

State of New Mexico
Town of Lake Arthur

Independent Accountant's Report on
Applying Agreed Upon Procedures
June 30, 2019

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

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**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**OFFICIAL ROSTER
JUNE 30, 2019**

TOWN COUNCIL

Ysidro Salazar, Mayor

Johnny Teel, Mayor Pro-Tem

Lewis Wesson, Councilor

Fred Chavarria, Councilor

Irma Salmon, Councilor

TOWN PERSONNEL

Debra Sallee, Clerk

WATTS CPA, P.C.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Brian S. Colón, Esq., New Mexico State Auditor and
Honorable Mayor and Councilors of
Town of Lake Arthur
Lake Arthur, New Mexico

I have performed the procedures enumerated below, which were agreed to by the Town of Lake Arthur (Town) and the New Mexico State Auditor, solely to assist you with respect to the compliance with Tier 6 of the Audit Act - Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC of Town of Lake Arthur as of and for the year ended June 30, 2019. Town of Lake Arthur's management is responsible for the Town's accounting records. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

My procedures and findings are as follows:

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Results

I recalculated the Town's revenue calculation and verified that tier 6 is the correct determination.

2. Cash

Procedures

a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.

b. Test at least 30% of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results

a. I obtained all bank reconciliations prepared in FY 2019 and noted that all are performed within 7 business days of the end of the month which is considered timely. Also, I noted that all bank statements were complete and on hand at the Town's office.

b. I selected 4 months of bank reconciliations and recalculated them, noting no errors. I traced the ending balance to the general ledger, the related supporting documentation including bank statements and details of reconciling items, and traced the balance to the quarterly financial reports submitted to DFA-Local Government Division.

c. As of June 30, 2019, the Town's bank has provided more than the 50% collateral on uninsured deposits required by Section 6-10-17 NMSA 1978, NM Public Money Act.

3. Capital Assets

Procedures

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results

The Town performs an annual capital asset inventory which I verified by obtaining a copy of the annual capital asset inventory.

4. Debt

Procedures

Verify that the required debt payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

Results

At June 30, 2019, the Town has three loans outstanding with the NMFA. I traced the monthly payments on the NMFA loans to the disbursements on the bank statements and the statements provided by NMFA. None of the loans require debt reserves.

5. Revenue

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

a. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues equal to at least 30% of the total dollar amount and test the following attributes:

b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

c. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results

I identified the types of revenue that the Town receives by reviewing the budget, agreements, rate schedules and underlying documentation. The Town receives revenues from taxes, fees, fines, interest, customers for solid waste collection, water and sewer usage, cemetery fees, federal and state grants and miscellaneous other income.

a. I performed an analytical review of revenues by comparing actual revenue to the budgeted revenue for

the year for each type of revenue. The results of the analytical review were as expected.

b. I judgementally selected 37 revenue items, which totaled greater than 30% of all revenue dollars, and agreed all to their respective supporting documentation and the bank statement.

c. I judgementally selected 37 revenue items, which totaled greater than 30% of all revenue, and found that each was recorded correctly in the general ledger for classification, amount and period based on the supporting documentation using the accrual basis of accounting.

6. Expenditures

Procedures

Select a sample of cash disbursements equals to at least 30% of the total dollar amount and test the following attributes:

a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results

a. I judgementally selected 54 cash disbursements, which totaled greater than 30% of all disbursements, and determined that the amount recorded as disbursed agrees to adequate supporting documentation. I also verified that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

b. I judgementally selected 54 cash disbursements, which totaled greater than 30% of all disbursements, and determined that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c. I judgementally selected 54 cash disbursements, which totaled greater than 30% of all disbursements, and when applicable, I determined that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

7. Journal Entries

Procedures

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:

a. Journal entries appear reasonable and have supporting documentation.

b. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results

a. There were no nonroutine journal entries posted to the general ledger.

b. There were no nonroutine journal entries posted to the general ledger, however, the Town has procedures that require the Mayor and Council review and approve nonroutine journal entries.

8. Budget

Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following test work:

a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Results

a. I verified by reviewing the board of director's minutes and correspondence from DFA-LGD that the original budget and subsequent budget adjustments were approved by the Town's governing body and DFA-LGD, respectively.

b. I determined that total actual expenditures did not exceed the final budget at the legal level of budgetary control.

c. See the budget to actual statements beginning at page 9.

