

Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico

City of Jal

Annual Financial Report

June 30, 2012



STATE OF NEW MEXICO
CITY OF JAL
ANNUAL FINANCIAL REPORT
JUNE 30, 2012

INTRODUCTORY SECTION

STATE OF NEW MEXICO

City of Jal
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STATE OF NEW MEXICO

City of Jal
Official Roster
June 30, 2012

<u>Name</u>	<u>City Council</u>	<u>Title</u>
Cheryl Chance		Mayor
James D. Jennings		Councilor
Amelia Trevino		Councilor
JoAn Chesser		Councilor
Lisa Johnson		Councilor
Mike Orr		Councilor
Jim Ellison		Councilor
	<u>Administration</u>	
Curtis Schrader		City Manager
Jenny Edwards		City Clerk/Treasurer

FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector Balderas
New Mexico State Auditor
The City Council
City of Jal
Jal, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds, and the aggregate remaining fund information of the City of Jal (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental funds, the budgetary comparisons of the proprietary funds and the remaining 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 City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were not able to verify balances due to inadequate accounting records relating to the City's capital assets, accumulated depreciation, and depreciation expense accounts as of and for the year ended June 30, 2012. Furthermore, evidence supporting historical cost of capital assets maintained by the City was not available. We were not able to verify either accumulated depreciation at July 1, 2011 or the depreciation expense for the fiscal year ended June 30, 2012. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on capital assets as of June 30, 2012 and the depreciation accrual for the year then ended. The effect on assets, net assets, and expenses of the governmental and business-type activities is not readily determinable.

In our opinion, except for the effects of the lack of evidence verifying the amount of capital assets, accumulated depreciation, and current year depreciation expenses as described in the preceding paragraph the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the nonmajor governmental funds of the City as of June 30, 2012 and the respective changes in financial position, thereof and the budgetary comparisons for the proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the general fund, the Intergovernmental special revenue fund, and each of the City's nonmajor governmental funds for the year ended June 30, 2012, in conformity with the budgetary basis more fully described in Note 1, 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 6, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the *Management's Discussion and Analysis* that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 City's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as supporting schedules I through III in the table of contents are presented for purposes of additional analysis and are not a required part of the basic 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 to 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, and those additional opinion units, taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 6, 2012

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

City of Jal

Statement of Net Assets

June 30, 2012

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Current assets			
Cash and cash equivalents	\$ 613,974	\$ 753,094	\$ 1,367,068
Property taxes receivable	8,515	-	8,515
Other taxes receivable	93,870	-	93,870
Customer receivables	-	208,123	208,123
Other receivables	86,971	-	86,971
Total current assets	<u>803,330</u>	<u>961,217</u>	<u>1,764,547</u>
Noncurrent assets			
Restricted cash and cash equivalents	14,010	49,046	63,056
Capital assets	6,036,160	13,740,518	19,776,678
Less: accumulated depreciation	<u>(2,834,479)</u>	<u>(12,946,932)</u>	<u>(15,781,411)</u>
Total noncurrent assets	<u>3,215,691</u>	<u>842,632</u>	<u>4,058,323</u>
Total assets	<u><u>\$ 4,019,021</u></u>	<u><u>\$ 1,803,849</u></u>	<u><u>\$ 5,822,870</u></u>

The accompanying notes are an integral part of these financial statements

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Liabilities			
Current liabilities			
Accounts payable	\$ 328,934	\$ 24,138	\$ 353,072
Accrued payroll expenses	14,040	14,335	28,375
Accrued compensated absences	14,139	5,905	20,044
Meter deposits	-	49,046	49,046
Accrued interest	882	-	882
Current portion of loans payable	22,032	-	22,032
Total current liabilities	<u>380,027</u>	<u>93,424</u>	<u>473,451</u>
Noncurrent liabilities			
Loans payable	<u>169,572</u>	<u>-</u>	<u>169,572</u>
Total noncurrent liabilities	<u>169,572</u>	<u>-</u>	<u>169,572</u>
Total liabilities	<u>549,599</u>	<u>93,424</u>	<u>643,023</u>
Net Assets			
Invested in capital assets, net of related debt	3,024,087	793,586	3,817,673
Restricted for:			
Special revenue	-	-	-
Unrestricted	<u>445,335</u>	<u>916,839</u>	<u>1,362,174</u>
Total net assets	<u>3,469,422</u>	<u>1,710,425</u>	<u>5,179,847</u>
Total liabilities and net assets	<u>\$ 4,019,021</u>	<u>\$ 1,803,849</u>	<u>\$ 5,822,870</u>

STATE OF NEW MEXICO
City of Jal
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
General government	\$ 465,883	\$ 45,362	\$ 889,792	\$ -
Public safety	746,419	-	342,307	-
Public works	268,649	-	-	-
Culture and recreation	226,865	-	63,784	-
Health and welfare	31,998	-	5,718	-
Interest on long-term debt	5,561	-	-	-
<i>Total governmental activities</i>	<u>1,745,375</u>	<u>45,362</u>	<u>1,301,601</u>	<u>-</u>
Business-type Activities				
Water and sewer	1,173,722	1,104,921	-	-
Solid waste	364,037	337,075	-	-
<i>Total business-type activities</i>	<u>1,537,759</u>	<u>1,441,996</u>	<u>-</u>	<u>-</u>
<i>Total</i>	<u>\$ 3,283,134</u>	<u>\$ 1,487,358</u>	<u>\$ 1,301,601</u>	<u>\$ -</u>

General Revenues

Taxes
Property taxes, levied for general purposes
Gross receipts taxes
Gasoline and motor vehicle taxes
Franchise taxes
Licenses and fees
Miscellaneous revenue
Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets, beginning of year
 Net assets, end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 469,271	\$ -	\$ 469,271
(404,112)	-	(404,112)
(268,649)	-	(268,649)
(163,081)	-	(163,081)
(26,280)	-	(26,280)
(5,561)	-	(5,561)
<u>(398,412)</u>	<u>-</u>	<u>(398,412)</u>
-	(68,801)	(68,801)
-	(26,962)	(26,962)
<u>-</u>	<u>(95,763)</u>	<u>(95,763)</u>
<u>(398,412)</u>	<u>(95,763)</u>	<u>(494,175)</u>
98,129	-	98,129
1,177,813	63,764	1,241,577
63,879	-	63,879
40,659	-	40,659
116,675	-	116,675
74,552	56,470	131,022
59,215	(59,215)	-
<u>1,630,922</u>	<u>61,019</u>	<u>1,691,941</u>
1,232,510	(34,744)	1,197,766
<u>2,236,912</u>	<u>1,745,169</u>	<u>3,982,081</u>
<u>\$ 3,469,422</u>	<u>\$ 1,710,425</u>	<u>\$ 5,179,847</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Jal
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	State Fire	Inter- governmental Grants	Other Governmental Funds	Total
<i>Assets</i>					
Cash and cash equivalents	\$ 377,458	\$ 14,010	\$ -	\$ 236,516	\$ 627,984
Receivables:					
Property taxes	8,515	-	-	-	8,515
Other taxes	80,434	-	-	13,436	93,870
Other receivables	9,656	50,965	22,156	4,194	86,971
<i>Total assets</i>	<u>\$ 476,063</u>	<u>\$ 64,975</u>	<u>\$ 22,156</u>	<u>\$ 254,146</u>	<u>\$ 817,340</u>
<i>Liabilities and fund balances</i>					
<i>Liabilities</i>					
Accounts payable	\$ 10,715	\$ 1,206	\$ 315,059	\$ 1,954	\$ 328,934
Accrued payroll expenses	14,040	-	-	-	14,040
Deferred revenue	4,227	-	-	-	4,227
<i>Total liabilities</i>	<u>28,982</u>	<u>1,206</u>	<u>315,059</u>	<u>1,954</u>	<u>347,201</u>
<i>Fund balances</i>					
Spendable					
Restricted	-	63,769	-	252,192	315,961
Unassigned	447,081	-	(292,903)	-	154,178
<i>Total fund balances</i>	<u>447,081</u>	<u>63,769</u>	<u>(292,903)</u>	<u>252,192</u>	<u>470,139</u>
<i>Total liabilities and fund balances</i>	<u>\$ 476,063</u>	<u>\$ 64,975</u>	<u>\$ 22,156</u>	<u>\$ 254,146</u>	<u>\$ 817,340</u>

STATE OF NEW MEXICO

City of Jal

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2012

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	470,139
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		3,201,681
Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred revenue in the fund financial statements, but are considered revenue in the Statement of Activities		4,227
Certain liabilities, including loans payable and related components, accrued interest, and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued interest		(882)
Current portion of accrued compensated absences		(14,139)
Loans payable		(191,604)
Net assets of governmental activities	\$	<u>3,469,422</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit B-2
Page 1 of 2

