checking	181,978	56,947	238,925
Severance account	Checking	56,421	-	56,421
Water water construction	Checking	-	-	-
TOC pooled money market	MMA	278,934	-	278,934
Certificate of Deposit	CD	200,000	-	200,000
Certificate of Deposit	CD	11,000	-	11,000
Certificate of Deposit	CD	117,780	-	117,780
Certificate of Deposit	CD	100,000	-	100,000
Certificate of Deposit	CD	200,000	-	200,000
Certificate of Deposit	CD	200,000	-	200,000
		<u>\$ 1,533,124</u>	<u>\$ (136,785)</u>	<u>\$ 1,396,339</u>

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012**

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	-
W Las Vegas NM Sch District	953869JV9	08/15/17	100,000	-
W Las Vegas NM Sch District	953769JW7	08/15/18	200,000	-
FHLB Fixed Rate Note	3133XGJA3	09/09/16	-	120,294
FFCB Fixed Rate Note	31331XKB7	12/27/18	-	61,468
			<u>\$ 450,000</u>	<u>\$ 181,762</u>

The holder of the security pledged by First National Bank New Mexico is Federal Home Loan Bank of Dallas, 8500 Freeport Parkway South, Suite 100, Irving, Texas 75063.

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

Security	CUSIP	Maturity	Par Value	Value
Carlsbad, New Mexico	142735DG1	08/01/16	\$ 250,000	\$ -
FNMA	31385XEC7	06/01/33	-	602,289
FNMA	3136FTEF2	10/25/19	-	463,439
			<u>\$ 250,000</u>	<u>\$ 1,065,728</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, 2012

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, and was updated on November 16, 2011. 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 \$281,007. The Town's share of the joint communication expenses is \$143,601.

Amount the municipality contributed during the current fiscal year – \$143,601.

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 years ended June 30, 2011 and 2012. 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 - \$19,985.

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.

STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF JOINT POWER AGREEMENTS AND
MEMORANDUM OF AGREEMENT
JUNE 30, 2012

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.

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 began on July 1, 2011 and terminated on June 30, 2012.

Total estimated amount of the project and portion applicable to the municipality – The Town is to fund a total of \$20,300 to the Committee.

Amount the municipality contributed during the current fiscal year – \$20,641.

Audit responsibility – Town of Clayton.

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

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Grant Number	Award Amount	Expenditures
U.S. Department of Agriculture				
Water & Waste Disposal Systems for Rural Communities	10.760		\$ 965,500	\$ 90,390
U.S. Department of Commerce				
Investments for Public Works & Economic Development	11.300	08-01-04214	1,177,265	86,455
U.S. Department of Transportation/Passed through NM Department of Transportation				
Community Development Block Grant	14.228	11-C-RS-I-01-G-36	461,121	443,047
U.S. Department of Transportation/Passed through New Mexico Department of Transportation				
Airport Improvement Program	20.106	3-35-0010-013-2010	266,616	35,451
Airport Improvement Program	20.106	3-35-0010-014-2011	65,185	<u>60,106</u>
Total U.S. Department of Transportation/Passed through NM Department of Transportation				95,557
U.S. Department of Energy				
Energy Efficiency and Conservation Block Grant-ARRA	81.128	10-521-R1DOE00002-0233	434,600	15,000
U.S. Department of Health and Human Services/Passed through NM Long-Term & Aging Department/Passed through Non-Metro New Mexico Area Agency on Aging				
Special Programs for the Aging - Title III, Part C	93.045	2011-12-68013	8,605	8,538
Nutrition Service Incentive Program	93.053	2011-12-68013	12,618	<u>12,618</u>
Total U.S. Department of Health and Human Services/Passed through NM Long-Term & Aging Department/Passed through Non-Metro NM Area Agency on Aging				21,156
U.S. Department of Homeland Security/Passed through New Mexico Department of Homeland Security/Passed through Union County, New Mexico				
Homeland Security Grant Program	97.067	2009-SS-T0-0011	52,789	<u>52,789</u>
Total Expenditures of Federal Awards				<u><u>\$ 804,394</u></u>

**STATE OF NEW MEXICO
TOWN OF CLAYTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the Town of Clayton (Town). The Town is defined in Note 1 of the Town's financial statements.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1, to the Town's financial statements.