9. Capital Outlay Appropriations

Procedures

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet the Tier 6 criteria. Perform the following tests on all state-funding capital outlays expenditures:

a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.

b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.

c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).

- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results

- a. I determined all amounts recorded as disbursed agrees to adequate supporting documentation. I verified that amount, payee, date and description agrees to the contract and vendor's invoice/statement.
- b. I determined that all the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. The bid process, purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. I observed the backhoe. The well rehab project was primarily engineering and underground which is not observable.
- e. I verified that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. The projects are not funded in advance.
- g. The backhoe project is not complete. The well rehab project was complete and there were no unexpended balances.
- h. Cash received for the awards were not required to be maintained in separate bank accounts.
- i. I determined that the reimbursement requests were properly supported by costs incurred by the recipient and the costs were paid by the local public body prior to the request for reimbursement.

10. Other

Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(L) NMAC.

Results

No information came to my attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Lake Arthur, the New Mexico State Auditor, the New Mexico Legislature and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Watts CPA, P.C.

El Paso, Texas
December 5, 2019

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**CAPITAL OUTLAY AWARDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

	18-C2472	15-0494-STB
Amount awarded	\$ 150,000	\$ 90,000
Received through June 30, 2019	\$ 148,512	\$ 90,000
Expended through June 30, 2019	\$ 148,512	\$ 90,000
Remaining balance as of June 30, 2019	\$ 1,488	\$ -
Project effective date through	June 30, 2020	June 30, 2019

Legislation:

18-C2472 - The laws of 2018, Chapter 80, Section 26, Paragraph 68, one hundred fifty thousand dollars to purchase and equip a backhoe and loader, including attachments, for Lake Arthur in Chaves county.

15-0494-STB - The laws of 2015, Chapter 3, Paragraph to the Department of Environment to plan, design, construct, purchase and install improvements, including a water tak and supervisory control and data acquisition system connection, to the water system for Lake Arthur in Chaves county.

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes				
Gross receipts	\$ 32,000	\$ 48,258	\$ 48,258	\$ -
Franchise	5,400	5,400	5,039	(361)
Property	4,200	4,752	4,862	110
Gas	6,000	6,000	5,629	(371)
Motor vehicle	400	498	497	3,705
Intergovernmental				
State	275,395	291,012	306,524	15,512
Miscellaneous	26,550	28,490	4,207	(24,283)
Licenses, fees and permits	10	10	10	-
Fines	4,500	4,500	409	(4,091)
Interest	42	74	73	(1)
Total revenues	354,497	388,994	375,508	(13,486)
EXPENSES:				
General administration	122,413	137,652	132,585	5,067
Streets	15,200	13,928	14,802	(874)
Public safety	2,917	6,164	7,436	(1,272)
Public works	43,170	46,008	35,157	10,851
Judicial	9,544	9,364	7,433	1,931
Capital outlay - grants and loans	150,000	150,000	148,512	1,488
Total operating expenses	343,244	363,116	345,925	17,191
Excess receipts over (under) disbursements	\$ 11,253	\$ 25,878	\$ 29,583	\$ 3,705
Reconciliation of budgetary basis to GAAP basis:				
Net excess receipts over (under) disbursements budgetary basis			\$ 29,583	
Net revenue accruals			4,090	
Net expenditure accruals			7,163	
Change in net position GAAP basis			<u>\$ 40,836</u>	

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - CORRECTION FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Fines and fees	\$ 1,500	\$ 220	\$ 220	\$ -
Total revenues	<u>1,500</u>	<u>220</u>	<u>220</u>	<u>-</u>
EXPENSES:				
Public safety	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess receipts over (under) disbursements	<u>\$ 1,500</u>	<u>\$ 220</u>	<u>\$ 220</u>	<u>\$ -</u>

