

**STATE OF NEW MEXICO
TOWN OF HURLEY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2012

STATE OF NEW MEXICO
TOWN OF HURLEY
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June 30, 2012

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

ELECTED OFFICIALS

Edward M. Encinas Mayor
Richard R. Maynes Mayor Pro-Tem
Fernando G. Martinez Councilor
Freddie M. Rodriguez..... Councilor
Rudy M. Peña Councilor

ADMINISTRATION

Martha Salas..... Town Clerk-Treasurer
Lori Ortiz Deputy Clerk

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www.fierrocpa.comIndependent Auditors' ReportHector H. Balderas, State Auditor
and
Mayor and Board of Trustees
Town of Hurley
Hurley, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the Town of Hurley 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, the nonmajor enterprise fund, and the budgetary comparisons for the major capital projects funds, enterprise funds, and all 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 Hurley's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The Town has not maintained complete subsidiary records that detail all capital assets owned by the Town. We were unable to obtain sufficient, competent evidence supporting the amounts reflected as property and equipment, included in the statement of net assets as of June 30, 2012. Further, we were unable to obtain sufficient, competent evidence supporting the depreciation expense included in the statement of activities for the year ended June 30, 2012.

In our opinion, except for the effects of such adjustments as discussed in the third paragraph, if any, the financial statements referred to previously 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 Town of Hurley as of June 30, 2012, and the respective changes in financial position and, cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of each nonmajor governmental funds of the Town of Hurley, 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 capital projects funds, major joint utility, and solid waste enterprise funds, and all nonmajor funds referred to previously present fairly, in all material respects, the budgetary comparison for each fund of the Town of Hurley for the year ended June 30, 2012, in conformity with the budgetary basis of accounting more fully described in Note 1D, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the Town of Hurley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control or on financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and, the combining and individual fund financial statements and the budgetary comparisons. 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.
Las Cruces, New Mexico

November 26, 2012

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 991,920	\$ 1,194,289	\$ 2,186,209
Investments	2,805	1,716	4,521
Receivables, net	72,524	77,075	149,599
Restricted cash	-	127,431	127,431
Restricted investments	22,004	-	22,004
Capital assets:			
Land and construction in progress	2,753,102	2,090,799	4,843,901
Other capital assets, net of depreciation	6,423,418	808,371	7,231,789
Total capital assets	9,176,520	2,899,170	12,075,690
Total assets	10,265,773	4,299,681	14,565,454
Liabilities			
Accounts payable	80,641	41,223	121,864
Accrued salaries	12,438	5,156	17,594
Accrued payroll taxes	5,657	-	5,657
Accrued sales tax	-	2,303	2,303
Accrued interest payable	119	2,957	3,076
Deposits payable	-	120,352	120,352
Long-term liabilities:			
Due within one year	19,550	7,946	27,496
Due in more than one year	32,861	144,067	176,928
Total liabilities	151,266	324,004	475,270
Net Assets			
Invested in capital assets, net of related debt	9,137,440	2,754,690	11,892,130
Restricted for:			
Debt service	22,004	6,919	28,923
State mandated per statutes	144,973	-	144,973
Unrestricted	810,090	1,214,068	2,024,158
Total net assets	\$ 10,114,507	\$ 3,975,677	\$ 14,090,184

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

**STATE OF NEW MEXICO
TOWN OF HURLEY
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		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 143,985	\$ 12,000	\$ 206,138	\$ -	\$ 74,153	\$ -	\$ 74,153
Public safety	431,358	-	96,985	-	(334,373)	-	(334,373)
Public works	114,329	-	-	1,760,107	1,645,778	-	1,645,778
Culture and recreation	53,868	9,327	-	-	(44,541)	-	(44,541)
Interest on long-term debt	1,502	-	-	-	(1,502)	-	(1,502)
Total governmental activities	745,042	21,327	303,123	1,760,107	1,339,515	-	1,339,515
Business-type activities:							
Water	181,171	194,981	-	-	-	13,810	13,810
Wastewater	296,321	270,563	-	241,044	-	215,286	215,286
Solid waste	154,328	133,403	-	-	-	(20,925)	(20,925)
Cemetery	2,495	2,750	-	-	-	255	255
Interest on long-term debt	8,946	-	-	-	-	(8,946)	(8,946)
Total business-type activities	643,261	601,697	-	241,044	-	199,480	199,480
Total primary government	<u>\$ 1,388,303</u>	<u>\$ 623,024</u>	<u>\$ 303,123</u>	<u>\$ 2,001,151</u>	1,339,515	199,480	1,538,995
General Revenues:							
Gross receipts taxes					267,477	6,240	273,717
Property taxes, levied for general purposes					14,224	-	14,224
Lodgers' taxes					4,274	-	4,274
Franchise taxes					30,132	-	30,132
Public service taxes					11,118	-	11,118
Interest income					2,101	1,053	3,154
Insurance recoveries					3,106	-	3,106
Donations					400	-	400
Transfers					103,303	(103,303)	-
Total general revenues and transfers					436,135	(96,010)	340,125
Change in net assets					1,775,650	103,470	1,879,120
Net assets, beginning of year					10,382,333	2,065,923	12,448,256
Restatements					(2,043,476)	1,806,284	(237,192)
Net assets, beginning of year, restated					8,338,857	3,872,207	12,211,064
Net assets, end of year					<u>\$ 10,114,507</u>	<u>\$ 3,975,677</u>	<u>\$ 14,090,184</u>

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TOWN OF HURLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Diaz Avenue Fund	Other E Street (Phase II) Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 617,596	\$ -	\$ 67,814	\$ 306,510	\$ 991,920
Investments	2,805	-	-	-	2,805
Receivables, net	24,354	46,825	-	1,345	72,524
Restricted:					
Investments	-	-	-	22,004	22,004
Total assets	\$ 644,755	\$ 46,825	\$ 67,814	\$ 329,859	\$ 1,089,253
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 7,356	\$ 46,825	\$ 18,658	\$ 7,802	\$ 80,641
Accrued salaries	10,589	-	-	1,849	12,438
Accrued payroll taxes	5,657	-	-	-	5,657
Deferred revenues	2,112	-	-	-	2,112
Total liabilities	25,714	46,825	18,658	9,651	100,848
Fund Balances:					
Restricted for:					
Debt service	-	-	-	22,004	22,004
State mandated per statutes	-	-	-	144,973	144,973
Committed for:					
One twelfth budget reserve	37,791	-	-	-	37,791
Subsequent years' expenditures	43,993	-	49,156	153,231	246,380
Unassigned	537,257	-	-	-	537,257
Total fund balances	619,041	-	49,156	320,208	988,405
Total liabilities and fund balances	\$ 644,755	\$ 46,825	\$ 67,814	\$ 329,859	\$ 1,089,253

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

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

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

Total fund balance governmental funds (page six)	\$	988,405
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		9,176,520
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.		2,112
Long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the funds.		(52,411)
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.		<u>(119)</u>
Net assets of governmental activities (page four)	\$	<u><u>10,114,507</u></u>

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

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

	General Fund	Diaz Avenue Fund	E Street (Phase II) Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Gross receipts taxes	\$ 267,477	\$ -	\$ -	\$ -	\$ 267,477
Property taxes	12,112	-	-	-	12,112
Franchise taxes	30,132	-	-	-	30,132
Lodgers' taxes	-	-	-	4,274	4,274
Public service taxes	11,118	-	-	-	11,118
Intergovernmental:					
Federal	-	-	410,674	-	410,674
State	206,138	1,284,433	65,000	96,985	1,652,556
Charges for services	3,507	-	-	9,327	12,834
Licenses and permits	1,423	-	-	-	1,423
Fines and forfeitures	-	-	-	7,069	7,069
Interest	1,929	-	-	172	2,101
Miscellaneous	3,107	-	-	400	3,507
Total revenues	536,943	1,284,433	475,674	118,227	2,415,277
Expenditures:					
Current:					
General government	128,245	-	-	-	128,245
Public safety	309,346	-	-	68,098	377,444
Public works	22,071	-	-	-	22,071
Culture and recreation	2,804	-	-	30,299	33,103
Capital outlay	-	1,284,433	471,188	-	1,755,621
Debt service:					
Principal	-	-	-	9,467	9,467
Interest and other charges	-	-	-	1,383	1,383
Total expenditures	462,466	1,284,433	471,188	109,247	2,327,334
Excess of revenues over expenditures	74,477	-	4,486	8,980	87,943
Other Financing Sources (Uses):					
Transfers in	97,303	-	6,000	21,298	124,601
Transfers (out)	(21,298)	-	-	-	(21,298)
Total other financing sources (uses)	76,005	-	6,000	21,298	103,303
Net change in fund balances	150,482	-	10,486	30,278	191,246
Fund balances, beginning of year	595,077	(4,039)	38,670	343,101	972,809
Restatements	(126,518)	4,039	-	(53,171)	(175,650)
Fund balances, beginning of year, restated	468,559	-	38,670	289,930	797,159
Fund balances, end of year	<u>\$ 619,041</u>	<u>\$ -</u>	<u>\$ 49,156</u>	<u>\$ 320,208</u>	<u>\$ 988,405</u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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 eight)	\$	191,246
<p>Governmental funds report capital outlay as expenditures in the amount of \$1,755,621; 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 \$178,180. The net adjustment is \$1,577,441.</p>		
		1,577,441
<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 amounted to \$0. The deferred property taxes for the current fiscal year amounted to \$2,112; therefore, the net adjustment is \$2,112.</p>		
		2,112
<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 increase of accrued interest liability from the previous year increases the interest expense within the statement of activities.</p>		
		(119)
<p>The repayment of principal of long-term debt consumes current financial resources of the governmental funds; however, it is not recorded as an expense within the statement of activities.</p>		
		9,467
<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>(4,497)</u>
Change in net assets of governmental activities (page five)	\$	<u><u>1,775,650</u></u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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	\$ 118,500	\$ 118,500	\$ 262,618	\$ 4,859	\$ 267,477	\$ 144,118
Property taxes	12,957	12,957	12,397	(285)	12,112	(560)
Franchise taxes	23,000	23,000	24,625	5,507	30,132	1,625
Public service taxes	11,000	11,000	11,585	(467)	11,118	585
Intergovernmental - state	135,000	135,000	204,405	1,733	206,138	69,405
Charges for services	3,000	3,000	3,507	-	3,507	507
Licenses and permits	1,250	1,250	1,423	-	1,423	173
Interest	1,500	1,500	1,916	13	1,929	416
Miscellaneous	700	700	3,107	-	3,107	2,407
Total revenues	306,907	306,907	525,583	11,360	536,943	218,676
Expenditures:						
Current:						
General government	83,594	88,232	132,210	(3,965)	128,245	(43,978)
Public safety	271,988	293,756	297,651	11,695	309,346	(3,895)
Public works	34,500	20,659	20,355	1,716	22,071	304
Health and welfare	3,000	1,000	-	-	-	1,000
Culture and recreation	10,339	3,641	2,618	186	2,804	1,023
Capital outlay	21,100	17,233	-	-	-	17,233
Total expenditures	424,521	424,521	452,834	9,632	462,466	(28,313)
Excess (Deficiency) of revenues over expenditures	(117,614)	(117,614)	72,749	1,728	74,477	190,363
Other Financing Sources (Uses):						
Transfers in	95,000	95,000	95,000	2,303	97,303	-
Transfers (out)	(20,100)	(20,100)	(21,298)	-	(21,298)	(1,198)
Total other financing sources (uses)	74,900	74,900	73,702	2,303	76,005	(1,198)
Net change	(42,714)	(42,714)	146,451	\$ 4,031	\$ 150,482	189,165
Cash balance, beginning of year	501,381	501,381	501,381			-
Restatements	-	-	(30,236)			(30,236)
Cash balance, beginning of year, restated	501,381	501,381	471,145			(30,236)
Cash balance, end of year	<u>\$ 458,667</u>	<u>\$ 458,667</u>	<u>\$ 617,596</u>			<u>\$ 158,929</u>
Explanation of Differences:						
Change in investments				\$ 315		
Change in receivables				(11,360)		
Change in accounts payable				4,913		
Change in accrued salaries				10,589		
Change in accrued liabilities				(426)		
				<u>\$ 4,031</u>		