3. NON-CASH ASSISTANCE

During the current fiscal year, the Town did not expend any federal non-cash assistance. The Town did not receive any federal assistance related to insurance nor did they have any loans or loan guarantees outstanding at year end.

4. RECONCILIATION OF FINANCIAL STATEMENTS TO FEDERAL AWARDS

Federal expenditures on the schedule of expenditures of federal awards amount of \$714,004. The amounts of expenditures within the funds are reflected within the financial statements as follows:

General Fund	
Capital outlay	\$ 52,789
Special Revenue Funds	
<u>Senior Citizens Fund</u>	
Health and welfare	21,156
Capital Project Funds	
<u>Government Assistance Fund</u>	
Capital outlay	110,557
Proprietary Funds	
<u>Joint Utility Fund</u>	
Capital outlay	619,892
	\$ 804,394

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
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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, 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, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Town of Clayton and the Town of Clayton Public Housing Authority are responsible for establishing and maintaining effective 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 questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2009-08 to be a material weakness.

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 an instance of noncompliance, or other matters that is required to be reported under *Government Auditing Standards*, and which is described as item 2010-01 in the accompanying schedule of findings and questioned costs. 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 regards 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 questioned costs as items 2010-03, and 2011-03, 2011-04 and 2011-05.

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

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

Fierro + Fierro, P.A.

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

October 26, 2012

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
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Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance
In Accordance with OMB Circular A-133

Hector H. Balderas, State Auditor
and
Mayor and Board of Trustees
Town of Clayton
Clayton, New Mexico

We have audited Town of Clayton's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of Clayton's major federal programs for the year ended June 30, 2012. Town of Clayton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Town of Clayton's management. Our responsibility is to express an opinion on Town of Clayton's compliance based on our audit.

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

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

Internal Control Over Compliance

Management of Town of Clayton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Town of Clayton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Clayton's internal control compliance.

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

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

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

Fierro + Fierro, P.A.

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

October 26, 2012

**STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? X Yes No
- Significant deficiency (ies) identified? Yes X None reported
- Non-compliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes X No
- Significant deficiency (ies) identified? Yes X None reported

Type of auditors' report issued on compliance with major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

CFDA No.	Program
14.228	Community Development Block Grant

- Dollar threshold for distinguishing Types A and B programs was \$300,000.
- Auditee qualified as low-risk auditee? Yes X No

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

SECTION II - FINANCIAL STATEMENTS FINDINGS

Primary Government

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 audit tests 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, 2012.

Criteria – New Mexico State Statutes Section 12-6-10(c) NMSA 1978 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. 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, betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

Section 12-6-10(A) NMSA 1978 requires the Town at the end of each fiscal year to conduct a physical inventory of movable chattels and equipment costing more than \$5,000 that is under the control of the municipality. Additionally, New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, section 15 A (3) requires 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.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

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. By not tagging all assets it 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 utilizing 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. Due to normal daily requirements to maintain the operations of the Town, the staff has not allocated sufficient time to perform the physical inventory.

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’s accounting software has a “capital assets” module that should be utilized by the accounting staff. 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 – This is a repeat finding that the Town has failed to correct within the past year. The Town has however begun to tag and photograph capital assets, old tags are being replaced and a new inventory list is being compiled. The capital assets module within the accounting software will be utilized.

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.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Statement of Condition (continued) – 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.

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.*"

The Town has obtained funds from the surplus account that met the requirements of the bond ordinance; however, the financial activity has not been recorded within a prison fund of the Town.

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.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Criteria (continued) –

- 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 year ended June 30, 2012 within 90 days as required.
- 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.

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*
- *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,*

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

- Other Remedies (continued). *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 – When the bonds were issued, the Town manager and clerk-treasurer failed to establish separate accounting records. They failed to seek proper budgetary authority for items purchased from the surplus account. The current Town manager and treasurer have not instituted the necessary changes needed.

Recommendation – We recommend the following:

1. The Town should establish a fund and record the prison facility financial activity. All assets, liabilities, equity, revenues and expenses should be recorded within the fund. 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.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor's recommendations. The Town has consulted with OSA and will proceed with obtaining audited statements of the trust accounts.