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - FIRE PROTECTION FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental State	\$ 73,685	\$ 72,121	\$ 75,249	\$ 1,564
Total revenues	<u>73,685</u>	<u>73,685</u>	<u>75,249</u>	<u>1,564</u>
EXPENSES:				
Public safety	<u>60,138</u>	<u>66,224</u>	<u>46,090</u>	<u>20,134</u>
Total expenses	<u>60,138</u>	<u>66,224</u>	<u>46,090</u>	<u>20,134</u>
Excess receipts over (under) disbursements	<u>\$ 13,547</u>	<u>\$ 7,461</u>	<u>\$ 29,159</u>	<u>\$ 21,698</u>
Reconciliation of budgetary basis to GAAP basis:				
Net excess receipts over (under) disbursements budgetary basis			\$ 29,159	
Net expenditure accruals			<u>(234)</u>	
Change in net position GAAP basis			<u>\$ 28,925</u>	

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - LAW ENFORCEMENT
PROTECTION FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental State	\$ 20,600	\$ 20,600	\$ 20,600	\$ -
Total revenues	<u>20,600</u>	<u>20,600</u>	<u>20,600</u>	<u>-</u>
EXPENSES:				
Public safety	<u>26,254</u>	<u>26,254</u>	<u>20,992</u>	<u>5,262</u>
Total expenses	<u>26,254</u>	<u>26,254</u>	<u>20,992</u>	<u>5,262</u>
Excess receipts over (under) disbursements	<u>(5,654)</u>	<u>(5,654)</u>	<u>\$ (392)</u>	<u>\$ 5,262</u>
Beginning unrestricted cash	<u>8,812</u>	<u>8,812</u>		
Ending unrestricted cash	<u>\$ 3,158</u>	<u>\$ 3,158</u>		

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - CDBG FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental Federal	\$ 673,775	\$ 673,775	\$ -	\$ (673,775)
Total revenues	<u>673,775</u>	<u>673,775</u>	<u>-</u>	<u>(673,775)</u>
EXPENSES:				
Capital outlay - grants and loans	<u>673,775</u>	<u>673,775</u>	<u>-</u>	<u>673,775</u>
Total expenses	<u>673,775</u>	<u>673,775</u>	<u>-</u>	<u>673,775</u>
Excess receipts over (under) disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES AND EXPENDITURES -BUDGET (NON-GAAP
BUDGETARY BASIS) AND ACTUAL (BUDGET BASIS) - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Charges for services				
Water	\$ 98,000	\$ 111,104	\$ 108,033	\$ (3,071)
Sewer	17,000	17,156	22,932	5,776
Solid Waste	45,000	41,320	41,320	-
Cemetery	200	1,975	1,975	-
Meter deposits	1,500	2,300	2,300	-
	<u>161,700</u>	<u>173,855</u>	<u>174,260</u>	<u>2,705</u>
EXPENSES:				
Operating expenses:				
Water	82,100	114,662	101,632	13,030
Sewer	9,500	16,395	11,698	4,697
Solid waste	40,000	44,136	42,527	1,609
Cemetery	150	60	-	60
Meter deposits	200	600	600	-
Non-operating disbursements				
Debt payments - principal	-	-	4,802	(4,802)
Capital outlay - grants and loans	1,407,163	1,407,163	-	1,407,163
	<u>1,539,113</u>	<u>1,583,016</u>	<u>161,259</u>	<u>1,421,757</u>
Non Operating revenues				
Grant proceeds	1,407,163	1,407,163	231,118	1,176,045
	<u>1,407,163</u>	<u>1,407,163</u>	<u>231,118</u>	<u>1,176,045</u>
Excess receipts over (under) disbursements	\$ 161,700	\$ 173,855	\$ 244,119	\$ 244,119
Reconciliation of budgetary basis to GAAP basis:				
Net excess receipts over (under) disbursements budgetary basis			\$ 244,119	
Net expenditure accruals			(8,166)	
Depreciation			(28,584)	
Net change in meter deposits			600	
Principal payments on debt			4,802	
Change in net position GAAP basis			<u>\$ 212,771</u>	

STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR

YEAR END REPORT SUBMITTED TO DFA
JUNE 30, 2019

State of New Mexico
Local Government Budget Management System (LGBMS)