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Joint Utility Fund	Solid Waste Fund	Non-Major Fund	Total
Assets:				
Current assets:				
Cash	\$ 1,022,383	\$ 137,997	\$ 33,909	\$ 1,194,289
Investments	1,716	-	-	1,716
Receivables, net	65,636	11,438	1	77,075
Total current assets	1,089,735	149,435	33,910	1,273,080
Noncurrent assets:				
Restricted cash	127,431	-	-	127,431
Capital assets:				
Land	18,790	-	-	18,790
Construction in progress	2,072,009	-	-	2,072,009
Buildings	6,164	-	-	6,164
Distribution and collection systems	2,489,903	-	-	2,489,903
Vehicles, equipment and other assets	188,986	-	-	188,986
Less accumulated depreciation	(1,876,682)	-	-	(1,876,682)
Total capital assets, net	2,899,170	-	-	2,899,170
Total assets	4,116,336	149,435	33,910	4,299,681
Liabilities:				
Current liabilities:				
Accounts payable	36,295	4,928	-	41,223
Accrued salaries	4,183	973	-	5,156
Accrued sales tax	2,303	-	-	2,303
Accrued interest payable	2,957	-	-	2,957
Deposits payable	120,352	-	-	120,352
Current maturities of:				
Bonds payable	1,530	-	-	1,530
Notes payable	329	390	-	719
	5,697	-	-	5,697
Total current liabilities	173,646	6,291	-	179,937
Noncurrent liabilities:				
Bonds payable	137,590	440	-	138,030
Notes payable	5,031	-	-	5,031
Compensated absences	1,006	-	-	1,006
Total noncurrent liabilities	143,627	440	-	144,067
Total liabilities	317,273	6,731	-	324,004
Net Assets:				
Invested in capital assets, net of related debt	2,754,690	-	-	2,754,690
Restricted:				
Debt service	6,919	-	-	6,919
Unrestricted	1,037,454	142,704	33,910	1,214,068
Total net assets	\$ 3,799,063	\$ 142,704	\$ 33,910	\$ 3,975,677

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

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

	Joint Utility Fund	Solid Waste Fund	Non-Major Fund	Total
Operating Revenues:				
Charges for services	\$ 465,544	\$ 133,403	\$ 2,750	\$ 601,697
Operating Expenses:				
Personnel services	162,069	56,686	-	218,755
Utilities	22,731	-	-	22,731
Contractual services	195,019	97,188	-	292,207
Repairs and maintenance	9,601	-	2,495	12,096
General operating expenses	52,093	454	-	52,547
Depreciation	35,979	-	-	35,979
Total operating expenses	<u>477,492</u>	<u>154,328</u>	<u>2,495</u>	<u>634,315</u>
Operating income (loss)	(11,948)	(20,925)	255	(32,618)
Non-Operating Revenues (Expenses):				
Gross receipts taxes	-	6,240	-	6,240
Interest income	999	-	54	1,053
Interest and other finance charges	(8,946)	-	-	(8,946)
Total non-operating revenues (expenses)	<u>(7,947)</u>	<u>6,240</u>	<u>54</u>	<u>(1,653)</u>
Income (loss) before contributions and transfers	(19,895)	(14,685)	309	(34,271)
Capital contributions	241,044	-	-	241,044
Transfers (out)	(103,303)	-	-	(103,303)
Change in net assets	<u>117,846</u>	<u>(14,685)</u>	<u>309</u>	<u>103,470</u>
Net assets, beginning of year	1,952,553	79,769	33,601	2,065,923
Restatements	<u>1,728,664</u>	<u>77,620</u>	<u>-</u>	<u>1,806,284</u>
Net assets, beginning of year, restated	<u>3,681,217</u>	<u>157,389</u>	<u>33,601</u>	<u>3,872,207</u>
Net assets, end of year	<u>\$ 3,799,063</u>	<u>\$ 142,704</u>	<u>\$ 33,910</u>	<u>\$ 3,975,677</u>

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

**STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Joint Utility Fund	Solid Waste Fund	Non-Major Fund	Total
Cash Flows From Operating Activities:				
Cash received from customers	\$ 469,232	\$ 134,659	\$ 2,750	\$ 606,641
Cash payments to suppliers for goods and services	(257,969)	(102,619)	(2,495)	(363,083)
Cash payments to employees for services	(156,598)	(54,883)	-	(211,481)
Net cash provided (used) by operating activities	54,665	(22,843)	255	32,077
Cash Flows From Non-Capital and Related Financing Activities:				
Cash received from intergovernmental grants	482,909	-	-	482,909
Cash received from gross receipts taxes	-	6,125	-	6,125
Transfer out	(95,000)	-	-	(95,000)
Net cash provided by non-capital and related financing activities	387,909	6,125	-	394,034
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(468,580)	-	-	(468,580)
Principal payment on capital debt	(1,470)	-	-	(1,470)
Interest	(5,975)	-	-	(5,975)
Net cash (used) by capital and related financing activities	(476,025)	-	-	(476,025)
Cash Flows From Investing Activities:				
Interest income	623	-	53	676
Net increase (decrease) in cash	(32,828)	(16,718)	308	(49,238)
Cash and cash equivalents, beginning of year	1,064,451	143,736	33,601	1,241,788
Restatements to beginning cash	118,191	10,979	-	129,170
Cash and cash equivalents restated, beginning of year	1,182,642	154,715	33,601	1,370,958
Cash and cash equivalents, end of year	<u>\$ 1,149,814</u>	<u>\$ 137,997</u>	<u>\$ 33,909</u>	<u>\$ 1,321,720</u>
Displayed as:				
Cash	\$ 1,022,383	\$ 137,997	\$ 33,909	\$ 1,194,289
Restricted cash	127,431	-	-	127,431
	<u>\$ 1,149,814</u>	<u>\$ 137,997</u>	<u>\$ 33,909</u>	<u>\$ 1,321,720</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (11,948)	\$ (20,925)	\$ 255	\$ (32,618)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities:				
Changes in Assets and Liabilities:				
(Increase) decrease in accounts receivable	3,688	(2,050)	-	1,638
Decrease in taxes receivables	-	3,306	-	3,306
Increase (decrease) in accounts payable	21,475	(4,977)	-	16,498
Increase in accrued salaries	4,183	973	-	5,156
Increase in compensated absences	1,288	830	-	2,118
Total adjustments	66,613	(1,918)	-	64,695
Net cash provided (used) by operating activities	<u>\$ 54,665</u>	<u>\$ (22,843)</u>	<u>\$ 255</u>	<u>\$ 32,077</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hurley (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 Hurley 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 on this criterion, there are no component units of the Town.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government-wide focus is more on the sustainability of the 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 fund's 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. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases 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 solid waste 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 *Diaz Avenue capital project fund* was established by local ordinance to account for the re-construction of Diaz Avenue within the Town's boundaries. The funds for the project include federal, state, and local match grants.

The *E. Street (Phase II) capital project fund* was established by local ordinance to account for the re-construction of various streets within the Town's boundaries. The funds for the project include federal, state, and local match grants.

The Town maintains six other governmental funds that are considered nonmajor funds and classified as special revenue funds. A description of each nonmajor governmental fund is as follows:

The *recreation fund* accounts for receipts that are restricted for use in recreational areas only. Funding source is fees charged for recreational activities, such as swimming pool fees. The fund was established by local ordinance.

STATE OF NEW MEXICO
TOWN OF HURLEY
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 *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 protection 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.

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

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

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

The Town reports the following major business-type funds:

The *joint utility fund* is used to account for the provision of water, sewer, and waste water 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.

STATE OF NEW MEXICO
TOWN OF HURLEY
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 *solid waste fund* accounts for the provision of solid waste disposal to the Town residents. All activities necessary to provide such services are accounted for in this fund, but not limited to: administration, operations, maintenance, billing and collections.

The Town maintains one other individual business-type fund that is considered a nonmajor fund. A description of the nonmajor fund is as follows:

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.

D. Budgets

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

The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

2. Interfund Receivables and Payables

Activities between funds, that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as interfund balance. Long term advances between funds, reported in the fund financial statements as noncurrent, are offset by a nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Prepaid Items

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

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Capital Assets (continued)

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

7. Compensated Absences

Annual vacations are provided each year on the basis of service from the last date of hire. Vacation leave may be accrued at the rate of one and one-half (1½) days per month of service at 40 hours per week. Regular part-time employees are eligible for vacation leave accrual on a pro-rated basis. Temporary employees are not eligible for any vacation benefits. Employees do not accrue vacation benefits during a leave without pay.

Employees completing their orientation period may accrue vacation leave retroactive to their first days of employment. Orientation employees are not eligible for vacation time and do not earn vacation time without successful completion of their orientation period. In certain circumstances, a newly hired full-time or part-time permanent employee may not be required to observe a probationary period for the purposes of being able to use earned vacation leave and sick leave benefits, if their prior work experience and certifications reflect sufficient skills, knowledge, and training in the position for which they are being hired. The determination to waive the probationary period for vacation and sick leave is made by the mayor and town council at the time of hire.

STATE OF NEW MEXICO
TOWN OF HURLEY
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 (continued)

All employees may take accrued vacation within their anniversary year. Employees may carry over to the next calendar year a total balance of 144 vacation hours. Vacation leave balances in excess of 144 vacation hours as of December 31st of each year, may be forfeited without pay. In the instance of approved accrued vacation balances carried over to the following year, all balances (of the past and current year) in excess of 144 hours of vacation hours as of December 31st of that year, may be forfeited without pay.

All full-time regular employees accrue sick leave benefits at the rate of one workday for each calendar month of continuous employment. Regular part-time employees may accrue sick leave on a pro-rata basis, according to hours worked. Temporary employees do not earn sick leave benefits. Employees do not accrue sick leave benefits during a leave without pay. Employees accrue and may use sick leave during the orientation period; however, employees are not entitled to paid sick leave until they have been continuously employed for ninety (90) days.

There is no limit on the number of sick leave hours that may be accumulated and carried forward from one anniversary year to the subsequent year. Employees will not be paid for accumulated sick leave upon separation from the Town.

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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Long-Term Obligations (continued)

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.

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.

STATE OF NEW MEXICO
TOWN OF HURLEY
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)

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 HURLEY
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 one financial institution within Hurley, New Mexico. The Town's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institution.

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

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

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited with Financial Institutions (continued)

	Financial Institution Balance	Reconciling Items	Reconciled Balance
Cash on hand	\$ -	\$ 2,650	\$ 2,650
AmBank	2,318,478	(7,488)	2,310,990
Total cash deposits	<u>\$ 2,318,478</u>	<u>\$ (4,838)</u>	<u>\$ 2,313,640</u>

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

Statement of Net Assets:	
Cash	\$ 2,186,209
Restricted cash	<u>127,431</u>
Total cash reported on financial statements	<u>\$ 2,313,640</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.

	<u>AmBank</u>
Total deposit in bank	\$ 2,318,478
Less FDIC insurance	<u>(500,000)</u>
Uninsured public funds	1,818,478
Pledged collateral held by pledging bank's agent, but not in the Town's name	<u>2,242,336</u>
Uninsured and uncollateralized public funds	<u>\$ -</u>
Total pledged collateral	\$ 2,242,336
50% pledged collateral requirement per state statute	<u>(909,239)</u>
Pledged collateral (under) over the requirement	<u>\$ 1,333,097</u>

A detailed listing of the pledged collateral is contained in the supplemental financial information section this report.

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

2. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited with Financial Institutions (continued)

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, \$1,818,478 of the Town’s bank balance of \$2,318,478 was exposed to custodial credit risk as follows:

	AmBank
Uninsured and collateral held by agent, not in Town's name	\$ 1,818,478

3. INVESTMENTS

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

Agency	Investment	Maturity	Fair Market Value
NM State Treasurer	Investment Pool	N/A	\$ 4,521
Bank of Albuquerque	US Government Investment Fund	N/A	22,004
			\$ 26,525

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

Statement of Net Assets:	
Investments	\$ 4,521
Restricted investments	22,004
	\$ 26,525

The amounts considered restricted investments are debt payments set aside to meet debt requirements.

The program receipts are funds available for utilization by the Town, and are restricted for purposes described within each loan agreement. All amounts borrowed were for the purchase of law enforcement capital assets. As of June 30, 2012, the restricted investments are composed of the following:

Debt reserve	\$ 22,004
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STATE OF NEW MEXICO
TOWN OF HURLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. INVESTMENTS (continued)

Cash Deposited With The New Mexico State Treasurer

As of June 30, 2012, the combined balance of the Town's investment within the State Treasurer's Office *New MexiGROW* Local Government Investment Pool fund was \$4,521. The cost basis of the deposit was equal to \$5,029 (amount of investment); however, based on the information available from the State of New Mexico Treasurer's Office, the investment has recognized a pro-rata loss of \$508. As a result, the Town's investment is reflected at its fair market value of \$4,521. The investments are valued at fair value based on quoted market prices as of the valuation date. Section 6-10-10.1, NMSA 1978, empowers the state treasurer, with the advice and consent of the state Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The state treasurer's Local Government Investment Pool is not SEC registered. The fund is rated AAA_m by Standard and Poor's.

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

Interest Rate Risk – Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The portfolio's final weighted average maturity is 83-day WAM at June 30, 2012.