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:

- There were eight instances where the travel request form did not reflect written approval by authorized employee's supervisor.
- There were two instances where the per diem for partial day was not paid to the Town employees. The underpayment amounted to \$40.
- There were three instances where the mileage rate was incorrectly applied at \$0.505 per mile rather than at \$0.50. The employees were over paid by \$8.07.
- There was one instance where the per diem was miscalculated. The employee was overpaid by \$55 as the Town failed to correctly calculate the partial per diem amount.

This finding is a repeat finding from the previous two years. After the prior years' audit, the Town instituted changes to its administrative procedures regarding travel and per diem. The discrepancies noted above that occurred after the Town's changes are as follows: five instances of no written approval by the authorized employee's supervisor; one instance in which the incorrect mileage rate was applied resulting in an employee being over paid by \$8.07; and one instance in which the per diem was miscalculated resulting in the employee being overpaid by \$55.

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.

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 Town's accounting staff processed the travel reimbursements without written proper authorization documented on the request form. The accounting department performs the calculation of the reimbursement and erred when calculating the reimbursement for partial day travel. The accounting staff failed to change the mileage rate for 2011.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Recommendation – The Town’s accounting staff is making progress in correcting errors made in the past. We recommend that greater emphasis be placed on reviewing each travel reimbursement form prior to approving for payment. Additionally, no request should be processed until the form has been properly authorized by the appropriate board member or supervisor.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor’s recommendation.

Item 2011-03 – Other - Grant Compliance

Statement of Condition – The Town entered into a grant agreement with the New Mexico Economic Department (Department) for renovations of the Luna Theater owned by the municipality. The grant award amounted to \$200,000. The Town failed to comply with a provision within the 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. The project has been completed as of June 30, 2012.

Criteria – Within the 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 the 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 – 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 maintains a Capital Project Fund which has separate departments for each project within the fund. Funds for each job are identified separately and properly accounted for. Funding sources have not criticized or penalized the Town for this activity in project audits or close out reviews.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Statement of Condition – During the current fiscal year, expenditures within the Law Enforcement Protection fund amounted to \$24,202, while the authorized budget amounted to \$24,200. The Town exceeded the authorized budget within this fund by \$2.

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.

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

Cause – The Town's annual lease payment for police vehicles is \$24,202 while the annual police allotment within the fund is \$24,200. In the original budget, the Town budgeted \$24,200 for its annual lease payment. The Town Treasurer made the necessary cash transfers to fund the shortfall but failed to make the necessary budget adjustment to the final budget.

Recommendation – We recommend that assistance be given to the Treasurer by others within the municipality to ensure that expenditures are within budgetary constraints.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor's recommendation.

Item 2011-05 – Other - Joint Powers Agreement

Statement of Condition – The Town has entered into a joint powers agreement (JPA) with Union County to assist in the payment of the position of emergency manager, who provides services for both the Town and the County. The Town's Board of Trustees did not take formal action to extend the JPA for the fiscal year ended June 30, 2012. During the current year the Town remitted \$19,985 to Union County.

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

Effect – The JPA is a legal document that details the responsibilities and duties of all involved parties. Without a properly executed document, disagreements could arise which could result in additional responsibilities for the Town, including an additional financial commitment.

Cause – This audit finding is repeated from the previous fiscal year. The Town's staff failed to have the JPA extended as required.

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

SECTION II - FINANCIAL STATEMENTS FINDINGS (continued)

Primary Government (continued)

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

Recommendation – We recommend the Town ensure that all JPA's for the fiscal year ended June 30, 2013 are properly executed. In order to avoid this problem in future years, we recommend Town establish administrative procedures to ensure that all JPA's are legally executed for each fiscal year.

Views of Responsible Officials and Planned Corrective Actions – The Town concurs with auditor's recommendation.

Component Unit

None.

**SECTION III - FEDERAL AWARDS AND QUESTIONED COSTS -
COMMUNITY DEVELOPMENT BLOCK GRANT CFDA 14.228**

Primary Government

None.

Component Unit

None.

