

**TOWN OF LAKE ARTHUR
STATE OF NEW MEXICO
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
JUNE 30, 2007**

TOWN OF LAKE ARTHUR

TABLE OF CONTENTS

JUNE 30, 2007

FINANCIAL SECTION

Independent Auditors' Report 1 - 2

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Statement of Net Assets3

Statement of Activities4

FUND FINANCIAL STATEMENTS:

Balance Sheet5

Reconciliation of the Balance Sheet – Governmental Fund
to the Statement of Net Assets.....6

Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds7

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds to the Statement of Activities.....8

Statement of Revenues and Expenditures – Budget (Non-GAAP Budgetary
Basis) and Actual (Non-GAAP Budgetary Basis):
General 9

Statement of Net Assets – Proprietary Fund 10

Statement of Revenues, Expenditures and Changes in Fund Balances –
Proprietary Fund.....11

Statement of Cash Flows – Proprietary Fund.....12

NOTES TO FINANCIAL STATEMENTS 13 – 24

SPECIAL REVENUE FUNDS 25 – 37

ENTERPRISE FUND 38 – 39

SUPPLEMENTARY INFORMATION41

TOWN OF LAKE ARTHUR

TABLE OF CONTENTS

JUNE 30, 2007

Report on Compliance and On Internal Control Based Over Financial Statement Reporting Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards	42 – 43
Schedule of Findings and Responses	44 – 46
Schedule of Prior Year Audit Findings and Responses.....	47
Exit Conference.....	48

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR

Official Roster
June 30, 2007

Town Council

Ysidro Salazar

Edward M. Rubio, Jr.

Johnny Teel

Robert Schneider

Rosa Salcido

Mayor

Mayor Pro Tem

Council Member

Council Member

Council Member

Administrative Officials

Terry Georgio

Clerk / Treasurer

Kubiak & Melton, LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
State of New Mexico and
Town Council
Town of Lake Arthur
P.O. Box 208
Lake Arthur, NM 88135

We were engaged to audit the accompanying financial statements of the governmental activities, business activities, each major fund, budgetary comparisons for the general fund and the special revenue funds, and the aggregate remaining fund information for the Town of Lake Arthur (Lake Arthur), as of and for the year ended June 30, 2007, which collectively comprise Lake Arthur's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements and budgetary comparisons of each of Lake Arthur's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2007 as listed in the table of contents. Our responsibility is to express opinions on these financial statements based on our audit.

The Town of Lake Arthur could not provide adequate supporting documentation for all transactions during the fiscal year ended June 30, 2007 which was a result of inadequate internal controls over financial reporting for all governmental funds. The Town of Lake Arthur's records do not permit the application of auditing procedures to all transaction classes.

Since the Town of Lake Arthur could not provide adequate supporting documentation for all transactions for the year ended June 30, 2007 and we were unable to apply other auditing procedures to satisfy ourselves as to the accuracy of the governmental and proprietary fund financial records, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these financial statements.

The Town of Lake Arthur has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basis financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2012 on our consideration of Lake Arthur's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations. Contracts, 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the Town of Lake Arthur's basic financial statements and the combining and individual fund financial statements and budgetary comparisons and the required supplementary information. The Schedule of Deposits and Temporary Investments is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

Kubiak & Melton, LLC

Kubiak & Melton, LLC
July 31, 2012

**TOWN OF LAKE ARTHUR
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Funds	Proprietary Fund	Total
ASSETS			
Current Assets			
Cash	\$ 33,183	\$ -	\$ 33,183
Utilities Receivable	-	12,511	12,511
Total Current Assets	33,183	12,511	45,694
Capital Assets	1,499,599	-	1,499,599
Less: Accumulated Depreciation	-	-	-
Capital Assets - Net	1,499,599	-	1,499,599
TOTAL ASSETS	\$ 1,532,782	\$ 12,511	\$ 1,545,293
LIABILITIES AND NET ASSETS			
Current Liabilities			
Current Portion of Long-Term Debt	\$ 19,014	\$ -	\$ 19,014
Total Current Liabilities	19,014	-	19,014
Noncurrent Liabilities			
Long-term Debt Due After One Year	122,207	-	122,207
Total Noncurrent Liabilities	122,207	-	122,207
TOTAL LIABILITIES	141,221	-	141,221
NET ASSETS			
Invested in Capital Assets - Net of Related Debt	1,499,599	-	1,499,599
Unrestricted	(108,038)	12,511	(95,527)
Total Net Assets	1,391,561	12,511	1,404,072
TOTAL LIABILITIES AND NET ASSETS	\$ 1,532,782	\$ 12,511	\$ 1,545,293

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
STATEMENT OF ACTIVITIES
JUNE 30, 2007**

Functions and Programs	Expenses	Program Revenues			Governmental Activities (Expenses) Revenues and Changes in Net Assets	Business-Type Activities (Expenses) Revenues and Changes in Net Assets	Total
		Charges for Services	Operating Grants and Contributions	Inter- Governmental and Other Sources			
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 144,014	\$ -	\$ 172,680	\$ 26,097	\$ 54,763	\$ -	\$ 54,763
Public Safety	80,016	-	6,477	1,035	(72,504)	-	(72,504)
Public Works	56,571	-	-	-	(56,571)	12,511	(44,060)
Culture and Recreation	15,392	1,385	-	-	(14,007)	-	(14,007)
Long Term Debt	141,221	-	-	-	(141,221)	-	(141,221)
Total Governmental Activities	437,214	1,385	179,157	27,132	(229,540)	12,511	(217,029)
General Revenues:							
Taxes:							
Gross Receipts					53,080	-	53,080
Local Source Revenue Not Restricted to Specific Purposes					22,398	-	22,398
Interest and Investment Earnings					2,121	-	2,121
Subtotal, General Revenues					77,599	-	77,599
Change in Net Assets					(151,941)	12,511	(139,430)
Invested in Capital Assets, Net of Related Debt					1,499,599	-	1,499,599
Beginning Net Assets as Reported					1,439,867	-	1,439,867
Restatement					(1,395,964)	-	(1,395,964)
Beginning Net Assets as Restated					1,543,502	-	1,543,502
Ending Net Assets					<u>\$ 1,391,561</u>	<u>\$ 12,511</u>	<u>\$ 1,404,072</u>

