

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

INTRODUCTORY SECTION

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TOWN OF LAKE ARTHUR
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JUNE 30, 2013**

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TOWN OF LAKE ARTHUR
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**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
OFFICIAL ROSTER
JUNE 30, 2013**

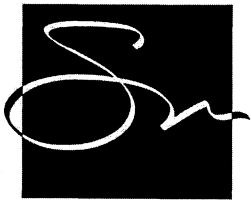
TOWN COUNCIL

Name	Title
Ysidro Salazar	Mayor
Edward M. Rubio, Jr.	Councilor
Johnny Teel	Councilor
Robert Schneider	Councilor
Jennifer Fields	Councilor

TOWN OFFICIAL

Name	Title
Desiree Castillo	Town Clerk/Treasurer

FINANCIAL SECTION



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Timothy Keller,
New Mexico State Auditor, and
Mayor and Town Council
Town of Lake Arthur
Lake Arthur, New Mexico

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and joint utility fund of the Town of Lake Arthur (Town), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the Town's nonmajor governmental funds presented as supplementary information as defined by the Governmental Accounting Standards Board in the accompanying combining fund financial schedules as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matters described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of Disclaimer of Opinion

As a result of the inadequacy of capital asset records, we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which property and equipment, depreciation expense, and accumulated depreciation are recorded in the accompanying Government Activities financial statements.

We were also unable to examine sufficient appropriate audit evidence, due to pervasive inadequacies in the accounting records regarding assets, liabilities, revenues, expenditures, budgetary comparisons, disclosures and supplementary information presented in the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Town of Lake Arthur as a whole. Accordingly, we do not express an opinion on the financial statements referred to above or the remaining aggregate information, including the respective budgetary comparisons for the general fund. We also do not express an opinion on the Town's nonmajor governmental funds presented as supplementary information for the year ended June 30, 2013, as listed in the table of contents.

Other Matters

Required Supplementary Information

Management has elected to omit the MD&A for the year ended June 30, 2013, which is required to be presented to supplement the basic financial statements by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our disclaimer of opinion on the basic financial statements is not affected by this missing information.

Other Information

We were engaged for the purpose of forming opinions on the Town of Lake Arthur's financial statements, the combining fund financial statements, and the budgetary comparisons. The additional schedule, required by Section 2.2.2 NMAC, listed as "other supplementary" information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional schedule required by Section 2.2.2 NMAC is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Because of the significance of the matters discussed in the Basis for Disclaimer paragraph above, it is inappropriate to and we do not express an opinion on the fair presentation of the schedules required by Section 2.2.2 NMAC, in relation to the basic financial statements as a whole.

The Schedule of Vendor Expenditures has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2016, on our consideration of the Town'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Scott Northam, CPA, PC
Ruidoso, New Mexico
July 15, 2016

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities	Business-type Activities	Total
ASSETS			
ASSETS			
Cash and Cash Equivalents			
Unrestricted	\$ 208,773	\$ 51,914	\$ 260,687
Restricted	-	9,392	9,392
Taxes Receivable			
Gross Receipts Tax	24,128	-	24,128
Gasoline Tax	901	-	901
Capital Assets, Net	<u>210,031</u>	<u>93,704</u>	<u>303,735</u>
Total Assets	<u><u>\$ 443,833</u></u>	<u><u>\$ 155,010</u></u>	<u><u>\$ 598,843</u></u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Customer Deposits	\$ -	\$ 9,392	\$ 9,392
Notes Payable	<u>45,833</u>	<u>-</u>	<u>45,833</u>
Total Liabilities	45,833	9,392	55,225
NET POSITION			
Net Investment in Capital Assets	164,198	93,704	257,902
Unrestricted	<u>233,802</u>	<u>51,914</u>	<u>285,716</u>
Total Net Position	<u>398,000</u>	<u>145,618</u>	<u>543,618</u>
Total Liabilities and Net Position	<u><u>\$ 443,833</u></u>	<u><u>\$ 155,010</u></u>	<u><u>\$ 598,843</u></u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues		
		Operating Grants, Intergovernmental, and Contributions	Capital Grants and Contributions
Expenses	Charges for Services and Sales		
<i>Primary Government</i>			
Governmental Activities:			
General Administration	\$ 168,212	\$ 333	\$ 246,931
Streets	10,056	-	-
Public Safety	89,578	7,091	-
Public Works	36,133	-	93,704
Culture and Recreation	242	2,918	-
Interest and Fiscal Charges	3,889	-	-
Depreciation	60,072	-	-
<i>Total Governmental Activities</i>	368,182	10,342	246,931
Business-Type Activities:			
Water	77,856	117,977	-
<i>Total Business-Type Activities</i>	77,856	117,977	-
Total - Primary Government	\$ 446,038	\$ 128,319	\$ 246,931
		\$ 93,704	

General Revenues

Taxes:

- Gross Receipts Tax
- Franchise Tax
- Property Tax
- Other Taxes

Investment Earnings

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ 79,052	\$ -	\$ 79,052
(10,056)	-	(10,056)
(82,487)	-	(82,487)
57,571	-	57,571
2,676	-	2,676
(3,889)	-	(3,889)
(60,072)	-	(60,072)
<u>(17,205)</u>	<u>-</u>	<u>(17,205)</u>
-	40,121	40,121
-	40,121	40,121
<u>(17,205)</u>	<u>40,121</u>	<u>22,916</u>
142,946	-	142,946
4,498	-	4,498
3,431	-	3,431
6,530	-	6,530
4	-	4
157,409	-	157,409
(96,974)	96,974	-
<u>60,435</u>	<u>96,974</u>	<u>157,409</u>
43,230	137,095	180,325
<u>354,770</u>	<u>8,523</u>	<u>363,293</u>
<u>\$ 398,000</u>	<u>\$ 145,618</u>	<u>\$ 543,618</u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS			
ASSETS			
Cash and Cash Equivalents	\$ 178,701	\$ 30,072	\$ 208,773
Taxes Receivable			-
Gross Receipts Tax	24,128	-	24,128
Gasoline Tax	901	-	901
Total Assets	<u>\$ 203,730</u>	<u>\$ 30,072</u>	<u>\$ 233,802</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Due To Other Funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Assigned	-	30,072	30,072
Unassigned	203,730	-	203,730
Total Fund Balances	<u>203,730</u>	<u>30,072</u>	<u>233,802</u>
Total Liabilities and Fund Balances	<u>\$ 203,730</u>	<u>\$ 30,072</u>	<u>\$ 233,802</u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds	\$ 233,802
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	210,031
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities include:	
Notes Payable	<u>(45,833)</u>
Net Position of Governmental Activities	<u>\$ 398,000</u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	General Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES			
Taxes			
Gross Receipts	\$ 142,946	\$ -	\$ 142,946
Franchise	4,498	-	4,498
Property	3,431	-	3,431
Other	6,530	-	6,530
Intergovernmental			
State	152,020	94,911	246,931
Charges for Service	2,484	-	2,484
Licenses, Fees and Permits	333	-	333
Fines	7,091	-	7,091
Rentals	434	-	434
Grants and Contributions	-	93,704	93,704
Interest	4	-	4
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	319,771	188,615	508,386
EXPENDITURES			
Current			
General Administration	168,212	-	168,212
Streets	10,056	-	10,056
Public Safety	23,333	66,245	89,578
Public Works	36,133	-	36,133
Culture and Recreation	242	-	242
Debt Service			
Principal	7,416	26,872	34,288
Interest and Administrative Fees	2,962	927	3,889
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	248,354	94,044	342,398
Excess of Revenues over Expenditures	71,417	94,571	165,988
OTHER FINANCING SOURCES (USES)			
Transfers Out	<hr/> (3,270)	<hr/> (93,704)	<hr/> (96,974)
Total Other Financing Sources (Uses)	<hr/> (3,270)	<hr/> (93,704)	<hr/> (96,974)
Net Change in Fund Balance after Transfers	68,147	867	69,014
Fund Balance, Beginning of Year	<hr/> 135,583	<hr/> 29,205	<hr/> 164,788
Fund Balance, End of Year	<hr/> <u>\$ 203,730</u>	<hr/> <u>\$ 30,072</u>	<hr/> <u>\$ 233,802</u>

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

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net Changes in Fund Balance - Governmental Funds	\$	69,014
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds to Statement of Activities Adjustments:

Debt service is an expenditure for governmental funds consisting of both interest expense and principal for the Notes Payable. The principal portion reduces Notes Payable on the Governmental Activities Balance Sheet and is not an expense on the Statement of Activities		34,288
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Statement of Activities to Governmental Funds Adjustments:

Depreciation is recognized on the Statement of Activities as allocating the cost of the assets over their estimated useful lives		<u>(60,072)</u>
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Change in Net Position of Governmental Activities	\$	<u>43,230</u>
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**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Gross Receipts	\$ 66,000	\$ 66,000	\$ 142,946	\$ 76,946
Franchise	6,500	6,200	4,498	(1,702)
Property	2,908	2,908	3,431	523
Other	5,400	5,400	6,530	1,130
Intergovernmental	100,000	100,000	152,020	52,020
Charges for Service	-	-	2,484	2,484
Licenses, Fees and Permits	255	255	333	78
Fines	5,000	5,000	7,091	2,091
Rentals	-	-	434	434
Interest	-	-	4	4
Other	22,000	22,000	-	(22,000)
	<u>208,063</u>	<u>207,763</u>	<u>319,771</u>	<u>112,008</u>
Total Operating Revenues				
EXPENSES				
Current				
General Administration	169,000	181,500	168,212	13,288
Streets	11,200	11,200	10,056	1,144
Public Safety	24,000	24,000	23,333	667
Public Works	-	-	36,133	(36,133)
Culture and Recreation	-	-	242	(242)
Debt Service				
Principal	-	-	7,416	(7,416)
Interest and Administrative Fees	-	-	2,962	(2,962)
	<u>204,200</u>	<u>216,700</u>	<u>248,354</u>	<u>(31,654)</u>
Total Operating Expenses				
Excess (Deficit) of Revenues over Expenses	3,863	(8,937)	71,417	80,354
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	(3,270)	(3,270)
	<u>-</u>	<u>-</u>	<u>(3,270)</u>	<u>(3,270)</u>
Total Other Financing sources (Uses)				
Net Change in Fund Balance after Transfers	3,863	(8,937)	68,147	77,084
Cash Balance, Beginning of Year	<u>110,554</u>	<u>110,554</u>	<u>110,554</u>	<u>-</u>
Cash Balance, End of Year	<u>\$ 114,417</u>	<u>\$ 101,617</u>	<u>\$ 178,701</u>	<u>\$ 150,898</u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

	Joint Utility Fund
ASSETS	
ASSETS	
Cash and Cash Equivalents	
Unrestricted	\$ 51,914
Restricted	9,392
Capital Assets, Net	93,704
Total Assets	\$ 155,010
LIABILITIES AND NET POSITION	
LIABILITIES	
Customer Deposits	\$ 9,392
Total Liabilities	9,392
NET POSITION	
Net Investment in Capital Assets	93,704
Unrestricted	51,914
Total Fund Net Position	145,618
Total Liabilities and Net Position	\$ 155,010

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

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	Joint Utility Fund
OPERATING REVENUES	
Charges for Service	\$ 117,977
Total Operating Revenues	<u>117,977</u>
OPERATING EXPENDITURES	
Personnel Services	37,960
Supplies and Contracted Services	36,560
Maintenance and Materials	3,336
Total Operating Expenses	<u>77,856</u>
Operating Income	40,121
TRANSFERS	
Transfers In	96,974
Net Transfers	<u>96,974</u>
Net Change in Net Position after Transfers	137,095
Net Position, Beginning of Year	<u>8,523</u>
Net Position, End of Year	<u><u>\$ 145,618</u></u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013**