SECTION IV - PRIOR YEAR'S AUDIT FINDINGS

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. Subsequent to our audit the Town revamped its method of retaining supporting documents thus providing evidence of authorized expenditures. The audit tests we performed indicated the Town resolved the prior year's finding.

Item 2009-04 – Preparation of Financial Statements and Disclosures – In the prior year's audit report, we noted individuals responsible for the accounting and financial reporting functions for the Town lacked the skills and knowledge to apply generally accepted accounting principles in preparing the Town's financial statement. During the current year those deficiencies have been corrected. For the past two years the Town's Treasurer has attended educational classes regarding governmental financial reporting. From our observation the additional education along with two years of employment in her current position has strengthened the Treasurer knowledge of governmental financial reporting.

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

SECTION IV - PRIOR YEAR'S AUDIT FINDINGS

Item 2009-04 – Preparation of Financial Statements and Disclosures (continued) - Additionally, information provided to us used to support various components of the financial statements indicates the Treasurer has the necessary knowledge regarding governmental financial reporting. Therefore, the finding has been resolved.

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. 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. During the current year the Town failed to correct the deficiencies regarding the capital assets subsidiary records and the performance of an annual inventory. The prior year's audit finding is 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 has not taken the necessary 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. During the current fiscal year the Town properly allocated the interest bearing bank deposits. The prior year's audit finding has been resolved.

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. During the current year, we noted errors regarding proper supporting document preparation; therefore, the audit finding has been modified and repeated as Item 2010-03.

Item 2011-01 – Capital Leases – In the prior year's audit report, we noted the Town entered into a lease/purchase agreement with a local bank in Clayton, New Mexico. The agreement lacked proper language to ensure that it was considered a lease rather than debt. During the current fiscal year, the Town and bank replaced to old agreement with an agreement that contained the proper language to ensure it was a lease. The audit finding is considered resolved.

Item 2011-02 – Public Purchasing – In the previous audit report, we noted the Town had entered into purchases that violated the State of New Mexico procurement code. During the current audit, our tests of purchases subject to the procurement code revealed that the Town complied with the procurement act. The audit finding is considered resolved.

Item 2011-03 – Grant Compliance - In the prior year's audit report, we noted the Town failed to comply with two separate grants requiring the establishment of two separate funds to account for grant revenues and expenditures. The street improvements grant was completed in the previous year; however; the Luna Theater renovation project continued during the present fiscal year. The Town accounting staff failed to establish a separate fund for that grant. The audit finding is modified and repeated as Item 2011-03.

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

SECTION IV - PRIOR YEAR'S AUDIT FINDINGS

Item 2011-04 – Legal Compliance with Adopted Budget – In the previous year's audit report, we noted the Town had exceeded their authorized budget within three separate funds and had budgeted a deficit budget in another fund. In the current year, the Town exceeded their authorized budget within one fund. The Town did not budget a deficit budget in any funds. The prior year's audit finding is modified and repeated as Item 2011-04.

Item 2011-05 – Joint Powers Agreement and Memorandum of Agreement – In the previous year's audit report, we noted the Town had failed to properly extend or renew a joint powers agreement and a memorandum of agreement. During the current year, the Town renewed the memorandum of agreement; however, they failed to take action on the joint powers agreement. The prior year's audit finding is modified and repeated as Item 2011-05.

STATUS OF PRIOR YEAR'S AUDIT FINDINGS – COMPONENT UNIT

Item CU2010-02 – Travel and Per Diem – In the previous year's audit report, it was noted that 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 made the necessary adjustments to conform the Mileage and Per Diem Act. This finding has been resolved.

STATE OF NEW MEXICO
TOWN OF CLAYTON
EXIT CONFERENCE AND
PREPARATION OF FINANCIAL STATEMENTS
JUNE 30, 2012

The audit report for the fiscal year ended June 30, 2012, was discussed during the exit conference held on October 29, 2012. Present for the Town was Coby Beckner, mayor pro-tem; Ferron Lucero, Town manager; Karen Bray; Town clerk; Amber Painter, Town treasurer and Carla Taylor, administrative assistant. Present for the auditing firm was Ed Fierro, CPA.

PUBLIC HOUSING AUTHORITY
EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2012, was discussed during the exit conference held on October 29, 2012. 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, 2012. 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.