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash in Banks	\$ 30,943	\$ 2,240	\$ 33,183
Due from Other Funds	-	-	-
Taxes Receivable	-	-	-
Other Assets	-	-	-
	-	-	-
TOTAL ASSETS	\$ 30,943	\$ 2,240	\$ 33,183
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Other Liabilities	-	-	-
	-	-	-
TOTAL LIABILITIES	-	-	-
 FUND BALANCES			
Unreserved - Special Revenue	-	2,240	2,240
Unreserved	30,943	-	30,943
Designated for Subsequent Year's Expenditures	-	-	-
	-	-	-
TOTAL FUND BALANCES	30,943	2,240	33,183
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,943	\$ 2,240	\$ 33,183

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

Total Fund Balance - Governmental Funds	\$	33,183
Amounts reported for governmental activities in the statement of net assets are different because:		
Long term debt and current portion of long term debt reported in government-wide statements		(141,221)
Net Assets, Proprietary Fund		12,511
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
The cost of capital assets is:		1,499,599
Accumulated Depreciation is:		-
Capital Assets - Net		<u>1,499,599</u>
 Net Assets of Governmental Activities	 \$	 <u><u>1,404,072</u></u>

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Non-Major Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 53,080	\$ 1,424	\$ 54,504
Licenses and Permits	-	-	-
Intergovernmental	4,500	885	5,385
Severance Tax Bonds	-	-	-
Fines and Forfeits	26	20,573	20,599
Miscellaneous	21,597	525	22,122
Interest	2,121	-	2,121
Grants	172,680	6,477	179,157
Charges for Services	-	1,385	1,385
	254,004	31,269	285,273
TOTAL REVENUES			
EXPENDITURES			
Current			
General Government	144,014	-	144,014
Public Safety	1,360	78,656	80,016
Public Works	-	56,571	56,571
Culture and Recreation	117	15,275	15,392
Debt Service			-
Principal			-
Interest and Other Charges			-
Capital Outlay	-	-	-
	145,491	150,502	295,993
TOTAL EXPENDITURES			295,993
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	108,513	(119,233)	(10,720)
OTHER FINANCING SOURCES (USES)			
Transfers In	-		-
Transfers Out	-		-
Sale of Assets	-	-	-
	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)			-
NET CHANGE IN FUND BALANCES	108,513	(119,233)	(10,720)
FUND BALANCE, BEGINNING OF YEAR	58,340	42,163	100,503
RESTATEMENT	(135,910)	79,310	(56,600)
FUND BALANCE, END OF YEAR	\$ 30,943	\$ 2,240	\$ 33,183

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Net Changes in Fund Balance - Governmental Funds \$ (10,720)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, the governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period:

Depreciation Expense	
Capital Outlay	
Excess (Deficiency) of Capital Outlay over Depreciation Expense	-

Long-Term Debt	(141,221)
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Net Income, Proprietary Fund	<u>12,511</u>
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Change in Net Assets of Governmental Activities \$ (139,430)

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ 41,500	\$ 41,500	\$ 53,080	\$ 11,580
Licenses and Permits	415	415	-	(415)
Charges for Services	31,893	31,893	-	(31,893)
Fines and Forfeits	-	-	26	26
Miscellaneous	-	-	21,597	21,597
Interest	-	-	2,121	2,121
Grants	83,000	83,000	172,680	89,680
Intergovernmental	-	-	4,500	4,500
Severance Tax Bonds	-	-	-	-
TOTAL REVENUES	<u>156,808</u>	<u>156,808</u>	<u>254,004</u>	<u>97,196</u>
EXPENDITURES				
Current				
General Government	84,823	84,823	144,014	(59,191)
Public Safety	50,130	50,130	1,360	48,770
Public Works	43,552	43,552	-	43,552
Health and Welfare	-	-	-	-
Culture and Recreation	8	8	117	(109)
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>178,513</u>	<u>178,513</u>	<u>145,491</u>	<u>33,022</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	108,513	64,174
OTHER FINANCING SOURCES (USES)				
Prior Year Cash Balance Budgeted	-	-	-	-
Transfers Out	-	-	-	-
Sale of Assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	108,513	64,174
FUND BALANCE, BEGINNING OF YEAR	-	-	58,340	
RESTATEMENT	-	-	(135,910)	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,943</u>	

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007**

	Enterprise Fund
ASSETS	
Current Assets	
Pooled Cash and Cash Equivalents	\$ -
Utilities Receivable	12,511
Total Current Assets	12,511
Non-Current Assets	
Capital Assets - Net	-
TOTAL ASSETS	\$ 12,511
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ -
Accrued Liabilities	-
Current Portion of Long-Term Debt	-
Total Current Liabilities	-
Non-Current Liabilities	
Long-Term Debt	-
Total Non-Current Liabilities	-
TOTAL LIABILITIES	-
 NET ASSETS	
Invested in Capital Assets - Net of Related Debt	-
Unrestricted	12,511
TOTAL NET ASSETS	12,511
	\$ 12,511