	Joint Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 117,977
Payments to and on Behalf of Employees	(37,960)
Payments to Suppliers and Contractors	<u>(39,896)</u>
Net Cash Provided by Operating Activities	<u>40,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Asset Purchases	<u>(83,660)</u>
Net Cash Used by Investing Activities	<u>(83,660)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers from General Fund	<u>13,314</u>
Net Cash Provided by Non-Capital Financing Activities	<u>13,314</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Transfers from CDBG Grant Fund	<u>83,660</u>
Net Cash Provided by Capital Financing Activities	<u>83,660</u>
NET CHANGE IN CASH	53,435
CASH AT BEGINNING OF YEAR	<u>8,523</u>
CASH AT END OF YEAR	<u><u>\$ 61,958</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u><u>\$ 40,121</u></u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)
JOINT UTILITY FUND
YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Charges for Services	\$ 86,500	\$ 93,500	\$ 117,977	\$ 24,477
Other	4,800	4,800	-	(4,800)
Total Revenues	<u>91,300</u>	<u>98,300</u>	<u>117,977</u>	<u>19,677</u>
EXPENDITURES				
Personnel Services	82,500	92,500	37,960	54,540
Supplies and Contracted Services	-	-	36,560	(36,560)
Maintenance and Materials	-	-	3,336	(3,336)
Total Operating Expenditures	<u>82,500</u>	<u>92,500</u>	<u>77,856</u>	<u>14,644</u>
Operating Uncome	8,800	5,800	40,121	34,321
TRANSFERS				
Transfers In	-	-	96,974	96,974
Transfers Out	-	-	-	-
Net Transfers	<u>-</u>	<u>-</u>	<u>96,974</u>	<u>96,974</u>
Net Change in Net Position After Transfers	8,800	5,800	137,095	131,295
Net Position, Beginning of Year	<u>8,523</u>	<u>8,523</u>	<u>8,523</u>	<u>-</u>
Net Position, End of Year	<u>\$ 17,323</u>	<u>\$ 14,323</u>	<u>\$ 145,618</u>	<u>\$ 359,564</u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Town of Lake Arthur (the Town) is presented to assist in the understanding of the Town's financial statements. The financial statements and notes are the representation of the Town's management who is responsible for their integrity and objectivity. The financial statements of the Town 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 statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures. The more significant of the government's accounting policies are described below.

Organization - The Town is a political subdivision of the state of New Mexico and was incorporated under provisions of Chapter 3, Article 2, NMSA 1978 as amended. The Town operates under the mayor-council form of government. The Town provides the following authorized services: public safety, police and fire, highways and streets, water, sanitation, health and welfare, social services, culture and recreation, public improvements, and general administrative services. The Town's basic financial statements include all activities and accounts of the Town's *financial reporting entity*.

The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Based upon the application of these criteria, there are no component units of the Town. The Town is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2013.

Measurement Focus, Basis of Accounting, Financial Statement Presentation

Government-wide Financial Statements - The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support. The Statement of Net Position 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*.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In accordance with GASB Statement No. 33, the Town follows the following revenue recognition principles applied to nonexchange transactions:

- Derived tax revenues are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include gross receipts tax, gasoline taxes, and cigarette taxes.
- Imposed nonexchange revenue other than property taxes are recognized in the period when an enforceable legal claim has arisen and the resources are available.
- Property tax revenue is recorded on an accrual basis and the revenue is recognized in the fiscal year for which the taxes are levied.
- Government-mandated nonexchange transactions and voluntary nonexchange transactions are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

Other revenues susceptible to accrual are investment income and charges for services. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

Property taxes are levied and collected by the Chaves County Treasurer on behalf of the Town. Property taxes are levied in November and are payable in two installments, half on November 10 which becomes delinquent on December 10 and half on April 10 which becomes delinquent on May 11, which is also the lien date.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

The net cost (by function of governmental-type activity) is normally covered by general revenues (property, sales, franchise, public service taxes, interest income, etc.). The Town does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term is considered an indirect expense and is reported separately on the Statement of Activities.

Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the supplementary information section of the report.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In addition to assets, the statement of net position will, at times, report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period(s); therefore, they will not be recognized as an inflow of resources (expense) until then.

In addition to liabilities, the statement of net position will, at times, report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future reporting period(s); therefore, will not be recognized as an inflow of resources (revenues) until that time.

Governmental Activities - Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period.

For this purpose, the Town considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property, franchise, sales and public service tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial.

Program revenues reduce the cost of the function to be financed from the Town's general revenues. Amounts reported as 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. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Investment earnings are recorded as earned since they are measurable and available.

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

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

The Town reports the following major governmental fund:

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 Town except for items included in other funds.

Under the requirements of GASB No. 34, the Town is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include only the General Fund. No other funds were required to be presented as major at the discretion of management.

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

- The **correction fund** accounts for fees collected by the municipal judge, which are legally restricted to expenditure for jail related costs. The fund was established by local ordinance in order to comply with Section 35-14-11 NMSA 1978.
- The **fire protection fund** accounts for the proceeds of the state fire allotment, and the expenditures for public safety there from. New Mexico state law requires that these funds be used to help maintain the fire department. The fund was established by local ordinance and in accordance with Section 59A-53-1, of the New Mexico State Insurance Code. Section 59A-53-8 of the code restricts the use of the funds for only the maintenance of the Town's fire department.
- The **law enforcement protection fund** accounts for the state grant to be used for the repair and/or replacement of law enforcement equipment, according to state law, section 29-13.1 through 29-13.9 NMSA 1978. The fund was established by local ordinance to comply with state statutes. Section 29-13-17 A NMSA 1978 limits distributions from the fund for law enforcement related expenditures, including, but not limited to, the purchase of equipment, expenses associated with advanced law enforcement planning and training.
- The **community development block grant** fund accounts for federal, state and local sources, revenues and expenditures for capital projects throughout the Town.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Business-type activities – Business-Type Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases (e.g., revenues and expenses) in net total position.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing service in connection with the fund's principal ongoing operations. The principal operating revenue of the Town's enterprise fund is charges for services for the Town's garbage, water & sewer 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. When both restricted and unrestricted resources are available for use, it is the Town's policy to use the restricted resources first, then unrestricted resources as they are needed.

