

STATE OF NEW MEXICO

VILLAGE OF GRADY

AUDIT REPORT

For the Year Ended June 30, 2010

(with Auditor's Report Thereon)

RICE & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO

VILLAGE OF GRADY

AUDIT REPORT

For The Year Ended June 30, 2010

(with Auditor's Report Thereon)

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VILLAGE OF GRADY
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STATE OF NEW MEXICO
VILLAGE OF GRADY
Official Roster
Year Ended June 30, 2010

Village Council

<u>Name</u>	<u>Title</u>
Mr. Wesley Shafer	Mayor
Ms. Kathy Edwards	Mayor Pro-Tem
Ms. Mae Szaloy	Member
Mr. Harvey Hamlett	Member
Mr. Jimmy Schell	Member

Village Administration

Ms. Leona Powell	Clerk/Treasurer
Ms. Katy MacKechnie	Deputy Clerk

Rice and Associates, C.P.A.

AUDITING
BOOKKEEPING
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS
11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas
New Mexico State Auditor
and
Honorable Mayor and Village Council
Village of Grady
Grady, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison for the General, Fire Protection, EMS, Gas Tax and Senior Citizens Funds of the Village of Grady, as of and for the year ended June 30, 2010, which collectively comprise the Village's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Village's non-major governmental and enterprise funds and the budgetary comparisons for all non-major governmental and enterprise funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the Village of Grady'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village of Grady's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grady, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General and Fire Protection, EMS, Gas Tax and Senior Citizens Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental and enterprise funds of the Village of Grady, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the non-major governmental and enterprise funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011 on our consideration of the Village of Grady'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 over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Village has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Road & Associates, LLC

March 31, 2011

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Statement of Net Assets
 June 30, 2010

Statement 1
 Page 1 of 2

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 229,100	\$ 32,849	\$ 261,949
Accounts receivable (net of uncollectible accounts)	7,181	4,302	11,483
Inventory	1,251	-	1,251
Total current assets	237,532	37,151	274,683
Capital Assets			
Land	11,200	10,488	21,688
Land improvements	10,000	-	10,000
Buildings and improvements	635,998	-	635,998
Vehicles/heavy equipment	954,763	-	954,763
Plant/Infrastructure	361,552	331,501	693,053
Total capital assets	1,973,513	341,989	2,315,502
Less accumulated depreciation	(665,756)	(103,719)	(769,475)
Total capital assets (net of accumulated depreciation)	1,307,757	238,270	1,546,027
Total assets	\$ 1,545,289	\$ 275,421	\$ 1,820,710

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Statement of Net Assets
 June 30, 2010

Statement 1
 Page 2 of 2

	Governmental Activities	Business Type Activities	Total
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
NMFA Loan	22,837	3,431	26,268
Total current liabilities	22,837	3,431	26,268
Non-Current Liabilities			
Compensated absences payable	288	-	288
NMFA Loan	99,934	31,420	131,354
Total non-current liabilities	100,222	31,420	131,642
Total liabilities	123,059	34,851	157,910
Net Assets			
Invested in capital assets net of related debt	1,184,986	203,419	1,388,405
Unrestricted	237,244	37,151	274,395
Total net assets	1,422,230	240,570	1,662,800
Total liabilities and net assets	\$ 1,545,289	\$ 275,421	\$ 1,820,710

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Statement of Activities
Year Ended June 30, 2010

Statement 2

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 78,341	\$ 984	\$ 7,327	\$ -	\$ (70,030)	\$ -	\$ (70,030)
Highways and streets	-	-	-	-	-	-	-
Public safety	70,520	-	104,747	403,000	437,227	-	437,227
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	77,043	10,508	70,741	-	4,206	-	4,206
Interest	4,730	-	-	-	(4,730)	-	(4,730)
Depreciation - unallocated	74,458	-	-	-	(74,458)	-	(74,458)
Total governmental activities	305,092	11,492	182,815	403,000	292,215	-	292,215
Business-type activities:							
Water services	57,447	44,790	3,574	-	-	(9,083)	(9,083)
Total business-type activities	57,447	44,790	3,574	-	-	(9,083)	(9,083)
Total all activities	<u>\$ 362,539</u>	<u>\$ 56,282</u>	<u>\$ 186,389</u>	<u>\$ 403,000</u>	292,215	(9,083)	283,132
General Revenues:							
Property taxes					3,272	-	3,272
Gross receipts taxes					21,128	-	21,128
Franchise taxes					389	-	389
Gasoline taxes					6,933	-	6,933
Motor vehicle taxes					269	-	269
State aid not restricted to special purpose							
General					35,000	-	35,000
Transfers					-	-	-
Investment earnings					19	-	19
Total general revenues					67,010	-	67,010
Change in net assets					359,225	(9,083)	350,142
Net assets - beginning of year, as previously reported					1,265,780	252,171	1,517,951
Restatement					(202,775)	(2,518)	(205,293)
Net assets - beginning of year, as restated					1,063,005	249,653	1,312,658
Net assets - ending					<u>\$ 1,422,230</u>	<u>\$ 240,570</u>	<u>\$ 1,662,800</u>