	General Fund	State Fire	Inter- governmental Grants	Other Governmental Funds	Total
<i>Revenues:</i>					
<i>Taxes:</i>					
Property	\$ 99,348	\$ -	\$ -	\$ -	\$ 99,348
Gross receipts	1,041,187	-	-	136,626	1,177,813
Gasoline and motor vehicle	22,438	-	-	41,441	63,879
Other	40,659	-	-	-	40,659
<i>Intergovernmental:</i>					
Federal operating grants	-	-	-	30,324	30,324
State operating grants	127,612	319,907	762,180	61,578	1,271,277
Charges for services	45,362	-	-	-	45,362
Licenses and fees	60,718	-	-	55,957	116,675
Miscellaneous	34,340	17,617	-	22,595	74,552
<i>Total revenues</i>	<u>1,471,664</u>	<u>337,524</u>	<u>762,180</u>	<u>348,521</u>	<u>2,919,889</u>
<i>Expenditures:</i>					
<i>Current:</i>					
General government	383,870	-	-	27,118	410,988
Public safety	578,762	140,681	-	25,301	744,744
Public works	202,119	-	-	53,054	255,173
Culture and recreation	-	-	-	212,640	212,640
Health and welfare	26,280	-	-	5,718	31,998
Capital outlay	167,177	182,282	1,865,753	11,043	2,226,255
<i>Debt service:</i>					
Principal	-	21,707	-	-	21,707
Interest	-	5,615	-	-	5,615
<i>Total expenditures</i>	<u>1,358,208</u>	<u>350,285</u>	<u>1,865,753</u>	<u>334,874</u>	<u>3,909,120</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>113,456</u>	<u>(12,761)</u>	<u>(1,103,573)</u>	<u>13,647</u>	<u>(989,231)</u>
<i>Other financing sources (uses)</i>					
Transfers in	-	35,041	203,434	-	238,475
Transfers out	(179,260)	-	-	-	(179,260)
<i>Total other financing sources (uses)</i>	<u>(179,260)</u>	<u>35,041</u>	<u>203,434</u>	<u>-</u>	<u>59,215</u>
<i>Net change in fund balance</i>	<u>(65,804)</u>	<u>22,280</u>	<u>(900,139)</u>	<u>13,647</u>	<u>(930,016)</u>
<i>Fund balance - beginning of year</i>	<u>512,885</u>	<u>41,489</u>	<u>607,236</u>	<u>238,545</u>	<u>1,400,155</u>
<i>Fund balance - end of year</i>	<u>\$ 447,081</u>	<u>\$ 63,769</u>	<u>\$ (292,903)</u>	<u>\$ 252,192</u>	<u>\$ 470,139</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

City of Jal

Governmental Funds

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

Exhibit B-2

Page 2 of 2

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

Net change in fund balances - total governmental funds	\$	(930,016)
--	----	-----------

Governmental funds report capital outlays as expenditures. However in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay		2,226,255
Depreciation expense		(74,869)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenue in the funds:

Decrease in deferred revenue related to property taxes receivable		(1,219)
---	--	---------

Expenses in the Statement of Activities that do not require current financial
resources are not reported as expenditures in the funds:

Increase in accrued compensated absences		(9,402)
Decrease in accrued interest		54

The issuance of long-term debt (e.g. loans) provides current financial
resources to governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of premiums and similar items when debt is first issued, whereas
these amounts are deferred and amortized in the Statement of Activities:

Principal payments on loans payable		<u>21,707</u>
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Change in net assets of governmental activities	\$	<u><u>1,232,510</u></u>
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STATE OF NEW MEXICO

Exhibit C-1

City of Jal

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
<i>Taxes:</i>				
Property	\$ 88,572	\$ 88,572	\$ 99,001	\$ 10,429
Gross receipts	710,000	850,000	1,105,111	255,111
Gasoline and motor vehicle	25,000	25,000	20,905	(4,095)
Other	42,000	42,000	41,961	(39)
<i>Intergovernmental income:</i>				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	200,000	200,000	127,612	(72,388)
State capital grants	-	-	-	-
Charges for services	40,000	40,000	46,562	6,562
Licenses and fees	61,600	61,600	70,406	8,806
Investment income	-	-	-	-
Miscellaneous	95,100	95,100	37,102	(57,998)
<i>Total revenues</i>	<u>1,262,272</u>	<u>1,402,272</u>	<u>1,548,660</u>	<u>146,388</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	337,700	368,300	411,946	(43,646)
Public safety	565,000	533,000	584,696	(51,696)
Public works	166,800	171,300	208,067	(36,767)
Health and welfare	46,000	37,000	27,376	9,624
Capital outlay	130,000	220,000	167,177	52,823
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>1,245,500</u>	<u>1,329,600</u>	<u>1,399,262</u>	<u>(69,662)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>16,772</u>	<u>72,672</u>	<u>149,398</u>	<u>76,726</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(16,772)	(72,672)	-	72,672
Transfers in	-	-	-	-
Transfers out	-	-	(179,260)	(179,260)
<i>Total other financing sources (uses)</i>	<u>(16,772)</u>	<u>(72,672)</u>	<u>(179,260)</u>	<u>(106,588)</u>
<i>Net change in fund balance</i>	-	-	(29,862)	(29,862)
<i>Fund balance - beginning of year</i>	-	-	407,320	407,320
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 377,458</u>	<u>\$ 377,458</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (29,862)	
Adjustments to revenues for property taxes receivable, other taxes receivable, other receivables and deferred revenue			(76,996)	
Adjustments to expenditures for accounts payable and accrued payroll			41,054	
Net change in fund balance (GAAP)			<u>\$ (65,804)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-2

City of Jal

State Fire Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	215,000	290,683	269,907	(20,776)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	18,600	25,600	28,370	2,770
<i>Total revenues</i>	<u>233,600</u>	<u>316,283</u>	<u>298,277</u>	<u>(18,006)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	231,100	190,685	145,820	44,865
Public works	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	63,000	182,282	(119,282)
Debt service:				
Principal	-	-	21,707	(21,707)
Interest	-	-	5,615	(5,615)
<i>Total expenditures</i>	<u>231,100</u>	<u>253,685</u>	<u>355,424</u>	<u>(101,739)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>2,500</u>	<u>62,598</u>	<u>(57,147)</u>	<u>(119,745)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(2,500)	(62,598)	-	62,598
Transfers in	-	-	35,041	35,041
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(2,500)</u>	<u>(62,598)</u>	<u>35,041</u>	<u>97,639</u>
<i>Net change in fund balance</i>	-	-	(22,106)	(22,106)
<i>Fund balance - beginning of year</i>	-	-	36,116	36,116
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,010</u>	<u>\$ 14,010</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (22,106)	
Adjustments to revenues for other receivables			39,247	
Adjustments to expenditures for accounts payable			5,139	
Net change in fund balance (GAAP)			<u>\$ 22,280</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-3

City of Jal
Intergovernmental Grants Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	2,291,186	2,270,732	1,031,727	(1,239,005)
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>2,291,186</u>	<u>2,270,732</u>	<u>1,031,727</u>	<u>(1,239,005)</u>
<i>Expenditures:</i>				
Current:				
General government	95,000	95,000	-	95,000
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	2,196,186	2,173,546	1,865,753	307,793
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>2,291,186</u>	<u>2,268,546</u>	<u>1,865,753</u>	<u>402,793</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>2,186</u>	<u>(834,026)</u>	<u>(836,212)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	(2,186)	-	2,186
Transfers in	-	-	203,434	203,434
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>(2,186)</u>	<u>203,434</u>	<u>205,620</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(630,592)</u>	<u>(630,592)</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>630,592</u>	<u>630,592</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (630,592)	
Adjustments to revenues for other receivables			(269,547)	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ (900,139)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-1

City of Jal
Statement of Net Assets
Proprietary Funds
June 30, 2012

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 739,553	\$ 13,541	\$ 753,094
Accounts receivable	150,109	58,014	208,123
<i>Total current assets</i>	<u>889,662</u>	<u>71,555</u>	<u>961,217</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	49,046	-	49,046
Capital assets	13,740,518	-	13,740,518
Accumulated depreciation	(12,946,932)	-	(12,946,932)
<i>Total noncurrent assets</i>	<u>842,632</u>	<u>-</u>	<u>842,632</u>
<i>Total assets</i>	<u>\$ 1,732,294</u>	<u>\$ 71,555</u>	<u>\$ 1,803,849</u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable	\$ 20,740	\$ 3,398	\$ 24,138
Accrued expenses	13,789	546	14,335
Accrued compensated absences	5,905	-	5,905
Meter deposits	49,046	-	49,046
<i>Total current liabilities</i>	<u>89,480</u>	<u>3,944</u>	<u>93,424</u>
<i>Total liabilities</i>	<u>89,480</u>	<u>3,944</u>	<u>93,424</u>
<i>Net assets</i>			
Invested in capital assets, net of related debt	793,586	-	793,586
Unrestricted, undesignated	849,228	67,611	916,839
<i>Total net assets</i>	<u>1,642,814</u>	<u>67,611</u>	<u>1,710,425</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,732,294</u>	<u>\$ 71,555</u>	<u>\$ 1,803,849</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-2