Bank of Albuquerque, N.A.

The Town has cash, in the amount of \$22,004, 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 \$22,004. 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.

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

3. INVESTMENTS (continued)

Interest Rate Risk (continued) – 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.

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:

	Governmental Activities	Business-Type Activities
	<u> </u>	<u> </u>
Accounts receivable:		
Charges for services	\$ 961	\$ 75,838
Allowance for doubtful accounts	-	(16,882)
Total	<u>961</u>	<u>58,956</u>
Taxes receivable:		
Gross receipts taxes	13,620	319
Franchise taxes	5,507	-
Property taxes	2,479	-
Lodgers' taxes	382	-
Public service taxes	1,008	-
Allowance for doubtful accounts	-	-
Total	<u>22,996</u>	<u>319</u>
Intergovernmental receivables:		
Public works	46,825	-
Public safety	1,733	-
Wastewater system improvements	-	17,785
Total	<u>48,558</u>	<u>17,785</u>
Interest receivables	<u>9</u>	<u>15</u>
Receivables, net	<u>\$ 72,524</u>	<u>\$ 77,075</u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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 Grant County Assessor to develop the property tax schedule by October 1st. Tax notices are sent by the Grant County Treasurer to property owners by November 1st of each year. Taxes are payable in equal semiannual installments by November 10th and April 10th of the subsequent year. Thirty days later the bill becomes delinquent and the County Treasurer assesses penalties and interest. Taxes are collected on behalf of the 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 \$.723 per \$1,000 for non-residential and \$1.299 for residential property. In the year 2011, there was no tax rate established for payment of bonds principal and interest.

6. CAPITAL ASSETS

During the fiscal year, the Town discovered errors in the amounts reported at June 30, 2011 within the governmental and business-type activities capital assets. The effect of the change is as follows:

	Balance 06/30/11	Corrections	Restated Balance 06/30/11
Governmental Activities:			
Land	\$ 13,248	\$ -	\$ 13,248
Construction in progress	4,104,995	(2,676,257)	1,428,738
Buildings, improvements and other	6,433,355	(6,433,355)	-
Buildings and improvements	-	1,408,302	1,408,302
Infrastructure	-	5,850,882	5,850,882
Furniture, equipment and vehicles	1,230,218	231,250	1,461,468
Accumulated depreciation:			
Buildings, improvements, and other	-	(654,730)	(654,730)
Infrastructure	(1,711,405)	631,051	(1,080,354)
Furniture, equipment and vehicles	(660,923)	(167,552)	(828,475)
Net governmental capital assets	<u>\$ 9,409,488</u>	<u>\$ (1,810,409)</u>	<u>\$ 7,599,079</u>

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

6. CAPITAL ASSETS (continued)

	Balance 06/30/11	Corrections	Restated Balance 06/30/11
Business-Type Activities:			
Land	\$ 18,790	\$ -	\$ 18,790
Construction in progress	-	1,825,426	1,825,426
Buildings and utility plant	2,464,903	(2,464,903)	-
Buildings and improvements	-	6,164	6,164
Water and sewer utility system	-	2,489,903	2,489,903
Furniture, equipment and vehicles	118,006	70,980	188,986
Accumulated depreciation:			
Buildings and utility plant	(1,766,128)	1,766,128	-
Buildings and improvements	-	(3,883)	(3,883)
Water and sewer utility system	-	(1,764,296)	(1,764,296)
Furniture, equipment and vehicles	(57,817)	(14,707)	(72,524)
Net business-type capital assets	<u>\$ 777,754</u>	<u>\$ 1,910,812</u>	<u>\$ 2,688,566</u>

Capital assets for the fiscal year ended June 30, 2012, are as follows:

	Restated Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 13,248	\$ -	\$ -	\$ 13,248
Construction in progress	1,428,738	1,311,116	-	2,739,854
Total capital assets, not being depreciated	1,441,986	1,311,116	-	2,753,102
Other capital assets:				
Buildings and improvements	1,408,302	-	-	1,408,302
Infrastructure	5,850,882	444,505	-	6,295,387
Furniture, equipment and vehicles	1,461,468	-	-	1,461,468
Total other capital assets	8,720,652	444,505	-	9,165,157
Less accumulated depreciation for:				
Buildings, improvements and other	(654,730)	(16,698)	-	(671,428)
Infrastructure	(1,080,354)	(86,348)	-	(1,166,702)
Furniture, equipment and vehicles	(828,475)	(75,134)	-	(903,609)
Total accumulated depreciation	(2,563,559)	(178,180)	-	(2,741,739)
Other capital assets, net	6,157,093	266,325	-	6,423,418
Total capital assets, net	<u>\$ 7,599,079</u>	<u>\$ 1,577,441</u>	<u>\$ -</u>	<u>\$ 9,176,520</u>

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

6. CAPITAL ASSETS (continued)

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

General government	\$ 13,136
Public safety	52,021
Public works	92,258
Culture and recreation	<u>20,765</u>
	<u><u>\$ 178,180</u></u>

	Restated Balance 06/30/11	Increases	Decreases	Balance 06/30/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 18,790	\$ -	\$ -	\$ 18,790
Construction in progress	<u>1,825,426</u>	<u>246,583</u>	<u>-</u>	<u>2,072,009</u>
Total capital assets, not being depreciated	1,844,216	246,583	-	2,090,799
Other capital assets:				
Buildings and improvements	6,164	-	-	6,164
Water and sewer utility system	2,489,903	-	-	2,489,903
Furniture, equipment and vehicles	<u>188,986</u>	<u>-</u>	<u>-</u>	<u>188,986</u>
Total other capital assets	2,685,053	-	-	2,685,053
Less accumulated depreciation for:				
Buildings and improvements	(3,883)	(123)	-	(4,006)
Water and sewer utility system	(1,764,296)	(18,308)	-	(1,782,604)
Furniture, equipment and vehicles	<u>(72,524)</u>	<u>(17,548)</u>	<u>-</u>	<u>(90,072)</u>
Total accumulated depreciation	<u>(1,840,703)</u>	<u>(35,979)</u>	<u>-</u>	<u>(1,876,682)</u>
Other capital assets, net	<u>844,350</u>	<u>(35,979)</u>	<u>-</u>	<u>808,371</u>
Total capital assets, net	<u><u>\$ 2,688,566</u></u>	<u><u>\$ 210,604</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,899,170</u></u>

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

7. LONG-TERM OBLIGATIONS

The Town discovered an error in the amount reported at June 30, 2011 within the governmental and business-type activities notes payable. The effect of the changes is as follows:

	<u>Balance</u> <u>06/30/11</u>	<u>Corrections</u>	<u>Restated</u> <u>Balance</u> <u>06/30/11</u>
Governmental Activities:			
Note payable	\$ -	\$ 48,547	\$ 48,547
Business-Type Activities:			
Bonds payable	\$ -	\$ 140,590	\$ 140,590
Notes payable	132,469	(126,781)	5,688
Landfill closure	58,832	(58,832)	-
	<u>\$ 191,301</u>	<u>\$ (45,023)</u>	<u>\$ 146,278</u>

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

	<u>Restated</u> <u>Balance</u> <u>06/30/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/12</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Note payable	\$ 48,547	\$ -	\$ (9,467)	\$ 39,080	\$ 9,552
Compensated absences	8,834	13,331	(8,834)	13,331	9,998
	<u>\$ 57,381</u>	<u>\$ 13,331</u>	<u>\$ (18,301)</u>	<u>\$ 52,411</u>	<u>\$ 19,550</u>

NMFA Loan No. 2477-PP

On August 10, 2010, the Town borrowed \$48,547 from the New Mexico Finance Authority for the purchase of a police vehicle and computer software for use by the Town's police department. The loan is to be repaid from the annual distribution of law enforcement funds received from the state of New Mexico. The note matures May 1, 2016. The annual payment is \$10,264, and accrues interest at a blended interest rate of 1.838%. The following is a schedule of the annual payments required for the note:

<u>Due in Fiscal Year</u> <u>Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 9,552	\$ 712	\$ 10,264
2014	9,674	590	10,264
2015	9,830	434	10,264
2016	10,024	240	10,264
	<u>\$ 39,080</u>	<u>\$ 1,976</u>	<u>\$ 41,056</u>

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

7. LONG-TERM OBLIGATIONS (continued)

Governmental Activities (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

Changes in the business-type activities obligations during the year ended June 30, 2012, are as follows:

	Restated Balance 06/30/11	Increases	Decreases	Balance 06/30/12	Amounts Due Within One Year
Business-Type Activities:					
Bonds payable	\$ 140,590	\$ -	\$ (1,470)	\$ 139,120	\$ 1,530
Notes payable	5,688	-	(328)	5,360	329
Compensated absences	5,415	6,626	(4,508)	7,533	6,087
	<u>\$ 151,693</u>	<u>\$ 6,626</u>	<u>\$ (6,306)</u>	<u>\$ 152,013</u>	<u>\$ 7,946</u>

Wastewater System Improvement Revenue Bonds, Series 2009

On December 18, 2009, the Town authorized the issuance of the Town of Hurley, New Mexico, Wastewater System Improvement Revenue Bonds in the principal amount of \$142,000 at par and at an interest rate of 4.25% per annum for the purpose of financing improvements to the Town's wastewater system. The bonds are payable and collectible solely from net revenues derived from the operation of the Town's wastewater system. The bonds mature in December 18, 2049. The following is a schedule of the annual payments required for the bonds:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2013	\$ 1,530	\$ 5,907	\$ 7,437
2014	1,600	5,822	7,422
2015	1,660	5,737	7,397
2016	1,730	5,652	7,382
2017	1,810	5,567	7,377
2018-2022	10,280	26,560	36,840
2023-2027	12,630	24,308	36,938
2028-2032	15,570	21,249	36,819
2033-2037	19,170	17,635	36,805
2038-2042	23,600	13,131	36,731
2043-2047	29,070	7,607	36,677
2048-2049	20,470	1,232	21,702
	<u>\$ 139,120</u>	<u>\$ 140,407</u>	<u>\$ 279,527</u>

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

7. LONG-TERM OBLIGATIONS (continued)

NMFA Loan PER-Water Utility System, Project No. 117-WTB

On December 5, 2008, the Town borrowed \$6,500 from the New Mexico Finance Authority for the purpose of financing the cost of planning, designing and engineering of a water utility system. The loan is to be repaid with annual payments to be made by the Town. The annual payment is approximately \$335, does not accrue interest, but has an .025% administrative charge. The note matures on June 1, 2038. The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2013	\$ 329	\$ -	\$ 329
2014	330	-	330
2015	330	-	330
2016	331	-	331
2017	332	-	332
2018-2022	1,673	-	1,673
2023-2027	1,694	-	1,694
2028	341	-	341
	<u>\$ 5,360</u>	<u>\$ -</u>	<u>\$ 5,360</u>

8. INTERFUND TRANSFERS

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	E Street (Phase II) Fund	Other Governmental Funds	
Transfers (out):				
General Fund	\$ -	\$ -	\$ 21,298	\$ 21,298
Joint Utility Fund	97,303	6,000	-	103,303
	<u>\$ 97,303</u>	<u>\$ 6,000</u>	<u>\$ 21,298</u>	<u>\$ 124,601</u>

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.