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Balance Sheet
Governmental Funds
June 30, 2010

Statement 3

	General Fund	Fire Protection Fund	EMS Fund	Gas Tax Fund	Senior Citizens Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash on deposit	\$ 157,177	\$ 49,575	\$ 902	\$ 26,581	\$ (5,135)	\$ -	\$ 229,100
Accounts receivable	1,749	-	-	-	5,432	-	7,181
Inventory	-	-	-	-	1,251	-	1,251
Total assets	<u>\$ 158,926</u>	<u>\$ 49,575</u>	<u>\$ 902</u>	<u>\$ 26,581</u>	<u>\$ 1,548</u>	<u>\$ -</u>	<u>\$ 237,532</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE							
Unreserved:							
Undesignated reported in:							
General fund	158,926	-	-	-	-	-	158,926
Special revenue funds	-	49,575	902	26,581	1,548	-	78,606
Total fund balance	<u>158,926</u>	<u>49,575</u>	<u>902</u>	<u>26,581</u>	<u>1,548</u>	<u>-</u>	<u>237,532</u>
Total liabilities and fund balance	<u>\$ 158,926</u>	<u>\$ 49,575</u>	<u>\$ 902</u>	<u>\$ 26,581</u>	<u>\$ 1,548</u>	<u>\$ -</u>	<u>\$ 237,532</u>

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2010

Statement 4

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

Total fund balances - governmental funds		\$ 237,532
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		
The cost of capital assets	1,973,513	
Accumulated depreciation	<u>(665,756)</u>	
		1,307,757
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:		
NMFA Loan	(122,771)	
Compensated absences	<u>(288)</u>	
		<u>(123,059)</u>
Net assets of governmental activities		<u><u>\$ 1,422,230</u></u>

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2010

	General Fund	Fire Protection Fund	EMS Fund	Gas Tax Fund	Senior Citizens Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 3,272	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,272
Charges for services	984	-	-	-	10,508	-	11,492
Licenses and permits	-	-	-	-	-	-	-
Local sources	7,327	4,296	-	-	3,463	-	15,086
State sources	35,000	476,375	7,076	-	59,224	20,000	597,675
Federal sources	-	-	-	-	8,054	-	8,054
State shared taxes	21,786	-	-	6,933	-	-	28,719
Earnings from investments	-	19	-	-	-	-	19
Total revenues	68,369	480,690	7,076	6,933	81,249	20,000	664,317
EXPENDITURES							
Current:							
General government	78,157	-	-	-	-	-	78,157
Highways and streets	-	-	-	-	-	-	-
Public safety	-	39,046	11,474	-	-	20,000	70,520
Health & welfare	-	-	-	-	-	-	-
Culture and recreation	495	-	-	-	76,548	-	77,043
Capital outlay	-	480,735	-	-	-	-	480,735
NMFA principle	-	22,096	-	-	-	-	22,096
NMFA interest	-	4,730	-	-	-	-	4,730
Total expenditures	78,652	546,607	11,474	-	76,548	20,000	733,281
Excess (deficiency) revenues over expenditures	(10,283)	(65,917)	(4,398)	6,933	4,701	-	(68,964)
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Net change in fund balances	(10,283)	(65,917)	(4,398)	6,933	4,701	-	(68,964)
Fund balance beginning of year, as previously reported	139,295	110,432	9,196	19,648	31,091	-	309,662
Restatement	29,914	5,060	(3,896)	-	(34,244)	-	(3,166)
Fund balance beginning of year, as restated	169,209	115,492	5,300	19,648	(3,153)	-	306,496
Fund balance end of year	\$ 158,926	\$ 49,575	\$ 902	\$ 26,581	\$ 1,548	\$ -	\$ 237,532

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2010

Statement 6

Net change in fund balances - total governmental funds \$ (68,964)

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

Capital outlays to purchase or build capital
 assets are reported in governmental funds as
 expenditures. However, for governmental
 activities those costs are shown in the statement
 of net assets and allocated over their estimated
 useful lives as annual depreciation expenses in the
 statement of activities. This is the amount by which
 capital outlays exceed depreciation expense in the period.