City of Jal

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2012

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<i>Operating revenues:</i>			
Charges for services	\$ 1,104,921	\$ 337,075	\$ 1,441,996
<i>Total operating revenues</i>	<u>1,104,921</u>	<u>337,075</u>	<u>1,441,996</u>
<i>Operating expenses:</i>			
Personnel services	368,712	61,882	430,594
Contractual services	47,043	282,690	329,733
Supplies and purchased power	86,928	-	86,928
Repairs and maintenance	366,249	559	366,808
Utilities	135,268	699	135,967
Depreciation	80,772	-	80,772
Other operating expenses	39,549	2,316	41,865
<i>Total operating expenses</i>	<u>1,124,521</u>	<u>348,146</u>	<u>1,472,667</u>
<i>Operating income (loss)</i>	<u>(19,600)</u>	<u>(11,071)</u>	<u>(30,671)</u>
<i>Non-operating revenues (expenses):</i>			
Gross receipts tax income	48,933	14,831	63,764
Gross receipts tax expense	(49,201)	(15,891)	(65,092)
Miscellaneous income	11,084	45,386	56,470
<i>Total non-operating revenues (expenses)</i>	<u>10,816</u>	<u>44,326</u>	<u>55,142</u>
<i>Income (loss) before contributions and transfers</i>	<u>(8,784)</u>	<u>33,255</u>	<u>24,471</u>
Transfers out	(59,215)	-	(59,215)
<i>Change in net assets</i>	(67,999)	33,255	(34,744)
<i>Total net assets, beginning of year</i>	<u>1,710,813</u>	<u>34,356</u>	<u>1,745,169</u>
<i>Total net assets, end of year</i>	<u>\$ 1,642,814</u>	<u>\$ 67,611</u>	<u>\$ 1,710,425</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2012

Exhibit D-3

	Water and Sewer	Solid Waste	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 1,070,100	\$ 312,691	\$ 1,382,791
Cash payments to employees for services	(364,426)	(61,953)	(426,379)
Cash payments to suppliers for goods and services	(669,488)	(294,830)	(964,318)
<i>Net cash provided by operating activities</i>	36,186	(44,092)	(7,906)
<i>Cash flows from noncapital financing activities:</i>			
Net gross receipts taxes	(268)	(1,060)	(1,328)
Miscellaneous income	11,084	45,386	56,470
Change in noncurrent accrued compensated absences	276	-	276
<i>Net cash provided (used) by noncapital financing activities</i>	(48,123)	44,326	(3,797)
<i>Net increase in cash, cash equivalents, and restricted cash</i>	(11,937)	234	(11,703)
<i>Cash, cash equivalents, and restricted cash - beginning of year</i>	800,536	13,307	813,843
<i>Cash, cash equivalents, and restricted cash - end of year</i>	\$ 788,599	\$ 13,541	\$ 802,140
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>			
Operating income (loss)	\$ (19,600)	\$ (11,071)	\$ (30,671)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	80,772	-	80,772
Changes in assets and liabilities			
Receivables	(34,821)	(24,384)	(59,205)
Accounts payable	5,549	(8,566)	(3,017)
Accrued payroll expenses	4,286	(71)	4,215
<i>Net cash provided by operating activities</i>	\$ 36,186	\$ (44,092)	\$ (7,906)

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012

Exhibit E-1

Assets

Cash	<u>\$ 9,283</u>
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<i>Total assets</i>	<u><u>\$ 9,283</u></u>
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Liabilities

Due to other entities	<u>\$ 9,283</u>
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<i>Total liabilities</i>	<u><u>\$ 9,283</u></u>
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The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

The City of Jal (City) was incorporated on March 24, 1950. The City is a municipal corporation governed by an elected mayor and six-member council. The City's major operations include public safety (police, ambulance and fire), streets, sanitation, health and social services, culture-recreation, education, public improvements, and general administrative services.

The City is a body politic and corporate under the name and form of government selected by its qualified electors. The City may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB No. 14 and No. 39. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the City does not have any component units required to be reported under GASB Statements No. 14 and No. 39.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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 to a significant extent on fees and charges for services provided.

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*.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues, other than property tax revenue, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. The government-wide full accrual basis property tax receivables recognize revenues net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied, even if they are not available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and are susceptible to accrual when the same criteria have been met.

Governmental funds are used to account for the City's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges for services for the City's utilities. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

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

The *State Fire Special Revenue Fund* accounts for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. Fund authority is NMSA 59A-53-1.

The *Intergovernmental Grants Special Revenue Fund* accounts for the collection of various intergovernmental grants from the State of New Mexico. Fund authority is City Council.

The City reports its proprietary funds as major funds. Proprietary funds include:

The *Water and Sewer Fund* accounts for the provisions of the water and sewer services to the residents of the City.

The *Solid Waste Fund* accounts for the disposal of solid waste for the residents of the City.

Additionally, the government reports the following agency fund:

The *Fiduciary Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are used to account for the collection and payment of motor vehicle fees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

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

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City did not have investments at June 30, 2012.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

Receivables and Payables: Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables 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 a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the City.

Inventory: The City's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the City was a phase III government for purposes of implementation, and accordingly, has prospectively reported infrastructure assets at historical cost as part of the governmental capital assets reported in the government-wide statements as of June 30, 2012. Donated capital assets are recorded at estimated fair market value at the date of donation. The City does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-50
Equipment	5-10
Infrastructure	20

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through June 30, 2012, along with applicable PERA and Retiree Health Care.

Deferred Revenues: There are two types of deferred revenue. Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. If assets are recognized in connection with a transaction before the earnings process is complete, those assets must be offset by a corresponding liability for deferred revenue (commonly referred to as unearned revenue). The other type of deferred revenue is “unavailable revenue.” Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. It must also be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period). If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue.

Compensated Absences: Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net assets.

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.

Fund Balance Classification Policies and Procedures: For committed fund balance the City’s highest level of decision-making authority is the City Council. The formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting.

For assigned fund balance, the City includes amounts that are intended to be spend for specific purposes, but are not restricted or committed. The City has assigned these balances to a specific purpose, but has latitude in spending the funds for general fund requirements if the City approves it in their budget.

In all cases, restricted, then committed, and then assigned fund balances are to be expended in that order, prior to infusion and expenditures of any general (unassigned) funds designated for supplementing any given department.

Restricted Fund Balance: At June 30, 2012, the restricted fund balance on the governmental fund balance sheet of \$315,961 is restricted for the designated purpose of each fund.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt:* Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted Net Assets:* Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net Assets:* All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City’s financial statements include the allowance for uncollectible accounts in the water and sewer and solid waste funds.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets of the City are prepared prior to June 1 and must be approved by resolution of the City Commissioners, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the City Commissioners and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

The governmental funds budgetary comparisons are presented on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. The proprietary funds budgetary comparisons are presented in accordance with generally accepted accounting principles. The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance and Accountability (continued)

Budgetary Information (continued)

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	Budgeted Funds:	
General Fund	\$ 16,772	\$ 17,672
State Fire	2,500	62,598
Intergovernmental Grants	-	2,186
Other Governmental Funds	43,500	17,000
	Change in Net Assets	
Water and Sewer	\$ 97,150	\$ 93,650
Solid Waste	24,600	2,500

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Proprietary Funds.

The City is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The governmental funds budgetary comparisons are presented on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2012 is presented. The proprietary funds budgetary comparisons are presented in accordance with generally accepted accounting principles. Reconciliations between the non-GAAP budgetary basis amounts and the financial statements on the GAAP basis, by fund can be found on each individual budgetary statement.

NOTE 3. Deposits and Investments

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the City properly followed State investment requirements as of June 30, 2012.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States 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.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (continued)

The collateral pledged is listed on Schedule II in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits, and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From July 21, 2011 to December 31, 2012 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts.

Through December 31, 2012, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2012, \$0 of the City’s bank balances of \$1,616,322 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the City’s name and \$0 of the City’s deposits were uninsured and uncollateralized. See Schedule of Deposits and Investment Accounts on Schedule I of this report

NOTE 4. Receivables

Receivables as of June 30, 2012 are as follows:

Governmental Activities:

	General	State Fire	Inter- governmental	Total Nonmajor Funds	Total
Property taxes	\$ 8,515	\$ -	\$ -	\$ -	\$ 8,515
Other taxes:					
Gross receipts taxes	75,343	-	-	9,887	85,230
Gasoline and oil taxes	5,091	-	-	3,549	8,640
Other receivables:					
Intergovernmental grants					
State	-	50,965	1,184	-	52,149
Federal	-	-	20,972	-	20,972
Miscellaneous	9,656	-	-	4,194	13,850
Net receivables	<u>\$ 98,605</u>	<u>\$ 50,965</u>	<u>\$ 22,156</u>	<u>\$ 17,630</u>	<u>\$ 189,356</u>

In accordance with GASB No. 33, the property tax revenues that were not collected within the period of availability, \$4,227, have been reclassified as deferred revenue in the governmental fund financial statements. The above receivables are deemed 100% collectible

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 4. Receivables (continued)

Business-Type Activities:

	Water and Sewer	Solid Waste	Total
Customer receivables	\$ 150,109	\$ 58,014	\$ 208,123

The above receivables are deemed 100% collectible.

