

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2019**

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL**

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VILLAGE OF MAXWELL**

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**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
Directory of Officials  
June 30, 2019

***ELECTED OFFICIALS***

Shantelle Gallegos ..... Mayor  
Lannon Floyd ..... Mayor Pro-Tem  
Mark Cruz ..... Councilor  
Linda McFadden ..... Councilor  
Steve Pompeo ..... Councilor

***DEPARTMENT HEADS***

Shawn Jeffrey, MMC ..... Administrator  
Karen Gates ..... Clerk  
Shawn Mitchell ..... Fire Chief  
Elmer Chavez ..... Maintenance Supervisor

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www.fierrocpa.comIndependent Auditors' ReportBrian S. Colón, State Auditor  
and  
Mayor and Village Council  
Village of Maxwell  
Maxwell, New Mexico**Report on Financial Statements**

We were engaged to audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the Village of Maxwell (Village), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the Village's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2019, 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 responsibility 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.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We were not able to obtain sufficient and appropriate evidence to provide a basis for our opinions.

### ***Basis for Disclaimer of Opinion***

The Village did not maintain adequate accounting records to support amounts reported within the financial statements. The Village failed to determine and record financial data needed for the financial statements. The Village failed to reconcile cash recorded in their accounting records with the cash held by the financial institutions. As of June 30, 2019, the Village recorded \$341,055 in their accounting records; however, the reconciliations and the financial statements reflect a combined balance of \$312,035.

The Village did not determine receivables and inventory at June, 30, 2019. Further, even though the Village had assistance from an outside source, they did not review and or reconcile the capital assets subsidiary records that indicate depreciation expense. The Village did not record depreciation expense for June 30, 2019.

The Village did not prepare schedules with supporting documentation for accounts payable, accrued wages and benefits, all other accrual of liabilities and compensated absences. Concerning the meter deposits held for its customers, the Village does not have complete and accurate subsidiary records that detail the amounts held by each customer's account. The June 30, 2019 financial statements reflect a liability of \$15,223, while the bank account balance reflects \$17,292. The Village has not reported their share of the net pension liability, or the pension related deferred outflows and inflows of resources. The Village failed to disclose pension obligations within the notes to the financial statements

### ***Disclaimer of Opinions***

Because of the significance of the matters described in the *Basis of Disclaimer of Opinion* section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of the Village referred to in the first paragraph as of and for the year ended June 30, 2019.

### ***Other Matters***

#### ***Required Supplementary Information***

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. Our disclaimer of opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of the Village's proportionate share of the net pension liability and the schedule of the Village's contributions be presented to supplement the basic financial statements. The Village did not determine and thus did not record their proportionate share of the net pension liability and the Village's contributions. 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. However, the scope of our audit of the financial statements was not sufficient to enable us to express an opinion because of the reason described in the *Basis of Disclaimer of Opinion* section and accordingly we did not express an opinion on such financial statements.

The combining and individual fund financial statements, the schedules of cash accounts and pledged collateral required by 2.2.2 of the New Mexico Administrative Code (NMAC) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, the schedules of cash accounts and pledged collateral are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America.

Because of the significance of the matters described in the *Basis of Disclaimer of Opinion* section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion or provide any assurance on the combining and individual fund financial statements, the schedules of cash accounts and pledged collateral of the Village as of and for the year ended June 30, 2019.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Village's 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 Village's internal control over financial reporting and compliance.



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

December 6, 2019

## **BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Current assets:			
Cash	\$ 284,012	\$ 10,731	\$ 294,743
Receivables, net	5,390	16,821	22,211
Inventory	-	1,382	1,382
Total current assets	<u>289,402</u>	<u>28,934</u>	<u>318,336</u>
Noncurrent assets:			
Restricted cash	-	17,292	17,292
Capital assets:			
Land and construction in progress	996,316	102,334	1,098,650
Other capital assets, net of depreciation	761,899	963,997	1,725,896
Total capital assets	<u>1,758,215</u>	<u>1,066,331</u>	<u>2,824,546</u>
Total noncurrent assets	<u>1,758,215</u>	<u>1,083,623</u>	<u>2,841,838</u>
<b>Deferred Outflows of Resources:</b>			
Pension related	36,181	-	36,181
Total assets and deferred outflows of resources	<u>\$ 2,083,798</u>	<u>\$ 1,112,557</u>	<u>\$ 3,196,355</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	\$ 2,592	\$ 3,430	\$ 6,022
Accrued payroll liabilities	1,870	2,265	4,135
Deposits payable	-	15,223	15,223
Compensated absences	-	3,680	3,680
Total current liabilities	<u>4,462</u>	<u>24,598</u>	<u>29,060</u>
Noncurrent liabilities:			
Net pension liability	164,560	-	164,560
Total liabilities	<u>169,022</u>	<u>24,598</u>	<u>193,620</u>
<b>Deferred Inflows of Resources:</b>			
Pension related	13,485	-	13,485
<b>Net Position:</b>			
Net investment in capital assets	1,758,215	1,066,331	2,824,546
Restricted for:			
State mandated per statutes	54,765	-	54,765
Unrestricted	88,311	21,628	109,939
Total net position	<u>1,901,291</u>	<u>1,087,959</u>	<u>2,989,250</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,083,798</u>	<u>\$ 1,112,557</u>	<u>\$ 3,196,355</u>

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

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 247,998	\$ 50,932	\$ 90,000	\$ -	\$ (107,066)	\$ -	\$ (107,066)
Public safety	91,891	47,761	81,285	-	37,155	-	37,155
Public works	-	-	-	824,288	824,288	-	824,288
Total governmental activities	339,889	98,693	171,285	824,288	754,377	-	754,377
<b>Business-type activities:</b>							
Water	77,705	53,837	-	-	-	(23,868)	(23,868)
Wastewater	100	10,136	-	-	-	10,036	10,036
Solid waste	25,568	31,101	-	-	-	5,533	5,533
Cemetery	599	1,800	-	-	-	1,201	1,201
Total business-type activities	103,972	96,874	-	-	-	(7,098)	(7,098)
Total primary government	\$ 443,861	\$ 195,567	\$ 171,285	\$ 824,288	754,377	(7,098)	747,279
<b>General Revenues:</b>							
Gross receipts taxes					55,046	-	55,046
Property taxes, levied for general purposes					16,228	-	16,228
Franchise taxes					2,212	-	2,212
Public service taxes					7,820	-	7,820
Interest income					904	250	1,154
Miscellaneous					-	123	123
Total general revenues					82,210	373	82,583
Change in net position					836,587	(6,725)	829,862
Net position, beginning of year					1,064,704	1,094,684	2,159,388
Net position, end of year					\$ 1,901,291	\$ 1,087,959	\$ 2,989,250

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

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
RECONCILIATION OF THE BALANCE SHEET  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019

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

Total fund balance governmental funds (page seven)	\$	284,940
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,758,215
Deferred outflows of resources related to pensions are applicable to future periods and are not reported in the funds.		36,181
Deferred inflows of resources related to pensions are applicable to future periods and are not reported in the funds.		(13,485)
Net pension liability is not due and payable in the current period and, therefore is not reported in the funds.		<u>(164,560)</u>
Net position of governmental activities (page five)	\$	<u><u>1,901,291</u></u>

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Gross receipts taxes	\$ 55,046	\$ -	\$ -	\$ 55,046
Property taxes	16,228	-	-	16,228
Franchise taxes	2,212	-	-	2,212
Public service taxes	7,820	-	-	7,820
Intergovernmental:				
State	90,000	824,288	81,275	995,563
Charges for services	13,859	-	47,583	61,442
Licenses and permits	275	-	-	275
Interest	904	-	20	924
Miscellaneous	36,798	-	168	36,966
Total revenues	223,142	824,288	129,046	1,176,476
<b>Expenditures:</b>				
Current:				
General government	247,998	-	-	247,998
Public safety	-	-	91,891	91,891
Capital outlay	-	847,742	-	847,742
Total expenditures	247,998	847,742	91,891	1,187,631
Net change in fund balances	(24,856)	(23,454)	37,155	(11,155)
Fund balance, beginning of year	226,676	15,187	54,232	296,095
Fund balance, end of year	\$ 201,820	\$ (8,267)	\$ 91,387	\$ 284,940

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported governmental funds are different from the statement of activities because:

Net change in fund balances total governmental fund (page nine)	\$ (11,155)
Governmental funds report capital outlay as expenditures in the amount of \$847,742; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives	847,742
Net change in net position - statement of activities (page six)	\$ 836,587

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE**  
**BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS**  
**WITH RECONCILIATION TO GAAP**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
<b>Revenues:</b>						
Gross receipts taxes	\$ 14,500	\$ 55,047	\$ 55,046	\$ -	\$ 55,046	\$ (1)
Property taxes	14,500	16,532	16,228	-	16,228	(304)
Franchise taxes	1,500	2,212	2,212	-	2,212	-
Public service taxes	9,504	10,442	7,820	-	7,820	(2,622)
Intergovernmental:						
State	90,000	90,000	90,000	-	90,000	-
Charges for services	4,500	18,351	13,859	-	13,859	(4,492)
Licenses and permits	900	1,170	275	-	275	(895)
Interest	75	385	904	-	904	519
Miscellaneous	6,500	9,320	36,798	-	36,798	27,478
Total revenues	141,979	203,459	223,142	-	223,142	19,683
<b>Expenditures:</b>						
Current:						
General government	122,300	162,300	247,998	-	247,998	(85,698)
Capital outlay	4,500	4,500	-	-	-	4,500
Total expenditures	126,800	166,800	247,998	-	247,998	(81,198)
Net change	15,179	36,659	(24,856)	<u>\$ -</u>	<u>\$ (24,856)</u>	(61,515)
Cash balance, beginning of year	223,030	223,030	223,030			-
Cash advanced to other funds	-	-	(8,267)			(8,267)
Cash balance, end of year	<u>\$ 238,209</u>	<u>\$ 259,689</u>	<u>\$ 189,907</u>			<u>\$ (69,782)</u>

**Explanation of Differences:**  
None.

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



**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Joint Utility Fund	Other Enterprise Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Current assets:			
Cash	\$ 2,484	\$ 8,247	\$ 10,731
Receivables, net	16,821	-	16,821
Inventory	1,382	-	1,382
	<u>20,687</u>	<u>8,247</u>	<u>28,934</u>
Total current assets			
Noncurrent assets:			
Restricted assets:			
Cash	17,292	-	17,292
Capital assets:			
Land and construction in progress	102,334	-	102,334
Other capital assets, net of accumulated depreciation	963,997	-	963,997
	<u>1,083,623</u>	<u>-</u>	<u>1,083,623</u>
Total noncurrent assets			
	<u>\$ 1,104,310</u>	<u>\$ 8,247</u>	<u>\$ 1,112,557</u>
Total assets			
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	\$ 3,279	\$ 151	\$ 3,430
Accrued liabilities	2,265	-	2,265
Deposits payable	15,223	-	15,223
Current maturities of liabilities:			
Compensated absences	3,680	-	1,382
	<u>24,447</u>	<u>151</u>	<u>24,447</u>
Total current liabilities			
<b>Net Position:</b>			
Net investment in capital assets	1,066,331	-	1,066,331
Unrestricted	13,532	8,096	21,628
	<u>1,079,863</u>	<u>8,096</u>	<u>1,087,959</u>
Total net position			
	<u>\$ 1,104,310</u>	<u>\$ 8,247</u>	<u>\$ 1,112,557</u>
Total liabilities and net position			

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Joint Utility Fund	Other Enterprise Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating Revenues:</b>			
Charges for services	\$ 91,850	\$ 1,800	\$ 93,650
<b>Operating Expenses:</b>			
Personnel services	35,119	-	35,119
Utilities	5,485	-	5,485
Contractual services	25,795	-	25,795
Professional services	2,160	-	2,160
Repairs and maintenance	383	-	383
General operating	15,230	599	15,829
Other operating expenses	19,201	-	19,201
	<u>103,373</u>	<u>599</u>	<u>103,972</u>
Total operating expenses			
Operating income (loss)	(11,523)	1,201	(10,322)
<b>Non-Operating Revenues (Expenses):</b>			
Miscellaneous revenues	3,347	-	3,347
Interest income	250	-	250
	<u>3,597</u>	<u>-</u>	<u>3,597</u>
Total non-operating revenues (expenses)			
Change in net position	(7,926)	1,201	(6,725)
Net position, beginning of year	<u>1,087,789</u>	<u>6,895</u>	<u>1,094,684</u>
Net position, end of year	<u>\$ 1,079,863</u>	<u>\$ 8,096</u>	<u>\$ 1,087,959</u>

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Joint Utility Fund	Other Enterprise Fund	Total
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers	\$ 91,850	\$ 1,800	\$ 93,650
Cash payments to suppliers for goods and services	(68,254)	(599)	(68,853)
Cash payments to employees for services	(35,119)	-	(35,119)
Net cash provided (used) by operating activities	(11,523)	1,201	(10,322)
<b>Cash Flows From Non-Capital and Related Financing Activities:</b>			
Miscellaneous revenues	3,347	-	3,347
<b>Cash Flows From Investing Activities:</b>			
Interest income	250	-	250
Net increase (decrease) in cash	(7,926)	1,201	(6,725)
Cash and cash equivalents, beginning of year	27,702	7,046	34,748
Cash and cash equivalents, end of year	<u>\$ 19,776</u>	<u>\$ 8,247</u>	<u>\$ 28,023</u>
Displayed as:			
Cash	\$ 2,484	\$ 8,247	\$ 10,731
Restricted cash	17,292	-	17,292
	<u>\$ 19,776</u>	<u>\$ 8,247</u>	<u>\$ 28,023</u>
<b>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ (11,523)	\$ 1,201	\$ (10,322)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
None.	-	-	-
Net cash provided (used) by operating activities	<u>\$ (11,523)</u>	<u>\$ 1,201</u>	<u>\$ (10,322)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Maxwell (Village) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

The Village of Maxwell, a political subdivision of the state of New Mexico, operates under the council-treasurer form of government. The Village provides the following authorized services: public safety, public works, water, sanitation, health and welfare, culture and recreation, public improvements (including street construction, repairs, and maintenance), planning and zoning, and general administrative services. The Village's basic financial statements include all activities and accounts of the Village's *financial reporting entity*. The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Based on this criterion, there are no component units of the Village.

**B. Government-Wide and Fund Financial Statements**

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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*.

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 instead 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 Village does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term is considered an indirect expense and is reported separately on the Statement of Activities. Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The Village's fiduciary fund (which has been refined and narrowed in scope) is presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party (other than state and local governments), and cannot be used to address activities or obligations of the government; this fund is not incorporated in the governmental-wide statements.

The government-wide focus is more on the sustainability of the Village 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.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

Governmental fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances 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 Village 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, claims and judgments, are recorded only when payment is made.

In addition to assets, the statement of position will, at time, 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, is not recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of 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 (revenue) until that time.

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



**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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 Village; 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.

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 (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the Village's water and sewer, solid waste, ambulance and public housing funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Village reports the following major governmental funds:

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

The *capital projects* fund is a capital project fund that accounts for receipts and disbursements for infrastructure and improvements. Financing is provided from federal and state grants.

The Village maintains four other individual governmental funds that are considered non-major funds. A description of each non-major governmental fund is as follows:

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Special Revenue Funds**

The *fire protection fund* accounts for proceeds of the state fire allotment, and the expenditures for public safety therefrom. New Mexico state law requires these funds be used to help maintain the fire department. The fund was established by local ordinance and in accordance with state law Section 59A-53-1, NMSA 1978. Section 59A-53-8 of the code restricts the use of the funds for only the maintenance of the Village's fire department.

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

The *fire discretionary fund* accounts for discretionary funds donated to be used for the fire department. Authority set by the Village and the Village's Fire Department through board approval.

**Capital Projects Fund**

The *CDBG fund* is used to account for federal grant revenues and expenditures from the community development block grant.

The Village reports the following business-type funds:

The *joint utility fund* is a major fund used to account for the provision of water and sewer services to the residents of the Village. 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 *cemetery fund* is a non-major fund that accounts for the operation and maintenance of the Village cemetery. Financing is provided through lot sales and fees for services. The funding is authorized by Section 3-40-1 through 3-40-9, NMSA 1978.

**D. Budgets**

Budgets for all village funds are prepared by management and approved by the Village Council and the New Mexico Department of Finance and Administration. The clerk-administrator is responsible for preparing the budget from requests submitted by department heads.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Budgets (continued)**

The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the Village Council for approval by resolution.