Budget Recap - Fiscal Year 2018-2019
Lake Arthur (Town) - Final - Approved

Printed from LGBMS on 2019-10-23 15:49:56

Fund	Cash	Investments	Revenues	Transfers	Expenditures	Balance	Reserves	Adjusted Balance
11000 General Operating Fund	269,795.00	10,125.00	221,497.00	0.00	193,244.00	308,173.00	16,103.67	292,069.33
20100 Corrections	23,063.00	73.00	1,500.00	0.00	0.00	24,626.00	0.00	24,626.00
20900 Fire Protection	181,595.00	0.00	73,685.00	0.00	60,138.00	195,142.00	0.00	195,142.00
21100 Law Enforcement Protection	5,307.00	0.00	20,600.00	0.00	25,907.00	0.00	0.00	0.00
30200 CDBG (HUD) Project	0.00	0.00	673,775.00	0.00	673,775.00	0.00	0.00	0.00
30300 State Legislative Appropriation Project	0.00	0.00	230,594.00	0.00	230,594.00	0.00	0.00	0.00
39900 Other Capital Projects	0.00	52.00	819,162.00	0.00	819,162.00	52.00	0.00	52.00
40400 NMFA Loan Debt Service	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
50100 Water Enterprise	82,312.00	0.00	98,000.00	0.00	82,100.00	98,212.00	0.00	98,212.00
50200 Solid Waste Enterprise	30,506.00	0.00	45,000.00	0.00	40,000.00	35,506.00	0.00	35,506.00
50300 Wastewater/Sewer Enterprise	9,059.00	0.00	17,000.00	0.00	9,500.00	16,559.00	0.00	16,559.00
50600 Cemetery Enterprise	2,063.00	0.00	200.00	0.00	150.00	2,113.00	0.00	2,113.00
70100 Meter Deposits	15,162.00	0.00	1,500.00	0.00	200.00	16,462.00	0.00	16,462.00
Totals	618,852.00	10,250.00	2,202,513.00	0.00	2,134,770.00	686,845.00	16,103.67	680,741.33

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019**

Summary of Findings:

Current year findings:

None

Prior year findings:

None

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2019**

An exit conference was conducted on December 5, 2019 with the following individuals in attendance:

Town of Lake Arthur

Ysidro Salazar
Debra Sallee

Mayor
Clerk

Watts CPA, P.C.

Brad Watts

Shareholder

Compiled Financial Statements

WATTS CPA, P.C.

Independent Accountant's Compilation Report

Mr. Brian S. Colón Esq., New Mexico State Auditor
Honorable Mayor and Council of
Town of Lake Arthur
Lake Arthur, New Mexico

Management is responsible for the accompanying financial statements of the Town of Lake Arthur, New Mexico (the Town), which comprise the balance sheets - governmental funds and statement of net position - enterprise fund as of June 30, 2019 and the related statements of revenues, expenditures and changes in fund baance - governemental funds and revenues, expenses and changes in net position - enterprise find for the year then ended, and the related notes to the financial statements in accordance with the contractual basis of accounting, and for determining that the contractual basis of accounting is and acceptable financial reporting framework. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

In order to comply with the requirements of Section 12-6-3(8) NMSA 1978 and 2.2.2.16 NMAC, management has presented: (1) the governmental fund financial statements prepared using the modified accrual basis of accounting; (2) the proprietary fund financial statements and the fiduciary fund financial statements prepared using the accrual basis of accounting; and (3) only the notes related to those financial statements. However, in complying with these requirements, management has omitted the following financial statements and notes required by accounting principles generally accepted in the United States of America (GAAP): (a) the accompanying governmentwide financial statements; (b) the statement of cash flows - proprietary funds; and (3) note disclosures related to items (a) and (b). These omissions result in the financial statements being presented on a basis of accounting other than GAAP.

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the contractual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Watts CPA, P.C.

El Paso, Texas
December 5, 2019

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	Correction Fund	Fire Protection Fund	Law Enforcement Protection Fund	CDBG Grant Fund	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 162,667	\$ 23,273	\$ 210,754	\$ 8,812	\$ 74	\$ 405,580
Taxes receivable:						
Gross receipts tax	8,869	-	-	-	-	8,869
Gasoline tax	964	-	-	-	-	964
Total assets	<u>\$ 172,500</u>	<u>\$ 23,273</u>	<u>\$ 210,754</u>	<u>\$ 8,812</u>	<u>\$ 74</u>	<u>\$ 415,413</u>
LIABILITIES:						
Accounts payable	<u>\$ 2,654</u>	<u>\$ -</u>	<u>\$ 234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,888</u>
Total liabilities	<u>2,654</u>	<u>-</u>	<u>234</u>	<u>-</u>	<u>-</u>	<u>2,888</u>
FUND BALANCE:						
Assigned	-	23,273	210,520	8,812	74	242,679
Unassigned	169,846	-	-	-	-	169,846
Total fund balance	<u>169,846</u>	<u>23,273</u>	<u>210,520</u>	<u>8,812</u>	<u>74</u>	<u>412,525</u>
Total liabilities and fund balance	<u>\$ 172,500</u>	<u>\$ 23,273</u>	<u>\$ 210,754</u>	<u>\$ 8,812</u>	<u>\$ 74</u>	<u>\$ 415,413</u>