Capital outlays	480,735
Depreciation expense	<u>(74,458)</u>

Excess of capital outlay over depreciation expense 406,277

In the Statement of Activities, certain operating
 expenses are measured by the amount incurred
 during the year. In the fund financial statements
 however, expenditures are measured by the amount
 of financial resources used (essentially the amounts
 actually paid). The (increase) decrease in the
 liabilities for the year were:

Compensated absences payable	(184)
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The issuance of long-term debt provides current
 financial resources to governmental funds while
 the repayment of the principal of long-term debt
 consumes the current financial resources of
 governmental funds. Repayment of loans payable
 is an expenditure in the governmental funds, but it
 reduces long-term liabilities in the statement of net
 assets and does not affect the Statement of Activities.

Repayment of long-term debt	<u>22,096</u>
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Change in net assets of governmental activities	<u>\$ 359,225</u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 General Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 3,084	\$ 3,084	\$ 3,272	\$ 188
Charges for services	-	-	464	464
Licenses and permits	-	-	-	-
Local sources	5,048	5,048	7,847	2,799
State sources	35,000	35,000	35,000	-
Federal sources	-	-	-	-
State shared taxes	37,316	37,316	22,139	(15,177)
Earnings from investments	-	-	-	-
Total revenues	<u>\$ 80,448</u>	<u>\$ 80,448</u>	<u>\$ 68,722</u>	<u>\$ (11,726)</u>
EXPENDITURES				
Current:				
General government	\$ 67,806	\$ 92,806	\$ 78,157	\$ 14,649
Highways and streets	-	-	-	-
Public safety	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	495	(495)
Capital outlay	-	-	-	-
Total expenditures	<u>\$ 67,806</u>	<u>\$ 92,806</u>	<u>\$ 78,652</u>	<u>\$ 14,154</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ 12,358</u>		

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Fire Protection Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local sources	\$ -	\$ -	\$ 4,296	\$ 4,296
State sources	476,375	476,375	476,375	-
Federal sources	-	-	-	-
Earnings from investments	-	-	19	19
Total revenues	<u>\$ 476,375</u>	<u>\$ 476,375</u>	<u>\$ 480,690</u>	<u>\$ 4,315</u>
EXPENDITURES				
Public safety	\$ 586,052	\$ 586,052	\$ 546,607	\$ 39,445
Total expenditures	<u>\$ 586,052</u>	<u>\$ 586,052</u>	<u>\$ 546,607</u>	<u>\$ 39,445</u>
BUDGETED CASH BALANCE	<u>\$ 109,677</u>	<u>\$ 109,677</u>		

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 EMS Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local sources	\$ -	\$ -	\$ -	\$ -
State sources	7,076	7,076	7,076	-
Federal sources	-	-	-	-
Earnings from investments	-	-	-	-
Total revenues	<u>\$ 7,076</u>	<u>\$ 7,076</u>	<u>\$ 7,076</u>	<u>\$ -</u>
EXPENDITURES				
Public safety	\$ 12,126	\$ 12,126	\$ 11,474	\$ 652
Total expenditures	<u>\$ 12,126</u>	<u>\$ 12,126</u>	<u>\$ 11,474</u>	<u>\$ 652</u>
BUDGETED CASH BALANCE	<u>\$ 5,050</u>	<u>\$ 5,050</u>		

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Gas Tax Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local sources	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-
State shared taxes	5,004	5,004	6,933	1,929
Earnings from investments	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 5,004</u>	<u>\$ 5,004</u>	<u>\$ 6,933</u>	<u>\$ 1,929</u>
EXPENDITURES				
Public safety	\$ -	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BUDGETED CASH BALANCE				
	<u>\$ -</u>	<u>\$ -</u>		

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Senior Citizens Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services	\$ -	\$ -	\$ 10,508	\$ 10,508
Local sources	24,700	24,700	3,463	(21,237)
State sources	62,478	62,478	55,971	(6,507)
State shared taxes	2,500	2,500	8,046	5,546
Earnings from investments	-	-	-	-
Total revenues	<u>\$ 89,678</u>	<u>\$ 89,678</u>	<u>\$ 77,988</u>	<u>\$ (11,690)</u>
EXPENDITURES				
Public safety	\$ 87,507	\$ 87,507	\$ 76,761	\$ 10,746
Total expenditures	<u>\$ 87,507</u>	<u>\$ 87,507</u>	<u>\$ 76,761</u>	<u>\$ 10,746</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ -</u>		

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Proprietary Funds
 Statement of Net Assets
 June 30, 2010