The proposed budget is then submitted by June 1<sup>st</sup> to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1<sup>st</sup> with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

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

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

**E. Assets, Liabilities, and Net Position or Equity**

**1. Cash**

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Village. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**1. Cash (continued)**

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States, or are backed by the full faith and credit of those governments.

**2. Receivables and Payables**

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

**3. Prepaid Items**

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

**4. Inventories**

Inventories are recorded using first-in, first-out cost method. The costs of inventories in governmental fund types are recorded as expenditures when purchased, therefore, the inventory amount is not available for appropriation.

**5. Restricted Assets**

Certain assets are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as *deposits held in trust for others*.

**6. Interfund Activity**

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**7. Capital Assets**

Property, plant, and equipment purchased or acquired are carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. The Village does not capitalize library books as the cost of the library books are generally under the capitalization threshold. Purchased computer software is recorded at historical cost.

Infrastructure capital assets consisting of roads, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. The Village defines capital assets as assets with an estimated useful life in excess of one year and costing greater than \$5,000. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed when material. Net revenue bond interest cost incurred during construction is capitalized as part of the construction project.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	20-50
Water and sewer utility system	7-40
Buildings and other improvements	20-50
Machinery and equipment, including computer software	5-15

**8. Compensated Absences**

Village employees may accumulate limited amounts of vacation pay which are payable to the employee upon termination or retirement. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources. A liability for amounts earned is reported in the government-wide financial statements.

Village employees do not accumulate sick leave that is paid upon termination or retirement.

**9. Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent consumption of resources of net assets that is applicable to future reporting periods that are reported in a separate section after assets in the statement of financial position.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**9. Deferred Outflows/Inflows of Resources (continued)**

Deferred inflows of resources represent acquisition of net assets by the Village that is applicable to a future reporting period. The deferred inflows are reported in the separate section after liabilities in the statement of financial position.

**10. Short-Term Obligations**

No short-term debt occurred during the current fiscal year.

**11. Long-Term Obligations**

In the government-wide and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities within a statement of net position.

**12. Net Position**

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

*Net investment in capital assets* – This category reflects the portion of net position that is associated with capital assets less outstanding capital asset related debt.

*Restricted net position* – This category reflects the portion of net position that has third party limitations on their use.

*Unrestricted net position* – This category reflects net position of the Village, not restricted for any project or other purpose.

**13. Fund Equity Reservation and Designations**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**13. Fund Equity Reservation and Designations (continued)**

*Restricted fund balance* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Village council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Village council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* – This classification reflects the amounts constrained by the Village’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Village Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance* – This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Village’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA’s. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

G. Other Matters

**2. Cash Flows**

For the purposes of the statement of cash flows, the Village considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

**3. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. CASH**

The amounts reported as cash within the financial statement is displayed as:

Statement of Net Position:	
Cash	\$ 294,743
Restricted cash	<u>17,292</u>
Total cash reported on financial statements	<u>\$ 312,035</u>

**Cash Deposited with Financial Institution**

The Village maintains cash deposits in one financial institution within Cimarron, New Mexico, and one financial institution in Springer, New Mexico. The Village's deposits are carried at cost. The Federal Depository Insurance Corporation (FDIC) insures the cash accounts at the financial institution. As of June 30, 2019, the amount of cash reported on the financial statements differs from the amount on deposit with the institution because of transactions in transit and outstanding checks. The location and amounts deposited are as follows:

	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
INBANK	\$ 232,165	\$ (19,876)	\$ 212,289
Wells Fargo Bank	100,551	(805)	99,746
	<u>\$ 332,716</u>	<u>\$ (20,681)</u>	<u>\$ 312,035</u>



**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**2. CASH (continued)**

Cash Deposited with Financial Institution (continued)

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the Village. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the Village carrying value of the deposits (demand and certificates of deposit). Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	<u>INBANK</u>	<u>Wells Fargo Bank</u>
Total deposits in bank	\$ 232,165	\$ 100,551
Less FDIC coverage	<u>(232,165)</u>	<u>(100,551)</u>
Uninsured public funds	-	<u>\$ -</u>
Pledged collateral held by pledging bank's agent, but not in the Village's name	<u>158,885</u>	
Uninsured and uncollateralized public funds	<u>\$ -</u>	
Total pledged collateral	\$ 158,885	
50% pledged collateral requirement per state statute	<u>-</u>	
Over (under) collateralization	<u>\$ 158,885</u>	

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

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the Village's bank balances of \$332,716 were exposed to custodial credit risk.

Restricted Cash

The amounts reported as restricted cash for the Village within the financial statements are displayed as:

	<u>Government Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Statement of Net Position:			
Restricted cash	<u>\$ -</u>	<u>\$ 17,292</u>	<u>\$ 17,292</u>
Purpose of the Restriction:			
Utility meter deposits	<u>\$ -</u>	<u>\$ 17,292</u>	<u>\$ 17,292</u>

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**3. RECEIVABLES, NET**

Receivables, net of allowance for doubtful accounts, at June 30, 2019, consisted of the following:

	Governmental Activities	Business-Type Activities
Accounts receivable:		
Charges for services	\$ -	\$ 16,821
Miscellaneous	5,390	-
	<u>\$ 5,390</u>	<u>\$ 16,821</u>
Total	<u>\$ 5,390</u>	<u>\$ 16,821</u>

The Village's policy is to provide for uncollectible amounts based upon expected defaults.

**4. PROPERTY TAX**

Property taxes attached as an enforceable lien on property as of January 1<sup>st</sup>. Property tax rates for the year are set no later than September 1<sup>st</sup> each year by the New Mexico Secretary of Finance and Administration. The rates of tax are then used by the Colfax County Assessor to develop the property tax schedule by October 1<sup>st</sup>. Tax notices are sent by the Colfax County Treasurer to property owners by November 1<sup>st</sup> of each year.

Taxes are payable in equal semiannual installments by November 10<sup>th</sup> and April 10<sup>th</sup> of the subsequent year. Thirty days later the bill becomes delinquent and the county treasurer assesses penalties and interest. Taxes are collected on behalf of the Village by the county treasurer, and are remitted to the Village in the month following collection.

The Colfax County treasurer is statutorily required to collect taxes as an intermediary agency for all governments within the county. Distribution of taxes collected is made through the county treasurer's office.

The Village is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the Village is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the Village. The Village's total tax rate to finance general government services for the tax year 2018, was \$7.650 per \$1,000 for non-residential and \$5.667 for residential property. In the year 2018, there was no tax rate established for payment of bonds principal and interest.

Tax abatement agreements are reductions in tax revenues that result from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promise to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. Presently, the Village of Maxwell has no tax abatement agreements.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**5. CAPITAL ASSETS**

Governmental activities capital assets for the fiscal year ended June 30, 2019:

	Balance 06/30/18	Increases	Decreases	Balance 06/30/19
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 47,931	\$ -	\$ -	\$ 47,931
Construction in progress	100,643	847,742	-	948,385
Total capital assets, not being depreciated	148,574	847,742	-	996,316
Other capital assets, being depreciated:				
Buildings and improvements	944,218	-	-	944,218
Equipment	1,179,840	-	-	1,179,840
Total other capital assets, being depreciated	2,124,058	-	-	2,124,058
Less accumulated depreciation for:				
Buildings and improvements	(644,652)	-	-	(644,652)
Equipment	(717,507)	-	-	(717,507)
Total accumulated depreciation	(1,362,159)	-	-	(1,362,159)
Other capital assets, net	761,899	-	-	761,899
Total capital assets, net	<u>\$ 910,473</u>	<u>\$ 847,742</u>	<u>\$ -</u>	<u>\$ 1,758,215</u>

The Village did not record depreciation expense for the governmental activities as of June 30, 2019.

Business-type activities capital assets for the fiscal year ended June 30, 2019:

	Balance 06/30/18	Increases	Decreases	Balance 06/30/19
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	102,334	-	-	102,334
Total capital assets, not being depreciated	102,334	-	-	102,334
Other capital assets, being depreciated:				
Water and sanitation plant	1,694,131	-	-	1,694,131
Equipment	44,162	-	-	44,162
Total other capital assets, being depreciated	1,738,293	-	-	1,738,293

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**5. CAPITAL ASSETS (continued)**

	Balance 06/30/18	Increases	Decreases	Balance 06/30/19
Less accumulated depreciation for:				
Water and sanitation plant	(710,655)	-	-	(710,655)
Equipment	(63,641)	-	-	(63,641)
Total accumulated depreciation	(774,296)	-	-	(774,296)
Other capital assets, net	963,997	-	-	963,997
Total capital assets, net	\$ 1,066,331	\$ -	\$ -	\$ 1,066,331

The Village did not record depreciation expense for the business-type activities as of June 30, 2019.