See independent accountant's compilation report

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Correction Fund	Fire Protection Fund	Law Enforcement Protection Fund	CDBG Grant Fund	Total Governmental Funds
Revenues:						
Taxes:						
Gross receipts	\$ 52,321	\$ -	\$ -	\$ -	\$ -	\$ 52,321
Franchise	5,039	-	-	-	-	5,039
Property	4,862	-	-	-	-	4,862
Gas	5,656	-	-	-	-	5,656
Motor vehicle	497	-	-	-	-	497
Intergovernmental						
State	306,524	-	75,249	20,600	-	402,373
Miscellaneous	4,207	-	-	-	-	4,207
Licenses, fees and permits	10	-	-	-	-	10
Fines	409	220	-	-	-	629
Interest	73	-	-	-	-	73
Total revenues	379,598	220	75,249	20,600	-	475,667
Expenditures:						
General administration	125,422	-	-	-	-	125,422
Street	14,802	-	-	-	-	14,802
Public safety	7,436	-	46,324	20,992	-	74,752
Public works	35,157	-	-	-	-	35,157
Judicial	7,433	-	-	-	-	7,433
Capital outlay	148,512	-	-	-	-	148,512
Total expenditures	338,762	-	46,324	20,992	-	406,078
Change in fund balance	40,836	220	28,925	(392)	-	69,589
Fund balance - beginning of year	129,010	23,053	181,595	9,204	74	342,936
Fund balance - end of year	\$ 169,846	\$ 23,273	\$ 210,520	\$ 8,812	\$ 74	\$ 412,525

See independent accountant's compilation report

**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2019**

ASSETS:

Cash and cash equivalents:	
Unrestricted	\$ 280,531
Restricted	16,862
Grant receivable - construction	116,964
Capital assets, net of accumulated depreciation	<u>1,277,692</u>

Total assets \$ 1,692,049

LIABILITIES:

Accounts payable	\$ 8,166
Accounts payable - construction	116,964
Customer deposits	16,862
Notes payable	<u>84,756</u>
Total liabilities	<u>226,748</u>

NET POSITION:

Net investment in capital assets	1,192,936
Unrestricted	<u>272,365</u>
Total net position	<u>1,465,301</u>

Total liabilities and net position \$ 1,692,049

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**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2019**

Operating Revenues:	
Charges for services	
Water	\$ 108,033
Sewer	22,932
Solid waste	41,320
Cemetery	1,975
	<hr/>
Total operating revenues	174,260
	<hr/>
Operating Expenses:	
Water	109,798
Sewer	11,698
Solid waste	42,527
Depreciation	28,584
	<hr/>
Total operating expenses	192,607
	<hr/>
Operating loss	(18,347)
	<hr/>
Capital Contributions:	
Grant revenues:	
State	190,034
Federal	41,084
	<hr/>
Total capital contributions	231,118
	<hr/>
Change in net position	212,771
	<hr/>
Net position - beginning of year	1,252,530
	<hr/>
Net position - end of year	\$ 1,465,301
	<hr/>

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**STATE OF NEW MEXICO
TOWN OF LAKE ARTHUR**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This following summary presentation of significant accounting policies of the Town of Lake Arthur (the Town) is 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 on a contractual basis of accounting. The New Mexico Office of the State Auditor is responsible for establishing the contractual basis for state and local governments through Section 12- 6-3(B) NMSA 1978 and 2.2.2.16 NMAC (the State Audit Rule.) In order to comply with the requirements of Section 12- 6-3(B) NMSA 1978 and 2.2.2.16 NMAC, management is required to present at a minimum, fund financial statements on the GAAP basis of accounting, for each individual fund (for all fund types) that the local public body has, consisting of

- a) Balance sheets - governmental funds, and/ of statements of net position - proprietary funds and/or statements of net position - fiduciary funds, for each individual fund.
- b) Statements of revenues, expenditures and changes in fund balances - governmental funds and/or statements of revenues expenses and changes in net position - proprietary funds, and/or statements of changes in net position - fiduciary funds, for each individual fund.
- c) Notes related to the statements required in a) and b) above.