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Fund
OPERATING REVENUES	
Taxes	\$ -
Service fees	13,889
Investment Income	-
Other Income	3,061
Total Revenues	16,950
 OPERATING EXPENSES	
Personnel	-
Contracts	-
Other	4,439
Capital Outlay	-
Depreciation	-
Total Expenses	4,439
OPERATING INCOME	12,511
 NON-OPERATING REVENUES (EXPENSES)	
Interest Income	-
Interest Expense	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	-
NET INCOME BEFORE TRANSFERS	12,511
Transfers - Net	-
NET INCOME AFTER TRANSFERS	12,511
NET ASSETS - BEGINNING OF YEAR	-
NET ASSETS - END OF YEAR	\$ 12,511

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Fund
Cash Flows From Operating Activities:	
Net Income	\$ 12,511
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operations:	-
Depreciation	
(Increase) Decrease in:	
Utilities Receivable	(12,511)
Increase (Decrease) in:	
Accounts Payable	
Accrued Liabilities	-
Net Cash Provided By (Used in) Operating Activities	-
Cash Flows From Investing Activities:	
Purchases of Property and Equipment	-
Gain (Loss) on Disposal of Capital Assets	-
Net Cash Provided By (Used in) Investing Activities	-
Cash Flows From Financing Activities:	
Principal Payments on Long-Term Debt	-
Other	-
Net Cash Provided By (Used in) Financing Activities	-
Net Increase in Cash	-
Cash - Beginning of Year	-
Cash - End of Year	-

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Town of Lake Arthur (Town) is incorporated under the laws of the State of New Mexico. The Town operates under a Mayor – Board of Trustees form of government, providing services as authorized by its charter: public safety (police and fire), streets, sanitation, health and welfare, and culture and recreation, public improvements, and general administrative services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June, 1999, GASB approved Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus” and Statement No. 38 “Certain Financial Statement Note Disclosures.” Statement No. 37 clarifies and modifies Statement No. 34 and should be implemented simultaneously with Statement No. 34. Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements. The Town implemented the provisions of the above statements effective July 1, 2003.

Reporting Entity – The Town has a five-member town council; staggering positions expire each election. Therefore, the Town is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, “The Financial Reporting Entity”. There are no component units included within the reporting entity as defined by Statement No. 14. The financial statements of the town consist of the various departments, agencies and organizational units under oversight of the council.

The basic criteria determining the Town’s reporting entity is the exercise of oversight responsibility by the Town Council. The specific criteria used for establishing oversight responsibility are:

- Selection of Governing Authority
- Designation of Management
- Ability to significantly influence operations
- Accountability for Fiscal Matters

Factors other than oversight which may significantly influence the entity relationship are:

- Scope of Public Service
- Special Financing Relationships

Based on these criteria, the Town has no component units. Additionally, the Town is not a component unit of any other reporting entity as defined by the Governmental Accounting Standards Board.

See Independent Auditors’ Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

Government-Wide and Fund Financial Statements – The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Town's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the Town operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the Town. Examples include user charges at recreation facilities, municipal court fines, licenses and fees and other administrative related items. The "operating grants and contributions" and "capital grants and contributions" columns include amounts paid by organizations outside to help meet the operational or capital requirements of a given function. Examples include grants under Housing and Urban Development's Community Development Block Grants or contributions from the State of New Mexico. If a revenue receipt is not considered program revenue, it is considered general revenue used to support all of the Town's functions. Taxes are always considered general revenues.

Interfund activities between governmental funds or between governmental funds and proprietary funds appear as due to / due from on the Governmental Fund Balance Sheet and / or Proprietary Fund Statement of Net Assets if any pending transfers exist at the end of the fiscal year, and as transfers in / transfers out on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and / or Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories: governmental and proprietary. The Town considers some governmental funds major and their financial condition and results of operations are reported in separate columns from the non-major governmental funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations. they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

timing of the related cash flows. 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 use the current measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt., which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The Town considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property, franchise, and gross receipts taxes. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts and property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from gross receipts taxes are recognized when the underlying transaction takes place. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Miscellaneous revenues are recorded as revenue when received because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

Grants funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes may require the Town to refund all or part of the unused amount.

The government-wide and business-type activities fund statements utilize a net asset presentation. Net assets are categorized as follows:

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

Investment in Capital Assets, Net of Related Debt – This category reflects the portion of net assets that are associated with capital assets less any outstanding capital asset related debt.

Restricted Net Assets – Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments, and imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category reflects net assets of the Town, not restricted for any project or other purpose.

Fund Accounting – The Town uses funds to report its financial position and results of its operations. Fund accounting segregates funds according to their intended purpose and is designated to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which include assets, liabilities, fund balance / net assets, revenues and expenditures / expenses.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Town records reserves to indicate that a portion of fund balance is legally restricted for a specific future use of is not available for appropriation and / or expenditure.

Governmental Funds – Are those funds through which most of the governmental functions of the Town are financed. The Town reports the following major governmental funds:

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

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Enterprise Funds – Those funds which are used for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred and / or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Beginning in FY 2007, the Town reports the following enterprise fund:

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

Water Department Fund – The Water Department fund was taken over by the Town in FY 2007. It is used to account for the provision of water and sewer services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including administration, customer billing and collection, and maintenance.

Governmental Funds with Deficit Balances – While the total unreserved fund balance is not in a deficit position, the Town had no funds with a deficit balance as of June 30, 2007. The Town has made encumbrances in these funds in anticipation of additional revenues and transfers.

Other Accounting Policies

Cash Flows – For purposes of the Statement of Cash Flows for Proprietary Funds, the Town considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories – The Town reports inventories of supplies at cost including consumable maintenance and office items. Supplies are recorded as expenditures when they are consumed.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences – It is the Town's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. All sick pay and vacation pay is accrued when incurred in the government-wide or proprietary fund financial statements.