Statement 12

	Water Fund
ASSETS	
Current Assets	
Cash on deposit	\$ 32,849
Accounts receivable (net)	<u>4,302</u>
Total Current Assets	<u>37,151</u>
Capital Assets	
Land	3,100
Land improvements	7,388
Plant/infrastructure	331,501
Accumulated depreciation	<u>(103,719)</u>
Total Capital Assets	<u>238,270</u>
Total Assets	<u>\$ 275,421</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ -
Current portion loan payable	<u>3,431</u>
Total Current Liabilities	<u>3,431</u>
Long-Term Liabilities	
RIP loan payable	<u>31,420</u>
Total Long-Term Liabilities	<u>31,420</u>
Total Liabilities	<u>34,851</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	203,419
Unrestricted	<u>37,151</u>
Total Net Assets	<u>240,570</u>
Total Liabilities and Net Assets	<u>\$ 275,421</u>

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Proprietary Funds

Statement 13

Statement of Revenues, Expenses and Changes in Fund Net Assets
 For the Year Ended June 30, 2010

	Water Fund
OPERATING REVENUES	
Sales and services	\$ 44,790
Local source	<u>3,574</u>
Total operating revenue	<u>48,364</u>
OPERATING EXPENSES	
Personal services	6,211
Maintenance and operations	39,040
Major contractual services	-
Other operating expenses	-
Depreciation	<u>11,050</u>
Total operating expenses	<u>56,301</u>
Operating income (loss)	<u>(7,937)</u>
NON-OPERATING REVENUE (EXPENSE)	
Investment income	-
Investment expense	1,146
Transfers in	-
Transfers out	-
State grant	-
Federal grant	<u>-</u>
Total Non-Operating Revenue (Expense)	<u>1,146</u>
Change in Net Assets	(9,083)
Total net assets, beginning of year, as previously reported	252,171
Restatement	<u>(2,518)</u>
Total Net-Assets, beginning of year, as restated	<u>249,653</u>
Total net assets, end of year	<u>\$ 240,570</u>

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2010

Statement 14

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 45,019
Cash received from local sources	3,574
Cash payments to employees and to suppliers for goods and services	(45,251)
Net cash provided by operating activities	3,342
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid	(3,331)
Acquisition of capital assets	-
Investment expense	(1,145)
Net cash provided (used) by capital and related financing activities	(4,476)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	-
Net cash provided by investing activities	-
Net increase (decrease) in cash	(1,134)
Cash, beginning of year	33,630
Restatement	353
Cash, beginning of year, as restated	33,983
Cash, end of year	\$ 32,849
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (7,937)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	11,050
Changes in assets and liabilities:	
(Increase) decrease in receivables	229
Increase (decrease) in accounts payable	-
Net cash provided (used) by operating activities	\$ 3,342

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

STATE OF NEW MEXICO
VILLAGE OF GRADY
Notes to Financial Statements
Year Ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Grady is incorporated under Section 3 New Mexico State Statutes Annotated 1978 Compilation operating under a Mayor-Council form of government and provides the following services as authorized: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services.

The financial statements of the Village of Grady have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the Village had no component units.

Notes to Financial Statements (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which is normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Notes to Financial Statements (continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *Fire Protection Fund* (Special Revenue Fund) is to account for the operations and maintenance of the Fire Department. It is financed by a specific allotment from the State Fire Marshall's Office. The authority is NMSA 59A-53-1.

The *Emergency Medical Services* (Special Revenue Fund) is for grant funds received by the Village from state sources for development of an EMS System. Funding is provided for under State Statute 24-10A-1 to 24-10A-10 NMSA Compilation.

The *Gas Tax Fund* (Special Revenue Fund) accounts for receipts of State of New Mexico gasoline taxes and expenditures to maintain the roads of the Village.

The *Senior Citizens Fund* (Special Revenue Fund) accounts for donations and fees collected by the Village on behalf of its senior citizens and expended for them in accordance with their wishes, and to account for grant funds for the benefit of senior citizens. The authority for the allocation and set-up of the fund is 9-2-5 through 9-2-19, NMSA 1978.

The Village also reports additional Government funds as non-major. They include:

Special Revenue Funds - these funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Village reports the following Proprietary Fund types:

Enterprise Fund - Water Fund - To account for the provision of water services to the residents of Grady, New Mexico. All activities necessary to provide these services are accounted for in this fund.

Notes to Financial Statements (continued)

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Village's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Village's general revenues. Program revenues include: 1) charges for services to taxpayers or applicants who purchase, use or directly benefit from the goods or services provided by the given function 2) program-specific operating grants and contributions and 3) program specific capital grants and contributions including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 enterprise fund is charged to customers for sales and services. The enterprise fund also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 nonoperating revenues and expenses.