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 GASB 14 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 GASB 14 criteria above, there are no component units of the Town, nor is the Town considered a component unit of another governmental agency during the fiscal year ended June 30, 2019.

Governmental Fund Financial Statements - Governmental fund level financial statements report activity 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. Revenue recognition is as soon as they are both measurable and available.

Separate fund based financial statements are provided for governmental funds and proprietary funds. 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. Management also has the option to report a fund as major even though it does not fit the criteria.

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 governmental funds:

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

A description of the Town's special revenue funds 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 is established by local ordinance in order to comply with Section 35- 14-11NMSA1978.
- 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 29-13.1through29-13.9 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 was established by local ordinance and by federal requirement. This fund accounts for federal, state and local sources, revenues and expenditures for capital projects throughout the Town.

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.

In accordance with GASB Statement No. 33, the Town follows the following revenue recognition principles applied to non-exchange 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, gasoline, and cigarette taxes.
- Imposed non-exchange 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 a cash basis and the revenue is recognized in the fiscal year for which the taxes are levied.
- Government-mandated non-exchange transactions and voluntary non-exchange 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.

The Chaves County Treasurer levies and collects property taxes 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 10, which is also the lien date.

Franchise, gross receipts 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.

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.

Business-Type Activities - Business-Type Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and on an accrual basis. 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 business-type fund:

- The *enterprise 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.

Budgetary Information - Budgets for all funds are prepared by management and is approved by the Town 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 an approved budget. The comprehensive budget package is brought before the Town 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. Exceeding the budgeted expenditures may result in an audit finding. 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 Town Council 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.

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 and Cash Equivalents - 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 nonoperating 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 and sewer service and solid waste collection. 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, 2019 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.

Capital assets - Capital assets which may include software, property, plant, equipment, vehicles, and infrastructure assets (e.g., building, 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. Land owned by the Town is always capitalized.

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.

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

Buildings, structures and improvements	10 - 40 years
Water and wastewater systems	15-25 years
Infrastructure	25 years
Office and maintenance equipment	7 years
Vehicles	5 years

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, 2019.

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

Long-term obligations are reported as debt in the proprietary fund. 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 will not be recognized as an outflow of resources (expense) until that time.

The Town does not report any items that qualifies as deferred outflows of resources for the 2019 fiscal year.

Deferred Inflows of Resources - Deferred inflows of resources represent the acquisition of net

position that is applicable to a future reporting period.

- **Fund Financial Statements** - Within the governmental funds, revenues must be available in order to be recognized. Revenues 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 2019 fiscal year.

Fund Balance - Governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of resources: Non-spendable, Restricted, Committed, Assigned and Unassigned. The nonspendable 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.

The Town does not report any deficit fund balances in the 2019 fiscal year.

Net Position - The 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 position 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.

Operating and Non-operating Expenditures - 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.

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 is not required to 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/or 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 NMSA1978 Compilation and the New Mexico State Auditor Rule covers the officials and certain employees of the Town.

Subsequent Events - GASB 56 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 though December 5, 2019, the date of the auditor's report, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

During the year ended June 30, 2019, the Town implemented the following new accounting pronouncements which did not have a material effect on the Town's financial statements:

- *GASB Statement No. 83, Certain Asset Retirement Obligations*
- *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

The following pronouncements have been issued, but are not yet effective for the year ended June 30, 2019.

- *GASB Statement No. 84, Fiduciary Activities*
- *GASB Statement No. 87, Leases*
- *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
- *GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)*
- *GASB Statement No. 91, Conduit Debt Obligations*

The Town is evaluating the effect that these statements will have in upcoming years.

Tax Abatement Disclosures - The Town does not have any agreements that require disclosure under *GASB Statement No. 77, Tax Abatement Disclosures*.

2. CASH AND CASH EQUIVALENTS

At June 30, 2019, the Town had cash and cash equivalents on deposit with local financial institutions, consisting of checking and money market accounts. Checking accounts required for debt service or for grant purposes are prohibited from accruing interest. Following is a schedule as of June 30, 2019, of the cash and cash equivalents.