The Town reports the following major business-type fund:

- The *joint utility* fund is used to account for the provision of water, sewer, and solid waste services to the residents of the Town, and is considered an enterprise fund. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

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

Budgetary Information - Budgets for all funds are prepared by management; approved by the City Council and the New Mexico Department of Finance and Administration.

The town clerk/treasurer is responsible for preparing the budget from requests submitted by department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide a balanced budget. The comprehensive budget package is brought before the City Council for approval by resolution. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certification of the original budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

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

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been prepared in accordance with the above procedures.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Assets, Liabilities, Net Position or Fund Equity, Other Matters

Cash and Investments - Cash includes amounts in demand deposits and short-term investments. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

All investments are stated at fair value which is determined by using selected bases. Interest income and realized gains and losses on investment transactions are included for financial statement purposes as investment income.

Cash Flow Liquidity - For purposes of the statement of cash flows, the Town'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.

Restricted Cash - The Town restricts a compensating amount of cash equal to the amount of the customer deposits held on hand. These reserves are not required but are separated by management.

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.

Grants and Contributions - The Town receives grants as well as contributions in the course of operations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Utility Receivables - Substantially all of the Town's outstanding utility receivables are due from its customers for water sales. Collateral is generally not required on receivables, but a deposit is required to activate new service.

Allowance for Doubtful Accounts - It is the opinion of management that no allowance for doubtful accounts was necessary as of June 30, 2013 because services will be disconnected should an account become delinquent.

Concentration of Credit Risk - The Town grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame. The customer deposits held by the Town helps mitigate the credit risk.

Property and Equipment - Capital assets which include software, library books, property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported 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 one year.

(GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* allows Phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Town has elected not to retroactively record infrastructure assets.

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 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.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings, Structures and Improvements	10-40
Water and Wastewater Systems	25
Infrastructure	25
Office and Maintenance Equipment	7
Vehicles	5

Analysis of Impairments - Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based on comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based on the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2013.

Customer Deposits - The Town requires a deposit to establish service for the customer. Deposits are not considered revenue for the Town unless or until the customer closes their account, at which time any remaining balance due on the account is deducted from the deposit and the customer is refunded the excess.

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, or business-type activities within the statement of net position. Issuance costs associated with notes entered into are expensed in the year of issuance.

In the governmental funds the long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time.

The Town did not report any items that qualified as deferred outflows of resources for the 2013 fiscal year.

Deferred Inflows of Resources - Deferred inflows of resources represents the acquisition of net position that is applicable to a future reporting period.

- ***Government-Wide Statements*** - Unearned revenues represent the prepaid revenues advanced to the Town. Such advances are reported as unearned revenue until the earnings process is complete.
- ***Fund Financial Statements*** - Within the governmental funds, revenues must be available in order to be recognized. Revenues, such as property taxes that have been assessed and remain uncollected, are reflected as unearned revenues if they are not available in the current period, which the Town has established as sixty days after year end.

The Town does not report any unearned revenues as deferred inflows of resources for the 2013 fiscal year.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fund Equity - Governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources: Non-spendable, Restricted, Committed, Assigned and Unassigned. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form, e.g., prepaid items or inventories; or (b) legally or contractually required to be maintained intact. Restricted fund balances have limitations placed on the funds by external means or legislation. Committed fund balances have self-imposed limitations. Assigned fund balances have an intended use factor for a specific fund, and unassigned fund balances are excess funds not categorized in the other classifications.

Net Position - The government-wide financial statements and proprietary funds utilize a net position presentation. Net position is reported represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net positions is reported in three categories:

- ***Net investment in capital assets*** – This category reflects the portion of net position that is associated with capital assets, net of accumulated depreciation reduced by the outstanding capital asset-related debt and adding back unspent proceeds.
- ***Restricted net position*** – This category reflects the portion of net position that has third party limitations on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Unrestricted net position*** – This category reflects net position of the Town, not restricted for any project or other purpose.

Operating and Non-operating Revenues - Revenues are classified as operating or non-operating according to the following criteria:

Operating revenue - include activities which have the characteristic of exchange transactions, such as charges for services and fees, net of any allowance for uncollectible amounts.

Non-operating revenues - include activities which have the characteristics of non-exchange transactions, such as capital grants and investment income.

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

Expenses - Expenses are classified as operating or non-operating according to the following criteria:

Operating expenses - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; materials and supplies; office expenses; and depreciation expenses related to Town capital assets.

Non-operating expenses - include activities that have the characteristics of non-exchange transactions such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Compensated Absences - The Town permits employees to accumulate vacation leave during the year but the hours must be used before the end of the fiscal year. No vacation hours are carried over to the next fiscal year.

Pensions and OPEB - The Town has elected not to participate in either the New Mexico Public Employees Retirement Association (PERA) or the New Mexico Retiree Health Care Act. Therefore, the Town has elected not to early implement the following GASB statements:

- GASB Statement No. 68 - *Financial Reporting for Pension Plans – An Amendment to GASB Statement 27,*
- GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date,*
- GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.*

Use of 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.

Risk Management - The Town is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any preceding years. 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.

Subsequent Events - FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2013, the Town had cash and cash equivalents on deposit with local financial institutions, consisting of checking and money market accounts. Checking accounts which are required for debt service or for grant purposes are prohibited from accruing interest. Following is a schedule as of June 30, 2013, of the cash and cash equivalents.

	Bank Balance June 30, 2013	Outstanding Checks	Book Balance June 30, 2013
Bank of the Southwest			
General Checking:			
General Operating Account	\$ 220,534	\$ (1,130)	\$ 219,404
Municipal Court Bond Account	71	-	71
Fire Protection Fund	5,841	-	5,841
Law Enforcement Protection	6,882	-	6,882
Correction Fund	17,205	-	17,205
CDBG Account	74	-	74
Water Meter Deposits	9,392	-	9,392
Interest Bearing:			
Savings	<u>1,243</u>	<u>-</u>	<u>1,243</u>
Total Cash in Bank of the Southwest	<u>\$ 261,242</u>	<u>\$ (1,130)</u>	<u>\$ 260,112</u>

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE B - CASH AND CASH EQUIVALENTS (Cont.)