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

Notes to Financial Statements (continued)

D. Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Village Clerk-Treasurer submits to the Village Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them based on previous year's history. Public hearings are conducted at the Village Hall to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance.
2. The Village Clerk-Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the Village Council and New Mexico State Department of Finance, Division of Local Governments. The original budget that was adopted in July, 1998 was amended during the fiscal year in a legally permissible manner.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Funds.
4. Encumbrances are not reported in the budgets or financial statements.
5. The level of classification detail in which expenditures of expenses may not legally exceed appropriations for each budget is in fund total. Appropriations lapse at year end.
6. Budgets for the General and Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principals. Throughout the year the accounting records are maintained on the Non-GAAP basis of cash receipts and disbursements. Accordingly, certain revenues and the related assets are recognized when paid rather than when the obligation is incurred. The financial statements are presented on the modified accrual basis of accounting. Budgetary comparisons presented for General and Special Revenue Funds in this report are on the Non-GAAP budgetary basis and actual (cash basis). The budget of the Enterprise Fund is adopted on a Non-GAAP cash basis.

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest bearing accounts with local financial institutions and the State Treasurer Pool.

Notes to Financial Statements (continued)

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Village. The pledged securities remain in the name of the financial institution.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

The cost of inventories are recorded as expenditures when purchased rather than when consumed.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future periods until they are fully depreciated. Donated Capital Assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

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

Notes to Financial Statements (continued)

<u>Assets</u>	<u>Years</u>
Land improvements	10
Buildings	30
Building improvements	30
Public domain infrastructure	30
System infrastructure	30
Vehicles	5
Equipment	5
Heavy equipment	20

The Village does not capitalize computer software or software developed for internal use (if applicable) unless it exceeds the \$5,000 threshold.

H. Compensated Absences

It is the policy of the Village of Grady to permit certain employees to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon separation from the Village's service. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Sick pay does not vest and is recorded as an expenditure when it is paid.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

J. Restricted Assets

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

K. Net Assets

The governmental activities and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as follows:

Notes to Financial Statements (continued)

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

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

Unrestricted net assets - This category reflects net assets of the Village not restricted for any project or other purposes.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change. The Village designates the portion of the year-end fund balance, not otherwise designated or reserved, for subsequent years' expenditures. These designations are established to earmark resources for specific future use and to indicate that the fund equity does not represent available spendable resources.

M. Estimates

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

N. Risk Management

The Village 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 Village carries commercial insurance for these risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the current fiscal year.

O. Surety Coverage

The officials and certain employees of the Village are covered by a surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule NMAC 2.2.

2. DEPOSITORY COLLATERAL

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Village's Time deposits, savings deposits and interest bearing NOW accounts of 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.

Notes to Financial Statements (continued)

The following is the Cash on Deposit at each financial institution.

Wells Fargo	General	Checking	<u>\$ 279,766</u>
Total amount on deposit			\$ 279,766
Deposit in transit			276
Outstanding checks			<u>(18,093)</u>
Total per financial statements			<u>\$ 261,949</u>

The following schedule details the public money held by Wells Fargo and the pledged collateral provided for the Village follows:

	<u>Wells Fargo</u>
Cash on deposit at June 30	\$ 279,766
Less <u>FDIC</u>	<u>(250,000)</u>
Uninsured funds	29,766
Funds needing collateralization at 50% (required by State Law)	14,883
Pledged collateral at June 30	<u>401,251</u>
Excess of Pledged Collateral	<u>\$ 386,368</u>

Custodial Credit Risk - Deposits - Custodial Credit Risk is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of June 30, \$0 of the Village's bank balance \$279,766 was exposed to custodial credit risk as follows:

A. Uninsured and Uncollateralized	\$ -
B. Uninsured and collateralized with securities held by the pledging banks trust department, but not in the Village's name	<u>29,766</u>
Total	<u>\$ 29,766</u>

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the cooperative for at least one half of the amount on deposit with the institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. The collateral pledged is shown as follows:

Notes to Financial Statements (continued)

<u>WFBS/WFBNW</u> <u>Wells Fargo California</u>	<u>Maturity Date</u>	<u>Fair Market</u> <u>Value</u>
FNMA CUSIP#31371KW26	12-2032	\$ 303,049
FNMA CUSIP#31409GP42	10-01-36	60,295
FNMA CUSIP#31414TBF7	05-01-38	<u>37,907</u>
		<u>\$ 401,251</u>

3. LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Governmental Funds

During the year ended June 30, the following changes occurred in the liabilities reported in the Governmental Funds:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences payable	<u>\$ 104</u>	<u>\$ 184</u>	<u>\$ -</u>	<u>\$ 288</u>	<u>\$ -</u>

The liability will be liquidated by the General Fund.