Account	Account Type	Balance per Bank	Deposits in Transit	Outstanding Checks	Reconciled Balance
JP Stone Community Bank:					
General operating	Demand	\$ 687,439	\$ -	\$ 11,652	\$ 675,787
Municipal court bond	Demand	52	-	-	52
CDBG	Demand	74	-	-	74
Water meter deposits	Demand	<u>16,862</u>	<u>-</u>	<u>-</u>	<u>16,862</u>
Total JP Stone Community Bank		<u>704,427</u>	<u>-</u>	<u>11,652</u>	<u>692,775</u>
Western Bank:					
Certificate of deposit		<u>10,198</u>	<u>-</u>	<u>-</u>	<u>10,198</u>
Total Western Bank		<u>\$ 10,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,198</u>

The Town uses a pooled cash system for its funds. Below details the distribution of the cash accounts to the Town's types of funds:

	Governmental Activities	Business Type Activities	Total
JP Stone Community Bank			
General operating	\$ 395,256	\$ 280,531	\$ 675,787
Municipal court bond	52	-	52
CDBG	74	-	74
Water meter deposits	<u>-</u>	<u>16,862</u>	<u>16,862</u>
 Total JP Stone Community Bank	 <u>\$ 395,382</u>	 <u>\$ 297,393</u>	 <u>\$ 692,775</u>
 Western Bank			
Certificate of deposit	<u>\$ 10,198</u>	<u>\$ -</u>	<u>\$ 10,198</u>
 Total Western Bank	 <u>\$ 10,198</u>	 <u>\$ -</u>	 <u>\$ 10,198</u>
 Total cash and equivalents	 <u>\$ 405,580</u>	 <u>\$ 297,393</u>	 <u>\$ 702,973</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 other than state statutes. As of June 30, 2019, \$454,426 of the Town's bank balance of \$714,624 was exposed to custodial credit risk before applying the pledged collateral. The Independent Bankers Bank, Dallas, Texas, holds the securities pledged toward the Town. The pledged collateral as of June 30, 2019 is detailed below:

Description	CUSIP#	Maturity	Market Value
James Polk Stone Community Bank:			
FHLB Qtrly Call Step	3130A8G65	06/30/2031	\$ 197,557
Discover Bank CD	254673ZE9	3/13/29	<u>249,282</u>
 Total			 <u>\$ 446,839</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 being insured by the Federal Deposit Insurance Corporation.

The uninsured and uncollateralized balances as of June 30, 2019 are as follows:

	JP Stone Community		
	Bank	Western Bank	Total
Total deposits in bank	\$ 704,427	\$ 10,198	\$ 714,625
Less FDIC coverage	<u>(250,000)</u>	<u>(10,198)</u>	<u>(260,198)</u>
Uninsured public funds	454,427	-	454,427
Pledged Collateral held by the pledging bank's trust department or agent in the Authority's name	<u>446,839</u>	<u>-</u>	<u>446,839</u>
Uninsured and uncollateralized	<u>\$ 7,588</u>	<u>\$ -</u>	<u>\$ 7,588</u>

3. CAPITAL ASSETS

The Town presents the Governmental Funds on a modified accrual basis which does report capital asset basis, accumulated depreciation or annual depreciation in the accompanying basic fund financial statements. Any capital purchases are reported as capital outlay expenditures in the governmental funds. The following Governmental Funds capital asset activity for the year ended June 30, 2019 is for additional disclosure and was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities capital assets, not being depreciated				
Land	\$ 4,197	\$ -	\$ -	\$ 4,197
Total capital assets, not being depreciated	<u>4,197</u>	<u>-</u>	<u>-</u>	<u>4,197</u>
Governmental activities assets, being depreciated				
Buildings	649,711	-	-	649,711
Improvements	228,066	-	-	228,066
Machinery & equipment	617,625	148,512	-	766,137
Vehicles	<u>300,359</u>	<u>-</u>	<u>-</u>	<u>300,359</u>
Total governmental activities assets, being depreciated	<u>1,795,761</u>	<u>148,512</u>	<u>-</u>	<u>1,944,273</u>
Less Accumulated Depreciation	<u>1,725,089</u>	<u>15,431</u>	<u>-</u>	<u>1,740,520</u>
Total capital assets being depreciated, net	<u>70,672</u>	<u>133,081</u>	<u>-</u>	<u>203,753</u>
Governmental activities assets, net	<u>\$ 74,869</u>	<u>\$ 133,081</u>	<u>\$ -</u>	<u>\$ 207,950</u>