	Bank Balance June 30, 2013	Outstanding Checks	Book Balance June 30, 2013
Western Bank			
Certificate of Deposit	\$ <u>9,861</u>	\$ <u>-</u>	\$ <u>9,861</u>

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

	Western Bank	Bank of the Southwest	Totals
Deposits	\$ 9,861	\$ 261,242	\$ 271,103
Less FDIC Coverage	<u>(9,861)</u>	<u>(251,243)</u>	<u>(261,104)</u>
Uninsured Funds	-	9,999	9,999
 Pledged Line of Credit	 <u>-</u>	 <u>50,000</u>	 <u>50,000</u>
Uninsured and Uncollateralized	<u>\$ -</u>	<u>\$ (40,001)</u>	<u>\$ (40,001)</u>
 50% Pledged Collateral Requirement per Statute	 \$ -	 \$ 5,000	 \$ 5,000
Pledged Collateral	<u>-</u>	<u>50,000</u>	<u>50,000</u>
(Over) Under Collateralized	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ (45,000)</u>

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to them. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$12,045 of the Town's bank balance of \$271,906 was exposed to custodial credit risk before applying the pledged collateral. The line of credit pledged toward the Town is held by the Federal Home Loan Bank, Dallas, Texas.

	Maturity	Market Value	Par Value
Bank of the Southwest			
Pledged Collateral:			
Line of Credit	12/2/2013	\$ <u>50,000</u>	\$ <u>50,000</u>
Total Collateral Pledged		\$ <u>50,000</u>	\$ <u>50,000</u>

NOTE C - FUND TRANSFERS

The Town utilized the CDBG Grant Fund to account for the revenue of the Colonias grant, which is improving the infrastructure of the water and wastewater systems. The Town recorded the Construction in Progress capital assets in the Joint Utility Fund, and therefore reported a \$93,704 transfer of funds from the CDBG Grant Fund to the Joint Utility Fund.

The General Fund occasionally supports the operations of the Joint Utility Fund during the year. Approximately \$3,270 in net transfers throughout the year were made from the General Fund to the Joint Utility Fund.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Governmental Activities:				
Non-depreciable Capital Assets				
Land	\$ 4,197	\$ -	\$ -	\$ 4,197
Total Non-depreciable Capital Assets	4,197	-	-	4,197
Depreciable Capital Assets				
Buildings	649,711	-	-	649,711
Improvements	228,066	-	-	228,066
Machinery and Equipment	617,625	-	-	617,625
Vehicles	<u>300,359</u>	<u>-</u>	<u>-</u>	<u>300,359</u>
Total Depreciable Capital Assets	<u>1,795,761</u>	<u>-</u>	<u>-</u>	<u>1,795,761</u>
Accumulated Depreciation	<u>(1,529,855)</u>	<u>(60,072)</u>	<u>-</u>	<u>(1,589,927)</u>
Total Depreciable Capital Assets, Net	<u>265,906</u>	<u>(60,072)</u>	<u>-</u>	<u>205,834</u>
Capital Assets, Net	<u>\$ 270,103</u>	<u>\$ (60,072)</u>	<u>\$ -</u>	<u>\$ 210,031</u>

Management has elected to present the depreciation expense of \$60,072 as a separate line-item expense on the Statement of Activities rather than allocating the expense to each function within the primary government.

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Business-type Activities				
Non-depreciable Capital Assets				
Construction in Progress	\$ -	\$ 93,704	\$ -	\$ 93,704
Total Non-Depreciable Capital Assets	<u>\$ -</u>	<u>\$ 93,704</u>	<u>\$ -</u>	<u>\$ 93,704</u>
Capital Assets, Net	<u>\$ -</u>	<u>\$ 93,704</u>	<u>\$ -</u>	<u>\$ 93,704</u>

NOTE E - LONG-TERM DEBT

The Town has the following long-term debt obligations as of June 30, 2013:

NMFA JT PP 1556 - Class A Fire Pumper - The Town entered into an agreement with the New Mexico Finance Authority in December, 2003 for the purchase of a new pumper fire truck for the city. The original amount of the note was \$176,448 and bears interest between 3 and 5%, depending on the repayment period. Principal payments of \$20,886 on the note plus accrued interest are due annually on June 1. The note matures June, 2014. The Town has pledged intercepted Fire Protection Funds for the payment of the loan.

NMFA ZD PP-2191 - Tractor and Repair Equipment - The Town entered into an agreement with the New Mexico Finance Authority in December, 2009 for the purchase of a new tractors and funds to repair existing equipment. The original amount of the note was \$56,995 and bears interest between 3 and 5%, depending on the repayment period. Principal payments ranging from \$6,050 to \$8,427 on the note plus accrued interest are due annually on June 1. The note matures June, 2016. The Town has pledged intercepted gross receipts taxes for the payment of the loan.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE E - LONG-TERM DEBT (Cont.)

The Town paid approximately \$3,889 in interest expense during the fiscal year from the governmental funds. Long-term debt activity for the year ended June 30, 2013 was as follows:

Obligation	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
NMFA - Fire Pumper	\$ 42,602	\$ -	\$ (20,886)	\$ 21,716	\$ 21,716
NMFA - Tractor and Equipment	31,533	-	(7,416)	24,117	7,586
NMFA - Police Vehicles	<u>5,986</u>	<u>-</u>	<u>(5,986)</u>	<u>-</u>	<u>-</u>
Total Long-term Debt	<u>\$ 80,121</u>	<u>\$ -</u>	<u>\$ (34,288)</u>	<u>\$ 45,833</u>	<u>\$ 29,302</u>

Long-term debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 29,302	\$ 1,788	\$ 31,090
2015	7,991	904	8,895
2016	<u>8,540</u>	<u>468</u>	<u>9,008</u>
Totals	<u>\$ 45,833</u>	<u>\$ 3,160</u>	<u>\$ 48,993</u>

NOTE F - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

2788-CIF - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in May, 2013 to administer a Grant/Loan project to improve the water and wastewater infrastructure of the town to remain in compliance with NMED and the EPA. The Town has committed to approximately \$481,878 of system improvements, of which \$433,691 is grant funds and the remaining \$48,187 is a loan financed through NMFA. Terms of the loans are 20 annual, non-interest bearing payments of approximately \$2,410, and maturing in June, 2033. The grant and loan expenditures were fully disbursed to contractors by December, 2014.