**6. LONG-TERM OBLIGATIONS**

*Compensated Absences*

A liability for unused vacation for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered.
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the general fund.

*Business-Type Activities Debt*

Changes in business-type activities loan activity during the year ended June 30, 2019, were as follows:

	Balance 06/30/18	Additions	Deletions	Balance 06/30/19	Amounts Due Within One Year
<b>Business-Type Activities:</b>					
Compensated absences	\$ 3,680	\$ -	\$ -	\$ 3,680	\$ 3,680

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**7. OPERATING LEASES**

The Village has a lease for an easement with Burlington Northern Santa Fe (BNSF) Railway, with annual payments of \$127 at June 30, 2019.

**8. INTERFUND BALANCES AND TRANSFERS**

*Interfund Balances*

The composition of interfund balances as of June 30, 2019, is as follows:

Receivable Fund	Payable Fund	Amount
General	Fire Discretionary	\$ 1,389
General	Capital Projects	8,267
		\$ 9,656

These balances resulted from the time lag between the transactions and the receipt of revenue to offset the expenditures an advances of pooled cash between funds. The Village has not established a plan for repayment of the funds. At the present time, \$9,656 is considered current.

*Transfers*

The Village did not transfer any amounts between funds during the fiscal year ended June 30, 2019.

**9. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures as part of the combining statements – overview of certain information concerning individual funds including:

A. Deficit fund balance of individual funds:

Capital Projects Fund - \$8,267

In the event of a deficit fund balance, deposits will be funded by general fund transfers or by grant revenues.

**10. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

The Village participates in the Public Employees Retirement Association. The *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. For the fiscal year ended June 30, 2019, the Village failed to record the changes for the deferred inflows of resources, deferred outflows of resources and the net pension liability within the statement of net position. Further, the Village failed to include the proper disclosures and the required supplemental information.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

**11. POST-EMPLOYMENT BENEFITS**

The Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978) provides comprehensive group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into Retiree Health Care Fund and by co-payments or out-of-pocket payments to eligible retirees. The Village has elected not to participate in the post-employment health insurance plan.

**12. RISK MANAGEMENT**

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

**13. EXCESS OF EXPENDITURES BEYOND APPROPRIATIONS**

During the fiscal year, the Village incurred expenditures beyond appropriations within certain funds as detailed below:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess Expenditures</u>
General	\$ 247,998	\$ 166,800	\$ (81,198)
Law Enforcement Protection	47,067	42,619	(4,448)
Cemetery	599	-	(599)

**14. CONSTRUCTION COMMITMENTS**

*Business-Type Activities* – As of June 30, 2019, the Village has a water well drilling and development construction contract in progress, with total costs of \$746,956. The project is funded through state grants. The remaining construction commitment is \$173,337.

In addition, as of June 30, 2019, the Village has a wastewater system improvements project in progress, with total costs of \$22,614. The project is funded through a community development block grant. The remaining construction commitment is \$727,386.

**15. SUBSEQUENT EVENT**

Subsequent events were evaluated through December 6, 2019, which is the date of the independent auditors' report.

## **SUPPLEMENTARY INFORMATION**

**COMBINING AND INDIVIDUAL OTHER  
GOVERNMENTAL FUND FINANCIAL STATEMENTS**



**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	Special Revenue Funds			Capital Projects Fund		Total Other Governmental Funds
	Fire Protection Fund	Law Enforcement Protection Fund	Fire Discretionary Fund	Total Special Revenue Fund	CDBG Fund	
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 56,038	\$ 56	\$ 37,896	\$ 93,990	\$ 115	\$ 94,105
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ 1,329	\$ -	\$ -	\$ 1,329	\$ -	\$ 1,329
Due to others	-	-	1,389	1,389	-	1,389
Total liabilities	1,329	-	1,389	2,718	-	2,718
Fund Balances:						
Restricted for:						
State mandated per statutes	54,709	56	-	54,765	-	54,765
Committed for:						
Subsequent years' expenditures	-	-	36,507	36,507	115	36,622
Total fund balances	54,709	56	36,507	91,272	115	91,387
Total liabilities and fund balances	\$ 56,038	\$ 56	\$ 37,896	\$ 93,990	\$ 115	\$ 94,105

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds			Total Special Revenue Funds	Projects Fund	Total Other Governmental Funds
	Fire Protection Fund	Law Enforcement Protection Fund	Fire Discretionary Fund		CDBG Fund	
<b>Revenues:</b>						
Intergovernmental:						
State	\$ 61,275	\$ 20,000	\$ -	\$ 81,275	\$ -	\$ 81,275
Charges for services	52	-	47,531	47,583	-	47,583
Interest	10	-	10	20	-	20
Miscellaneous	-	168	-	168	-	168
Total revenues	61,337	20,168	47,541	129,046	-	129,046
<b>Expenditures:</b>						
Current:						
Public safety	28,041	47,067	16,783	91,891	-	91,891
Net change in fund balance	33,296	(26,899)	30,758	37,155	-	37,155
Fund balance, beginning of year	21,413	26,955	5,749	54,117	115	54,232
Fund balance, end of year	<u>\$ 54,709</u>	<u>\$ 56</u>	<u>\$ 36,507</u>	<u>\$ 91,272</u>	<u>\$ 115</u>	<u>\$ 91,387</u>

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

**INDIVIDUAL OTHER ENTERPRISE FUND  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2019

	Cemetery Fund
<b>Assets:</b>	
Current assets:	
Cash	\$ 8,247
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	\$ 151
<b>Net Position:</b>	
Unrestricted	8,096
Total liabilities and net position	\$ 8,247

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Cemetery Fund
<b>Operating Revenues:</b>	
Charges for services	\$ 1,800
<b>Operating Expenses:</b>	
General operating	599
Change in net position	1,201
Net position, beginning of year	6,895
Net position, end of year	\$ 8,096

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Cemetery Fund
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,800
Cash payments to suppliers for goods and services	(599)
Net cash provided by operating activities	1,201
Net increase in cash	1,201
Cash and cash equivalents, beginning of year	7,046
Cash and cash equivalents, end of year	\$ 8,247
Displayed as:	
Cash	\$ 8,247
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:	
Operating income	\$ 1,201
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
None.	-
Net cash provided by operating activities	\$ 1,201

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2019

The Village did not determine or record deferred outflows of resources and deferred inflows of resources related to the net pension liability on the Statement of Net Position at June 30, 2019. As such, the schedules of the required supplementary information following the notes were also not prepared by the Village and therefore are not presented.

**Changes of benefit terms** - The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA's CAFR. That report is available at <https://www.saonm.org>

**Assumption** - The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation Report as of June 30, 2018, is available at <http://www.nmpera.org>



**OTHER SCHEDULES REQUIRED BY SECTION 2.2.2 NMAC**

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
SCHEDULE OF CASH ACCOUNTS  
JUNE 30, 2019**

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
INBANK				
31062 US-64				
Cimarron, New Mexico 87714				
General	Checking	\$ 91,279	\$ (15,861)	\$ 75,418
Law Enforcement	Checking	4,308	(4,252)	56
CDBG	Checking	115	-	115
Certificate of Deposit	CD	54,177	-	54,177
Certificate of Deposit	CD	54,500	-	54,500
Joint Utility	Checking	2,334	150	2,484
Water Meter Deposits	Checking	17,205	87	17,292
Cemetery	Checking	8,247	-	8,247
		<u>\$ 232,165</u>	<u>\$ (19,876)</u>	<u>\$ 212,289</u>
Wells Fargo, N.A.				
400 Maxwell Avenue				
Springer, New Mexico 87747				
Fire Protection	Checking	\$ 56,260	\$ (222)	\$ 56,038
Fire Discretionary	Checking	38,479	(583)	37,896
Payroll	Checking	5,812	-	5,812
		<u>\$ 100,551</u>	<u>\$ (805)</u>	<u>\$ 99,746</u>

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF PLEDGED COLLATERAL  
JUNE 30, 2019

INBANK  
31062 US-64  
Cimarron, New Mexico 87714

<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Value</u>
FHLB Pool #BJ0913	3140142AP3	10/01/47	<u>\$ 158,885</u>

The holder of the security pledged by INBANK is Bankers Bank of the West, 1099 18<sup>th</sup> Street, Suite 2700, Denver, Colorado 80302.