NOTE 5. Interfund Transfers

Operating transfers that occurred during the year were made to close out funds and to supplement other funding sources as follows:

Transfers In	Transfers Out	
State Fire Special Revenue Fund	General Fund	\$ 35,041
Intergovernmental Grants Special Revenue Fund	General Fund	144,219
Intergovernmental Grants Special Revenue Fund	Water and Sewer Fund	59,215
		\$ 238,475

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

Governmental Activities:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 53,151	\$ -	\$ -	\$ 53,151
Capital assets being depreciated:				
Buildings and improvements	1,433,848	2,226,255	-	3,660,103
Equipment	2,153,700	-	-	2,153,700
Infrastructure	169,206	-	-	169,206
Total capital assets being depreciated	3,756,754	2,226,255	-	5,983,009
Accumulated depreciation:				
Buildings and improvements	1,189,729	15,807	-	1,205,536
Equipment	1,529,484	51,849	-	1,581,333
Infrastructure	40,397	7,213	-	47,610
Total accumulated depreciation	2,684,741	74,869	-	2,834,479
Total capital assets, net of depreciation	\$ 972,585	\$ 2,151,386	\$ -	\$ 3,201,681

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 6. Capital Assets (continued)

Depreciation expense for the year ended June 30, 2012 was charged to governmental activities as follows:

General government	\$ 37,435
Public safety	9,733
Public works	13,476
Culture and recreation	<u>14,225</u>
Total	<u>\$ 74,869</u>

Business-type Activities:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 15,768	\$ -	\$ -	\$ 15,768
Capital assets being depreciated:				
Buildings and improvements	399,478	-	-	399,478
Equipment	153,871	-	-	153,871
Infrastructure	13,171,401	-	-	13,171,401
Total capital assets being depreciated	<u>13,724,750</u>	<u>-</u>	<u>-</u>	<u>13,724,750</u>
Accumulated depreciation:				
Buildings and improvements	330,188	4,453	-	334,641
Equipment	93,415	10,647	-	104,062
Infrastructure	12,442,557	65,672	-	12,508,229
Total accumulated depreciation	<u>12,785,388</u>	<u>80,772</u>	<u>-</u>	<u>12,946,932</u>
Total capital assets, net of depreciation	<u>\$ 955,130</u>	<u>\$ (80,772)</u>	<u>\$ -</u>	<u>\$ 793,586</u>

Depreciation expense charged to business-type activities for the year ended June 30, 2012 was \$80,772.

NOTE 7. Long-term Debt

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
NMFA Fire Truck Loan	\$ 213,311	\$ -	\$ 21,707	\$ 191,604	\$ 22,032
Compensated Absences	<u>4,737</u>	<u>29,968</u>	<u>20,566</u>	<u>14,139</u>	<u>14,139</u>
Total long-term liabilities	<u>\$ 218,048</u>	<u>\$ 29,968</u>	<u>\$ 42,273</u>	<u>\$ 205,743</u>	<u>\$ 36,171</u>

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 7. Long-term Debt (continued)

NMFA Loans

On June 19, 2009, the City received a loan from the New Mexico Finance Authority in the amount of \$228,375 for the purchase of a fire truck. The loan is financed over eleven years at 3.55%. The annual requirements to amortize the loan as of June 30, 2012, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 22,032	\$ 5,290	\$ 27,322
2014	22,416	4,906	27,322
2015	22,886	4,434	27,320
2016	23,461	3,860	27,321
2017	24,092	3,230	27,322
2018-2022	76,717	5,247	81,964
	<u>\$ 191,604</u>	<u>\$ 26,967</u>	<u>\$ 218,571</u>

Compensated Absences – Employees of the City are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2012, long-term compensated absences increased \$276 over the prior year accrual.

In prior years, the general fund has typically been used to liquidate long-term liabilities.

Proprietary Funds

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the proprietary statement of net assets:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Compensated Absences	\$ 5,629	\$ 9,764	\$ 9,488	\$ 5,905	\$ 5,905

In prior years, the water and sewer proprietary fund has typically been used to liquidate compensated absences.

NOTE 8. Risk Management

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The City participates in the New Mexico Self-Insurers' Fund risk pool. The City has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the City which exceeds the insurance coverage, the City would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage's have not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2012, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance.

New Mexico Self-Insurers' Fund has not provided information on an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 9. PERA Pension Plan

Plan Description. Substantially all of the City's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978.) The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Municipal general member coverage plan 3 members are required to contribute 13.15% of their gross salary. The City is required to contribute 9.15% of the covered salary for "municipal general member coverage plan 3" members. Municipal police coverage plan 1 members are required to contribute 7.00% of their gross salary. The City is required to contribute 10.00% of the covered salary for "municipal police coverage plan 1" members. The contribution requirements of plan members and the City are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The City's contributions to PERA for the fiscal years ending June 30, 2012, 2011 and 2010 were \$78,287, \$71,070, and \$66,911, respectively.

NOTE 10. Post-Employment Benefits

Plan Description. The City contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 10. Post-Employment Benefits (continued)

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.500%	1.250%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The City’s contribution to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$15,457, \$10,872, and \$10,417, respectively, which equal the required contribution for each year.

NOTE 11. Contingent Liabilities

The City is party to various claims and lawsuits in the normal course of business. Management and the City’s attorney are unaware of any material pending or threatened litigation, claims or assessments against the City which are not covered by the City’s insurance.

NOTE 12. Federal and State Grants

In the normal course of operations, the City receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

STATE OF NEW MEXICO

City of Jal

Notes to Financial Statements

June 30, 2012

NOTE 13. Joint Powers Agreements and Memorandums of Understanding

Lea County Water Users Association

Participants	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Responsible party	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Description	To create the Lea County Water Users Association.
Term of agreement	Beginning 11/18/1997 Ending Automatic renewal every two years
Amount of project	\$240,000 estimated
City contributions	4.20%
Audit responsibility	Water User Board

Lea County Solid Waste Authority

Participants	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Responsible party	City of Jal City of Hobbs City of Lovington City of Eunice Town of Tatum Lea County
Description	To create the Lea County Solid Waste Authority.
Term of agreement	Beginning 12/12/1994 Ending Automatic renewal every two years
Amount of project	Unknown
City contributions	The City of Jal's cost of trash removal.
Audit responsibility	Solid Waste Authority

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 13. Joint Powers Agreements and Memorandums of Understanding (continued)

Lea County Water Users Association

Participants	City of Jal Energy, Minerals and Natural Resources Department	
Responsible party	City of Jal Energy, Minerals and Natural Resources Department	
Description	Wildland Fire Protection and Suppression.	
Term of agreement	Beginning	04/01/2008
	Ending	Upon written termination
Amount of project	Unknown	
City contributions	N/A	
Audit responsibility	City of Jal	

Lea County

Participants	City of Jal Lea County	
Responsible party	Lea County	
Description	To assist the City with the costs of trash disposal.	
Term of agreement	Beginning	07/01/2011
	Ending	06/30/2012
Amount of project	\$72,000	
City contributions	N/A	
Audit responsibility	City of Jal	

Lea County

Participants	City of Jal Lea County	
Responsible party	City of Jal	
Description	Agreement for housing of City of Jal inmates	
Term of agreement	Beginning	07/01/2011
	Ending	06/30/2012
Amount of project	Unknown	
City contributions	\$65.50 per inmate per day	
Audit responsibility	City of Jal	

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 13. Joint Powers Agreements and Memorandums of Understanding (continued)

Lea County

Participants	City of Jal Lea County
Responsible party	Lea County
Description	To assist the City with fire protection, ambulance, library, and senior citizen services.
Term of agreement	Beginning 07/01/2011 Ending 06/30/2012
Amount of project	\$90,000
City contributions	N/A
Audit responsibility	City of Jal

Vikki Bell

Participants	City of Jal New Mexico Economic Development Department
Responsible party	City of Jal
Description	To promote economic development within and outside the municipal city limits.
Term of agreement	Beginning 03/10/2009 Ending 06/30/2012
Amount of project	\$250,000 estimated
City contributions	N/A
Audit responsibility	New Mexico Economic Development Department

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 14. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The following fund had a deficit fund balance for the year ended June 30, 2012:

Intergovernmental Grants Special Revenue Fund	\$ 292,903
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- B. Excess of expenditures over appropriations. The following funds exceeded approved budgetary authority for the year ended June 30, 2012:

General Fund	\$ 69,662
State Fire Special Revenue Fund	101,739
Street Special Revenue Fund	20,054
Cemetery Special Revenue Fund	3,113
Youth and Aged Special Revenue Fund	33,949
Water and Sewer Fund	285,899
Solid Waste Fund	50,546
	\$ 564,962

- C. Designated cash appropriations exceeded prior year available balances. There were not any funds which had designated cash appropriations in excess of available balances for the year ended June 30, 2012.

NOTE 15. Subsequent Pronouncements

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*, effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The City is analyzing the effects that this pronouncement will have on their financial statements.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The City is analyzing the effects that this pronouncement will have on their financial statements.

STATE OF NEW MEXICO
City of Jal
Notes to Financial Statements
June 30, 2012

NOTE 15. Subsequent Pronouncements (continued)

In April 2011 the Financial Accounting Standards Board (FASB) issued FASB Codification Accounting Standards Update No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*, effective for periods beginning on or after December 15, 2011. The main objective of this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The City is analyzing the effects that this pronouncement will have on their financial statements.

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The City is analyzing the effects that this pronouncement will have on their financial statements.

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City is analyzing the effects that this pronouncement will have on their financial statements.

NOTE 16. Construction and Other Significant Commitments

The City entered into an agreement with Smith Engineering to construct a wastewater treatment plant in fiscal year 2008. As of June 30, 2012, the City has an obligation of \$139,892 for this contract.

NOTE 17. Concentrations

The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and federal and State appropriations.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
City of Jal
Nonmajor Governmental Fund Descriptions
June 30, 2012

Special Revenue Funds

EMS

To account for the acquisition of emergency medical equipment and the operation of the equipment. Financing is provided by a grant from the State of New Mexico. Fund authority is NMSA 24-10A-1.

Street

To account for the collection of one-half of one percent of the gross receipts tax for the purpose of improving the City's streets. Fund authority is NMSA 7-1-69.

Recreation

To account for the operation and maintenance of recreational facilities in the City. Financing is provided by a specific annual cigarette tax levy. Fund authority is NMSA 7-12-15.

Cemetery

To account for the operations and maintenance of the cemetery. Financing is provided by the sale of burial permits and contributions. Fund authority is NMSA 3-40-1.

Corrections

To account for the operations and maintenance of the public holding cells and corrections facilities. Financing is provided by an assessment on all traffic violations within the City limits. Fund authority is NMSA 35-14-11.

Law Enforcement

To account for the receipts and expenditures of a special state grant for the police department. The grant may only be used for the operations of the police department. Fund authority is NMSA 29-13-4.

Youth and Aged

To account for the receipts and expenditures of the senior citizens. Financing is provided by the State Agency on Aging, New Mexico Department of Taxation and Revenue, and federal and state grants. Fund authority is City Council.

Environmental

To account for the receipts and expenditures for the acquisition, construction, operation and maintenance of solid waste facilities, water facilities, wastewater facilities, sewer systems, and related facilities. Financing is provided by an increase in gross receipts tax. Fund authority is City Council.

STATE OF NEW MEXICO
City of Jal
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

	Special Revenue			
	EMS	Street	Recreation	Cemetery
<i>Assets</i>				
Cash and cash equivalents	\$ -	\$ 53,894	\$ 5,764	\$ 5,028
Receivables:				
Other taxes	-	3,549	-	-
Other receivables	-	-	-	-
<i>Total assets</i>	\$ -	\$ 57,443	\$ 5,764	\$ 5,028
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ -	\$ 22
<i>Total liabilities</i>	-	-	-	22
<i>Fund balances</i>				
Spendable				
Restricted	-	57,443	5,764	5,006
<i>Total fund balances</i>	-	57,443	5,764	5,006
<i>Total liabilities and fund balances</i>	\$ -	\$ 57,443	\$ 5,764	\$ 5,028

The accompanying notes are an integral part of these financial statements

<u>Special Revenue</u>				<u>Total Nonmajor Governmental Funds</u>
<u>Corrections</u>	<u>Law Enforcement</u>	<u>Youth and Aged</u>	<u>Environmental</u>	
\$ 33,912	\$ 42	\$ 11,568	\$ 126,308	\$ 236,516
-	-	8,182	1,705	13,436
<u>769</u>	<u>-</u>	<u>3,425</u>	<u>-</u>	<u>4,194</u>
<u>\$ 34,681</u>	<u>\$ 42</u>	<u>\$ 23,175</u>	<u>\$ 128,013</u>	<u>\$ 254,146</u>
\$ 173	\$ -	\$ 1,759	\$ -	\$ 1,954
<u>173</u>	<u>-</u>	<u>1,759</u>	<u>-</u>	<u>1,954</u>
<u>34,508</u>	<u>42</u>	<u>21,416</u>	<u>128,013</u>	<u>252,192</u>
<u>34,508</u>	<u>42</u>	<u>21,416</u>	<u>128,013</u>	<u>252,192</u>
<u>\$ 34,681</u>	<u>\$ 42</u>	<u>\$ 23,175</u>	<u>\$ 128,013</u>	<u>\$ 254,146</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Jal
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2012

	Special Revenue			
	EMS	Street	Recreation	Cemetery
<i>Revenues:</i>				
Taxes:				
Gross receipts	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	41,441	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
State operating grants	5,718	-	-	-
Licenses and fees	-	-	-	-
Miscellaneous	-	-	-	8,845
<i>Total revenues</i>	<u>5,718</u>	<u>41,441</u>	<u>-</u>	<u>8,845</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	27,118
Public safety	-	-	-	-
Public works	-	53,054	-	-
Culture and recreation	-	-	-	-
Health and welfare	5,718	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>5,718</u>	<u>53,054</u>	<u>-</u>	<u>27,118</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(11,613)</u>	<u>-</u>	<u>(18,273)</u>
<i>Net change in fund balances</i>	-	(11,613)	-	(18,273)
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>69,056</u>	<u>5,764</u>	<u>23,279</u>
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ 57,443</u>	<u>\$ 5,764</u>	<u>\$ 5,006</u>

The accompanying notes are an integral part of these financial statements

Special Revenue				Total Nonmajor Governmental Funds
Corrections	Law Enforcement	Youth and Aged	Environmental	
\$ -	\$ -	\$ 113,070	\$ 23,556	\$ 136,626
-	-	-	-	41,441
-	-	30,324	-	30,324
-	22,400	33,460	-	61,578
18,135	-	37,822	-	55,957
-	-	13,750	-	22,595
<u>18,135</u>	<u>22,400</u>	<u>228,426</u>	<u>23,556</u>	<u>348,521</u>
-	-	-	-	27,118
3,891	21,410	-	-	25,301
-	-	-	-	53,054
-	-	212,640	-	212,640
-	-	-	-	5,718
-	948	10,095	-	11,043
<u>3,891</u>	<u>22,358</u>	<u>222,735</u>	<u>-</u>	<u>334,874</u>
<u>14,244</u>	<u>42</u>	<u>5,691</u>	<u>23,556</u>	<u>13,647</u>
14,244	42	5,691	23,556	13,647
<u>20,264</u>	<u>-</u>	<u>15,725</u>	<u>104,457</u>	<u>238,545</u>
<u>\$ 34,508</u>	<u>\$ 42</u>	<u>\$ 21,416</u>	<u>\$ 128,013</u>	<u>\$ 252,192</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-1

City of Jal

EMS Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	5,714	5,718	5,718	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>5,714</u>	<u>5,718</u>	<u>5,718</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	5,714	5,718	5,718	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>5,714</u>	<u>5,718</u>	<u>5,718</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	-	-
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ -	
No adjustments to revenues			-	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-2

City of Jal

Street Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	33,000	33,000	40,939	7,939
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>33,000</u>	<u>33,000</u>	<u>40,939</u>	<u>7,939</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	33,000	33,000	53,054	(20,054)
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,000</u>	<u>33,000</u>	<u>53,054</u>	<u>(20,054)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(12,115)</u>	<u>(12,115)</u>
<i>Net change in fund balance</i>	-	-	(12,115)	(12,115)
<i>Fund balance - beginning of year</i>	-	-	66,009	66,009
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,894</u>	<u>\$ 53,894</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (12,115)	
Adjustments to revenues for other taxes receivable			502	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ (11,613)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-3

City of Jal

Recreation Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	-	-	-	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	-	-	-
Loan proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balance</i>	-	-	-	-
<i>Fund balance - beginning of year</i>	-	-	5,764	5,764
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 5,764	\$ 5,764
Net change in fund balance (non-GAAP budgetary basis)			\$ -	
No adjustments to revenues			-	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			\$ -	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-4

City of Jal

Cemetery Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	10,000	10,000	8,845	(1,155)
<i>Total revenues</i>	<u>10,000</u>	<u>10,000</u>	<u>8,845</u>	<u>(1,155)</u>
<i>Expenditures:</i>				
Current:				
General government	8,500	24,000	27,113	(3,113)
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>8,500</u>	<u>24,000</u>	<u>27,113</u>	<u>(3,113)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>1,500</u>	<u>(14,000)</u>	<u>(18,268)</u>	<u>(4,268)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(1,500)	14,000	-	(14,000)
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(1,500)</u>	<u>14,000</u>	<u>-</u>	<u>(14,000)</u>
<i>Net change in fund balance</i>	-	-	(18,268)	(18,268)
<i>Fund balance - beginning of year</i>	-	-	23,296	23,296
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,028</u>	<u>\$ 5,028</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ (18,268)	
No adjustments to revenues			-	
Adjustments to expenditures for accounts payable			(5)	
Net change in fund balance (GAAP)			<u>\$ (18,273)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-5

City of Jal

Corrections Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	20,000	20,000	20,461	461
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>20,000</u>	<u>20,000</u>	<u>20,461</u>	<u>461</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	9,000	9,000	3,883	5,117
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>9,000</u>	<u>9,000</u>	<u>3,883</u>	<u>5,117</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>11,000</u>	<u>11,000</u>	<u>16,578</u>	<u>5,578</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	(11,000)	(11,000)	-	11,000
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(11,000)</u>	<u>(11,000)</u>	<u>-</u>	<u>11,000</u>
<i>Net change in fund balance</i>	-	-	16,578	16,578
<i>Fund balance - beginning of year</i>	-	-	17,334	17,334
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,912</u>	<u>\$ 33,912</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 16,578	
Adjustments to revenues for other receivables			(2,326)	
Adjustments to expenditures for accounts payable			(8)	
Net change in fund balance (GAAP)			<u>\$ 14,244</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-6

City of Jal

Law Enforcement Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(Non-GAAP Budgetary Basis)	Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	22,400	22,400	22,400	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>22,400</u>	<u>22,400</u>	<u>22,400</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	26,600	17,600	21,410	(3,810)
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	4,800	4,800	948	3,852
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>31,400</u>	<u>22,400</u>	<u>22,358</u>	<u>42</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(9,000)</u>	<u>-</u>	<u>42</u>	<u>42</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted cash increase)	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Transfers in	9,000	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>42</u>	<u>42</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 42</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 42	
No adjustments to revenues			-	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ 42</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-7

City of Jal

Youth and Aged Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	75,000	100,000	120,012	20,012
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	27,000	25,896	29,218	3,322
Federal capital grants	-	-	-	-
State operating grants	35,000	27,960	33,571	5,611
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	35,000	35,000	37,822	2,822
Investment income	-	-	-	-
Miscellaneous	20,000	5,000	13,750	8,750
<i>Total revenues</i>	<u>192,000</u>	<u>193,856</u>	<u>234,373</u>	<u>40,517</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	167,000	188,856	212,710	(23,854)
Health and welfare	-	-	-	-
Capital outlay	-	-	10,095	(10,095)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>167,000</u>	<u>188,856</u>	<u>222,805</u>	<u>(33,949)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>25,000</u>	<u>5,000</u>	<u>11,568</u>	<u>6,568</u>
<i>Net change in fund balance</i>	-	-	11,568	11,568
<i>Fund balance - beginning of year</i>	-	-	-	-
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,568</u>	<u>\$ 11,568</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 11,568	
Adjustments to revenues for other taxes receivable and other receivables			(5,947)	
Adjustments to expenditures for accounts payable			70	
Net change in fund balance (GAAP)			<u>\$ 5,691</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-8

City of Jal

Environmental Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	15,000	15,000	25,002	10,002
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>15,000</u>	<u>15,000</u>	<u>25,002</u>	<u>10,002</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Health and welfare	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>15,000</u>	<u>15,000</u>	<u>25,002</u>	<u>10,002</u>
<i>Net change in fund balance</i>	-	-	25,002	25,002
<i>Fund balance - beginning of year</i>	-	-	101,306	101,306
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,308</u>	<u>\$ 126,308</u>
Net change in fund balance (non-GAAP budgetary basis)			\$ 25,002	
Adjustments to revenues for other taxes receivable			(1,446)	
No adjustments to expenditures			-	
Net change in fund balance (GAAP)			<u>\$ 23,556</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-1

City of Jal

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

Water and Sewer Fund

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
<i>Operating revenues:</i>				
Charges for services	\$ 771,000	\$ 853,300	\$ 1,104,921	\$ 251,621
<i>Total operating revenues</i>	<u>771,000</u>	<u>853,300</u>	<u>1,104,921</u>	<u>251,621</u>
<i>Operating expenses:</i>				
Personnel services	245,850	287,850	368,712	(80,862)
Contractual services	45,000	45,000	47,043	(2,043)
Supplies and purchased power	107,000	111,000	86,928	24,072
Repairs and maintenance	110,000	146,000	366,249	(220,249)
Utilities	130,000	130,000	135,268	(5,268)
Other operating expenses	36,000	38,000	39,549	(1,549)
<i>Total operating expenses</i>	<u>673,850</u>	<u>757,850</u>	<u>1,043,749</u>	<u>(285,899)</u>
<i>Operating income (loss)</i>	<u>97,150</u>	<u>95,450</u>	<u>61,172</u>	<u>(34,278)</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts tax income	33,000	33,000	48,933	15,933
Gross receipts tax expense	(33,000)	(35,000)	(49,201)	(14,201)
Investment income	-	-	-	-
Interest expense	-	-	-	-
Miscellaneous income	-	200	11,084	10,884
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>(1,800)</u>	<u>10,816</u>	<u>12,616</u>
<i>Government contributions and transfers</i>				
Government contributions	-	-	-	-
Transfers in	-	-	(59,215)	(59,215)
Transfers out	-	-	(59,215)	(59,215)
<i>Total government contributions and transfers</i>	<u>-</u>	<u>-</u>	<u>(118,430)</u>	<u>(118,430)</u>
<i>Change in net assets</i>	<u>97,150</u>	<u>93,650</u>	<u>12,773</u>	<u>(80,877)</u>
Designated cash (budgeted cash increase)	(97,150)	(93,650)	-	93,650
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,710,813</u>	<u>1,710,813</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,723,586</u>	<u>\$ 1,723,586</u>
<i>Change in net assets, above</i>			\$ 12,773	
Depreciation			<u>(80,772)</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ (67,999)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-2

City of Jal

Statement of Revenues, Expenses and Changes in Net Assets
 Budget (GAAP Basis) and Actual
 Solid Waste Fund
 For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 265,100	\$ 265,100	\$ 337,075	\$ 71,975
<i>Total operating revenues</i>	<u>265,100</u>	<u>265,100</u>	<u>337,075</u>	<u>71,975</u>
<i>Operating expenses:</i>				
Personnel services	24,500	46,500	61,882	(15,382)
Contractual services	238,000	238,100	282,690	(44,590)
Supplies and purchased power	-	-	-	-
Repairs and maintenance	2,000	2,000	559	1,441
Utilities	-	-	699	(699)
Other operating expenses	11,000	11,000	2,316	8,684
<i>Total operating expenses</i>	<u>275,500</u>	<u>297,600</u>	<u>348,146</u>	<u>(50,546)</u>
<i>Operating income (loss)</i>	<u>(10,400)</u>	<u>(32,500)</u>	<u>(11,071)</u>	<u>21,429</u>
<i>Non-operating revenues (expenses):</i>				
Gross receipts tax income	12,000	12,000	14,831	2,831
Gross receipts tax expense	(12,000)	(12,000)	(15,891)	(3,891)
Investment income	-	-	-	-
Interest expense	-	-	-	-
Miscellaneous income	35,000	35,000	45,386	10,386
<i>Total non-operating revenues (expenses)</i>	<u>35,000</u>	<u>35,000</u>	<u>44,326</u>	<u>9,326</u>
<i>Government contributions and transfers</i>				
Government contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total government contributions and transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	24,600	2,500	33,255	30,755
Designated cash (budgeted cash increase)	(24,600)	(2,500)	-	2,500
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>34,356</u>	<u>34,356</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,611</u>	<u>\$ 67,611</u>
<i>Change in net assets, above</i>			\$ 33,255	
Depreciation			<u>-</u>	
<i>Change in net assets, Exhibit D-2</i>			<u>\$ 33,255</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
City of Jal
Schedule of Deposit and Investment Accounts
June 30, 2012

Schedule I

Bank Account Type/Name	Wells Fargo Bank Bank	NMFA	Totals
Deposits			
Interfund-Checking	\$ 1,192,011	\$ -	\$ 1,192,011
Payroll-Checking	28,337	-	28,337
EMS Donations - Checking	450	-	450
Municipal Court - Checking	4,097	-	4,097
Trust Account - Checking	-	14,011	14,011
Certificate of Deposit	300,000	-	300,000
Certificate of Deposit	77,416	-	77,416
Total amount of deposits in bank	<u>1,602,311</u>	<u>14,011</u>	<u>1,616,322</u>
Less: FDIC coverage	<u>1,602,311</u>	<u>14,011</u>	<u>1,616,322</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>
50% collateral requirements	<u>-</u>	<u>-</u>	<u>-</u>
Pledged securities	<u>186,619</u>	<u>-</u>	<u>186,619</u>
Over/(under) collateralized	<u>186,619</u>	<u>-</u>	<u>186,619</u>
Bank balance	<u>1,602,311</u>	<u>14,011</u>	<u>1,616,322</u>
Outstanding items	(177,355)	-	(177,355)
Deposits in transit	-	-	-
Other adjustments	(10)	-	(10)
Book balance	<u>\$ 1,424,946</u>	<u>\$ 14,011</u>	<u>\$ 1,438,957</u>
Plus: Petty cash			450
Total deposits and investments			<u>\$ 1,439,407</u>
Cash, cash equivalents and restricted cash per financial statements:			
Governmental Activities - Exhibit A-1			627,984
Business-type Activities - Exhibit A-1			802,140
Agency funds - Exhibit E-1			9,283
Total cash and cash equivalents and investments			<u>\$ 1,439,407</u>

STATE OF NEW MEXICO
 City of Jal
 Schedule of Collateral Pledged By Depository
 For Public Funds
 June 30, 2012

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2012	Location of Safekeeper
Wells Fargo Bank	FNMA-PT	08/01/40	3149AG27	\$ 186,619	Bank of New York, NY
	Total Pledged Collateral			<u>\$ 186,619</u>	

STATE OF NEW MEXICO
City of Jal
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2012

Schedule III

	Balance at June 30, 2011	Receipts	Disbursements	Balance at June 30, 2012
<i>Motor Vehicle</i>				
Assets				
Cash and cash equivalents	\$ 2,755	\$ 16,778	\$ 14,797	\$ 4,736
<i>Total assets</i>	<u>\$ 2,755</u>	<u>\$ 16,778</u>	<u>\$ 14,797</u>	<u>\$ 4,736</u>
Liabilities				
Deposits held in trust for others	\$ 2,755	\$ 16,778	\$ 14,797	\$ 4,736
<i>Total liabilities</i>	<u>\$ 2,755</u>	<u>\$ 16,778</u>	<u>\$ 14,797</u>	<u>\$ 4,736</u>
<i>Municipal Court</i>				
Assets				
Cash and cash equivalents	\$ 14,234	\$ 90,873	\$ 101,010	\$ 4,097
<i>Total assets</i>	<u>\$ 14,234</u>	<u>\$ 90,873</u>	<u>\$ 101,010</u>	<u>\$ 4,097</u>
Liabilities				
Deposits held in trust for others	\$ 14,234	\$ 90,873	\$ 101,010	\$ 4,097
<i>Total liabilities</i>	<u>\$ 14,234</u>	<u>\$ 90,873</u>	<u>\$ 101,010</u>	<u>\$ 4,097</u>
<i>EMS Donations</i>				
Assets				
Cash and cash equivalents	\$ 449	\$ 1	\$ -	\$ 450
<i>Total assets</i>	<u>\$ 449</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 450</u>
Liabilities				
Deposits held in trust for others	\$ 449	\$ 1	\$ -	\$ 450
<i>Total liabilities</i>	<u>\$ 449</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 450</u>
<i>Economic Development</i>				
Assets				
Cash and cash equivalents	\$ 387	\$ -	\$ 387	\$ -
<i>Total assets</i>	<u>\$ 387</u>	<u>\$ -</u>	<u>\$ 387</u>	<u>\$ -</u>
Liabilities				
Deposits held in trust for others	\$ 387	\$ -	\$ 387	\$ -
<i>Total liabilities</i>	<u>\$ 387</u>	<u>\$ -</u>	<u>\$ 387</u>	<u>\$ -</u>

See independent auditors' report

COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Hector Balderas
New Mexico State Auditor
City Manager, May
City Council Members
City of Jal
Jal, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds and the aggregate remaining fund information of the City of Jal (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 6, 2012. We have also audited the financial statements of each of the City's nonmajor governmental funds, the budgetary comparisons for the proprietary funds and the remaining 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. We qualified our opinion because we were unable to verify capital assets, accumulated depreciation and current year depreciation expense. 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 2009-1, FS 2009-8, FS 2009-9, FS 2009-26, FS 2009-34, FS 2009-37, FS 2011-1, FS 2011-2, FS 2012-1, and FS 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as FS 2009-7 and FS 2010-2.