2976-CIF - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in May, 2014 to administer a Grant/Loan project to improve the water and wastewater infrastructure of the town to remain in compliance with NMED and the EPA. The Town has committed to approximately \$499,967 of system improvements, of which \$449,970 is grant funds and the remaining \$49,997 is a loan financed through NMFA. Terms of the loans are 20 annual, non-interest bearing payments of approximately \$2,392, and maturing in June, 2034. The grant funds have until June 20, 2017 to be drawn down or any remaining funds will revert back at that time.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
JUNE 30, 2013

	Correction Fund	Fire Protection Fund	Law Enforcement Protection Fund	CDBG Grant Fund	Total Nonmajor Governmental Funds
ASSETS					
ASSETS					
Cash and Cash Equivalents	<u>\$ 17,275</u>	<u>\$ 5,841</u>	<u>\$ 6,882</u>	<u>\$ 74</u>	<u>\$ 30,072</u>
Total Assets	<u><u>\$ 17,275</u></u>	<u><u>\$ 5,841</u></u>	<u><u>\$ 6,882</u></u>	<u><u>\$ 74</u></u>	<u><u>\$ 30,072</u></u>
 LIABILITIES AND FUND BALANCE					
FUND BALANCE					
Assigned	<u>17,275</u>	<u>5,841</u>	<u>6,882</u>	<u>74</u>	<u>30,072</u>
Total Fund Balance	<u>17,275</u>	<u>5,841</u>	<u>6,882</u>	<u>74</u>	<u>30,072</u>
Total Liabilities and Fund Balances	<u><u>\$ 17,275</u></u>	<u><u>\$ 5,841</u></u>	<u><u>\$ 6,882</u></u>	<u><u>\$ 74</u></u>	<u><u>\$ 30,072</u></u>

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

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2013**

	Corrrection Fund	Fire Protection Fund	Law Enforcement Protection Fund	CDBG Grant Fund	Total Nonmajor Governmental Funds
REVENUES					
Intergovernmental	\$ -	\$ 67,725	\$ 27,186	\$ -	\$ 94,911
Grants and Contributions	-	-	-	93,704	93,704
Total Revenues	<u>-</u>	<u>67,725</u>	<u>27,186</u>	<u>93,704</u>	<u>188,615</u>
EXPENDITURES					
Current					
Public Safety	-	49,288	16,957	-	66,245
Debt Service					
Principal	-	20,886	5,986	-	26,872
Interest and Administrative Fees	-	927	-	-	927
Total Operating Expenses	<u>-</u>	<u>71,101</u>	<u>22,943</u>	<u>-</u>	<u>94,044</u>
Excess (Deficit) of Revenues over Expenditures	-	(3,376)	4,243	93,704	94,571
OTHER FINANCING SOURCES (USES)					
Transfers Out	-	-	-	(93,704)	(93,704)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,704)</u>	<u>(93,704)</u>
Net Change in Fund Balance after Transfers	-	(3,376)	4,243	-	867
Fund Balance, Beginning of Year	<u>17,275</u>	<u>9,217</u>	<u>2,639</u>	<u>74</u>	<u>29,205</u>
Fund Balance, End of Year	<u>\$ 17,275</u>	<u>\$ 5,841</u>	<u>\$ 6,882</u>	<u>\$ 74</u>	<u>\$ 30,072</u>

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

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF VENDOR EXPENDITURES
PURCHASES OF OVER \$60,000
(UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N)</i>	<i>Brief Description of the Scope of Work</i>
CDBG Grant	Sole Source	F.L. (Roy) Miller	\$ 63,673.93	N/A	Miller Engineering, 3120 N. Grimes, Hobbs, NM 88240	In-State	N	Replacement water pipe and supplies

INTERNAL CONTROL AND COMPLIANCE



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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***

Timothy Keller,
New Mexico State Auditor, and
Mayor and Town Council
Town of Lake Arthur
Lake Arthur, New Mexico

We were engaged to 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and the joint utility fund of the Town of Lake Arthur (Town), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and the combining funds of the Town, presented as supplemental information, and have issued our report thereon, dated July 15, 2016. Our report disclaims an opinion on these financial statements because of inadequacies in capital assets and accounting records.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, the combining schedules and related budgetary comparisons of the Town but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: items 2010-002, 2010-003, 2013-001, 2013-004, and 2013-005.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be significant deficiency as item 2010-001.

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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and responses as items 2010-007, 2011-002, 2013-002, and 2013-003.

Town's Responses to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scott Northam, CPA, PC
Ruidoso, New Mexico
July 15, 2016

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2010-001 – Bank Reconciliations Not Being Performed - Significant Deficiency (repeated, revised)

CONDITION - Although bank reconciliations for the Town's general fund bank account were performed and were found to be without exception, none of the bank statements for any of the Town's other bank accounts were reconciled for the year under audit.

CRITERIA - Sound accounting practices dictate that monthly bank reconciliations be performed by the Town to ensure accurate reporting and secure management of assets.

EFFECT - Cash balances per bank may not reflect outstanding checks and deposits in transit. The ending cash balances each month may be misstated.

CAUSE - This condition was caused by a combination of understaffing and lack of proper accounting software.

RECOMMENDATION - The Town council should mandate monthly bank reconciliation be performed and should review them at regular council meetings.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – As of July, 2016, the Town's clerk/treasurer position is vacant. As soon as a suitable replacement is hired and trained, bank statements will again be timely reconciled. The Mayor and City Council are responsible for the hiring of the replacement, which should happen before the end of August, 2016.