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
NMFA Loan	<u>\$ 144,867</u>	<u>\$ -</u>	<u>\$ 22,096</u>	<u>\$ 122,771</u>	<u>\$ 22,837</u>

The Village entered into a loan agreement with the New Mexico Finance Authority evidencing a special limited obligation of the Village to pay a principal amount of \$222,223 and interest for the purpose of defraying the cost of acquiring a fire tanker for the Village's fire department. The yearly payments are to be redirected from the Village's share of the State Fire Fund revenues to the NMFA. The interest rate is 1.660% to 4.15% plus 0.25% administrative fee. The maturity date is May 1, 2015.

<u>Due Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 22,837	\$ 4,586	\$ 27,423
2012	23,637	3,788	27,425
2013	24,495	2,932	27,427
2014	25,411	2,016	27,427
2015	<u>26,391</u>	<u>1,040</u>	<u>27,431</u>
Total	<u>\$ 122,771</u>	<u>\$ 14,362</u>	<u>\$ 137,133</u>

Notes to Financial Statements (continued)

The liability will be liquidated by the Fire Protection Fund.

Enterprise Fund

During the year ended June 30, the following changes occurred in certain long-term liabilities reported in the Enterprise Fund:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
RIP Loan	<u>\$ 38,182</u>	<u>\$ -</u>	<u>\$ 3,331</u>	<u>\$ 34,851</u>	<u>\$ 3,431</u>

The Village entered into a loan agreement from the Rural Infrastructure Program (RIP) evidencing a special limited obligation of the Village to pay a principal amount of \$56,226 and interest for the purpose of improving the water system and constructing a new water storage tank for the Village. The interest rate is 3%. The maturity date is June 30, 2019.

<u>Due Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,431	\$ 1,045	\$ 4,476
2012	3,534	942	4,476
2013	3,640	836	4,476
2014	3,749	727	4,476
2015	3,861	615	4,476
2016	3,977	499	4,476
2017	4,096	380	4,476
2018	4,218	258	4,476
2019	<u>4,345</u>	<u>132</u>	<u>4,477</u>
Total	<u>\$ 34,851</u>	<u>\$ 5,434</u>	<u>\$ 40,285</u>

4. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semi-annual installments by November 10 and April 10 of the subsequent year. Taxes are collected on behalf of the Village by the County Treasurer, and are remitted to the Village in the month following collection. Because the Treasurer for the county in which the Village is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the Village.

The Village is permitted to levy taxes for general operating purposes based on taxable value for both residential and nonresidential property, taxable value being defined as one-third of the fully assessed value. In addition, the Village is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters of the Village.

Notes to Financial Statements (continued)

The Village accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues. The Village has no means of determining the amount of delinquent taxes, and no delinquent taxes are recorded on the Villages financial records.

5. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

<u>Revenues</u>	<u>General Fund</u>	<u>Fire Protection Fund</u>	<u>EMS Funds</u>	<u>Gas Tax Fund</u>
Accrual basis	\$ 68,369	\$ 480,690	\$ 7,076	\$ 6,933
Budget basis	<u>68,722</u>	<u>480,690</u>	<u>7,076</u>	<u>6,933</u>
Increase (decrease) in receivables	<u>\$ (353)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Expenditures</u>				
Accrual basis	\$ 78,652	\$ 546,607	\$ 11,474	\$ -
Budget basis	78,652	546,607	11,474	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in payables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Revenues</u>		<u>Senior Citizens Fund</u>	<u>Non-Major Special Revenue Funds</u>	<u>Proprietary Fund</u>
Accrual basis		\$ 81,249	\$ 20,000	\$ 48,364
Budget basis		<u>77,988</u>	<u>20,000</u>	<u>48,593</u>
Increase (decrease) in receivables		<u>\$ 3,261</u>	<u>\$ -</u>	<u>\$ (229)</u>
<u>Expenditures</u>				
Accrual basis		\$ 76,548	\$ 20,000	\$ 56,301
Budget basis		76,761	20,000	48,582
Depreciation		-	-	(11,050)
Principal paid		<u>-</u>	<u>-</u>	<u>3,331</u>
(Increase) decrease in inventory		<u>\$ (213)</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Financial Statements (continued)

6. CAPITAL ASSETS

The amount of property, plant and equipment in the Governmental-Type Activities consists of the following:

	Balance June 30, 2009	Additions	Adjustments	Deletions	Balance June 30, 2010
Land	\$ 11,200	\$ -	\$ -	\$ -	\$ 11,200
Total capital assets not being depreciated	<u>11,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,200</u>
Land improvements	-	-	10,000	-	10,000
Buildings	645,998	-	(10,000)	-	635,998
Infrastructure	361,552	-	-	-	361,552
Vehicles	<u>764,166</u>	<u>480,735</u>	<u>(290,138)</u>	<u>-</u>	<u>954,763</u>
Total capital assets being depreciated	<u>1,771,716</u>	<u>480,735</u>	<u>(290,138)</u>	<u>-</u>	<u>1,962,313</u>
Less accumulated depreciation for:					
Land improvements	-	(1,000)	(1,000)	-	(2,000)
Buildings	(204,202)	(17,518)	(126,894)	-	(348,614)
Infrastructure	(97,258)	(12,052)	844	-	(108,466)
Vehicles	<u>(380,367)</u>	<u>(43,888)</u>	<u>217,579</u>	<u>-</u>	<u>(206,676)</u>
Total accumulated depreciation	<u>(681,827)</u>	<u>(74,458)</u>	<u>90,529</u>	<u>-</u>	<u>(665,756)</u>
Total capital assets being depreciated	<u>1,089,889</u>	<u>406,277</u>	<u>(199,609)</u>	<u>-</u>	<u>1,296,557</u>
Net capital assets	<u>\$ 1,101,089</u>	<u>\$ 406,277</u>	<u>\$ (199,609)</u>	<u>\$ -</u>	<u>\$ 1,307,757</u>

The amount of property, plant and equipment in the Business-Type Activities consists of the following:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Land	\$ 10,488	\$ -	\$ -	\$ 10,488
Sub-total	<u>10,488</u>	<u>-</u>	<u>-</u>	<u>10,488</u>
Land improvements	\$ -	\$ -	\$ -	\$ -
Buildings	-	-	-	-
Plant	331,501	-	-	331,501
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total	<u>331,501</u>	<u>-</u>	<u>-</u>	<u>331,501</u>
Land improvements	-	-	-	-
Buildings	-	-	-	-
Plant	(92,669)	(11,050)	-	(103,719)
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total	<u>(92,669)</u>	<u>(11,050)</u>	<u>-</u>	<u>(103,719)</u>
Net capital assets	<u>\$ 249,320</u>	<u>\$ (11,050)</u>	<u>\$ -</u>	<u>\$ 238,270</u>

Notes to Financial Statements (continued)

7. ACCOUNTS RECEIVABLES

Receivables as of June 30, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Receivables from customers	\$ -	\$ 4,302
Less allowance for uncollectible accounts	-	-
Subtotal	-	4,302
Gross receipts taxes receivable	1,060	-
Property taxes receivable	90	-
Intergovernmental	6,031	-
 Total	 <u>\$ 7,181</u>	 <u>\$ 4,302</u>

8. RETIREMENT PLAN

Plan Description. Substantially all of Village of Grady'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 Board (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 7% of their gross salary. The Village of Grady is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the Village of Grady are established in Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of legislature. The Village of Grady contributions to PERA for the year ending June 30, 2010, 2009, and 2008 were \$2,351, \$4,407 and \$5,699 respectively equal to the amount of the required contributions for the year.

9. RETIREE HEALTH CARE ACT CONTRIBUTIONS

The Village has elected not to participate in the Retiree Health Care Act of New Mexico's retiree health care program.

Notes to Financial Statements (continued)

10. RESTATEMENT - FUND BALANCE/STATEMENT OF ACTIVITIES

The Village is reporting a prior period adjustment. The adjustment for the Business Type activities is \$2,872 to correct the total amount previously reported for the amount due for the RIP Loan and \$354 in cash not reported correctly in the prior year. The net effect totaling \$2,528. The adjustment for the Governmental-Type Activities is \$3,166 to correct cash as of June 30, 2009. The other adjustment was to correct capital assets in the amount of \$290,138 and accumulated depreciation in the amount of \$90,529 as of June 30, 2009. The net effect being \$202,775. A complete adjusted asset and depreciation schedule was provided for the June 30, 2010 fiscal year.

11. RESTATEMENT - FUND BALANCE/STATEMENT OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCE

The June 30, 2009 audit report did not report cash correctly for several funds. An April 30, 2009 bank statement was used instead of June 30, 2009. The total net effect being \$3,166.

**NON-MAJOR
SPECIAL REVENUE FUNDS**

LAW ENFORCEMENT PROTECTION FUND - To account for the receipts of a State of New Mexico Law Enforcement grant and expenditures to provide law enforcement services to residents of the Village.

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Non-Major Governmental Funds
 Balance Sheet
 June 30, 2010

Statement A-1

	Law Enforcement Protection Fund
	<u> </u>
ASSETS	
Cash on deposit	\$ -
Accounts receivable	<u>-</u>
Total assets	<u><u>\$ -</u></u>
 FUND BALANCE	
Unreserved:	
Undesignated	\$ <u>-</u>
Total fund balance	<u><u>\$ -</u></u>

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY

Statement A-2

Non-Major Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the year ended June 30, 2010

	Law Enforcement Protection Fund
	<u>Fund</u>
REVENUES	
Charges for services	\$ -
Local sources	-
State sources	20,000
State shared taxes	-
Earnings from investments	-
	<u>-</u>
Total revenues	<u>20,000</u>
EXPENDITURES	
Current:	
General government	-
Highways & streets	-
Public safety	20,000
Culture and recreation	-
	<u>-</u>
Total expenditures	<u>20,000</u>
Excess (deficiency) revenues over expenditures	-
OTHER FINANCING SOURCES (USES)	
Operating transfers in	-
Operating transfers out	-
	<u>-</u>
Total other financing sources (uses)	<u>-</u>
Net change in fund balances	-
Fund balance beginning of year	-
Fund balance end of year	<u>\$ -</u>

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

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Non-Major Special Revenue Fund - Law Enforcement Protection Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
State sources	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Total revenues	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ -</u>
EXPENDITURES				
Public safety	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Total expenditures	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ -</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ -</u>		

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

PROPRIETARY FUND DETAIL

PROPRIETARY FUNDS BUDGETS

WATER FUND - To account for the provision of water services to the residents of Corona, New Mexico. All activities necessary to provide these services are accounted for in this fund.

STATE OF NEW MEXICO
 VILLAGE OF GRADY
 Proprietary Funds
 Water Fund
 Statement of Revenues and Expenditures -
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales and services	\$ 50,861	\$ 50,861	\$ 45,019	\$ (5,842)
State sources	-	-	-	-
Federal sources	-	-	3,574	3,574
Interest income	-	-	-	-
Total revenues	<u>\$ 50,861</u>	<u>\$ 50,861</u>	<u>\$ 48,593</u>	<u>\$ (2,268)</u>
EXPENDITURES				
Personal services	\$ 7,000	\$ 7,000	\$ 6,211	\$ 789
Maintenance and operations	48,498	48,498	42,371	6,127
Capital outlay	-	-	-	-
Total expenditures	<u>\$ 55,498</u>	<u>\$ 55,498</u>	<u>\$ 48,582</u>	<u>\$ 6,916</u>
BUDGETED CASH BALANCE	<u>\$ 4,637</u>	<u>\$ 4,637</u>		

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

Rice and Associates, C.P.A.

AUDITING
BOOKKEEPING
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS
11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

**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**

Mr. Hector H. Balderas
New Mexico State Auditor
and
Honorable Mayor and Village Council
Village of Grady
Grady, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the General, Fire Protection, EMS, Gas Tax and Senior Citizens Funds of the Village of Grady, as of and for the year ended June 30, 2010, and have issued our report thereon dated March 31, 2011. We also have audited the financial statements of each of the Village's non-major governmental funds and all the budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Grady'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 Village of Grady's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

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

deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Grady's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards which is described in the accompanying Status of Comments and Responses as Late Audit Report (10-01).

The Village of Grady's responses to the findings identified in our audit are described in the accompanying Status of Comments and Responses. We did not audit the Village of Grady's responses and, accordingly, we express no opinion on them.

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



March 31, 2011

STATUS OF COMMENTS AND RESPONSES

Prior Year Audit Findings

NONE

Current Year Audit Findings

1. Late Audit Report (10-01)

Late Audit Report
(10-01)

CONDITION	The audit report was submitted to the State Auditor after the required deadline of December 1, 2010.
CRITERIA	Village audits are required to be submitted to the State Auditor by December 1 as required by NMAC 2.2.2.9A(1)(d).
CAUSE	The Village was unable to obtain a completed contract in time to have the audit completed by the due date.
EFFECT	NMAC 2.2.2.9A(1)(d) was not followed.
RECOMMENDATION	Management needs to ensure that the audit contract is obtained in a timely manner so the audit can be performed before the State Auditors deadline.
RESPONSE	Management will ensure that the 2011 audit contract is obtained in a timely manner so the 2011 audit is provided to the State Auditors Office by the deadline.

FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2010 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

EXIT CONFERENCE

An exit conference was held on March 31, 2011. In attendance were Ms. Leona Powell, Clerk/Treasurer, Mr. Wesley Shafer, Mayor, Ms. Kathy Edwards, Mayor Pro-Tem and Ms. Pamela A. Rice, CPA, Contract Auditor.