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

9. RESTATEMENT OF NET ASSETS

After the fiscal year ended June 30, 2012, the Town determined that changes to the beginning of year net assets and fund balances were necessary. A description and the effect of the changes are as follows:

	Government-Wide		Individual Funds
	Governmental Activities	Business-Type Activities	
Government-Wide Financial Statements:			
Construction in progress related to wastewater improvements was incorrectly reported in governmental activities.	\$ (1,825,426)		
The Town discovered errors in the capital assets as previously reported.	15,017		
Grant receivable was overstated in the previous fiscal year.	(36)		
Compensated absences were incorrectly reported in the general fund.	(8,834)		
A note payable was not reported in the previous fiscal year.	(48,547)		
 <i>Major Funds</i>			
General Fund			
The cash balance was overstated in the previous fiscal year.	(30,236)		\$ (30,236)
The investment balance in the previous year was incorrectly reported in the general fund.	(1,905)		(1,905)
Receivables were overstated in the previous fiscal year.	(95,765)		(95,765)
Sales taxes payable were incorrectly reported in the general fund.	(10,091)		(10,091)
Accrued liabilities were overstated in the previous fiscal year.	2,645		2,645
Compensated absences were incorrectly reported in the general fund.	8,834		8,834
Total General Fund			\$ (126,518)

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

9. RESTATEMENT OF NET ASSETS (continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Individual Funds</u>
Diaz Avenue Fund			
Payables were overstated in the previous fiscal year.	4,039		<u>\$ 4,039</u>
Joint Utility Fund			
The investment balance in the previous year was incorrectly reported in the general fund.		1,905	\$ 1,905
Construction in progress related to wastewater improvement was incorrectly reported in governmental activities.		1,825,426	1,825,426
The Town discovered errors in the capital assets as previously reported.		85,386	85,386
Receivables were overstated in the previous fiscal year.		(199,755)	(199,755)
Numerous debt balances were incorrectly reported in the previous year.		(13,809)	(13,809)
In the previous fiscal year, the Town incorrectly reflected financial activity related to the joint utility fund within the debt service fund.		887	887
In the previous fiscal year, the Town incorrectly reflected financial activity related to the joint utility fund within the wastewater plant fund.		28,624	<u>28,624</u>
Total Joint Utility Fund			<u>\$ 1,728,664</u>
Solid Waste Fund			
In the previous fiscal year, the Town incorrectly reflected financial activity related to the solid waste fund within the environmental fund.		14,604	\$ 14,604
Receivables were understated in the previous fiscal year.		4,184	4,184
Debt for the landfill closure was incorrectly reported in the previous year.		58,832	<u>58,832</u>
Total Solid Waste Fund			<u>\$ 77,620</u>
<i>Nonmajor Funds</i>			
Law Enforcement Fund			
Grant receivables were overstated in the previous fiscal year.	(9,056)		<u>\$ (9,056)</u>

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

9. RESTATEMENT OF NET ASSETS (continued)

	Government-Wide		Individual Funds
	Governmental Activities	Business-Type Activities	
<i>Nonmajor Funds (continued)</i>			
Environmental fund			
In the previous fiscal year, the Town incorrectly reflected financial activity related to the solid waste fund within the environmental fund.	(14,604)		<u>\$ (14,604)</u>
Waste Water Plant Fund			
In the previous fiscal year, the Town incorrectly reflected financial activity related to the joint utility fund within the wastewater plant fund.	(28,624)		<u>\$ (28,624)</u>
Debt Service Fund			
In the previous fiscal year, the Town incorrectly reflected financial activity related to the joint utility fund within the debt service fund.	(887)		<u>\$ (887)</u>
Total Government-Wide Financial Statements	<u>\$ (2,043,476)</u>	<u>\$ (1,806,284)</u>	

10. BUDGETED DEFICIT FUND BALANCE

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

Fund	Amount
Recreation Fund	\$ 1,367
Law Enforcement Fund	21,015

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
General Fund	\$ 29,511
Recreation Fund	1,142
Lodgers' Tax Fund	3,876
Emergency Medical Services Fund	1,872
Diaz Avenue Fund	1,237,608
E Street (Phase II) Fund	452,530
Joint Utility Fund	646,637
Solid Waste Fund	14,282
Cemetery Fund	1,895

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

11. EXCESS EXPENDITURES OVER APPROPRIATIONS (continued)

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

12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

The Public Employees Retirement Association (PERA) is the administrator of the state of New Mexico public employee retirement 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. Local governments have the opportunity to participate in the plan. The Town has not elected to participate in the public employee retirement plan.

13. RETIREMENT PLAN

The Town sponsors an AIM Simple Individual Retirement Annuity (IRA) Plan for eligible employees. There are two employees who are participating. The Town's contributions to the plan are dollar for dollar of the employees' contributions, not to exceed 3% of gross wages. The Town's matching contribution for the year ended June 30, 2012 was \$1,511.

14. 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 not elected to participate in the post-employment health insurance plan.

15. RISK MANAGEMENT

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

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

16. VIOLATIONS OF FINANCE-RELATED PROVISIONS

Wastewater Revenue Bonds – The Town has issued wastewater system improvement revenue bonds. The bond ordinance approved by the Board of Councilors requires that separate reserve funds be established and maintained by the Town for debt service and repairs and replacements. The bond ordinance details the amounts to be deposited monthly into the reserve accounts. As of June 30, 2012, the Town has not established or maintained separate reserve accounts as detailed in the bond ordinance.

17. 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 HURLEY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds							Capital Projects	Total		
	Recreation Fund	Lodgers' Tax Fund	Fire Protection Fund	Law Enforcement Fund	Corrections Fund	Emergency Medical Services Fund	Environmental Fund	Total Special Revenue Funds	Waste Water Plant Fund	Debt Service Fund	Other Government Funds
Assets											
Cash	\$ 6,582	\$ 14,576	\$ 216,819	\$ 7,999	\$ 56,773	\$ 3,761	\$ -	\$ 306,510	\$ -	\$ -	\$ 306,510
Receivables, net	-	382	-	-	963	-	-	1,345	-	-	1,345
Restricted:											
Investments	-	-	-	22,004	-	-	-	22,004	-	-	22,004
Total assets	<u>\$ 6,582</u>	<u>\$ 14,958</u>	<u>\$ 216,819</u>	<u>\$ 30,003</u>	<u>\$ 57,736</u>	<u>\$ 3,761</u>	<u>\$ -</u>	<u>\$ 329,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,859</u>
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	\$ 1,715	\$ -	\$ 2,058	3,437	\$ 444	\$ 148	\$ -	7,802	\$ -	\$ -	\$ 7,802
Accrued salaries	1,849	-	-	-	-	-	-	1,849	-	-	1,849
Total liabilities	3,564	-	2,058	3,437	444	148	-	9,651	-	-	9,651
Fund balances:											
Restricted for:											
Debt service	-	-	-	22,004	-	-	-	22,004	-	-	22,004
State mandated per statutes	-	14,958	71,248	562	57,292	913	-	144,973	-	-	144,973
Committed for:											
Subsequent years' expenditures	3,018	-	143,513	4,000	-	2,700	-	153,231	-	-	153,231
Total fund balances	3,018	14,958	214,761	26,566	57,292	3,613	-	320,208	-	-	320,208
Total liabilities and fund balances	<u>\$ 6,582</u>	<u>\$ 14,958</u>	<u>\$ 216,819</u>	<u>\$ 30,003</u>	<u>\$ 57,736</u>	<u>\$ 3,761</u>	<u>\$ -</u>	<u>\$ 329,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,859</u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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		Total Other Governmental Funds	
	Recreation Fund	Lodgers' Tax Fund	Fire Protection Fund	Law Enforcement Fund	Corrections Fund	Emergency Medical Services Fund	Environmental Fund	Total Special Revenue Funds	Waste Water Plant Fund		Debt Service Fund
Revenues:											
Lodgers' taxes	\$ -	\$ 4,274	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,274	\$ -	\$ -	\$ 4,274
Intergovernmental - state	-	-	73,985	23,000	-	-	-	96,985	-	-	96,985
Charges for services	9,327	-	-	-	-	-	-	9,327	-	-	9,327
Fines and forfeitures	-	-	-	-	7,069	-	-	7,069	-	-	7,069
Interest	-	-	68	4	100	-	-	172	-	-	172
Miscellaneous	-	-	400	-	-	-	-	400	-	-	400
Total revenues	9,327	4,274	74,453	23,004	7,169	-	-	118,227	-	-	118,227
Expenditures:											
Current:											
Public safety	-	-	38,675	26,594	809	2,020	-	68,098	-	-	68,098
Culture and recreation	26,423	3,876	-	-	-	-	-	30,299	-	-	30,299
Debt service:											
Principal	-	-	-	9,467	-	-	-	9,467	-	-	9,467
Interest and other charges	-	-	-	1,383	-	-	-	1,383	-	-	1,383
Total expenditures	26,423	3,876	38,675	37,444	809	2,020	-	109,247	-	-	109,247
Excess (deficiency) of revenues over expenditures	(17,096)	398	35,778	(14,440)	6,360	(2,020)	-	8,980	-	-	8,980
Other Financing Sources (Uses):											
Transfers in	20,100	-	-	1,198	-	-	-	21,298	-	-	21,298
Net change in fund balances	3,004	398	35,778	(13,242)	6,360	(2,020)	-	30,278	-	-	30,278
Fund balances, beginning of year	14	14,560	178,983	48,864	50,932	5,633	14,604	313,590	28,624	887	343,101
Restatements	-	-	-	(9,056)	-	-	(14,604)	(23,660)	(28,624)	(887)	(53,171)
Fund balances, beginning of year, restated	14	14,560	178,983	39,808	50,932	5,633	-	289,930	-	-	289,930
Fund balances, end of year	\$ 3,018	\$ 14,958	\$ 214,761	\$ 26,566	\$ 57,292	\$ 3,613	\$ -	\$ 320,208	\$ -	\$ -	\$ 320,208

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

**OTHER SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON STATEMENTS**

**STATE OF NEW MEXICO
TOWN OF HURLEY
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:						
Charges for services	\$ -	\$ -	\$ 9,291	\$ 36	\$ 9,327	\$ 9,291
Miscellaneous	200	200	-	-	-	(200)
Total revenues	200	200	9,291	36	9,327	9,091
Expenditures:						
Current:						
Culture and recreation	21,717	20,192	22,859	3,564	26,423	(2,667)
Capital outlay	-	1,525	-	-	-	1,525
Total expenditures	21,717	21,717	22,859	3,564	26,423	(1,142)
Excess (Deficiency) of revenues over expenditures	(21,517)	(21,517)	(13,568)	(3,528)	(17,096)	7,949
Other Financing Sources (Uses):						
Transfers in	20,100	20,100	20,100	-	20,100	-
Net change	(1,417)	(1,417)	6,532	<u>\$ (3,528)</u>	<u>\$ 3,004</u>	7,949
Cash balance, beginning of year	50	50	50			-
Cash balance, end of year	<u>\$ (1,367)</u>	<u>\$ (1,367)</u>	<u>\$ 6,582</u>			<u>\$ 7,949</u>
Explanation of Differences:						
Change in receivables				\$ 36		
Change in payables				(1,715)		
Change in accrued salaries				(1,849)		
				<u>\$ (3,528)</u>		

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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 Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Local effort taxes	\$ 3,447	\$ 3,447	\$ 3,892	\$ 382	\$ 4,274	\$ 445
Interest	27	27	-	-	-	(27)
Total revenues	3,474	3,474	3,892	382	4,274	418
Expenditures:						
Current:						
Culture and recreation	-	-	3,876	-	3,876	(3,876)
Net change	3,474	3,474	16	\$ 382	\$ 398	(3,458)
Cash balance, beginning of year	14,560	14,560	14,560			-
Cash balance, end of year	\$ 18,034	\$ 18,034	\$ 14,576			\$ (3,458)
Explanation of Differences:						
Change in receivables				\$ 382		

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

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

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 73,985	\$ 73,985	\$ 73,985	\$ -	\$ 73,985	\$ -
Miscellaneous	-	-	400	-	400	400
Interest	250	250	68	-	68	(182)
Total revenues	74,235	74,235	74,453	-	74,453	218
Expenditures:						
Current:						
Public safety	39,000	39,000	36,617	2,058	38,675	2,383
Capital outlay	150,000	150,000	-	-	-	150,000
Total expenditures	189,000	189,000	36,617	2,058	38,675	152,383
Net change	(114,765)	(114,765)	37,836	<u>\$ (2,058)</u>	<u>\$ 35,778</u>	152,601
Cash balance, beginning of year	178,983	178,983	178,983			-
Cash balance, end of year	<u>\$ 64,218</u>	<u>\$ 64,218</u>	<u>\$ 216,819</u>			<u>\$ 152,601</u>
Explanation of Differences:						
Change in payables				<u>\$ 2,058</u>		

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

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

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental	\$ 23,680	\$ 23,680	\$ 23,000	\$ -	\$ 23,000	\$ (680)
Interest	-	-	4	-	4	4
Total revenues	23,680	23,680	23,004	-	23,004	(676)
Expenditures:						
Current:						
Public safety	41,000	22,107	23,157	3,437	26,594	1,050
Capital outlay	43,500	39,393	-	-	-	39,393
Debt service:						
Principal	-	-	9,467	-	9,467	(9,467)
Interest	-	-	1,383	-	1,383	(1,383)
Total expenditures	84,500	61,500	34,007	3,437	37,444	27,493
Excess (deficiency) of revenues over expenditures	(60,820)	(37,820)	(11,003)	(3,437)	(14,440)	26,817
Other Financing Sources (Uses):						
Transfers in	-	-	1,198	-	1,198	1,198
Net change	(60,820)	(37,820)	(9,805)	<u>\$ (3,437)</u>	<u>\$ (13,242)</u>	28,015
Cash balance, beginning of year	39,805	39,805	39,805			-
Cash transferred to restricted	-	-	(22,001)			(22,001)
Cash balance, end of year	<u>\$ (21,015)</u>	<u>\$ 1,985</u>	<u>\$ 7,999</u>			<u>\$ 6,014</u>
Explanation of Differences:						
Change in payables					<u>\$ 3,437</u>	