2010-002 – The Town could not provide a trial balance – Material Weakness (repeated, revised)

CONDITION - For 2013, the Town could not produce a trial balance. Instead, the trial balance had to be assembled from documents and reports such as bank statements and loan agreements. Additionally, it was found that the Town is not posting revenues to the general ledger properly.

CRITERIA - Best accounting practices dictate that a trial balance should be produced and reconciled on a regular basis and at fiscal year-end. Revenues should be posted to the general ledger promptly and should be reconciled on a regular basis.

EFFECT - A trial balance pieced together by an external accountant from various reports and documents may not be complete and accurate. If revenues are not posted timely and accurately, they may be misstated on the financial statements.

CAUSE - This condition was caused by a combination of understaffing and an accounting software program not designed for the complexity of municipality transactions.

RECOMMENDATION – The Town needs to change from its current accounting software to another that can be modified for municipality use.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The Town changed from Quicken to QuickBooks in January 2014 to more accurately generate reports such as trial balances, balance sheets and income statements for interim and year-end reporting. Fiscal year 2014 will be a blended trial balance between the old Quicken and the new Quickbooks. Fiscal 2015 will be the first year a complete trial balance will be able to be generated, thereby resolving this finding.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2010-003 – The Town does not conduct an annual physical inventory of capital assets – Material Weakness (repeated)

CONDITION - The Town does not conduct an inventory of capital assets and does not maintain a historical list of capital assets and depreciation.

CRITERIA - Section 12-6-10, NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year.

EFFECT - The amount of capital assets and depreciation reported may not be accurate.

CAUSE - This condition was caused by a combination of understaffing and lack of expertise on the part of the management at the time.

RECOMMENDATION - The Town council should conduct an annual physical inventory of capital assets and maintain an accurate detail list of capital assets and depreciation.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Mayor and City Council are actively working on assembling a comprehensive capital asset inventory which should be completed on or before December 2016.

2010-007 - Late Submission of Audit Report – Compliance – (repeated)

CONDITION - The audit report for the fiscal year ended June 30, 2013 was not submitted by the New Mexico State Audit Rule deadline.

CRITERIA - New Mexico State Auditor Rule 2.2.2.9A (1) requires audit reports for municipalities be submitted by December 1st following the end of the fiscal year.

CAUSE – Significant delays in procuring auditors in prior years to perform audits and agreed-upon procedures had put the Town chronically behind on submitting reports to the Office of the State Auditor..

EFFECT - The Town is out of compliance with New Mexico State Auditor Rule 2.2.2.9A (1).

RECOMMENDATION - We recommend the Town be proactive in the audit and audit report preparation by maintaining communications with auditor and the State Auditor regarding progress of the audit and any issues faced by the Town.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - Due to ongoing issues with the audits and agreed-upon procedures for years, the audit contract submission has been chronically late. The Town has entered into an agreement with the IPA to prepare the Fiscal Year 2013, 2014, and 2015 consecutively so as to resolve this issue. Management expects to have the audit for the 2016 Fiscal Year timely submitted to the Office of the State Auditor.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2011-002 Legal Compliance with Budget – Compliance – (repeated)

CONDITION – The Town’s authorized General Fund budget was exceeded by actual by approximately \$31,654.

CRITERIA – Section 6-6-6 of the New Mexico State Statutes prohibits any payments in excess of the approved budget.

CAUSE – The Town prepared its budget on the cash basis, not taking into consideration Gross Receipt and Law Enforcement Fund intercept payments for debt service with NMFA. These intercept payments were not recorded in the Town’s accounting records, and accordingly, not reflected in the final budget amounts. The Town also saw increases in expenditures in the solid waste department without reflecting the increases in the budget and absorbed some error corrections from the prior year.

EFFECT – Lack of proper accounting records and accounting software which couldn’t provide adequate reporting for budgetary purposes.

RECOMMENDATION – Carefully evaluate all transactions involving the movement of money between funds to identify any potential budget issues. In addition, reconcile the total transfers in and out on a monthly basis to insure they are balanced and all related budgets are appropriate.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Town changed from Quicken to QuickBooks in January 2014 to more accurately generate reports. This change will allow the Town to more accurately track expenditures in comparison with the budget. This finding will be repeated because of the conversion between softwares in Fiscal 2014, but is expected to be resolved in Fiscal 2015

2013-001 - Segregation of Duties- Material Weakness

CONDITION - The Town has a limited segregation of duties due to personnel constraints due to having one full-time employee in Administration.

CRITERIA - Segregation of certain specific accounting and administrative functions is needed to minimize concentration of internal controls and reduce the possibility of overriding of controls or misappropriation of funds.

CAUSE - Personnel and funding limitations have relegated the Town to consolidate some incompatible accounting and administrative functions.

EFFECT - The lack of proper segregation of duties is common in smaller governments that are forced to control personnel costs at the expense of improved internal control.

RECOMMENDATION - Although the Town has some compensating controls in place to reduce the effect of the lack of segregation of duties, we recommend the Council periodically evaluate whether its level of control is appropriate for the current situation. The Council should increase their visibility and involvement in the daily operations of the Town. so that the council members are more aware.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The Town will continually monitor the internal control environment and adjust policies and procedures when conflicts in internal control arise. As of July, 2016, the Town’s clerk/treasurer position is vacant, further exasperating the situation. The Town hired a new town clerk in August 2016 and is in training. The Mayor and Town Council members have committed to stepping up involvement in the daily operations of the Town to ensure internal controls will be maintained as best as possible given the budget constraints.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2013-002 - Late Submission of Audit Contract and Recommendation - Compliance

CONDITION - Per 2.2.2.8(G)(6)(c) NMAC Audit Rule, the Town did not meet the deadline for submission of the audit contract and recommendation by the deadline for the fiscal year ending 2013.

CRITERIA - 2.2.2.8(G)(6)(c) NMAC Audit Rule requires that the audit contract and recommendation be submitted to the Office of the State Auditor by May 1st of each year.

CAUSE - The audit contract and recommendation was prepared on February 25, 2016 by Town personnel and received by the State Auditor's Office on February 29, 2016.