**ADDITIONAL INDEPENDENT AUDITORS' REPORT**

**Ed Fierro, CPA • Rose Fierro, CPA**527 Brown Road • Las Cruces, NM 88005  
Bus: (575) 525-0313 • Fax: (575) 525-9708  
www.fierrocpa.com

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

Independent Auditors' Report

Brian S. Colón, State Auditor  
and  
Mayor and Village Council  
Village of Maxwell  
Maxwell, New Mexico

We were engaged to audit, in accordance with the 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, the budgetary comparison of the general fund, of the Village of Maxwell (Village), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, along with the combining and individual nonmajor governmental funds of the Village, presented as supplemental information, and have issued our report thereon dated December 6, 2019. Our report for the governmental activities, business-type activities, each major fund, the aggregate fund information, and the budgetary comparison for the general fund financial statements was disclaimed because we were unable to ascertain the completeness and proper recording of transactions and accounts balances that affect the financial statements due to poorly maintained accounting records.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of the Village, we considered the Village'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, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we did identify 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 deficiencies described in the accompanying schedule of findings and responses listed as items 2010-003, 2015-001, 2015-004, 2016-002, 2018-002 and 2018-003 to be material weaknesses.

## **Internal Control Over Financial Reporting (continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2017-001, 2017-007 and 2018-001 to be significant deficiencies.

## **Compliance and Other Matters**

In connection with our engagement to audit the financial statements of the Village, 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 test disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-009, and 2018-004. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

## **The Village's Responses to Findings**

The Village's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the engagement to audit 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

December 6, 2019

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION I – SUMMARY OF AUDIT RESULTS**

*Financial Statements*

Type of auditors’ report issued: Disclaimer

Internal control over financial reporting:

- Material weakness (es) identified?                       X   Yes                    No
- Significant deficiency (ies) identified?                 X   Yes                    None reported
- Noncompliance material to financial statements noted    Yes               X   No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

*Item 2010-003 - Material Weakness - Capital Assets*

**Statement of Condition** - The Village contracted with RCI to prepare an inventory listing. Once completed, the Village raised concerns of possible discrepancies in the dates placed in service and the assigned cost values. Further, the maintenance supervisor of the Village compared the listing to the insurance coverage listing and found that there were many discrepancies resulting in an inaccurate listing. Despite the Village’s attempt to reconcile the RCI listing of identified assets by conducting its own count of the equipment during FY2019, the Village failed to a complete a full reconciliation which then be used to produce an accurate inventory listing, including accumulated depreciation and current year depreciation expense. A review of the infrastructure (land, buildings, streets and improvements) and the water distribution and sanitation system has not been completed. There are substantial adjustments that were not reviewed and or approved by the governing board. The cause of the limited progress towards clearing this repeat finding is due to the items being placed in service many years ago and the historical cost of those assets not being maintained. Further, the Village has limited staff and has not placed a priority on capital asset reconciliation.

**Criteria** – New Mexico State Statutes Section 12-6-10 directs the general services department to promulgate regulations to state agencies for the accounting and control of capital assets owned by government agencies. The New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department requires that the Village implement a systematic and well documented system for accounting of capital assets.

The accounting system must be capable of generating lists of capital assets in sequences useful for managing them. The system must track all transactions, including acquisitions, depreciation, improvements, and dispositions. The system must generate all necessary accounting entries to the Village’s general ledger.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2010-003 - Material Weakness - Capital Assets (continued)*

**Effect** –Without a thorough review of the capital asset inventory list by the management of the Village, there is a greater risk of undetected misappropriation of assets. This may have a material effect on the financial statements if left unaccounted for.

**Cause** – The review of the information prepared by RCI has not been given high priority.

**Recommendation** – We recommend the Village make it a priority to thoroughly review the listing as prepared by RCI of its capital assets to ensure completeness and accuracy. This includes the water distribution and sanitation system and streets infrastructure. Once this process is complete, we recommend the Village document its acceptance of the listing in the form of a formal Village resolution approved the governing board. This resolution should require complete maintenance of its capital assets on the financial accounting records of the Village.

**Views of Responsible Officials and Planned Corrective Actions** – The Village clerk, administrator, and department heads will thoroughly review the reports that were received from RCI on December 3, 2019. This will include a review of the water and sanitation systems, as well as street infrastructure to ensure that it is complete and accurate. Once this process has been completed, a formal resolution will be prepared, and approved, by the governing board for the Village, by June 30, 2020.

*Item 2015-001 - Material Weakness – Accounting Activity and Accounting System*

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

- The Village failed to determine and record the key elements of all assets, such as receivables, prepaid expenses, capital assets and the related depreciation expense, all payables and other liabilities such as debt, the net pension liability, and deferred inflows and outflows of resources needed for general accepted accounting principles (GAAP) basis financial statements for the fiscal year ended June 30, 2019.
- The Village had numerous posting errors between funds recorded in the accounting records. The Village records the receipt and or disbursement of cash in the general fund and the respective revenue and or expenditure in another fund. This results in a crossing of funds causing an imbalance among the funds.
- The Village had financial activity during the fiscal year with New Mexico Finance Authority that was not recorded in the accounting records. This includes the debt payments and the purchase of equipment.
- The Village recorded its capital projects revenues and expenses from governmental activities and from business-type activities in one capital projects fund.
- The Village initially recorded all payroll related financial activity in basically one account. This includes the actual payroll expense, the related payroll benefits and the payment of payroll taxes. The Village attempted to rectify these posting errors with limited success.



**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2015-001 - Material Weakness – Accounting Activity and Accounting System (continued)*

**Statement of Condition (continued) –**

- The Village uses a separate accounting software program that does not interface with the Village’s general ledger for the recording of joint utility and solid waste billings and collections.

The Village is currently using QuickBooks software for its general ledger and accounts payable function, which is not conducive to fund accounting required for governmental accounting and financial reporting. This software, while easy to use by individuals who do not have a great deal of formal accounting training or experience, allows corrections and changes to be easily made, which can be detrimental to the entire accounting process. To further complicate the situation, the accounting staff lacks the proper knowledge regarding governmental accounting requirements in order to adapt QuickBooks to meet the needs of fund accounting. Because of the time, effort and priority management placed on other projects and the limited knowledge and experience of the new clerk, very little progress was made towards implementing the prior year corrective action plan related to this repeat finding.

**Criteria** – Section 6-6-3(A) NMSA 1978 requires that every local body shall “*keep all the books, records and accounts in their respective offices in the form prescribed by the local government division*” of the New Mexico Department of Finance and Administration. This requires the Village maintain accounting records in such a manner as to allow the preparation of financial statements and accurate reports for other governmental agencies. Further, the general ledger must be able to substantiate detail as to the financial activity of the Village. Auditing standards adopted in the United States of America in particular AU Section 325 Communicating Internal Control Related Matters Identified in an Audit, paragraph .03 states the following: “*Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives.*” Appropriate internal controls over financial reporting include the ability to understand the key components financial statements in accordance with GAAP. Underlining this premise is the requirement that the Village will maintain the accounting records in such a manner as to allow the preparation of financial statements.

For example, the reconciliation of the capital assets between the general ledger and subsidiary ledgers provides assurance of proper accountability and reduces that chance of a material misstatement. Finally, appropriate internal controls would include establishing a general ledger system that maintains financial date in such a matter that reliable financial reports can be generated.

**Effect** – Since the Village personnel failed to reconcile and or prepare key components of the financial statements, there is an increased risk that a misstatement of the Village’s financial statements that is more than inconsequential will not be prevented or detected.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2015-001 - Material Weakness – Accounting Activity and Accounting System (continued)*

**Effect (continued)** – Further, since the Village accounting staff lacks the proper knowledge or training regarding some aspects of the conditions noted such as the reconciliation of capital assets there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected. The present general ledger accounting software, as utilized by the accounting staff, is incapable of producing reliable fund financial data needed for governmental financial reporting.

**Cause** – The Village’s administrative staff maintains cash basis accounting records and lacks the necessary accounting skills to recognize all the key components of the financial statements that are prepared on the economic resources measurement focus (which includes the accrual basis of accounting) and the current financial resources measurement focus (which includes the modified accrual basis of accounting).