The Town presents the Business-type Funds on an accrual basis. Below is the activity of the capital assets for the year ended June 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type capital assets, not being depreciated				
Construction in progress	\$ -	\$ 41,084	\$ -	\$ 41,084
Total capital assets, not being depreciated	<u>-</u>	<u>41,084</u>	<u>-</u>	<u>41,084</u>
Business-type capital assets, being depreciated				
Water system	1,075,755	202,773	-	1,278,528
Total business-type capital assets, being depreciated	<u>1,075,755</u>	<u>202,773</u>	<u>-</u>	<u>1,278,528</u>
Less Accumulated Depreciation	13,336	28,584	-	41,920
Total capital assets being depreciated, net	<u>1,062,419</u>	<u>174,189</u>	<u>-</u>	<u>1,236,608</u>
Business-type capital assets, net	<u>\$ 1,062,419</u>	<u>\$ 215,273</u>	<u>\$ -</u>	<u>\$ 1,277,692</u>

Depreciation expense for the year ended June 30, 2019 was \$15,431 and \$28,584 for governmental and business-type activities respectively.

4. LONG TERM OBLIGATIONS

The Town had the following long-term debt obligations as of June 30, 2019:

Business-type Activities:

2788-CIF - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in July 2012 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 NMF A. Terms of the loan are 20 annual, non-interest-bearing payments of approximately \$2,410 and maturing in June 2033.

2976-CIF - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in June 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 loan are 20 annual, non-interest-bearing payments of approximately \$2,392, and maturing in June 2034 with a balloon payment of \$4,802.

4638-CIF - Colonias Infrastructure Project Grant - The Town entered into an agreement with NMFA in October 2018 to administer a Grant/Loan project to improve the Town's water system. The Town has committed to approximately \$819,162 of system improvements, of which \$655,330 is grant funds and the remaining \$163,832 is a loan financed through NMFA. Terms of the loan are 20 annual, non-interest-bearing payments of approximately \$6,839 beginning June 2021, and maturing

in June 2040. The loan is secured by the Town's net water system revenues. As of June 30, 2019, \$12,739 of the loan has been advanced.

No interest was paid from the proprietary funds. Long-term debt activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
NMFA 2788 - CIF	\$ 36,137	\$ -	\$ 2,410	\$ 33,727	\$ 2,410
NMFA 2976 - CIF	40,682	-	2,392	38,290	2,392
NMFA 4638 - CIF	<u>-</u>	<u>12,739</u>	<u>-</u>	<u>12,739</u>	<u>-</u>
Total notes payable	<u>\$ 76,819</u>	<u>\$ 12,739</u>	<u>\$ 4,802</u>	<u>\$ 84,756</u>	<u>\$ 4,802</u>

Following is a summary of principal and interest maturities of long-term liabilities:

Years Ending	Principal	Interest
June 30, 2020	\$ 4,802	\$ -
June 30, 2021	11,641	-
June 30, 2022	10,702	-
June 30, 2023	4,802	-
June 30, 2024	4,802	-
June 30, 2025 - 2029	24,010	-
June 30, 2030 - 2034	<u>23,997</u>	<u>-</u>
Total	<u>\$ 84,756</u>	<u>\$ -</u>

5. RELATED PARTY TRANSACTIONS

A councilor appointed to the Town Council in March 2018 owns an electrical contractor which does business with the Town. The charges to the Town are comparable to other electricians in the area and were at arms-length. Total amount the councilor's business charged the Town was approximately \$1,187.

6. COMMITMENTS

At June 30, 2019, the Town has multiple grants outstanding totaling approximately \$1,331,161 for water and sewer system infrastructure renovations and a backhoe. These grants are in different phases of progress, with sewer system and water system renovations in the planning and design phase. The Sewer project has \$632,691 remaining and the Water project has \$696,982 remaining. The backhoe was purchased and the grant has \$1,488 remaining that could be used for backhoe attachments.