Capital Assets – Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend useful assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense during construction is capitalized in enterprise funds but not in governmental funds. Library books are not capitalized.

Buildings, furniture and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	50
Water system	30-50
Machinery and equipment	5-15

Customer Deposits – Cash held in the General and Special Revenue Funds for customer deposits is restricted.

Use of Restricted Cash – When the Town incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

Interfund Activity – In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the fund have either been eliminated or reclassified. Interfund payables and receivables were eliminated to minimize their effect on assets and liabilities within the governmental activities column.

Risk Management – The Town is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Insurance coverage through New Mexico Self Insurers Fund (a State of New Mexico governmental agencies risk pool) is purchased for claims arising from such matters. Any settled claims have not exceeded this coverage in any preceding years.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data – The Town adopts an annual approved budget for the General Fund and Special Revenue Funds. The Town is required to present the adopted and final amended budgeted

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

revenues and expenditures / expenses for each of these funds. The Town compares the final amended budget to actual revenues and expenditures / expenses.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. The Town clerk submits a proposed operating budget for the fiscal year commencing July 1, prior to June 30. The operating budget includes proposed expenditures and the means of financing them. A budget is proposed for the General and Special Revenue and Funds.
2. Public Hearings are conducted to obtain taxpayer comments. The budgets are then submitted to the Department of Finance and Administration for review, adjustment and approval.
3. Prior to June 30, the budget is legally enacted through passage of a resolution and the council is authorized to transfer budgeted amounts between departments with any fund. Any revisions that alter the total expenditures of any fund must be approved by the Department of Finance and Administration, Local Government Division.
4. Budgets for budgeted funds are adopted on the cash basis which is not consistent with generally accepted accounting principles. Budgetary comparisons have been presented in this report on the basis of the legally adopted budget.
5. Appropriations lapse at fiscal year-end with any unspent cash balance being available for expenditures and appropriation in the subsequent budget year.
6. The level of classification detail in which expenditures may not legally exceed appropriations for each budget is the fund total.

Encumbrances

Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is employed as an extension of formal budgetary integration in the general fund and special revenue funds. Encumbrances lapse at year-end and therefore are not presented in these financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of the Town's 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 of the Town's invested funds properly follow State deposit and investment requirements as of June 30, 2007.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more financial institutions. Deposits may be made to the extent that they are insured by an agency

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

of the United States or by collateral deposited as security or by bond given by the financial institution.

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.

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 the United States treasury bills of the same maturity on the day of deposit.

	Bank of the Southwest Demand Deposits	Bank of the Southwest Time Deposits	Total
Total Amount of Cash Deposits on June 30, 2007	\$ 28,644	\$ 4,539	\$ 33,183
Less: FDIC Coverage	(100,000)	(100,000)	(200,000)
Total Public Funds to be Collateralized	\$ (71,356)	\$ (95,461)	\$ (166,817)
50% Collateral Requirement	\$ -	\$ -	\$ -

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk other than following the State statutes as put forth in the Public Money Act (Sec. 6-10-1 to 6-10-63, NMSA 19778). At June 30, 2007, the carrying values of the Town’s deposits were \$33,183.

In accordance with FDIC, public unit deposits are funds owned by the Town. Time deposits, savings deposits and interest-bearing NOW accounts of a public unit in an institution will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution. Of the Town’s funds on deposit, all was covered by federal depository insurance.

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

See Independent Auditors’ Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE D – INTERFUND TRANSFER AND BALANCES

Interfund transfers are made for various purposes throughout the year. For the year ended June 30, 2007, no transfers were recorded by the Town of Lake Arthur.

NOTE E – CAPITAL ASSETS

Capital asset activity for the Town for the year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental Activities:				
Land	\$ 4,197	\$ -	\$ -	\$ 4,197
Buildings	649,711			649,711
Improvements	228,066			228,066
Machinery and Equipment	617,625			617,625
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,499,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499,599</u>
Less Accumulated Depreciation				
Buildings	-	-	-	-
Improvements	-			-
Machinery and Equipment	-			-
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 1,499,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499,599</u>

The Town of Lake Arthur did not record depreciation expense for the year ended June 30, 2007.

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE F – LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
General Debt:				
Fire Pumper	\$ 160,235	\$ -	\$ 19,014	\$ 141,221
Total General	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,014</u>	141,221
				<u>(19,014)</u>
				<u>\$ 122,207</u>

Loan maturities for each of the five years following June 30, 20089, are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 19,014
2010	19,014
2011	19,014
2012	19,014
2013	19,014
Thereafter	<u>46,151</u>
	<u>\$ 141,221</u>

NOTE G – PROPERTY TAXES

The County of Chaves collects the Town’s share of property taxes assessed. Property taxes attach as an enforceable lien on property as of January 1. Tax notices are sent by the County treasurer to property owners by November 1 of each year to be paid in whole or in two installments by November 10 and April 10 of the following year. The County collects such taxes and distributes them to the Town on a monthly basis. Only those collections received are recorded as revenues. The Town has no means of determining the amount of delinquent taxes, and no delinquent taxes are recorded on the Town’s financial statements.

NOTE H – COMPENSATED ABSENCES

Vacation leave is earned by employees during the year based on time worked and is non-cumulative. Vacation leave due, if any, is paid on an employee’s termination. The accrued value of the vacation leave days due to employees at June 30, 2007 was unavailable. All compensated absences are considered due within one year. The Enterprise or General Fund, as appropriate, is used to liquidate this liability.

See Independent Auditors’ Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE I – BUDGET RECONCILIATION

The combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – All Governmental Fund Types are presented on the budgetary basis to provide a comparison of actual results with the budget. For the year ended June 30, 2007, no differences between actual revenues and expenditures and actual revenues and expenditures on a budget basis were noted.

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

NOTE J - RETIREE HEALTH CARE CONTRIBUTIONS

The Town has elected not to participate in the New Mexico Retiree Health Care Act.

NOTE K – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and Workers' Compensation. For these risks of loss the Town carries insurance with the New Mexico Self-Insurers Fund for a shared premium cost. The Town established a limited risk management program for general and auto liability, worker's compensation and employer's liability and property. Premiums are paid from the General and Fire Fund.

NOTE L – SURETY COVERAGE

A surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule covers the officials and certain employees of the Town.

NOTE M – CONTINGENT LIABILITIES

There is no provision for contingent liabilities in the Town's financial statements.

NOTE N – FUND BALANCE

Final approved budgets were available and the appropriated amounts for the subsequent fiscal year are shown as designated fund balances on the accompanying financial statements.

NOTE K – RETIREMENT PLAN

The Town has elected not to participate in a retirement plan.

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE L – RESTATEMENT

The client's beginning trial balance in the governmental and special revenue funds had to be restated, as explained below:

Several adjustments to the financial statements were made in the prior year (June 30, 2005). However, these adjustments were not posted by the client, thus the audit adjustments were never made into the client's accounting system. It was not deemed prudent to run these adjustments through as current year entries because of their material effect on the client's statement of revenues, expenditures and changes in fund balances. Therefore, the cumulative effect of these prior year adjustments is shown on the individual statements of revenues, expenditures and changes in fund balances by fund, at the bottom as restatements. The total effect of these adjustments was \$56,600, which is shown on the Statement of Revenues, Expenditures and Changes in Fund Balances, on page 7 and \$1,395,964, which is shown on page 4 in the Statement of Activities.

NOTE M – EXPENDITURES IN EXCESS OF BUDGETED EXPENDITURES

The following funds had actual expenditures in excess of budgeted expenditures during the fiscal year ended June 30, 2007: General Fund: \$21,705; Correction Fund: \$5,828; Law Enforcement Fund: \$16,862; Recreation Fund: \$11,333; Street Reconstruction Fund: \$50,287; Community Center Fund: \$1,474; Senior Citizens Fund: \$652; Cemetery Fund: \$1,812; and the Community Block Grant Fund: \$1,284. Additionally, there were actual revenues and expenses in the Water Department enterprise fund but no evidence of budgeted revenues or expenses was found.

**TOWN OF LAKE ARTHUR
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

Correction Fees Fund – To account for correction fees assessed by the court for the housing of prisoners pursuant to NMSA 35-14-11 1978.

Emergency Medical Services Fund – To account for emergency medical services programs. NMSA 24-10A-10 1978.

Fire Fund – To account for the operations and maintenance of the fire department. Financing is provided by state-collected taxes for fire protection, NMSA 59A-53-1. The Town has also received a Special Appropriation to acquire a new fire building, projects 98-L-RS-I-3-G684 and 98-L-RS-I-3-G808.

Law Enforcement Protection Fund – To account for the operation and maintenance of a special grant for the police department. Financing is provided by a grant from the state. The grant may be used only for the operation of the police department. The fund was established by local ordinance authorized by Section 29-13-1 through 29-13-9 NMSA 1978.

Recreation Fund – To account for operation and maintenance of Town-owned recreation equipment and facilities. Financing is provided by State-shared income tax. The fund was established by local ordinance under State Statute 7-12-6 through 7-12-16, NMSA 1978 compilation.

Street Reconstruction Fund – To account for the collection of on-half of one percent gross receipts tax for the purpose of improving the Town's streets. 7-1-6.9 and 7-13-1 through 7-13-18.

Community Center – To account for the operation and maintenance of the Community Center. Authorized by the Town Council.

Senior Citizens Center – To account for the operation and maintenance of the Senior Citizens Center. Financing is provided by the State Agency on Aging.

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

Community Development Block Grant – Planning – To account for the financing and cost of a federal program for a planning grant. A CDBG Grant (00-C-RS-I-6-G-77) administered by the State of New Mexico, Department of Finance and Administration from the United States Department of Housing and Urban Development, provides funding

**TOWN OF LAKE ARTHUR
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Correction Fund	Emergency Medical Services Fund	Fire Protection Fund	Law Enforcement Protection Fund	Recreation Fund	Street Fund	Community Center Fund	Senior Citizens Fund	Cemetery Fund	CDGB Planning Grant Fund	Total Special Revenue Funds
ASSETS											
Cash in Banks	\$ -	\$ 343	\$ 1,824	\$ -	\$ -	\$ -	\$ 73	\$ -	\$ -	\$ -	\$ 2,240
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 1,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,240</u>
LIABILITIES AND FUND BALANCE											
LIABILITIES											
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCES											
Unreserved	-	343	1,824	-	-	-	73	-	-	-	2,240
Reserved	-	-	-	-	-	-	-	-	-	-	-
Designated for subsequent	-	-	-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>343</u>	<u>1,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,240</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 1,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,240</u>

See Independent Auditors' Report and Notes to Financial Statements

TOWN OF LAKE ARTHUR
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Correction Fund	Emergency Medical Services Fund	Fire Protection Fund	Law Enforcement Protection Fund	Recreation Fund	Street Fund	Community Center Fund	Senior Citizens Fund	Cemetery Fund	CDGB Planning Grant Fund	Total Special Revenue Funds
REVENUES											
Intergovernmental	\$ -	\$ -	\$ -	\$ 885	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 885
Grants	-	-	6,477	-	-	-	-	-	-	-	6,477
Taxes	1,424	-	-	-	-	-	-	-	-	-	1,424
License and Permits	-	-	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	345	-	1,040	-	1,385
Fees	-	-	-	-	-	-	-	-	-	-	-
Fines and Forfeits	20,573	-	-	-	-	-	-	-	-	-	20,573
Interest	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	343	150	-	-	32	-	-	-	-	525
Severance Tax Bonds	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	<u>21,997</u>	<u>343</u>	<u>6,627</u>	<u>885</u>	<u>-</u>	<u>32</u>	<u>345</u>	<u>-</u>	<u>1,040</u>	<u>-</u>	<u>31,269</u>
EXPENDITURES											
Current:											
Public Safety	11,828	866	28,959	37,003	-	-	-	-	-	-	78,656
Culture and Recreation	-	-	-	-	11,337	-	1,474	652	1,812	-	15,275
Public Works	-	-	-	-	-	55,287	-	-	-	1,284	56,571
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>11,828</u>	<u>866</u>	<u>28,959</u>	<u>37,003</u>	<u>11,337</u>	<u>55,287</u>	<u>1,474</u>	<u>652</u>	<u>1,812</u>	<u>1,284</u>	<u>150,502</u>
Excess (deficiency) of Revenues											
Over Expenditures	10,169	(523)	(22,332)	(36,118)	(11,337)	(55,255)	(1,129)	(652)	(772)	(1,284)	(119,233)
Fund Balance, Beginning	-	1,019	40,929	142	-	-	73	-	-	-	42,163
Restatement	<u>(10,169)</u>	<u>(153)</u>	<u>(16,773)</u>	<u>35,976</u>	<u>11,337</u>	<u>55,255</u>	<u>1,129</u>	<u>652</u>	<u>772</u>	<u>1,284</u>	<u>79,310</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 1,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,240</u>

See Independent Auditors' Report and Notes to Financial Statements

**TOWN OF LAKE ARTHUR
CORRECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES				
Fines and Forfeits	\$ 6,000	\$ 6,000	\$ 20,573	\$ 14,573
Miscellaneous	-	-	-	-
TOTAL REVENUES	6,000	6,000	20,573	14,573
EXPENDITURES				
Public Safety	6,000	6,000	11,828	(5,828)
TOTAL OPERATING EXPENSES	6,000	6,000	11,828	(5,828)
NET CHANGE IN FUND BALANCE	-	-	8,745	20,401
Prior Year Cash Balance Budgeted	-	-		
	-	-		
FUND BALANCE, BEGINNING OF YEAR	-	-	-	
RESTATEMENT	-	-	(10,169)	
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ (1,424)	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
EMERGENCY MEDICAL SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental	\$ 5,000	\$ 5,000	\$ -	\$ (5,000)
Miscellaneous	-	-	343	343
TOTAL REVENUES	<u>5,000</u>	<u>5,000</u>	<u>343</u>	<u>(4,657)</u>
EXPENDITURES				
Public Safety	5,000	5,000	866	4,134
Capital Outlay	-	-	-	-
TOTAL OPERATING EXPENSES	<u>5,000</u>	<u>5,000</u>	<u>866</u>	<u>4,134</u>
NET CHANGE IN FUND BALANCE	-	-	(523)	(8,791)
FUND BALANCE, BEGINNING OF YEAR			1,019	
RESTATEMENT	-	-	(153)	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
FIRE PROTECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental Subsidies	\$ -	\$ -	\$ -	\$ -
Miscellaneous	15,000	15,000	150	(14,850)
Grants and Contributions	<u>45,002</u>	<u>45,002</u>	<u>6,477</u>	<u>(38,525)</u>
TOTAL REVENUES	60,002	60,002	6,627	(53,375)
EXPENDITURES				
Public Safety	<u>45,002</u>	<u>45,002</u>	<u>28,959</u>	<u>16,043</u>
TOTAL OPERATING EXPENSES	<u>45,002</u>	<u>45,002</u>	<u>28,959</u>	<u>16,043</u>
NET CHANGE IN FUND BALANCE	15,000	15,000	(22,332)	(69,418)
FUND BALANCE, BEGINNING OF YEAR	-	-	40,929	
RESTATEMENT	<u>-</u>	<u>-</u>	<u>(16,773)</u>	
FUND BALANCE, END OF YEAR	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 1,824</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
LAW ENFORCEMENT PROTECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Sales of Services	\$ -	\$ -	\$ -	\$ -
Grants	20,141	20,141	885	(19,256)
Interest	-	-	-	-
Fine and Forfeits	-	-	-	-
TOTAL REVENUES	<u>20,141</u>	<u>20,141</u>	<u>885</u>	<u>(19,256)</u>
EXPENDITURES				
Public Safety	20,141	20,141	37,003	(16,862)
Capital Outlay	-	-	-	-
TOTAL OPERATING EXPENSES	<u>20,141</u>	<u>20,141</u>	<u>37,003</u>	<u>(16,862)</u>
NET CHANGE IN FUND BALANCE	-	-	(36,118)	(2,394)
FUND BALANCE, BEGINNING OF YEAR	-	-	142	
RESTATEMENT	-	-	35,976	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
RECREATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ 8	\$ 8	\$ -	\$ (8)
Intergovernmental Subsidies	-	-	-	-
Charges for services	-	-	-	-
TOTAL REVENUES	<u>8</u>	<u>8</u>	<u>-</u>	<u>(8)</u>
EXPENDITURES				
Culture and Recreation	4	4	11,337	(11,333)
Debt Service - Principal	-	-	-	-
Debt Service - Interest	-	-	-	-
TOTAL OPERATING EXPENSES	<u>4</u>	<u>4</u>	<u>11,337</u>	<u>(11,333)</u>
NET CHANGE IN FUND BALANCE	4	4	(11,337)	11,325
Prior Year Cash Balance Budgeted	-	-		
	<u>4</u>	<u>4</u>		
FUND BALANCE, BEGINNING OF YEAR	-	-	-	
RESTATEMENT	-	-	11,337	
FUND BALANCE, END OF YEAR	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ -</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
STREET RECONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ 5,000	\$ 5,000	\$ -	\$ (5,000)
Grants	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous	-	-	32	32
TOTAL REVENUES	<u>5,000</u>	<u>5,000</u>	<u>32</u>	<u>(4,968)</u>
EXPENDITURES				
Public Works	5,000	5,000	55,287	(50,287)
Debt Service - Principal	-	-	-	-
Debt Service - Interest	-	-	-	-
TOTAL OPERATING EXPENSES	<u>5,000</u>	<u>5,000</u>	<u>55,287</u>	<u>(50,287)</u>
NET CHANGE IN FUND BALANCE	-	-	(55,255)	45,319
Prior Year Cash Balance Budgeted	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
RESTATEMENT	-	-	55,255	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
COMMUNITY CENTER FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Charges for Services	-	-	345	345
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>345</u>	<u>345</u>
EXPENDITURES				
Culture and Recreation	-	-	1,474	(1,474)
Debt Service - Interest	-	-	-	-
TOTAL OPERATING EXPENSES	<u>-</u>	<u>-</u>	<u>1,474</u>	<u>(1,474)</u>
NET CHANGE IN FUND BALANCE	-	-	(1,129)	1,819
FUND BALANCE, BEGINNING OF YEAR	-	-	73	
RESTATEMENT	-	-	1,129	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
 SENIOR CITIZENS CENTER FUND
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Grants	-	-	-	-
Interest Income	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Culture and Recreation	-	-	652	(652)
Capital Outlay	-	-	-	-
TOTAL OPERATING EXPENSES	<u>-</u>	<u>-</u>	<u>652</u>	<u>(652)</u>
NET CHANGE IN FUND BALANCE	-	-	(652)	652
FUND BALANCE, BEGINNING OF YEAR	-	-	-	
RESTATEMENT	-	-	455	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (197)</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Charges for Services	\$ -	\$ -	\$ 1,040	\$ 1,040
Miscellaneous	-	-	-	-
Interest Income	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>1,040</u>	<u>1,040</u>
EXPENDITURES				
Culture and Recreation	-	-	1,812	(1,812)
Capital Outlay	-	-	-	-
TOTAL OPERATING EXPENSES	<u>-</u>	<u>-</u>	<u>1,812</u>	<u>(1,812)</u>
NET CHANGE IN FUND BALANCE	-	-	(772)	2,852
Prior Year Cash Balance Budgeted	<u>-</u>	<u>-</u>		
	-	-		
FUND BALANCE, BEGINNING OF YEAR	-	-	-	
RESTATEMENT	-	-	772	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
COMMUNITY DEVELOPMENT BLOCK PLANNING GRANT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ -
Intergovernmental Subsidies	-	-	-	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Public Works	-	-	1,284	(1,284)
Capital Outlay	-	-	-	-
TOTAL OPERATING EXPENSES	<u>-</u>	<u>-</u>	<u>1,284</u>	<u>(1,284)</u>
NET CHANGE IN FUND BALANCE	-	-	(1,284)	1,284
Prior Year Cash Balance Budgeted	<u>-</u>	<u>-</u>		
	-	-		
FUND BALANCE, BEGINNING OF YEAR	-	-	-	
RESTATEMENT	<u>-</u>	<u>-</u>	<u>1,284</u>	
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

See Independent Auditors' Report

**TOWN OF LAKE ARTHUR
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2007**

Water Department Fund – The Water Department Fund, first under the jurisdiction of the Town in FY 2007, is used to account for the Town’s water and sewer operations. All activities necessary to provide such services are accounted for in this fund, including administration, operations and maintenance, and billing and collection.

**TOWN OF LAKE ARTHUR
WATER DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Service fees	-	-	13,889	13,889
Investment Income	-	-	-	-
Other Income	-	-	3,061	3,061
	<u>-</u>	<u>-</u>	<u>3,061</u>	<u>3,061</u>
TOTAL REVENUES	-	-	16,950	16,950
EXPENSES				
Personnel	-	-	-	-
Contracts	-	-	-	-
Other	-	-	4,439	(4,439)
Capital Outlay	-	-	-	-
Depreciation	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	-	-	4,439	(4,439)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	12,511	21,389
OTHER FINANCING SOURCES (USES)				
Prior Year Cash Balance Budgeted	-	-	-	-
Transfers Out	-	-	-	-
Sale of Assets	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	12,511	21,389
FUND BALANCE, BEGINNING OF YEAR RESTATEMENT	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,511</u>	

See Independent Auditors' Report

SUPPLEMENTARY INFORMATION

**TOWN OF LAKE ARTHUR
CASH RECONCILIATION – ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	June 30, 2007			June 30, 2007
	Bank Statement Balance	Outstanding Deposits	Outstanding Checks	Book Balance
Bank of the Southwest				
Roswell Branch				
Checking:				
Town of Lake Arthur	\$ 26,940	\$ -	\$ -	\$ 26,940
Comprehensive Planning	73			73
Law Enforcement Protection	-			-
Fire Protection Fund	1,824			1,824
Ambulance Service	343			343
 New Mexico Finance Authority	 3,940			 3,940
 First Federal Bank				
Roswell Branch				
Savings:				
Town of Lake Arthur	63	-	-	-
Total	<u>\$ 33,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,183</u>

See Independent Auditors' Report

Kubiak & Melton, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and On Internal Control Based Over Financial Statement Reporting Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

Mr. Hector Balderas, New Mexico State Auditor
And
Honorable Mayor and Town Council
Town of Lake Arthur
501 Maine
Lake Arthur, New Mexico 88253

We have audited the financial statements of the governmental activities, business activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons of the General Fund of the Town of Lake Arthur and the financial statements of each of the Town's nonmajor governmental funds presented as supplementary information in the combining and individual fund financial statements as of and for the year ended June 30, 2007, and have issued our report thereon dated July 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's Internal Control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. They were findings: 2002-01, 2002-02, 2002-06 and 2005-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16 and section 12-6-5, NMSA, 1978 and which are described in the accompanying Schedule of Findings and Responses as items 2002-01, 2002-02, 2002-06 and 2005-01.