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

STATE OF NEW MEXICO
TOWN OF HURLEY
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	\$ 7,150	\$ 7,150	\$ 6,108	\$ 961	\$ 7,069	\$ (1,042)
Interest	1,000	1,000	98	2	100	(902)
Total revenues	8,150	8,150	6,206	963	7,169	(1,944)
Expenditures:						
Current:						
Public safety	2,600	2,600	365	444	809	2,235
Net change	5,550	5,550	5,841	\$ 519	\$ 6,360	291
Cash balance, beginning of year	50,932	50,932	50,932			-
Cash balance, end of year	\$ 56,482	\$ 56,482	\$ 56,773			\$ 291
Explanation of Differences:						
Change in receivables				\$ 963		
Change in payables				(444)		
				\$ 519		

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

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

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Expenditures:						
Current:						
Public safety	\$ -	\$ -	\$ 1,872	\$ 148	\$ 2,020	\$ 1,872
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>1,872</u>	<u>148</u>	<u>2,020</u>	<u>(1,872)</u>
Net change	-	-	(1,872)	<u>\$ (148)</u>	<u>\$ (2,020)</u>	(1,872)
Cash balance, beginning of year	<u>5,633</u>	<u>5,633</u>	<u>5,633</u>			<u>-</u>
Cash balance, end of year	<u>\$ 5,633</u>	<u>\$ 5,633</u>	<u>\$ 3,761</u>			<u>\$ (1,872)</u>
Explanation of Differences:						
Change in payables				<u>\$ 148</u>		

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

**MAJOR CAPITAL PROJECTS FUNDS
BUDGETARY COMPARISON STATEMENT**

STATE OF NEW MEXICO
TOWN OF HURLEY
DIAZ AVENUE 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>		<u>Actual on Budgetary Basis</u>	<u>Budget to GAAP Budget</u>	<u>Actual on GAAP Basis</u>	<u>Budgetary Basis Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>				
Revenues:						
Intergovernmental	\$ -	\$ -	\$ 1,237,608	\$ 46,825	\$ 1,284,433	\$ 1,237,608
Expenditures:						
Capital outlay	-	-	1,237,608	46,825	1,284,433	(1,237,608)
Net change	-	-	-	<u>\$ -</u>	<u>\$ -</u>	-
Cash balance, beginning of year	-	-	-			-
Cash balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ -</u>
Explanation of Differences:						
Change in accounts receivable				\$ 46,825		
Change in accounts payable				<u>(46,825)</u>		
				<u>\$ -</u>		

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

STATE OF NEW MEXICO
TOWN OF HURLEY
E STREET (PHASE II) 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	\$ -	\$ -	\$ 475,674	\$ -	\$ 475,674	\$ 475,674
Expenditures:						
Capital outlay	-	-	452,530	18,658	471,188	(452,530)
Excess (deficiency) of revenues over expenditures	-	-	23,144	(18,658)	4,486	23,144
Other Financing Sources (Uses):						
Transfers in	-	-	6,000	-	6,000	6,000
Net change	-	-	29,144	<u>\$ (18,658)</u>	<u>\$ 10,486</u>	29,144
Cash balance, beginning of year	-	-	38,670			38,670
Cash balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,814</u>			<u>\$ 67,814</u>
Explanation of Differences:						
Change in payables				<u>\$ 18,658</u>		

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

**INDIVIDUAL OTHER ENTERPRISE
FUND FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF NET ASSETS
CEMETERY FUND
JUNE 30, 2012

Assets:	
Current assets:	
Cash	\$ 33,909
Receivables, net	<u>1</u>
Total assets	33,910
 Net Assets:	
Unrestricted	<u>33,910</u>
Total net assets	<u><u>\$ 33,910</u></u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
CEMETERY FUND
JUNE 30, 2012

Operating Revenues:		
Charges for services	\$	2,750
Operating Expenses:		
Repairs and maintenance		<u>2,495</u>
Operating income		<u>255</u>
Non-Operating Revenues (Expenses):		
Interest income		<u>54</u>
Change in net assets		309
Net assets, beginning of year		<u>33,601</u>
Net assets, end of year	\$	<u><u>33,910</u></u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
STATEMENT OF CASH FLOWS
CEMETERY FUND
JUNE 30, 2012

Cash Flows From Operating Activities:	
Cash received from customers	\$ 2,750
Cash payments to suppliers for goods and services	<u>(2,495)</u>
Net cash provided by operating activities	255
Cash Flows From Investing Activities:	
Interest income	<u>53</u>
Net increase in cash	308
Cash and cash equivalents, beginning of year	<u>33,601</u>
Cash and cash equivalents, end of year	<u><u>\$ 33,909</u></u>
Displayed as:	
Cash	<u><u>\$ 33,909</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 255
Adjustment to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
None	<u>-</u>
Total adjustments	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 255</u></u>

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

**MAJOR ENTERPRISE FUNDS
BUDGETARY COMPARISON STATEMENT**

**STATE OF NEW MEXICO
TOWN OF HURLEY
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	\$ 483,000	\$ 483,000	\$ 453,501	\$ 12,043	\$ 465,544	\$ (29,499)
Miscellaneous	14,000	14,000	15,731	(15,731)	-	1,731
Total operating revenues	497,000	497,000	469,232	(3,688)	465,544	(27,768)
Operating Expenses:						
Personal services	245,514	226,411	156,598	5,471	162,069	69,813
Utilities	20,200	20,285	20,878	1,853	22,731	(593)
Contractual services	5,000	7,603	180,049	14,970	195,019	(172,446)
Repairs and maintenance	12,000	13,082	8,631	970	9,601	4,451
General operating expenses	33,500	48,240	92,994	(40,901)	52,093	(44,754)
Depreciation	-	-	-	35,979	35,979	-
Total operating expenses	316,214	315,621	459,150	18,342	477,492	(143,529)
Operating income (loss)	180,786	181,379	10,082	(22,030)	(11,948)	(171,297)
Non-Operating Revenues (Expenses):						
Interest income	1,000	1,000	623	376	999	(377)
Capital outlay	(61,000)	(61,000)	(504,207)	504,207	-	(443,207)
Debt service - principal	-	-	(1,470)	1,470	-	(1,470)
Interest expense and other charges	(7,444)	(7,444)	(5,975)	(2,971)	(8,946)	1,469
Total non-operating revenues (expenses)	(67,444)	(67,444)	(511,029)	503,082	(7,947)	(443,585)
Income (loss) before other financing sources (uses)	113,342	113,935	(500,947)	481,052	(19,895)	(614,882)
Other Financing Sources (Uses):						
Contributed capital	-	-	569,119	(328,075)	241,044	569,119
Transfers (out)	(41,100)	(41,100)	(101,000)	(2,303)	(103,303)	(59,900)
Total other financing sources (uses)	(41,100)	(41,100)	468,119	(330,378)	137,741	509,219
Net change	72,242	72,835	(32,828)	\$ 150,674	\$ 117,846	(105,663)
Cash balance, beginning of year	1,064,451	1,064,451	1,064,451			-
Cash restated from debt service fund	-	-	887			887
Transferred to restricted cash	-	-	(10,127)			(10,127)
Cash balance, end of year	\$ 1,136,693	\$ 1,137,286	\$ 1,022,383			\$ (114,903)
Explanation of Differences:						
Change in receivables				\$ (348,909)		
Change in investments				(193)		
Addition to capital assets				246,583		
Change in accounts payables				299,178		
Change in accrued salaries				(4,183)		
Change in interest payable				(2,957)		
Change in deposits payable				(3,048)		
Change in compensated absences				(1,288)		
Change in long-term debt				1,470		
Depreciation expense				(35,979)		
				\$ 150,674		

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

**STATE OF NEW MEXICO
TOWN OF HURLEY
SOLID WASTE 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	\$ 126,000	\$ 126,000	\$ 134,659	\$ (1,256)	\$ 133,403	\$ 8,659
Operating Expenses:						
Personnel services	39,948	39,948	54,883	1,803	56,686	(14,935)
Contractual services	103,000	103,000	102,347	(5,159)	97,188	653
Other operating expenses	-	272	272	182	454	-
Total operating expenses	<u>142,948</u>	<u>143,220</u>	<u>157,502</u>	<u>(3,174)</u>	<u>154,328</u>	<u>(14,282)</u>
Operating income (loss)	(16,948)	(17,220)	(22,843)	1,918	(20,925)	(5,623)
Non-Operating Revenues (Expenses):						
Gross receipts taxes	<u>2,500</u>	<u>2,500</u>	<u>6,125</u>	<u>115</u>	<u>6,240</u>	<u>3,625</u>
Net change	(14,448)	(14,720)	(16,718)	<u>\$ 2,033</u>	<u>\$ (14,685)</u>	(1,998)
Cash balance, beginning of year	<u>154,715</u>	<u>154,715</u>	<u>154,715</u>			-
Cash balance, end of year	<u>\$ 140,267</u>	<u>\$ 139,995</u>	<u>\$ 137,997</u>			<u>\$ (1,998)</u>

Explanation of Differences:

Change in receivables	\$ (4,747)
Change in payables	4,977
Change in accrued salaries	973
Change in compensated absences	830
	<u>\$ 2,033</u>

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

**OTHER ENTERPRISE FUND
BUDGETARY COMPARISON STATEMENT**

**STATE OF NEW MEXICO
TOWN OF HURLEY
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				
Operating Revenues:						
Charges for services	\$ 3,300	\$ 3,300	\$ 2,750	\$ -	\$ 2,750	\$ (550)
Operating Expenses:						
Repairs and maintenance	600	600	2,495	-	2,495	(1,895)
Operating income	2,700	2,700	255	-	255	(2,445)
Non-Operating Revenues (Expenses):						
Interest income	50	50	53	1	54	3
Net change in cash balance	2,750	2,750	308	\$ 1	\$ 309	(2,442)
Cash balance, beginning of year	33,601	33,601	33,601			-
Cash balance, end of year	\$ 36,351	\$ 36,351	\$ 33,909			\$ (2,442)

Explanation of Differences:

Change in receivables	\$ 1
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The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2012

<u>Financial Institution/Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
AmBank 512 Carrasco Hurley, New Mexico 88043				
General	Checking	\$ 1,842,787	\$ (3,209)	\$ 1,839,578
Construction	Checking	46,346	(3,681)	42,665
USDA Wastewater	Checking	18,911	-	18,911
Water Deposit	Checking	36,636	(598)	36,038
Certificate of Deposit	CD	28,416	-	28,416
Certificate of Deposit	CD	133,437	-	133,437
Certificate of Deposit	CD	111,848	-	111,848
Certificate of Deposit	CD	11,366	-	11,366
Certificate of Deposit	CD	22,385	-	22,385
Certificate of Deposit	CD	66,346	-	66,346
Total cash deposits		<u>\$ 1,944,680</u>	<u>\$ (7,488)</u>	<u>\$ 1,937,192</u>

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

AmBank
512 Carrasco
Hurley, New Mexico 88043

<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
Alamogordo	011446FS5	05/10/19	\$ 200,000	\$ -
Fed Farm Credit	31331JY64	11/04/13	-	502,336
Lea County N Mex SD	521513AF8	07/15/16	225,000	-
Ruidoso NM MSD	781338GK8	08/01/18	450,000	-
Questa NM ISD 009	748352CR0	09/01/18	165,000	-
Roswell NM IND SC I	778550FP3	08/01/15	200,000	-
Ruidoso NM MSD	781338GK8	08/01/15	100,000	-
Silver City CNS SC	827513ES7	08/01/12	400,000	-
			<u>\$ 1,740,000</u>	<u>\$ 502,336</u>

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

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF JOINT POWER AGREEMENT
JUNE 30, 2012

JOINT WASTEWATER AGREEMENT

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

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

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www.fierrocpa.com

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and the combining and individual funds and related budgetary comparisons presented as supplemental information of the Town of Hurley, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012, which was qualified due to the subsidiary capital assets ledger. 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 the Town of Hurley is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Hurley'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 Hurley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Hurley's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-01, 2012-02, 2012-03, 2012-04, and 2012-05 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies described as items 2012-06, 2012-07, 2012-08, and 2012-09.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Hurley'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 Hurley disclosed instances of noncompliance, or other matters that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2009-01, 2012-10, 2012-11, 2012-12, 2012-13, 2012-14, 2012-15, 2012-16, 2012-17, and 2012-18.

We noted certain matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 2012-19, 2012-20, and 2012-21.

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

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

Fierro + Fierro, P.A.

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

November 26, 2012

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I - FINANCIAL STATEMENTS FINDINGS

Item 2012-01 – Material Weakness – Financial Statements and Disclosures

Statement of Condition – The Town relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The accounting staff lacks the knowledge to prepare such statements, as well as the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements. The Town requires the independent auditor gather all necessary information in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP.

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

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

SAS 115 paragraph 5 provides an explanation of a deficiency in internal control as either a deficiency in design or in operation. Paragraph 6 states *“A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.”* SAS 115 paragraph 15 provides a list of indicators of a material weakness in internal control. One such example is *“Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.”*

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

SAS 115 paragraph 5 provides an explanation of a deficiency in internal control as either a deficiency in design or in operation. Paragraph 6 states *“A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.”* SAS 115 paragraph 15 provides a list of indicators of a material weakness in internal control. One such example is *“Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.”*

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-01 – Material Weakness - Financial Statements and Disclosures (continued)

Effect – Since the Town’s personnel lack the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the Town’s financial statements, that is more than inconsequential, will not be prevented or detected. Further, since the Town’s clerk and deputy clerk lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

Cause – The Town’s staff lacks the proper ability to prepare financial statements and the associated disclosures. When audit services are sought, there is a requirement that the auditor will prepare the financial statements. In the past this may have been sufficient; however, the accounting profession by issuance of SAS 115, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

Recommendation – The Town should employ an individual to serve in the position of director of finance. This employee should have the ability to prepare financial statements in accordance with GAAP. Alternately, the Town could chose to consult with a separate accounting firm prior to and during the audit process that would assist the Town in the preparation of financial statements and the related notes.

Views of Responsible Officials and Planned Corrective Actions – Yes, we concur with the recommendation. The Town understands the administration needs to seek additional training through Local Government Division trainings and continuing education classes to further educate on financial statements and disclosures.

Item 2012-02 – Material Weakness - Accounting Activity

Statement of Condition – During the fiscal year, the following deficiencies regarding the Town’s accounting activity were noted:

- The Town failed to record financial activity related to debt of the Town held by outside parties. In particular, the Town failed to record activity at the New Mexico Finance Authority for gross receipts intercepts, earning of interest income, and the payment of outstanding liabilities on their records.
- Further, the Town failed to record financial activity at the Bank of Albuquerque escrow accounts related to Town debt.
- At the year-end, the Town failed to prepare a complete schedule of all receivables and payables, a schedule of accrued wages by department, and a summarization of accrued compensated absences.
- The Town failed to reconcile its capital assets subsidiary records with the general ledger activity.

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-02 – Material Weakness – Accounting Activity (continued)

Criteria – Auditing standards adopted in the United States of America in particular Statement on Auditing Standards (SAS) 115 paragraph 3 states the following: “*Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives.*” Appropriate internal control procedures over financial reporting include the ability to understand the key components financial statements in accordance with GAAP. Underlining this premise is the requirement that the Town will maintain the accounting records in such a manner as to allow the preparation of financial statements. For example, the reconciliation of the capital assets between the general ledger and subsidiary ledgers provides assurance of proper accountability and reduces that chance of a material misstatement.

Effect – Since the Town personnel failed to prepare or record key components of the financial statements, there is an increased risk that a misstatement of the Town’s financial statements that is more than inconsequential will not be prevented or detected. Further, since the Town accounting staff lacks the proper knowledge or training regarding some aspects of the conditions noted such as the reconciliation of capital assets there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected. Besides the increased risk of a material misstatement, the auditor may lose independence and be unable to express an opinion on the financial statements since they prepared the key components of the financial statements.

Cause – The Town’s staff lacks the necessary accounting skills to prepare all the key components of the financial statements that are prepared on the economic resources measurement focus (which includes the accrual basis of accounting) and the current financial resources measurement focus (which includes the modified accrual basis of accounting). The Town relies upon the auditor to obtain the necessary information to prepare the financial statements. When audit services are sought, there is a requirement that the auditor will prepare the financial statements. The Town takes the position that the audit firm should obtain the key components of the financial statements. In the past this may have been sufficient, however, the accounting profession (American Institute of Certified Public Accountants) by issuance of SAS 115, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

Recommendation – The Town should employ an individual to serve in the position of director of finance. This employee should have the ability to prepare financial statements in accordance with GAAP. Alternately, the Town could choose to consult with a separate and independent accounting firm prior to and during the audit process that would assist the Town in the gathering of key components of the financial statements and the related notes.

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-02 – Material Weakness – Accounting Activity (continued)

Views of Responsible Officials and Planned Corrective Actions – Due to budget constraints, the Town is not able to employ a director of finance. The Town will seek a consultant or independent accountant to educate the administrative office in preparing financial statements. Another alternative the administrative office has is to continue education courses and attend trainings to further educate them. The Town will also look at procedures and work at developing a second set of books to get accounting as accurate as possible.

*Item 2012-03 – Material Weakness – Capital Asset
Subsidiary Records and Depreciation Expense*

Statement of Condition – The Town has maintained a capital asset listing that detail property and equipment owned by the Town that has not been updated. Many of the items on the listing 1) may no longer be in service, 2) have an original cost value of less than \$5,000 and 3) do not include identification numbers. The Town has not made adjustments to the listing that would include appropriate additions and deletions for equipment acquired, donated and disposed of.

Criteria – New Mexico State Statutes Section 12-6-10 directs the general services department to promulgate regulations to state agencies for the accounting and control of fixed assets owned by government agencies. The New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department, requires the Town implement a systematic and well documented system for accounting of fixed assets. The information to be recorded and maintained must include, at a minimum, the following:

- 1) Agency name.
- 2) Fixed asset number.
- 3) A description using words meaningful for identification.
- 4) Location.
- 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 accounting system must be capable of generating lists of capital assets in sequences useful for managing them. The system must track all transactions, including acquisitions, depreciation, improvements and dispositions. The system must generate all necessary accounting entries to the Town's general ledger.

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

*Item 2012-03 – Material Weakness - Capital Asset
Subsidiary Records and Depreciation Expense (continued)*

Effect – The Town is not in compliance with New Mexico State Administrative Code 2.20.1. Non-compliance with New Mexico State Statutes and the Administrative Code subjects the governing board and management to penalties and punishment defined by State Statute. Inadequate subsidiary capital asset records could allow assets to be lost or stolen, and the missing asset would not be detected in a timely manner. Further, material variances between the financial statements/general ledger and subsidiary ledgers can occur and the ability to reconcile the variances is quickly lost. Finally, depreciation expense may be misstated if the underlying assets are incorrect.

Cause – The Town's management has failed in maintaining an adequate subsidiary accounting system for capital assets owned by the Town. The passage of years, numerous changes in the town staff, and poor record keeping has magnified the differences between amounts recorded on the general ledger and subsidiary fixed assets records. Those charged with governance and management have not placed high priority or resources on the internal control process and on the accounting for the capital assets owned by the Town.

Recommendation – We recommend the Town establish a capital asset accounting system that meets the criteria established by the New Mexico Administrative Code 2.20.1. Further, the Town must reconcile the fixed assets subsidiary records with the general ledger. The Town's historical records should be used to reconstruct the fixed assets subsidiary accounting ledgers. If historical records are inadequate, the Town should seek the assistance from a valuation firm in order to reconstruct the historical value of capital assets owned.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. This has been a past problem due to numerous changes in administration and budget constraints. The Town will review policies and procedures to address this finding.

Item 2012-04 – Material Weakness - Capital Assets – Inventory Control Numbers

Statement of Condition – The Town did not place identification tags on its assets, and did not add the new assets to its subsidiary capital assets records.

Criteria – The Town's accounting personnel has the responsibility to tag all newly received capital assets at the time they are received, and to record newly acquired assets as per part 2.20.1.15 NMAC, *Accounting and Control of Fixed Assets of State Government*.

Effect – Without tagging the capital assets, the Town has not established accountability for their custody and use. Furthermore, by not adding the newly acquired assets to its subsidiary records, the Town does not have an accurate record of the capital assets owned by the Town.

Cause – Those charged with governance and management have not placed high priority or resources on the tagging of all capital assets owned by the Town.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-04 – Material Weakness - Capital Assets – Inventory Control Numbers

Recommendation – We recommend the Town expedite the establishment and maintenance of appropriate internal controls over its fixed assets for the primary purpose of safeguarding them, and establishing accountability for their custody and use.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. The Town will establish and maintain internal control of capital assets by assigning control numbers and tracking inventory.

Item 2012-05 – Material Weakness – Annual Inventory of Capital Assets

Statement of Condition – The Town failed in performing an accurate and complete inventory of capital assets for June 30, 2012.

Criteria – According to the Administrative Code, Title 2, Public Finance, Chapter 20, *Accounting by Governmental Entities, Part 1, Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls, 2.20-1.16, Annual Inventory*, the Town shall conduct a annual physical inventory of its capital assets consisting of those costs of \$5,000 or more, under the control of the Town.

Effect – Non-performance of the annual physical inventory of all capital assets owned by the Town could allow errors to occur in the capital assets subsidiary records and financial statements. These errors would not be detected on a timely basis. Further, dishonest employees could remove items and the theft would not be detected on a timely basis.

Cause – Those charged with the governance of the Town and management have not placed high priority or resources on the accounting and reporting of capital assets.

Recommendation – We recommend the Town adhere to the administrative order regarding the performance of a complete and accurate annual inventory. Procedures must be established to ensure that Town personnel are given clear and concise direction as to what constitutes a capital asset when conducting the annual physical count.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation.

Item 2012-06 – Significant Deficiency – Cash Reconciliation to General Ledger

Statement of Condition – The Town uses one bank account for the operations of all funds, with the exception of its capital projects funds and the water meter deposits. While the Town does a monthly bank reconciliation using its accounting software, they do not reconcile the bank balance to the cash balances as listed in the general ledger per fund.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-06 – Significant Deficiency – Cash Reconciliation to General Ledger (continued)

Statement of Condition (continued) – The reconciled bank balance at June 30, 2012 was \$1,839,578 while the general ledger balance was \$1,839,463. The difference was \$115. It could not be determined what fund contained the error as the Town pools its cash. In addition, the water meter deposit reconciled bank balance was \$36,038 at June 30, 2012 while the general ledger balance was \$36,268. The difference was \$230.

Criteria – New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration. Within Title 2, Chapter 20, Part 5, *Public Finance Accounting by Governmental Entities* of the New Mexico Administrative Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

Effect – Without accurate full reconciliations to the general ledger, errors could occur and not be detected. Incorrect decisions, such as budget creation and or adjustments that require the use of cash reserves, may occur as a result of erroneous information.

Cause – Unknown.

Recommendation – We recommend the Town officials expedite the establishment and maintenance of the appropriate internal controls concerning the reconciliation and recording of cash balances. These procedures must include proper reconciliation of differences in reconciled bank balances and the Town's general ledger balances.

Views of Responsible Officials and Planned Corrective Actions – Yes, we understand. The Town will establish a procedure that once the bank statements are reconciled, we will compare them to the general ledger funds.

Item 2012-07 – Significant Deficiency – Procedures for Vendor Payments

Statement of Condition – During the course of the audit, we performed tests of controls for the payment of goods and services. Our sample size was twenty-five transactions, which were selected throughout the fiscal year, and contained the following discrepancies:

- Twenty instances that lacked physical evidence of appropriate management approval.
- Two instances that lacked third party documentation as support.
- One instance in which the payment could not be located in the Town's general ledger.

Criteria – New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-07 – Significant Deficiency – Procedures for Vendor Payments (continued)

Criteria (continued) – Within Title 2, Chapter 20, Part 5, *Public Finance Accounting by Governmental Entities* of the New Mexico Administrative Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

Effect – Non-compliance with New Mexico State Statutes and the Department of Finance and Administration rules could subject officials and employees to penalties and fines. In addition, errors may occur and not be detected by employees on a timely basis.

Cause – The Town was not aware of the need to have actual physical evidence of approval.

Recommendation – We recommend the Town officials expedite the establishment and maintenance of the appropriate internal controls to provide assurance of compliance with state and laws and regulations.

Views of Responsible Officials and Planned Corrective Actions – We concur, and have already begun to implement a new procedure that insures appropriate management checks and approves any documentation before it is sent out.

Item 2012-08 – Significant Deficiency -Control of Utility Inventory

Statement of Condition – The Town does not maintain an inventory accounting system to ensure that the utility inventory is recognized and recorded. Further, at the end of the fiscal year ended June 30, 2012, inventories of material and supplies on hand was not counted and reconciled with inventory records of goods on hand.

Criteria – To safeguard inventory, the Town must establish formal internal control with written policies and procedures to ensure that material and supplies are adequately controlled and safeguarded. Further, the accounting controls should be designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration. Within Title 2, Chapter 20, Part 5, *Public Finance Accounting by Governmental Entities* of the New Mexico Administrative Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

Further, according to the New Mexico Administrative Code, Title 17, Public Utilities and Utility Services, Chapter 12, *Uniform Systems of Accounts and Annual Report Forms for Water Utilities, Part 17.12.720.16 Balance Sheet Accounts, A(7)(c) Material and Supplies*: inventories of materials and supplies. Fuel, etc., shall be taken annually and the necessary adjustments shall be made to bring this account into agreement with the actual inventories.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-08 – Significant Deficiency -Control of Utility Inventory (continued)

Effect – Non-performance of the annual physical count of utility inventory owned by the Town could allow errors to occur in the inventory subsidiary records and financial statements. These errors would not be detected on a timely basis. Further, dishonest employees could remove items and the theft would not be detected on a timely basis.

Cause – Unknown.

Recommendation – We recommend the Town establish written policies and procedures to ensure that utility material, supplies and inventory are adequately controlled and safeguarded. The procedures established should ensure that Town personnel are given clear and concise direction as to what constitutes utility inventory when conducting the annual physical count.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. The Town will establish procedures to gain adequate control of utility inventory and to understand what represents utility inventory.

Item 2012-09– Significant Deficiency - Customer Utility Deposits

Statement of Condition – During the testing of customer utility deposits at year end, we discovered the following conditions:

- The City has failed to reconcile the customer utility deposit register report balance of \$95,327 with:
 - the individual customer utility records
 - general ledger balance of \$28,625
 - bank account balances of \$120,512
- The City has failed to review the outstanding check register to determine if any of the outstanding checks are refunds for utility deposits and to follow up with the customer concerning the depositing of the check.

Criteria – New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration. Within Title 2, Chapter 20, Part 5, *Public Finance Accounting by Governmental Entities* of the New Mexico Administrative Code, the Department of Finance and Administration requires all accounting systems, including subsidiary systems, record transactions timely, completely, and accurately.

Effect – With an incorrect liability, the financial statements for the Joint Water & Sewer Fund could be reported incorrectly. Refunds could be issued erroneously if records are not complete and accurate.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-09– Significant Deficiency - Customer Utility Deposits (continued)

Cause – The Town failed to properly reconcile the customer deposit listing. The Town’s administration may have failed to issue or apply deposit funds to all applicable customer accounts in a timely manner.

Recommendation – We recommend the Town’s finance department begin a reconciliation of any outstanding checks payable to customers for refunded deposits. Once the review is complete, checks should be issued to all accounts which have been closed and money is owed to the customer. Furthermore, the City needs to review all customer deposits per the Town’s deposit register to ensure the balance reflect on the register is accurate. The Town can then determine if any cash transfers should be made to or from the deposit bank accounts.

Views of Responsible Officials and Planned Corrective Actions – Yes, we understand. The current staff are now in the process of cleaning up all accounts in the water utility program, and will refund any deposits owed to customers. This was due to previous Town staff not closing accounts and refunding deposits.

Item 2009-01 – Compliance - Legal Compliance with Adopted Budget

Statement of Condition – The following funds exceeded their respective approved budgets as follows:

Fund	Authorized Budget	Actual Amounts Expended	Excess of Approved Budget
General Fund	\$ 444,621	\$ 474,132	\$ 29,511
Emergency Medical Services Fund	-	1,872	1,872
Recreation Fund	21,717	22,859	1,142
Capital Projects - Diaz Avenue Fund	-	1,237,608	1,237,608
Capital Projects - E Street Fund	-	452,530	452,530
Joint Utility fund	425,165	1,071,802	646,637
Solid Waste Fund	143,220	157,502	14,282
Cemetery Fund	600	2,495	1,895

Criteria – Sections 6-6-6 through 6-6-11 NMSA 1978 prohibits local governments from making expenditures in excess of the approved budget and make public officials liable for such expenditures. Town officials and governing authorities have the obligation to follow applicable state statutes.

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

Cause – The Town personnel did not monitor the expenditures to ensure that they did not exceed the authorized budget.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2009-01 – Compliance - Legal Compliance with Adopted Budget (continued)

Cause (continued) – In addition, the loan agreements with New Mexico Finance Authority contain an intercept agreement whereas a portion of the annual fire allotments are withheld to service the debt. As such, because these revenues are not actually received and the corresponding debt service payments are not actually made by the Town, they are not reflected in the Town's budget.

Recommendation – We recommend that the Town establish procedures that include a comprehensive mid-year review of its budget. The review will allow the governing body to examine fiscal performance and make budget adjustments, if needed. It should include a comparison of revenues and expenditures to date to the approved budget. A review of planned activity for the last half of the fiscal year should be made and compared to the approved budget. Based on the mid-year review, a resolution requesting budget adjustments should be submitted to the Department of Finance & Administration Local Government Division, if necessary.

Views of Responsible Officials and Planned Corrective Actions – Due to changes in management and administration, the monitor of the budget was overlooked. We realize and understand the importance of tracking the budget.

Item 2012-10 – Compliance – Deficit Ending Cash Balances for Budget

Statement of Condition – The Town budgeted a deficit ending cash balance of \$21,015 in the Law Enforcement Special Revenue Fund and \$1,367 in the Recreation Special Revenue Fund.

Criteria – Sections 6-6-6 through 6-6-11 NMSA 1978 prohibits local governments from making expenditures in excess of the approved budget and make public officials liable for such expenditures. Town officials and governing authorities have the obligation to follow applicable state statutes.

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

Cause – The Town was relying on beginning cash reserves that were incorrect.

Recommendation – We recommend the Town officials expedite the establishment of procedures that will provide assurance of compliance with budget constraints established by state law. Such procedures should include an extensive review of beginning cash balances as these balances may have a direct and material effect on the final budget.

Views of Responsible Officials and Planned Corrective Actions – We understand, and will keep better understanding on deficit.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-11 – Compliance - Per Diem and Mileage Act

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 twenty one instances where employees was paid one-hundred percent (100%) of travel reimbursement, in advance, prior to departure, instead of the eighty percent (80%) as required by the New Mexico Travel and Per Diem Act.
- There were seven instances where the employee did not sign travel request form.
- There were nine instances where there was no authorized approval on the travel request form.
- There were thirteen instances with no documentation attached to travel request form.
- There were sixteen instances where per diem was miscalculated. The total amount overpaid was \$811.
- There were nine instances where the mileage was calculated incorrectly. The total amount underpaid was \$64.

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 Sections 10-8-1 to 10-8-8 NMSA 1978.

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

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

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

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

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

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-11 – Compliance – Per Diem and Mileage Act (continued)

Cause – Errors in the mileage rate calculation and the incorrect mileage accrued was due to not fully understanding the administrative code. The remainder of the discrepancies was caused by a lack of understanding the Per Diem and Mileage Act.

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

Views of Responsible Officials and Planned Corrective Actions – We concur, and are in the process of changing our personnel policy to make sure we are complying with the procurement code. We have reviewed the Per Diem and Mileage Act and Administrative Code to ensure that we stay in compliance. We have also implemented a procedure that will ensure that we follow steps to collect proper documentation and authorized approval.

Item 2012-12 – Compliance - Procurement Code

Statement of Condition – During our review of the Board of Trustees' minutes and testing of the Town's procurement process, we discovered the following deviation of the New Mexico Procurement Code:

- The Town prepared a sealed bid request that specified solid waste collection for a period of two years. There was only one bidder who was awarded the bid of a three year contract with an additional two year option.

Criteria –New Mexico Procurement Code Section 13-1-164 states, “*All specifications shall be drafted so as to ensure maximum practicable competition and fulfill the requirements of state agencies and local public bodies.*”

Effect – The Town is currently not in compliance with the New Mexico Procurement Code concerning the selecting the low bidder since they had not met all the requirements of the bid. Any person, firm, or corporation that knowingly violates any provision of the Procurement Code is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code [13-1-28 to 13-1-117 and 13-1-118 to 13-1-199].

Cause – The Board of Trustees changed the specifications at the time of the award for reasons unknown.

Recommendation - We recommend the Town's Board of Trustees and management review the provisions of the New Mexico Procurement Code to ensure compliance in future awarding processes.

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-12 – Compliance - Procurement Code (continued)

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. The Town council and administration will attend training on the Procurement Code so we are in compliance.

Item 2012-13 – Compliance – Transmittals of Court Fees

Statement of Condition – The Town did not transmit court automation fees and judicial education fees to the appropriate authorities on a timely basis. The months of August 2011 through May 2012 were remitted late and as such, the Town did not comply with New Mexico state statutes concerning the transmittal of court fees.

Criteria – New Mexico State Statutes Sections 31-12-7(A), 31-12-7(B), 31-12-8(A), and 35-14-11(B) NMSA 1978, governs the collection and subsequent transmittal of fines assessed on convictions relating to intoxicating liquor and controlled substances. The Town, acting as the fiscal agent for the Court, must remit the fees collected to the New Mexico Administrative Office of the Courts and the UNM Judicial Education Center. Such responsibilities, as the fiscal agent, the Town must ensure that the court is maintaining records and transmitting the fees to the appropriate governmental entities.

Effect – The Town is not in compliance with the NM State Statutes. Non-compliance with the state of New Mexico subjects officials and employees to penalties as required by state statutes. Furthermore, as its agent, the Town could incur liabilities for money not properly reimbursed.

Cause – The Town experienced changes in staff and did not ensure filings were remitted timely.

Recommendation – We recommend the Town establish and maintain appropriate procedures to provide assurance that all fees collected are remitted to the appropriate authorities on a timely basis.

Views of Responsible Officials and Planned Corrective Actions – The Town has had many changes in court administration within the 2011-2012 fiscal year, but has taken necessary steps to make sure that we stay in compliance with the NM State statutes. We are currently in compliance.

Item 2012-14 – Compliance – Unemployment Compensation Law

Statement of Condition – Prior to January 2012, the Town had not registered with New Mexico Department of Workforce Solutions for unemployment compensation purposes. As such, the Town had not paid taxes or made any payments in lieu of contributions directly to the Workforce Transition Services Division.

STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-14 – Compliance – Unemployment Compensation Law (continued)

Statement of Condition (continued) - Further, once the Town registered the Town included the wages of the elected officials in the quarterly reporting. Taxes were paid on these wages.

Criteria – New Mexico State Statutes Sections 51-1-1 through 51-1-59 NMSA 1978 covers the Unemployment Compensation regulations in New Mexico. Each New Mexico municipality which employs people for twenty weeks or more in a calendar year is responsible for unemployment compensation payments if claims are paid. Municipalities have two options from which to choose from:

- Option 1 – May register through the Risk Management Division and make payments in lieu of contributions through that agency.
- Option 2 – Must register directly with the Workforce Transition Services Division and choose one of the following:
 1. Pay taxes (tax rated).
 2. Elect to make payments in lieu of contributions, directly to the Workforce Transition Services Division.
 3. Elect to join a group formed to make payments in lieu of contributions directly to the Workforce Transition Services Division.

Effect – Non-compliance with New Mexico state statutes subjects the Town to penalties as required by state statutes. Furthermore, without a clear understanding of the laws and regulations the Town errors in reporting could incur and not be detecting by employees in the normal course of performing their duties.

Cause – The Town was not aware of the laws and regulations concerning New Mexico unemployment compensation.

Recommendation – Now that the Town has registered and is completing the required report, we recommend that Town officials adhere to the procedures that will provide assurance of compliance with state laws and regulations. Amended reports should be filed to remove the wages of the elected officials.

Views of Responsible Officials and Planned Corrective Actions – Yes, we concur. The Town was not aware of our need to file. We are now registered and current. We will amend reports to remove the elected official's wages.

Item 2012-15 – Compliance – Lodgers' Tax Audit

Statement of Condition – The Town has one lodger type business within its Town limits. It could not be determined when the Town last conducted a lodgers' tax audit.

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TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-15 – Compliance – Lodgers’ Tax Audit (continued)

Criteria – New Mexico State Statutes Section 3-38-17.1 NMSA 1978 states, “The governing body of any municipality or county collecting less than two hundred fifty thousand dollars (\$250,000) in receipts, per annum, of occupancy tax proceeds shall conduct the random audits to verify full payment of occupancy tax receipts.” Furthermore, the New Mexico Department of Finance and Administration recommends all municipalities collecting less than \$250,000 in receipts, adhere to state statutes by performing an audit every three years. The audit is conducted to verify full payments of the occupancy tax receipts. The report is due to the New Mexico Department of Finance and Administration, no later than ten days of the filing or receipt of the report by the governing body. The audit will help ensure required vendors complete the reports and are reporting all applicable receipts.

Effect – The Town is not in compliance with the New Mexico State Statutes or the New Mexico Department of Finance and Administration requirements concerning the lodgers’ tax audit. By the Town failing to perform their lodgers’ tax audit in a timely manner, lodgers’ tax revenues for the Town could be lost. Furthermore, noncompliance with the New Mexico State Statutes could subject officials and employees to penalties and fines required by state statutes.

Cause – Through the most recent years, there have been various changes in Town staff within the finance department. These changes have caused the Town to not follow New Mexico State Statutes or the recommendations of the New Mexico Department of Finance and Administration concerning the preparation of the lodgers’ tax audit at least once every three years.

Recommendation – We recommend Town staff either perform the audit of the lodgers’ tax receipts as required by state statutes, or engage a licensed certified public accountant to perform the audit. Performance of such audit would provide assurance of compliance with state statutes.

Views of Responsible Officials and Planned Corrective Actions – Yes, we understand. The Town was not aware about annual audits being conducted on lodgers' tax. The Town will contact Local Government Division and ask how often a lodgers' tax audit should be conducted.

Item 2012-16 – Compliance – Compliance with Series 2009 Bond Ordinance

Statement of Condition – On December 18, 2009, the Town issued Wastewater System Improvement Revenue Bonds in the amount of \$142,000. The adopted bond ordinance requires the Town to make monthly deposits into three separate accounts within the Wastewater Income Fund. The first is a one-twelfth installment deposit of the amount necessary to pay the next annual payment of principal and interest. The second is an amount of \$62.82 to be deposited monthly into the Debt Service Reserve Fund. Monthly deposits of the required Debt Service Fund continue for so long as the Series 2009 Bonds remain outstanding. The third is an amount of \$333.33 per month for the next fifteen years of repayment of the Bonds. The moneys in the Replacement Reserve Fund shall be accumulated and maintained as a continuing reserve to be used only to pay for unscheduled or emergency repairs and replacements for the System.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-16 – Compliance – Compliance with Series 2009 Bond Ordinance (continued)

Statement of Condition (continued) - These funds were not to be part of the general treasury of the Town. The monthly deposits should have started in January 2010. The Town failed to make the monthly deposits. Upon realization, the Town made a partial catch up deposit in September 2011. The deposits have been comingled in the general treasury of the Town.

Criteria – On October 19, 2009, the Town Council passed bond ordinance number 75 which authorized the issuance of wastewater systems improvement revenue bonds in the amount of \$142,000. Within section 16 of the ordinance, the Town was required to establish “Special Funds” to account for the receipt of gross revenues of the system along with the debt service reserve and the asset management reserve. According to subsection A of section, 16 the Town was required to create an “Income Fund” to account for the gross revenues of the system that have been pledged to retire the debt issued.

Effect – By adopting of the ordinance and the subsequent bond issuance, the City has pledged the net revenues derived from the operations of the Town’s wastewater system for the payment of future debt service. In the event of default the holder of the bonds have the legal right to look at the pledged revenues to satisfy the outstanding liability. If the staff fails to properly account for the pledged tax revenues the bond holders could petition a court of law to allow them access to bank accounts in which the pledged bond tax revenues have been co-mingled.

Cause – There has been numerous changes in management since the passage of the Ordinance 75 and the issuance of the bonds. Prior management may not have fully understood the ordinance requirements.

Recommendation – We recommend management review Ordinance 75, sections 16 and 17 to gain a full understanding of the requirements of the ordinance. The special funds detailed in sections 16 and 17 should be established as soon as possible. All effort should be made to ensure compliance even if it requires a review of the accounting activity for the fiscal years ended June 30, 2010, 2011 and 2012.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. We are already in the process of understanding, reviewing and complying with Ordinance 75.

Item 2012-17 – Compliance – Board of Councilors Official Minutes

Statement of Condition – During the review of the Town’s Board of Councilors’ board minutes, we discovered the following discrepancies:

- Minutes for the following meeting were not approved: August 9, 2011, August 25, 2011, August 31, 2011, October 11, 2011, June 25, 2012 and June 25, 2012.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-17 – Compliance – Board of Councilor's Official Minutes (continued)

Statement of Condition (continued) –

- No minutes on file for the workshops held October 5, 2011 and October 18, 2011.
- Minutes were not signed for the following meetings: August 9, 2011 and August 25, 2011, January 24, 2012 and February 14, 2012.
- Action was taken at a workshop meeting on September 19, 2011.
- The special meeting held on June 25, 2012 was advertised as a discussion for limited personnel matters; however, there was discussion concerning solid waste bids.

Criteria – Meetings of the governing body are subject to the Open Meetings Act (Section 10-15-1 through 10-15-4). Section 10-15-1G NMSA 1978 (Open Meetings Act) requires that draft minutes be prepared within ten working days after the meeting and be approved, amended or disapproved at the next meeting where a quorum is present. Furthermore, unlike a regular meeting, at which any matter may be considered, only those matters included in the notice of the meeting may be considered at a special meeting. Finally, no resolution, rule, regulation, ordinance or action of any board, commission, committee or other policymaking body shall be valid unless taken or made at a meeting held in accordance with the requirements of Section 10-15-1.

Effect – Per Section 10-15-4, violations of the Open Meetings Act is a misdemeanor and is punishable by a fine of up to \$500.

Cause – Unknown.

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

Views of Responsible Officials and Planned Corrective Actions – Yes, we understand and will attend training to better understand the Open Meetings Act.

Item 2012-18 – Compliance – Grant Compliance

Statement of Condition – The Town has entered into numerous cooperative agreements with the New Mexico Department of Transportation (Department). During our testing of grant compliance we discovered the files maintained by the Town were not always complete. The Town relies on their contracted engineering firm to ensure that all forms have been completed. The missing documentation and or forms varied by grant but included:

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TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS (continued)

Item 2012-18 – Compliance – Grant Compliance (continued)

Statement of Condition (continued) –

- Written agreements or permits from all public and private entities.
- Written project certification of design, construction and cost.
- As Built summary of cost and quantities.
- Quarterly status reports indicating the Town's progress.
- Certify that the entire proportionate share of funds committed by the Town to the project have been and are appropriated, budgeted and approved at the time the agreement is executed.

Criteria – New Mexico Department of Transportation (DOT) writes the grant requirements in the agreement that is signed by both the Town and the Department. The requirements are fairly standard, but may vary from agreement to agreement depending upon the scope of the work. Further, New Mexico State Statutes Section 6-6-3 provides that every local body shall keep all the books, records, and accounts in their respective offices in the form prescribed by the Local Government Division of the Department of Finance and Administration.

Effect – The lack of complete records makes the review of grant compliance difficult. Furthermore, noncompliance with DOT grant requirements and New Mexico State Statutes could subject officials and employees to penalties and fines.

Cause – The Town did not understand its responsibility to maintain complete grant files, since the engineering firm was maintaining the records related to each agreement.

Recommendation – We recommend the Town review its procedures concerning record keeping. Communication should occur between the engineering firm and the Town to ensure the Town has a complete set of records related to each grant project.

Views of Responsible Officials and Planned Corrective Actions – Yes, we understand. The Town will work with the Engineer's Office to have a complete set of records for each grant.

Item 2012-19 – Other Matters - Stale Checks

Statement of Condition – During our review of the Town's year end bank reconciliations, it was discovered the Town has eighteen old (stale) checks, totaling \$1,920, on its outstanding check register. These old (stale) checks have not been managed under the New Mexico escheat laws. The oldest check outstanding is dated March 6, 2009. Furthermore, the Town failed to void the outstanding checks which have been outstanding greater than 90 days, as per the Town's cash policy.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
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SECTION I – FINDINGS – FINANCIAL STATEMENTS

Item 2012-19 – Other Matters - Stale Checks (continued)

Criteria – Section 7-8A of the New Mexico State Statutes, *The Uniform Unclaimed Property Act (1995)*, sets forth the processes and requirements of a holder of property (Town) to report to the administrator annually by November 1st for the prior period ending July 1st of that year. It also specifies the notification requirements to the property owner.

The Town's cash policy states all checks outstanding for greater than 90 days, from the date of issuance, shall be null and void. This information is also stated on each check issued by the Town.

Effect – The Town is in non-compliance with New Mexico State Statutes and their policy and procedures. While these amounts are immaterial to the financial statements, monies owed to residents or former residents of the Town should be paid timely. Cash balances could be understated due to these outstanding checks. Non-compliance with New Mexico State Statutes and the Administrative Code subjects the governing board and management to penalties and punishment defined by State statute.

Cause – Unknown.

Recommendation – We recommend the Town review their outstanding check register as of the end of the fiscal year to determine which checks meet the requirements of state statutes. Once this is determined, Town staff needs to review and comply with the Uniform Unclaimed Property Act. All other outstanding checks should be voided and the Town's bank reconciliations to be adjusted.

Views of Responsible Officials and Planned Corrective Actions – We concur with the recommendation. Town staff will review and comply with the Uniform Unclaimed Property Act. We will void other outstanding checks, and the Town's reconciliations will be adjusted.

Item 2012-20 – Other - Agency Credit Cards for Fuel Purchases

Statement of Condition – During our testing of the purchase of vehicle fuel with a credit card, we discovered several instances where there were no receipts attached to the payment documents. Our audit sample was twelve credit card payments that totaled \$18,533. The total dollar amount paid that contained multiple missing receipts was \$1,222. In addition, some payments were not paid timely incurring late fee charges. The sample included \$269 of late fees.

Criteria – The Town has established written internal control procedures where the necessary supporting documentation, such as a third party receipt, must be presented prior to approval for payment. Further, the Town's procurement policy requires the preparation of a purchase voucher for all purchases to ensure authorization, and to ensure that the purchase meets budget restrictions.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS

Item 2012-20 – Other - Agency Credit Cards for Fuel Purchases (continued)

Effect – By not having receipts to support the purchase, the Town cannot determine whether or not they are paying for items that were for Town use.

Cause – Town staff failed to turn in all required documentation that supports the expenditure.

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

Views of Responsible Officials and Planned Corrective Actions – We concur, and will make every effort to ensure the Town collects all receipts to show all purchases are true and correct. The Town has also implemented a procedure to have better internal control.

Item 2012-21 – Other – Annual Leave Payments

Statement of Condition – The County made small payments for paid time off (vacation and sick leave) that had not been earned. We noted the following instances:

- One employee had 11.34 hours of sick leave available but was paid for 80.00 hours.
- One employee had 30.08 hours of sick leave available but was paid for 70.00 hours.
- There are five employees who have carried forward balances of earned vacation hours in excess of 144 hours.
- Upon termination of employment, the Town made an annual leave payment of \$648 to an employee who had been employed less than six months.

Criteria – The Town’s Employee Policy Manual Section 7 addresses the accrual and use of compensated absences. In essence, employees may be paid for vacation and or sick leave if they have earned the time off. Section 7.1 Vacation Leave - states, “*employees completing their orientation period may accrue vacation leave retroactive to their first day of employment. Orientation employees are not eligible for vacation time and do not earn vacation time without successful completion of their orientation period.*” Section 7.1.1 – Accrual Limits addresses the forfeiture of vacation balances in excess of 144 hours.

Effect – Without proper tracking of vacation leave of employees during the orientation period, errors could occur and unauthorized payments made and not detected by employees during the course of performing their assign duties.

Cause – The system that calculates the earned and used vacation and sick hours, and thus balances carried forward, may be flawed with errors that have not been corrected. In addition, the employee’s earned vacation and sick leave hours prior to payment were not monitored closely.

**STATE OF NEW MEXICO
TOWN OF HURLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – FINDINGS – FINANCIAL STATEMENTS

Item 2012-21 – Other – Annual Leave Payments (continued)

Recommendation – We recommend the Town establish procedures that would track vacation and sick leave hours separate from what is currently tacked within the accounting software. A comprehensive review should be completed prior to payments of vacation and sick leave.

Views of Responsible Officials and Planned Corrective Actions – The \$648 payment was a one-time incident and the employee was four to six days short of being employed six months. Proper procedures have been established to ensure that vacation and sick leave hours stay accurate.

SECTION II - PRIOR YEAR'S AUDIT FINDINGS

Item 05-02 - Late Audit Report - In the prior fiscal year, the audit report was submitted to the New Mexico State Auditor after the required deadline. The finding is considered exclusive to the fiscal year ended June 30, 2011, and is not repeated in the current year.

Item 09-01 - Legal Compliance with Budget - In the prior fiscal year, the Town remitted \$38,116 of payments for goods and services in excess of adopted budgets in two funds. The finding has been updated for fiscal year June 30, 2012, excess expenditures and is listed as 2009-01. In addition, the Town budgeted a deficit fund balance of \$4,039 for the fiscal year June 30, 2011, in the Diaz Avenue Fund. The deficit fund balance has been restated to zero.

STATE OF NEW MEXICO
TOWN OF HURLEY
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 November 30, 2012. Present for the Town was Edward Encinas, mayor; Martha Salas; Town clerk-treasurer; Lori Ortiz, deputy clerk. Present for the auditing firm was Rose Fierro, CPA.

FINANCIAL STATEMENT PREPARATION

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