We also noted a certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as item FS 2008-3 and FS 2010-5.

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

This report is intended solely for the information and use of management, others within City, the audit committee, the State Auditor, the New Mexico Legislature, the 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 parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 6, 2012

FEDERAL FINANCIAL ASSISTANCE

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVERCOMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector Balderas
New Mexico State Auditor
City Manager, Mayor
City Council Members
City of Jal
Jal, New Mexico

Compliance

We have audited the compliance of City of Jal, New Mexico (City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the City's internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 2012-1 and FA 2012-2, to be significant deficiencies.

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

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

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 6, 2012

STATE OF NEW MEXICO
City of Jal
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Schedule IV

Federal Grantor Program Title	Federal CFDA Number	Federal or Pass Through Grant / Project Number	Federal Expenditures
<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>			
U.S. Department of Housing and Urban Development			
Community Development Block Grant	14.228	N/A	\$ 24,035
U.S. Department of Commerce			
Public Works and Economic Development Grant	11.301	08-01-04527	* 876,965
Total Expenditures of Federal Awards			<u>\$ 901,000</u>

* Major Program

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented on the accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Sub-recipients

The City did not provide any federal awards to sub-recipients during the year.

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Questioned Costs
June 30, 2012

Section I – Summary of Audit Results

Financial Statements:

- | | |
|--|-----------|
| 1. Type of auditors’ report issued | Qualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| c. Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Type of auditors’ report issued on compliance for major programs | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 4. Identification of major programs: | |

<u>CFDA</u> <u>Number</u> 11.301		<u>Federal Program</u> Public Works and Economic Development Grant
--	--	---

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 6. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

FS 2008-3 Disaster Recovery Plan (Other)

Condition: The City does not have a disaster recovery plan in place for their computer system. In the event of a disaster, such a plan would contain provisions for alternate supplies and hardware necessary to reduce the risk of interruption of critical business functions.

Criteria: Statement of Auditing Standard (SAS) 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit* require the evaluation of internal controls related to IT Systems, including the evaluation of disaster recovery plans.

Effect: In the event of a disaster, the City would not be able to minimize the interruption of critical business functions.

Cause: The City has never considered the need to implement a disaster recovery plan.

Auditors' Recommendation: The City should implement a disaster recovery plan to ensure that an approved plan is in place for critical applications. Disaster recovery procedures should be tested periodically to ensure recoverability of computer systems.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors' recommendation.

Section II – Financial Statement Findings (continued)

FS 2009-1 Record Keeping (Material Weakness)

Condition: Activity for the municipal court, NMFA loan, and EMS donations and cash held for these funds were not recorded in a general ledger overseen by the City Treasurer.

Criteria: Section 6-6-3 of the New Mexico Statutes states that every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Effect: The City of Jal's financial statements may not reflect all activity and balances.

Cause: The CDBG and economic development funds are maintained by the Special Projects Coordinator throughout the year and this activity is not shared with the City Treasurer.

Auditors' Recommendation: The City should implement procedures to ensure that all activity the City is responsible for is properly recorded in the general ledger and subject to the control of the City Treasurer.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Questioned Costs
June 30, 2012

Section II – Financial Statement Findings (continued)

FS 2009-7 Expenditures in Excess of Budget (Other)

Condition: The City over expended its budget in the following funds:

General Fund	\$ 69,662
State Fire Special Revenue Fund	101,739
Street Special Revenue Fund	20,054
Cemetery Special Revenue Fund	3,113
Youth and Aged Special Revenue Fund	33,949
Water and Sewer Fund	285,899
Solid Waste Fund	50,546
	<u>\$ 564,962</u>

Criteria: Section 6-6-6 NMSA, 1978 requires that the City keep expenditures within the budgeted amounts.

Effect: Improper management of budgets can create cash short falls.

Cause: High turnover in all departments has created inconsistencies in following City procedures.

Auditors' Recommendation: We recommend the City establish policies and procedures governing the budgetary process and monitoring of the budget to properly prepare and adjust the budget in order to authorize all expenditures.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2009-8 Auditor Prepared Financial Statements (Material Weakness)

Condition: The financial statements and related disclosures are not being prepared by the City. The City does not have a procedure in place to detect and correct material misstatements in the financial statements.

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it doesn't eliminate the control deficiency.

Effect: The City has a control deficiency since there are not sufficient controls over the preparation of financial statements and related disclosures. The risk of material misstatement of the financial statements is increased by the lack of control procedures over the preparation of the City's financial statements.

Cause: City personnel do not have the time and have not been training in the preparation of financial statements and related disclosures.

Auditors' Recommendation: We recommend that management and personnel receive training on preparation of financial statements and related disclosures under Generally Accepted Accounting Standards, or contract with a consultant to assist with the preparation and implement procedures to detect and correct misstatements.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2009-9 Deficiencies in Internal Control Structure Design, Operation, and Oversight – Comprehensive Documentation of Internal Controls (Material Weakness)

Condition: The City does not have a comprehensive documented internal control structure. We noted the following areas in which the City does not have sufficient key internal controls in place:

- The City cannot rely on their reports from their accounting system and was unable to reconcile their PERA, RHC and 941 reports to the general ledger.
- In 2 instances out of 5 when testing internal controls over accounts receivables the deposit was posted to the incorrect account. In one of those instances, the revenue amount was incorrect while in the second instances, it was coded to an incorrect special revenue fund.
- In 3 instances out of 18 when testing bank reconciliations it was discovered that checks were not being deposited timely. Deposits for checks totaling approximately \$15,730 were made between 3 and 6 days late.
- The City could not produce a list of voided checks.
- In 1 instance out of 5 when testing internal controls over accrued expenses, it was noted that the employee had not signed and approved the timesheet.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: The City recently had key management turnover and did not have documented policies in place to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the City of Jal ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Management should either maintain a separate fund for the federal grant money or track the federal expenses in a different line item. Management should: (1) maintain the listing of federal awards throughout the year, (2) keep state grants separate from federal grants; and (3) anytime the City receives a new grant, check with the grant contact person to determine whether the grant is federal or state funds.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2009-26 Deficiencies in Internal Control Structure Design, Operation and Oversight – Central Accounting Function does not have Proper Authority (Material Weakness)

Condition: The central accounting and financial reporting functions do not have proper authority over decentralized accounting personnel. Management’s philosophy and operating style are not consistent with a sound control environment and have a pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolves improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

Auditors’ Recommendation: The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors’ recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2009-34 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Establishing Internal Reporting Responsibilities for Each Department (Material Weakness)

Condition: The City does not establish internal reporting responsibilities for each department, program, or other function that are consistent with the objective of achieving effective internal control over financial reporting. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2009-37 Deficiencies in Internal Control Structure Design, Operation and Oversight – Lack of Adequate Supervision of Decentralized Operations (Material Weakness)

Condition: There is not adequate supervision and monitoring of decentralized operations, including accounting personnel and information systems. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2010-2 Noncompliance with the Procurement Code (Other)

Condition: During our test work regarding compliance with the NM Procurement Code, we noted that the City was unable to produce a list of bids for the 2012 fiscal year.

Criteria: Auditing Standards state that the management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good accounting policies require that the City be able to produce documentation of contracts.

Effect: Without appropriate supporting documentation, the City has no assurance that all revenues and disbursements have been properly authorized and disbursed in accordance with applicable grant agreements and follow good accounting procurement practices.

Cause: Bid files are currently kept with the originating department and no list is kept in the finance department.

Auditors' Recommendation: We recommend that all bids flow through the finance department and documentation be kept there once the project is complete.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors' recommendation.

Section II – Financial Statement Findings (continued)

FS 2010-5 PERA and RHC Reconciliations (Other)

Condition: The City was unable to provide a reconciliation of total wages paid in fiscal year 2012 to PERA and RHC wages for the same period.

Criteria: Section 2.2.2.10G(7) NMAC requires that total wages paid by a public entity must be reported for the Public Employees Retirement Act and Retiree Health Care.