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

This report is intended solely for the information and use of the Town of Lake Arthur Town Council, management of the Town, the State of New Mexico Department of Finance and Administration, and the State of New Mexico Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Kubiak & Melton, LLC

Kubiak & Melton, LLC

Albuquerque, New Mexico
July 31, 2012

**TOWN OF LAKE ARTHUR
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

2002-02

Finding: Late Audit Report

Condition: The June 30, 2007 audit report was sent to the Office of the State Auditor on July 31, 2012.

Criteria: The New Mexico State Auditor has issued 2.2.2 NMAC, Requirements for Contracting and Conducting Audits of Agencies, setting due dates for municipal audits to be submitted by December 1, 2003.

Effect: The report was submitted eight years late.

Cause: The Town of Lake Arthur was unable to find records for the audit year until many years after the fact. In addition, the records that were found were incomplete.

Recommendation: It is recommended that the Town of Lake Arthur keep adequate financial records that will enable independent auditors to submit future reports on time.

Management Response: The Town had a contract with another auditor for FY 2003. This auditor failed to complete the audit and was released from his contract in 2008. The Town will make sure that proper oversight is provided so that prior year audits can be completed as soon as possible.

2002-01

Finding: Segregation of Accounting Duties

Condition: For the year under audit, only one person, the Town Clerk / Treasurer had access to the accounting records and the ability to create and record transactions. This is insufficient internal control and puts the Town at risk for accounting issues.

Criteria: Sound Internal Control principles require that a segregation of duties in the accounting section be implemented and adhered to.

Effect: Poor record-keeping and lack of controls resulted in late audit reports and a lack of accountability to taxpayers.

Recommendation: It is recommended that the Town implement a system whereby a segregation of duties occurs in the accounting section.

Management Response: Management concurs with this recommendation.

**TOWN OF LAKE ARTHUR
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

2002-06

Finding: General Ledger Preparation and Controls

Condition: The Town's records for the year under audit were incomplete and necessitated that the auditors use estimates for some of the account balances.

Criteria: Sound accounting policies mandate that a complete and accurate set of books and records be kept by governmental entities in order to account properly for revenues and expenditures.

Effect: The auditors rendered a disclaimer of opinion for the year under audit.

Recommendation: It is recommended that the Town takes measures to ensure that a proper set of accounting books and records are kept.

Management Response: Management concurs with this recommendation. For the year under audit, the Town had several turnovers in the Clerk's position. The Town understands the importance of keeping a good set of books and will make this a high priority in the future.

2005-01

Finding: Actual expenditures exceeded budgeted expenditures in three categories in the General Fund and in these Special Revenue Funds: Correction Fund, Law Enforcement Protection Fund, Street Reconstruction Fund, Community Center Fund, Cemetery Fund, and the Community Development Block Planning Grant.

Condition: Insufficient budget oversight on the part of the Town's management caused the actual expenditures to exceed budgeted expenditures in the following funds: General Fund: \$21,705; Correction Fund: \$5,828; Law Enforcement Fund: \$16,862; Recreation Fund: \$11,333; Street Reconstruction Fund: \$50,287; Community Center Fund: \$1,474; Senior Citizens Fund: \$652; Cemetery Fund: \$1,812; and the Community Block Grant Fund: \$1,284. Additionally, there were actual expenses in the Water Department enterprise fund but no evidence of budgeted revenues or expenses was found.

Criteria: DFA Local Government Division and New Mexico State Law require that government entities stay within budgetary allocations in carrying out the operations of the government unit.

Effect: The Town exceeded budgeted appropriations in certain funds and categories.

Recommendations: It is recommended that the Town work with DFA Local Government Division in monitoring budgetary compliance throughout the fiscal year.

**TOWN OF LAKE ARTHUR
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

Management Response: The Town concurs with this recommendation.

**TOWN OF LAKE ARTHUR
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Prior Year Finding</u>	<u>Description</u>	<u>Status</u>
2002-01	Segregation of Accounting Duties	Repeated
2002-02	Late Audit Report	Repeated
2004-01	Budget Compliance	Repeated
2002-06	General Ledger Preparation and Controls	Repeated

**TOWN OF LAKE ARTHUR
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2007**

An exit conference was held at the Lake Arthur Town Hall on November 15, 2012.

Representing Kubiak & Melton, LLC:
Don Wittman, CPA

Representing the Town of Lake Arthur:
Ysidro Salazar, Mayor
Edward M. Rubio, Town Councilor
Robert Schneider, Town Councilor
Scott Martin, Town Councilor
William Norwood, Town Councilor
Desiree Calvillo, Town Clerk / Treasurer

The financial statements of the Town of Lake Arthur were prepared from the original books and records provided by and with the assistance of the management of the Town of Lake Arthur and Kubiak & Melton, LLC.

Although Statement of Auditing Standards No. 112, Communicating Internal Control Matters Identified in an Audit strongly emphasizes that the Town prepare its own financial statements, the consensus between the Town's management and the auditors was that it would be more time and cost efficient for the auditors to prepare the financial statements and the related notes. Accordingly, the Town has designated a competent management-level individual to oversee the auditors' services and have made all management decisions and performed all management functions. The Town has reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with generally accepted accounting principles and that the records are current and in balance.