At one time, the Village opted to utilize a popular computer software (QuickBooks) for its general ledger, accounts payable and payroll function. This particular software, while inexpensive when compared to fund accounting packages, is not designed for fund accounting. Its market appeal is to the small commercial business owner.

The Village’s efforts have been placed on grant administration. This precluded the Village from properly addressing the accounting software issues.

**Recommendation** – Ideally, the Village should employ an individual to serve in the position of director of finance who has the knowledge, skills and experience to maintain an accounting system that will ultimately allow for the preparation of financial statements in accordance with GAAP. Alternately, the Village could choose to consult with a separate and independent accounting firm prior to and during the audit process that would assist the Village in the gathering of key components of the financial statements and the related notes. Further, we agree with the decision of the Village to purchase fund accounting software that will also provide training in maintaining a governmental accounting system modeled after fund accounting.

**Views of Responsible Officials and Planned Corrective Actions** – The Village has purchased governmental fund accounting software with Caselle. The Village has been working with Caselle to convert the data from QuickBooks to their program. The Village clerk began mock training on December 2, 2019, and will complete the mock training by December 12, 2019. The clerk and administrator will complete the live training with Caselle in January 2020.

*Item 2015-004 - Material Weakness – Utility Billing and Receipting*

**Statement of Condition** - During the course of the audit, we noted nine (9) exceptions out of a sample size of twenty-five (25) where the billing is not being calculated and or billed properly. The total sample billings were \$1,333.78 and the following discrepancies were noted:

- One commercial account were over billed \$2.50.
- Eight residential accounts were overbilled \$55.49 in total.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2015-004 - Material Weakness – Utility Billing and Receipting (continued)*

**Statement of Condition (continued)** - In addition we noted the following conditions:

- The Village does not have a written policy or procedure on when and how to adjust a consumer's account should a discrepancy be discovered after the bill has been generated.
- The Village's financial statements for June 30, 2019 reflect \$15,223 of meter deposits. This balance has not been adjusted for several years because the Village has not maintained accurate subsidiary records to support individual account balances.
- While the maintenance department personnel reads the meters, the billing and collection thereof and the subsequent recording in the accounting records was all done by the Village clerk.
- After the meters are read, the consumption is entered into Caselle software to generate the utility billing. The clerk collects billing payments and then records the collection activity into QuickBooks.
- Because of limited time and resources, the Village did not make significant progress in implementing the prior year corrective action plan. The clerk responsible for addressing the prior year findings resigned in September 2018 and a new clerk was hired shortly thereafter.

**Criteria** - The Village has established Ordinances in regards to water, sewer, and refuse utility services. The Ordinances 2016-01, 2015-14-02, 197-2017 and 2012-14-02, respectively set the rates for providing such services.

**Cause** – Poor execution of monthly utility billing, with no known oversight.

**Effect** – Errors in properly calculating customer utility billings can potentially cause misstatement in utility revenues. Additionally, the Village is not making proper use of public funds by paying for Caselle services and QuickBooks to record utility revenue activity.

**Recommendation** – We recommend the Village set up appropriate policies and procedures that include steps to verify that the information inputted into the system to generate utility bills is accurate and complete. The procedures should include an occasional internal verification that the system is operating accurately. Prior to the mailing of the utility bills, a final check should be made by a person other than the same person who generated the billing. It is further recommended that the Village reconcile its individual utility deposits that it is currently holding and make the appropriate adjustments in the accounting records to reflect accurate balances.

**Views of Responsible Officials and Planned Corrective Actions** – The clerk and administrator will be responsible for reviewing the utility billings prior to them being mailed, to ensure they are accurate and complete. The clerk did a review of the accounts that were billed half of the rates, and found that if the consumer is using zero (0) gallons, the system is calculating that account as if the consumer is on vacation. Since the last audit, the clerk and administrator have been reviewing the billing register from Caselle prior to the printing of the bills. Both the clerk and administrator initial this document.

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2015-004 - Material Weakness – Utility Billing and Receipting (continued)*

**Views of Responsible Officials and Planned Corrective Actions (continued)** – The clerk will review all meter deposits that have been recorded into QuickBooks, and complete a reconciliation of all deposits. The clerk will submit this information to the administrator for review, and the appropriate adjustments will be recorded.

Since the last audit, the clerk and administrator have been reviewing all the billings and collections for the utility payments. The clerk prepares the deposits of the utility collections, and the administrator reviews the deposits for accuracy and completeness. Both the clerk and administrator initial that it has been reviewed and approved.

*Item 2016-002 - Material Weakness - Payroll Maintenance*

**Statement of Condition** - During our test work of payroll maintenance we noted the following exceptions:

- Appropriate documentation is not being maintained to reflect an employees accrued and used of vacation, sick leave and compensation time.
- The Village recorded all governmental wages and the related benefits for all funds in one general ledger account. While QuickBooks records the payroll withholding liabilities, the Village did not reduce the liabilities when paid, but rather recorded the payment of the liability to the one payroll expense account. As per the unadjusted accounting records in QuickBooks at June 30, 2019, the payroll liability account had a balance of \$211,880.42.
- The Village hired an employee full time in May 2018. The Village did not enroll the employee in PERA, did not deduct the employee portion and did not remit the employee and employer contribution to PERA until late November 2018.
- There was one employee whose health insurance deduction was not consistently applied as a pre-tax deduction.

The Village hired a new clerk in September 2018. The new clerk received “on the job training” and was not made aware of immediate payroll issues that needed attention.

**Criteria** - NMSA 1978 section 6-5-2 *Internal Controls* states that proper internal controls should be designed and employed to prevent accounting errors and violations of state and federal law and rules related to financial matters, including payroll. GAAP requirements and accounting principles must be followed for recording and maintaining proper accounting records.

PERA is a 401(a) qualified government plan governed by the New Mexico Public Employees Retirement Act. A public employer affiliated with PERA must deduct employee contributions each pay period from the employee’s wages. These contributions are paid into the PERA member contribution fund. The employer also must pay employer contributions into the PERA employer’s accumulation fund each pay period.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2016-002 - Material Weakness - Payroll Maintenance (continued)*

**Criteria (continued)** - The amount of employee contribution is a percentage of the employee's base salary as determined by the coverage plan provided by the current employer. It is the responsibility of the employer to accurately report PERA wages and contributions.

**Cause** – Poor execution of payroll maintenance, with no known oversight.

**Effect** – Without proper review and agreement of all payroll files, processes (including W4s, I9s, employee contracts, accrued sick/vacation time, PERA rates, and 941 reporting), and policies the Village is at risk of making inaccurate payroll disbursements. The result could be an overstatement or understatement of wages, tax, and other benefit liabilities or expenditures for the fiscal year.

**Recommendation** – We recommend the Village review its procedures to ensure that all payroll functions are clearly stated in its personal policy manual. This includes the maintenance of records for vacation, sick leave and compensation accruals and usage. The general ledger must be reviewed immediately and adjustments made to properly reflect wage and a salary expense, employer tax expense, employer paid benefits and payroll liabilities. Additionally, because of the small staff size, we recommend the board perform a review of processes and controls to ensure accuracy of the payments and ultimate reporting.

**Views of Responsible Officials and Planned Corrective Actions** – The Village has outsourced its payroll activities to another agency. The clerk, administrator, department head, and mayor will be responsible for reviewing all timesheets and payroll records, to ensure that they are accurate and complete. A spreadsheet for each employee has been prepared to record all vacation, sick leave, and compensation time accruals and use. The clerk and administrator will ensure that the payroll records are reconciled with the accrued time off by June 30, 2020. With the new governmental accounting system, and with proper training, the Village will have procedures in place to ensure all payroll related expenses and payroll liabilities are accurately recorded in the accounting records.

*Item 2017-001 - Significant Deficiency - Controls over Cash Receipts*

**Statement of Condition** - We tested one hundred fifty-five (155) receipts that totaled \$175,400.45. There were cash collections from utility payments on August 28, 2018 of \$149.09 that were not deposited until September 7, 2018 and cash collections on October 15, 2018 of \$402.86 that were not deposited until October 19, 2018. With the exception of these two instances of non-compliance with Section 6-10-3 NMSA 1978, management had made significant progress in implementing the prior year corrective action plan.

**Criteria** – Section 6-10-3 commonly referred to as the *24-hour deposit rule* requires all public money received by any state official or agency, unless otherwise specified by statutory exception, be deposited before the close of the next succeeding business day after the receipt of the money.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2017-001 - Significant Deficiency - Controls over Cash Receipts (continued)*

**Cause** – The cause for the August 28<sup>th</sup> instance is unknown since the clerk, who had the responsibility for this, terminated her employment with the Village in September 2018. The other instance was the responsibility of the new clerk who had just started her employment with the Village and was learning all the policies and procedures. More than likely, these two instances were isolated cases.

**Effect** – Failure to make cash deposits within twenty-four (24) hours presents an opportunity for risk of lost deposits and or unauthorized use of public money.

**Recommendation** - We recommend management review Section 6-10-3 NMSA 1978 and ensure that the Village has procedures in place that are in compliance with the rule for cash deposits.

**Views of Responsible Officials and Planned Corrective Actions** – In the clerk’s absence, the administrator receipts any general revenues or utility payments. The clerk makes a copy of the check and deposit slip, which is then attached to all supporting documents and placed with the monthly bank statement, when received. The check or money order, deposit slip, and payment slip are all copied for all utility collections. The deposit receipt is attached to these transactions to note the date funds were deposited. The clerk or administrator takes all deposits to the bank on the same day that they are received, to ensure that deposits are made within 24 hours. All procedures described above are currently in place.

*Item 2017-007 - Significant Deficiency – Travel and Per Diem Act*

**Statement of Condition** – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was eighteen transactions, which were haphazardly selected throughout the fiscal year, and contained the following discrepancies:

- Two instances where the employee was paid \$30 of per diem for a same day trip. The trip extended 4 hours beyond a normal work day and as such, the employees were entitled to only \$12 of partial day per diem.
- One instance in which the employee’s departure time was not recorded on the travel request. The trip was for a one day overnight travel. The employee returned at 9:00pm. It could not be determined whether the employee was entitled to return day per diem.
- One instance in which the employee received, in error, \$12 of partial day per diem; the return day extended by only one hour.
- One instance where the employee was not given \$12 of return day per diem.
- One instance where the employee was overpaid \$6 of other expenses, but underpaid \$12 of partial day per diem.
- One instance in which the employee was paid for actual lodging and \$60 (per diem) for meals with no actual meal receipts provided.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2017-007 - Significant Deficiency – Travel and Per Diem Act (continued)*

**Statement of Condition (continued) –**

- Two instances in which the employees were paid \$30 of return day per diem; only \$20 would have been allowed. Overpaid by \$10 each.
- One instance in which the employee was paid .545 cents for mileage after a Village resolution was approved to pay at the current IRS rate of .58 cents.
- The Village could not provide documentation to support the mileage rate of .51cents. This is the IRS rate from January 1, 2011 through June 30, 2011.
- There were three missing supervisor signatures and five missing employee certification signatures.

Management did not make significant progress in implementing the prior year corrective action plan. The clerk responsible for addressing the prior year findings resigned in September 2018 and a new clerk was hired in late September.

**Criteria** – The New Mexico Department of Finance and Administration have issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978. In particular, Section 2.42.2.10(A) of the Travel and Per Diem regulations states, *Employee’s (travel) request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals.*

**Effect** – Non-compliance with the state statutes subjects officials and employees to penalties as required by said state statutes.

**Cause** – The Village did not demonstrate a clear understanding of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code and or Section 10-8-1 to 10-8-8 NMSA 1978.

**Recommendation** – We recommend the New Mexico state statutes and administrative code related to Travel and Per Diem be thoroughly reviewed by the management of the Village. Once a clear understanding is obtained, appropriate procedures should be established or existing procedures should be adjusted. Such final procedures should then in turn be communicated to all officials and employees of the Village. Finally, consequences to deviations from established policies and procedures should be established and communicate to all officials and employees.

**Views of Responsible Officials and Planned Corrective Actions** – The Village management will review the statutes and administrative code. The clerk has received a spreadsheet that will help in ensuring that mileage, lodging, and per diem are calculated correctly. When an employee requests per diem, the clerk, administrator, employee, and mayor will sign off on the request to ensure it is complete and accurate. Procedures will be put in place so that all Village officials and employees are trained on what is required by June 30, 2020.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

*Item 2017-009 – Other Non-Compliance - Quarterly Reporting to DFA*

**Statement of Condition** - The Village's Department of Finance and Administration (DFA) quarterly reports did not reflect the audited ending cash balances from the 6-30-2018 audit report. Further, the last quarter report ending June 30, 2019 did not reflect accurate cash balances per fund. Management did not make significant progress in implementing the prior year corrective action plan. A new clerk was hired in late September 2018 and was given many issues to address.

**Criteria** – As per Section 6-6-2(F) NMSA 1978, local public bodies must submit periodic financial reports, on a quarterly basis, to the Department of Finance and Administration, Local Government Division (LGD). Furthermore, Section 6-6-2(K) NMSA 1978, authorizes LGD to prescribe the form for all budgets, books, records, and accounts for local public bodies. To meet these requirements, LGD has developed the quarterly financial report forms which include revenues and expenditures that were recognized/received and disbursed from the local government's coffers. The format also includes the most current approved budget figures to allow for a comparison of actuals to budget.

**Effect** – These financial reports are invaluable, as they provide the financial status of an entity to be utilized in numerous ways by Local Government Division (LGD). Erroneous financial information may have a negative effect on decisions made by such parties as the Governor's office, DFA Cabinet Secretary, and for members of the state's legislative bodies. In addition, these reports are used for public information requests, as well as providing compliance for funding such as legislative appropriations and several loan/grant programs. Incorrect and or incomplete information may mislead the user of the reports.

**Cause** – The Village has not followed through on procedures to review and correct the erroneous financial information within the accounting records of which these reports are derived from.

**Recommendation** – We recommend the Village establish procedures to ensure that there is an adequate reconciliation and review process of the general ledger postings, monthly, so that complete and accurate DFA quarterly reports are submitted timely. It is further recommended that these procedures include a review and approval process by those charged with governance.

**Views of Responsible Officials and Planned Corrective Actions** – The Village will make a budget adjustment resolution to the beginning cash balances in order that cash balances reflect those in the audit report, and final figures will reflect the numbers on the next quarter report. The clerk will be responsible for this action, which will be completed by March 31, 2020.

*Item 2018-001 – Significant Deficiency – Cash Reconciliation to General Ledger*

**Statement of Condition** - The Village uses one bank account for the operations of its government- type funds (general, fire protection, fire discretionary and capital project). They also use one account for the joint utility fund and another separate bank account for the meter deposits. While the Village does a monthly bank reconciliation using its accounting software, they did not reconcile the joint utility bank balance to the cash balance as listed in the general ledger at June 30, 2019. The reconciled bank balance at June 30, 2019 was \$2,484.27, while they general ledger balance was \$23,237.09.



**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2018-001 – Significant Deficiency – Cash Reconciliation to General Ledger (continued)*

**Statement of Condition (continued)** - The difference was \$20,752.82. The Village posted a transfer entry at June 30, 2019 of \$17,958.16 that appears to be in error as the subsequent bank activity does not support the transfer.

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

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

**Cause** – In the attempt the clear miss-postings, the Village erred in posting to cash in the joint utility fund.

**Recommendation** – We recommend the Village management expedite the establishment and maintenance of the appropriate internal controls concerning the reconciliation and recording of cash balances. These procedures must include proper monthly reconciliation of differences between the reconciled bank balances and the Village's general ledger balances. Since the administrative staff is relatively small, it is further recommend that the board request a monthly reconciliation for board review.

**Views of Responsible Officials and Planned Corrective Actions** – The clerk and the administrator reviewed the recommendations to balance out the cash account, and to eliminate old outstanding checks from its bank reconciliations. During the year, the Village made a combined cash account of the general fund, and the water, sewer and solid waste. The fire protection, fire discretionary, LEPF, and water meter all have their own accounts. Once the new accounting program is in place, the activity should reflect it its own fund. The clerk and administrator will compare monthly the bank reconciliation to the account balances recorded in the general ledger, to ensure their accuracy. The clerk will continue to provide the governing body a monthly reconciliation to be approved at the regular council meetings. These procedures will take place immediately.

*Item 2018-002 – Material Weakness – Financial Statements and Disclosures*

**Statement of Condition** – The Village relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The accounting staff lacks the knowledge to prepare such statements, as well as the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2018-002 – Material Weakness – Financial Statements and Disclosures (continued)*

**Statement of Condition (continued)** – For the fiscal year ended June 30, 2019, the Village’s administrative staff did not assist in gathering some of the necessary information and preparing support schedules in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP. While the preparation of some of the schedules is a step in the right direction, the Village must display a level of expertise regarding financial reporting in accordance with GAAP in order to reduce the deficiency noted in internal controls regarding financial reporting. Because of the time, effort and priority management placed into other issues and activities, no effort was made towards understanding full GAAP reporting.

**Criteria** – Auditing standards adopted in the United States of America in particular AU Section 325 Communicating Internal Control Related Matters Identified in an Audit, paragraph .03 states the following: *Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity’s objective of reliable financial reporting.*

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

AU Section 325 paragraph .05 provides an explanation of a deficiency in internal control as either a deficiency in design or in operation. Paragraph .06 states “*A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.*” AU Section 325 paragraph .15 provides a list of indicators of a material weakness in internal control. One such example is “*Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.*”

**Effect** – Since the Village’s administrative staff lack the ability to understand and prepare, and did not prepare, GAAP financial statements, there is an increased risk that a misstatement of the Village’s financial statements, that is more than inconsequential, will not be prevented or detected. Further, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

**Cause** – When audit services are sought, there is a requirement that the auditor will prepare the financial statements. In the past this may have been sufficient; however, the accounting profession by issuance of AU Section 325, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2018-002 – Material Weakness – Financial Statements and Disclosures (continued)*

**Recommendation** – The Village should give serious consideration to the employment of a qualified individual to serve in the position of director of finance. This employee should have the ability to prepare governmental financial statements in accordance with GAAP. Alternately, the Village could chose to consult with a separate accounting firm prior to and during the audit process that would assist the Village in the preparation of financial statements and the related notes. Notwithstanding the above recommendations, the Village should place proper financial resources in training the administrative staff that would include at a minimum, accounting courses that would instruct the staff of GAAP considerations in regards to government financial reporting.

**Views of Responsible Officials and Planned Corrective Actions** – The Village will work to have the GAAP standard reports available in the new program. The Village will look into hiring a consultant to review these reports, to determine if all information is being stated correctly within the financial statements. The decision to hire a consultant to prepare GAAP financial statements will be made by June 30, 2020.

*Item 2018-003 – Material Weakness – Segregation of Duties*

**Statement of Condition** – The Village is a small local government body in the state of New Mexico. There are three positions that control all the financial processes for the Village. Due to limited Village financial staff, there is a lack of adequate segregation of duties. This is a repeated audit finding. No progress was made during the fiscal year.

**Criteria** – Segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud by ensuring that no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties. Generally, the primary incompatible duties that need to be segregated are:

- Authorization or approval
- Custody of assets
- Recording transactions
- Reconciliation/Control Activity

Some examples of incompatible duties are:

- Authorizing a transaction, receiving and maintaining custody of the asset that resulted from the transaction
- Receiving funds (checks or cash) and approving write-off of receivables
- Reconciling bank statements/accounts and booking entries to general ledger
- Depositing cash and reconciling bank statements
- Approving time cards and having custody of pay checks

If internal control is to be effective, there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. Ideally, separate employees will perform each of the four major duties.

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2018-003 – Material Weakness – Segregation of Duties (continued)*

**Criteria (continued)** – In general, the flow of transaction processing and related activities should be designed so that the work of one individual is either independent of, or serves to check on, the work of another. Such arrangements reduce the risk of undetected error and limit opportunities to misappropriate assets or conceal intentional misstatements in the financial statements.

**Effect** – Without proper segregation of duties there is little or no oversight and review to identify errors. In addition, the risk that fraud or theft could occur is greater because it only requires two people to collude in order to hide a transaction. Without a separation in key processes, fraud and error risks are far less manageable.

**Cause** – A new Village clerk was hired in September 2018. The Village has not had the opportunity to review its structure to ensure adequate segregation of duties.

**Recommendation** – We recommend that when duties cannot be sufficiently segregated due to the small size of the financial staff, it is important that mitigating controls, such as a detailed supervisory review of the activities, be put in place to reduce risks. Until the funding becomes available to hire additional staff, we recommend the board remain active in its duty of financial oversight.

**Views of Responsible Officials and Planned Corrective Actions** – All transactions are reviewed by the mayor, councilor, and administrator to improve the segregation of duties. All payroll, deposits, checks, utility reports, purchase orders, requisitions, and reconciliations are being processed with oversight of more than the clerk, and will continue to have two/three sets of eyes on each transaction. These procedures are currently in place.

*Item 2018-004 – Other Non-Compliance - Legal Compliance with Adopted Budget*

**Statement of Condition** - The following fund exceeded its respective approved budget as follows:

Fund	Authorized Budget	Actual Amounts Expended	Excess of Approved Budget
General Fund	\$ 166,800	\$ 247,998	\$ (81,198)
Law Enforcement Protection Fund	\$ 42,619	\$ 47,067	\$ (4,448)
Cemetery Fund	\$ -	\$ 599	\$ (599)

This is a repeated audit finding. No progress was made during the fiscal year.

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

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)**

*Item 2018-004 – Other Non-Compliance - Legal Compliance with Adopted Budget (continued)*

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

**Cause** – A budget adjustment resolution to account for the spending was not prepared.

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

**View of Responsible Officials and Planned Corrective Actions** – The Village will establish procedures to conduct a mid-year and year-end review of the approved budget. If any adjustments should be needed, the clerk will prepare a budget adjustment resolution for approval from the governing body and DFA.

**SECTION III – PRIOR YEAR FINDINGS**

*2010-003/2010-03 - Material Weakness - Capital Assets Inventory* - The finding has been modified and repeated in the current year.

*2010-006/2010-6 – Material Weakness – Controls over Disbursements* – The finding has been resolved.

*2013-003 – Material Weakness and Other Non-Compliance with IRS Rules on Contract Labor* - The finding has been resolved.

*2015-001 – Material Weakness – Accounting Activity and Accounting System* – The finding has been modified and repeated in the current year.

*2015-004 – Material Weakness - Utility Billing and Receipting* – The finding has been modified and repeated in the current year.

*2016-002 – Material Weakness – Other Non-Compliance with Payroll* - The finding has been modified and repeated in the current year.

*2017-001 – Material Weakness - Controls over Receipts* – The finding has been modified and repeated in the current year.

*2017-003 Material Weakness - Unreconciled Water Variances* – The finding has been resolved.

*2017-004 – Other Non-Compliance - Housing Leases and Inspections* – The finding has been resolved.

**STATE OF NEW MEXICO**  
**VILLAGE OF MAXWELL**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019

**SECTION III – PRIOR YEAR FINDINGS (continued)**

2017-005 – Other Non-Compliance with Anti-Donation with Related Party Transactions - The finding has been resolved.

2017-007 – Material Weakness - Controls over Travel and Per Diem – The finding has been modified and repeated in the current year.

2017-009 – Other Non-Compliance Quarterly Reporting to DFA – The finding has been modified and repeated in the current year.

2018-001 – Material Weakness – Cash reconciliation to General Ledger – The finding has been modified and repeated in the current year.

2018-002 – Material Weakness – Financial Statements and Disclosures – The finding has been modified and repeated in the current year.

2018-003 – Material Weakness – Segregation of Duties – The finding has been modified and repeated in the current year.

2018-004 – Other Non-Compliance – Legal Compliance with Adopted Budgets – The finding has been modified and repeated in the current year.

2018-005 – Other Non-Compliance – Water Conservation Fee – The finding has been resolved.

**STATE OF NEW MEXICO  
VILLAGE OF MAXWELL  
EXIT CONFERENCE AND  
FINANCIAL STATEMENT PREPARATION  
JUNE 30, 2019**

**EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2019, was discussed during the exit conference held on December 12, 2019. Present for the Village was Shantelle Gallegos, mayor; Shawn Jeffrey, Village administrator; and Karen Gates, clerk. Present for the auditing firm was Rose Fierro, CPA.

**FINANCIAL STATEMENT PREPARATION**

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the financial statements of the Village of Cimarron as of June 30, 2019. The Village's upper management has reviewed and approved the financial statements and related notes, and they believe that the Village's books and records adequately support them.