Effect: Total contributions due to the Public Employees Retirement Fund or Retiree Health Care Fund may not have been accurately reported or remitted.

Cause: Management of the City did not have confidence that their reports were correct.

Auditors' Recommendation: We recommend that the City perform a reconciliation of total wages paid per pay period to the total wages subject to PERA and RHC withholding per pay period.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2011-1 Lack of IT Strategic Planning, Oversight, and Risk Assessment (Material Weakness)

Condition: The City does not have effective strategic planning, oversight, and risk assessment over their information technology.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management’s responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, “inadequate documentation of the components of internal control.” SAS 112 paragraph 19 states that ineffective oversight of the agency’s financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Without adequate planning, strategy, and oversight, IT use may not align with City objectives. Without risk assessment, significant risks and/or fraud may go undetected.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

Auditors’ Recommendation: We recommend that the City create an IT committee to meet annually and discuss IT strategy, plan for oversight, and assess potential IT-related risk.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors’ recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2011-2 Lack of IT Strategic Planning, Oversight, and Risk Assessment (Material Weakness)

Condition: The City does not have documented policies and procedures pertaining to IT.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Without IT policies and procedures, unauthorized access and misuse of systems may occur.

Cause: For the fiscal year 2012 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the City create and document policies and procedures pertaining to IT and IT security.

Views of Responsible Officials and Planned Corrective Actions: The City contracted with a consultant and implemented the auditors' recommendation effective July 2012.

Section II – Financial Statement Findings (continued)

FS 2012-1 Deficiencies in Internal Control Structure Design, Operation and Oversight - Capital Asset Deficiency (Material Weakness)

Condition: It was noted in the testwork over capital assets that the client was unable to provide a complete and comprehensive capital asset listing that includes purchase date, depreciation expense, and accumulated depreciation.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect misstatements of accounting information.

Cause: Management has enlisted the assistance of RCI, Inc., a capital asset inventory firm to assist them in preparing a complete and comprehensive list of capital assets. A complete inventory was performed, but the City has been unable to compile a complete list with all relevant information. This is a violation of the City's Capital Asset Policy that states, "The fixed asset shall be entered into the computerized fixed asset inventory file to include all pertinent information and date required. It shall be the responsibility of City Clerk/Treasurer to appropriately update and maintain a permanent Fixed Asset File."

Auditors' Recommendation: The City should ensure that all information is accurately recorded regarding fixed asset information and is entered into the system correctly.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors' recommendation.

Section II – Financial Statement Findings (continued)

FS 2012-2 Deficiencies in Internal Control Structure Design, Operation, and Oversight –Missing Purchase Orders (Material Weakness)

Condition: The City does not have a comprehensive documented internal control structure. During testing of internal controls over accounts payable and the extended cash testwork, there were several checks that were missing purchase orders as required by the City's accounting policies. See the breakdown below.

Internal Control Testwork- 3 checks out of 5 totaling \$4,659 for the Water and Sewer Fund

Extended Cash Procedures- 12 checks out of 25 totaling \$14,191

- General Fund- Financial Administration Department- 2 checks for \$391
- General Fund- Police Department- 1 check for \$26
- General Fund- Public Works Department- 3 checks for \$2,402
- Intergovernmental Grants Fund- 1 check for \$40
- Law Enforcement Fund- 1 check for \$2,213
- State Fire Fund- 2 checks for \$3,257
- Street Fund- 2 checks for \$625
- Water and Sewer Fund- 8 checks for \$5,237

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: The City recently had key management turnover and did not have documented policies in place to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the City of Jal ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process as well as all accounting policies set by the City.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors' recommendation.

Section III – Federal Award Findings

FA 2012-1 Late Reports (Significant Deficiency)

Federal Program Information:

Funding Agency: U.S. Department of Commerce
Title: Public Works and Economic Development Grant
CFDA Number: 11.301
Award Number: 08-01-04527
Award Period: 4/26/2012-4/26/2015

Questioned Costs: None

Condition: We noted upon review of the financial reports related to this grant that the SF-425 “Federal Financial Report” was not submitted timely. The report was prepared while we were performing the testwork for this program in August 2012.

Criteria: The Special Award Conditions of the grant agreement with the Department of Commerce required that the above report be filed by October 31, 2011 for the period ended September 30, 2011.

Effect: The City was not in compliance with the requirements of their grant agreement with the Department of Commerce.

Cause: The City did not monitor reporting requirements to ensure that all reports were submitted timely.

Auditors’ Recommendation: The City should develop a tracking system and monitor the filing of reports to ensure that all reports are filed timely.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors’ recommendation.

Section III – Federal Award Findings (continued)

FA 2012-2 Deficiencies in Internal Control Structure Design, Operation and Oversight – Preparing a Schedule of Federal Expenditures (Significant Deficiency)

Federal Program Information:

Funding Agency: U.S. Department of Commerce
Title: Public Works and Economic Development Grant
CFDA Number: 11.301
Award Number: 08-01-04527
Award Period: 4/26/2012-4/26/2015

Questioned Costs: None

Condition: During our audit, City employees were not able to prepare an accurate Schedule of Federal Expenditures. This was partially due to management not having procedures in place to identify federal, state, and other awards.

Criteria The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Good internal controls require that management have procedures in place for identifying federal, state, and other awards.

Effect: Because procedures are not in place to identify all federal awards, the federal expenditures reported on the Schedule of Federal Expenditures could be misstated.

Cause: The amount of federal funding that the City has received for the past several years has not required the preparation of a Schedule of Federal Expenditures. The current staff does not have the training necessary to prepare an accurate Schedule.

Auditors' Recommendation: The City should provide training to key employees on federal reporting requirements and the preparation of the Schedule of Federal Expenditures.

Views of Responsible Officials and Planned Corrective Actions: The City will follow the auditors' recommendation.

STATE OF NEW MEXICO
City of Jal
Schedule of Findings and Questioned Costs
June 30, 2012

Section IV - Schedule of Prior Year Audit Findings

FS 2008-3	Disaster Recovery Plan	Revised and Repeated
FS 2009-1	Record Keeping	Revised and Repeated
FS 2009-6	Late Audit Report	Resolved
FS 2009-7	Expenditures in Excess of Budget	Revised and Repeated
FS 2009-8	Auditor Prepared Financial Statements	Revised and Repeated
FS 2009-9	Deficiencies in Internal Control Structure Design, Operation, and Oversight Comprehensive Documentation of Internal Controls	Revised and Repeated
FS 2009-26	Deficiencies in Internal Control Structure Design, Operation, and Oversight Central Accounting Function does not have Proper Authority	Revised and Repeated
FS 2009-34	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Establishing Internal Reporting Responsibilities for Each Department	Revised and Repeated
FS 2009-37	Deficiencies in Internal Control Structure Design, Operation, and Oversight Lack of Adequate Supervision of Decentralized Operations	Revised and Repeated
FS 2010-2	Noncompliance with the Procurement Code	Revised and Repeated
FS 2010-3	Journal Entries	Resolved
FS 2010-4	Notification to the State Auditor's Office not Performed Prior to Disposition of Capital Assets	Resolved
FS 2010-5	PERA and RHC Reconciliations	Revised and Repeated
FS 2011-1	Lack of IT Strategic Planning, Oversight, and Risk Assessment Lack of Effective Strategic Planning	Revised and Repeated
FS 2011-2	Lack of IT Strategic Planning, Oversight, and Risk Assessment Lack of Documented Policies and Procedures Pertaining to IT	Revised and Repeated

STATE OF NEW MEXICO

City of Jal
Other Disclosures
June 30, 2012

Exit Conference

An exit conference was held on November 6, 2012. In attendance were the following:

Representing the City of Jal:

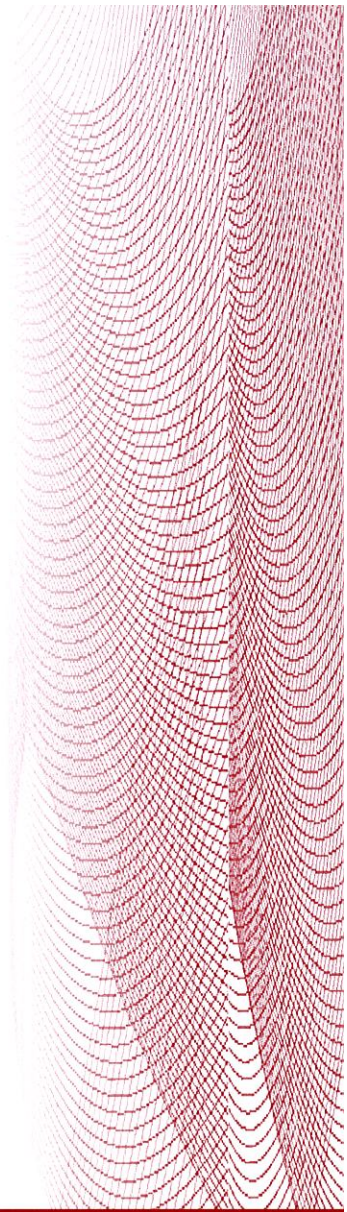
Cheryl Chance	Mayor
Curtis Schrader	City Manager

Representing Accounting & Consulting Group, LLP:

Shelley Olson	Supervisor
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Auditor Prepared Financial Statements

Although it would be preferred and desirable for the City to prepare its own financial statements, the City's personnel did not have the time to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of the City of Jal from the original books and records provided to them by the management of the City.



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