EFFECT - Late preparation of the audit contract and recommendation caused the submission to arrive late to the Office of the State Auditor.

RECOMMENDATION - We recommend the Association management personnel prepare the audit contract and recommendation in April of each fiscal year to allow enough time to deliver to the Office of the State Auditor by the due date.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – Due to ongoing issues with the audits and agreed-upon procedures, the audit contract submission has been chronically late. The Town has entered into an agreement with the IPA to prepare the fiscal years 2013, 2014, and 2015 consecutively so as to resolve this issue. The contract recommendation for the fiscal year 2016 audit was timely submitted and approved by the Office of the State Auditor on June 7, 2016.

2013-003 Procurement Violations – Compliance

CONDITION – The Town did not maintain sole source documentation for solid waste hauling services.

CRITERIA – NMSA 13-1-128 requires all central purchasing offices shall maintain, for a minimum of three years, records of sole source and emergency procurements. The record of each such procurement shall be public record and shall contain:

- the contractor's name and address;
- the amount and term of the contract;
- a listing of the services, construction or items of tangible personal property procured under the contract; and
- justification for the procurement method.

CAUSE – Oversight and unaware of procurement code procedures.

EFFECT – Noncompliance with statutory rules set forth by the State of New Mexico.

RECOMMENDATION – Develop procedures to identify purchases subject to procurement policies and develop standard documentation for sole source procurements.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – Town personnel and Mayor was unaware of the documentation requirements required for a sole source vendor. The Mayor will review the requirements, create and maintain a file of the necessary sole source documents for the vendor and resolve this issue in August 2016.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2013-004 DFA Cash Report Does Not Reconcile to the Town's Cash - Material Weakness

CONDITION - For the year ended June 30, 2013, the Town's cash did not tie to the report submitted to the Department of Finance and Administration. The Town's cash differed from the DFA report by \$18,098. The following funds were shown to be out of balance by the following:

	Financial Statements	DFA Report	Over (Under) Difference
Governmental Funds:			
General Fund	\$178,701	\$ 151,863	\$ 26,838
Corrections Fund	17,275	17,213	62
Fire Protection Fund	5,841	5,839	2
Law Enforcement Protection Fund	6,882	6,882	-
CDBG Account	74	-	74
Cemetery	-	9,203	(9,203)
Enterprise Funds:			
Water Fund	51,914	48,549	3,365
Solid Waste	-	88	(88)
Waste Water	-	3,277	(3,277)
Water Meter Deposits	<u>9,392</u>	<u>9,067</u>	<u>325</u>
Totals	<u>\$ 270,079</u>	<u>\$ 251,981</u>	<u>\$ 18,098</u>

CRITERIA - Per Section 6-6-3 NMSA 1978, 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
- Make all reports as may be required by the local government division, and
- Conform to the rules and regulations adopted by the local government division.

EFFECT - The information that is reported to DFA is inaccurate and incomplete and could lead to inappropriate funding of the Town.

CAUSE - Town management is not ensuring that cash balances by fund or in total tie to the DFA report. Due to a lack of internal controls, management is unable to insure that all cash is being properly recorded on the general ledger. Lack of proper controls and accounting records in the pooling of cash method are also contributing to the issue.

RECOMMENDATION - We recommend the Town communicate with DFA regarding what the requirements are for reporting cash balances and report what is required by the DFA and ensure that cash balances reported to DFA tie to the trial balance.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION - The Town changed from Quicken to QuickBooks in January 2014 in order to more accurately generate reports. This change will allow the Town to better track cash balances, revenues and expenditures in comparison with the necessary DFA reports. The finding will be repeated in Fiscal 2014 because of the conversion between softwares, but is expected to be resolved in Fiscal 2015

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

2013-005 Internal Control Deficiencies - Material Weakness

CONDITION - The Town does not have a comprehensive documented internal control structure. We noted the following areas in which the Town does not have sufficient key internal controls in place.

- Material journal entries totaling approximately \$424,535 were required to adjust activity across all funds
- Bank reconciliations are not prepared and independently reviewed (2010-001)
- Receipts and disbursements not being recorded in the proper fund or being cross-funded.
- On-behalf transactions (intercept funds) are not being recorded or reflected in the budget (2013-005)

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.

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 2013 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly.

RECOMMENDATIONS: The Town should begin preparing and independently reviewing formal bank reconciliations. The Town should also reconcile their pooled cash account by fund to insure the correct balance of cash for each fund is recorded.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – After the discussion of the finding at the exit conference on July 15, 2016, the Mayor and Town Council immediately plan to be more actively involved in the daily operations of the Town, including taking over some compliance and administrative responsibilities currently handled by the Town Clerk position. This finding should be resolved in September 2016.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2013**

Finding	Status
FS 2010-001 Bank Reconciliations Not Performed	Repeated
FS 2010-002 Trial Balance Not Provided	Repeated
FS 2010-003 No Annual Inventory of Capital Assets	Repeated
FS 2010-004 No Debt Payment Verification	Resolved
FS 2010-005 No Bid Process Verification	Resolved
FS 2010-006 No Loan Status Reports Verification	Resolved
FS 2010-007 Late Report Submission	Repeated
FS 2011-002 Budget Compliance	Repeated

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR
EXIT CONFERENCE
JUNE 30, 2013**

The contents of this report were discussed with the Town of Lake Arthur representatives on July 15, 2016. The following individuals were present for the conference:

Town of Lake Arthur

Ysidro Salazar, Mayor
Abraham Gonzalez, Councilor
Desiree Cavillo, Town Clerk

Scott Northam, CPA, PC

Scott Northam, CPA

The financial statements of the Town of Lake Arthur were prepared by Scott Northam, CPA, PC, from original books and records provided by and with assistance from the management of the Town.

Although standards strongly emphasize the Town prepare its own financial statements, the consensus between the Town management and the auditor was that it would be more time and cost efficient for the auditor to prepare the financial statements and the related notes. Accordingly, the Town designated a competent management-level individual to oversee the auditor's services, make all management decisions and perform all management functions. The Town reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes and supplementary schedules, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance.