

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
TOWN OF MOUNTAINAIR
ANNUAL FINANCIAL REPORT
JUNE 30, 2010



STATE OF NEW MEXICO
TOWN OF MOUNTAINAIR
ANNUAL FINANCIAL REPORT
JUNE 30, 2010

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INTRODUCTORY SECTION

STATE OF NEW MEXICO

Town of Mountainair

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STATE OF NEW MEXICO

Town of Mountainair

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STATE OF NEW MEXICO

Town of Mountainair

Official Roster

June 30, 2010

TOWN COUNCIL

| <u>Name</u> | <u>Title</u> |
|------------------|---------------|
| Chester Riley | Mayor |
| Larry Zamora | Mayor Pro tem |
| Jeremy LaJeunese | Councilor |
| Frank Anaya | Councilor |
| Steve Sanchez | Councilor |

ADMINISTRATION

| | |
|-----------------|------------|
| Patricia Autrey | Judge |
| Suzan Brazil | Town Clerk |
| Kathy Anglin | Treasurer |

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To Honorable Mayor and Council Members
Town of Mountainair
Mountainair, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the budgetary comparisons for the general fund, the fire protection fund and recreation fund, and the aggregate remaining fund information of the Town of Mountainair, New Mexico (the "Town"), as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Town's nonmajor governmental funds and the component unit fund and budgetary comparisons for the proprietary funds and the remaining nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinions.

We were not able to verify capital assets and the related accumulated depreciation at June 30, 2010 and the depreciation expense for the year then ended. The effect on assets, net assets, and expenses of the governmental activities is not readily determinable.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to determine the amount of capital assets, related accumulated depreciation, and current depreciation expense, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Mountainair, New Mexico as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund, the fire protection fund and recreation fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund and the component unit fund of the Town of Mountainair, New Mexico, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the proprietary funds and the remaining nonmajor governmental funds presented as supplementary information for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying financial information listed as supporting Schedules I through IV in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and the combining and individual fund statements and budgetary comparisons listed above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and the combining and individual fund statements and budgetary comparisons taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting + Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 29, 2010

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

Town of Mountainair
Statement of Net Assets
June 30, 2010

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|---------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 361,007 | \$ 328,690 | \$ 689,697 | \$ 87,364 |
| Investments | - | 18,516 | 18,516 | - |
| Property tax receivable | 43,060 | - | 43,060 | - |
| Other receivables | 55,217 | - | 55,217 | 4,070 |
| Customer receivables (net of allowance for doubtful accounts of \$25,586) | - | 158,431 | 158,431 | - |
| Note receivable - component unit | 4,302 | - | 4,302 | - |
| Total Current Assets | <u>463,586</u> | <u>505,637</u> | <u>969,223</u> | <u>91,434</u> |
| Noncurrent Assets | | | | |
| Restricted cash | 3,075 | 46,942 | 50,017 | 6,854 |
| Capital assets | 2,262,511 | 2,078,207 | 4,340,718 | 37,472 |
| Less: accumulated depreciation | <u>(1,749,039)</u> | <u>(1,717,053)</u> | <u>(3,466,092)</u> | <u>(37,472)</u> |
| Total Noncurrent Assets | <u>516,547</u> | <u>408,096</u> | <u>924,643</u> | <u>6,854</u> |
| Total Assets | <u>\$ 980,133</u> | <u>\$ 913,733</u> | <u>\$ 1,893,866</u> | <u>\$ 98,288</u> |

The accompanying notes are an integral part of these financial statements

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|---------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 24,102 | \$ 26,851 | \$ 50,953 | \$ 1,000 |
| Accrued payroll | 3,612 | 8,351 | 11,963 | 384 |
| Accrued compensated absences | 4,870 | 1,098 | 5,968 | 1,727 |
| Customer deposits | - | 46,942 | 46,942 | - |
| Current portion of notes and leases payable | 33,331 | - | 33,331 | 3,544 |
| Total Current Liabilities | <u>65,915</u> | <u>83,242</u> | <u>149,157</u> | <u>6,655</u> |
| Noncurrent Liabilities | | | | |
| Accrued compensated absences | 8,103 | 10,508 | 18,611 | 385 |
| Notes and leases payable | 187,154 | - | 187,154 | 757 |
| Total Noncurrent Liabilities | <u>195,257</u> | <u>10,508</u> | <u>205,765</u> | <u>1,142</u> |
| Total Liabilities | <u>261,172</u> | <u>93,750</u> | <u>354,922</u> | <u>7,797</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 292,987 | 361,154 | 654,141 | - |
| Restricted for: | | | | |
| Housing assistance payments | - | - | - | 6,854 |
| Other purposes - special revenue | 259,005 | - | 259,005 | - |
| Unrestricted | 166,969 | 458,829 | 625,798 | 83,637 |
| Total Net Assets | <u>718,961</u> | <u>819,983</u> | <u>1,538,944</u> | <u>90,491</u> |
| Total Liabilities and Net Assets | <u>\$ 980,133</u> | <u>\$ 913,733</u> | <u>\$ 1,893,866</u> | <u>\$ 98,288</u> |

STATE OF NEW MEXICO
Town of Mountainair
Statement of Activities
For the Year Ending June 30, 2010

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | |
|---|-------------------------|---------------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government: | | | | |
| General government | \$ 513,556 | \$ 44,595 | \$ 157,619 | \$ - |
| Public safety | 253,186 | 9,347 | 95,534 | - |
| Public works | 20,417 | - | - | - |
| Culture and recreation | 83,800 | 17,939 | 8,000 | - |
| Interest on long-term debt | 525 | - | - | - |
| <i>Total governmental activities</i> | <u>871,484</u> | <u>71,881</u> | <u>261,153</u> | <u>-</u> |
| Business-type Activities: | | | | |
| Natural Gas | 361,777 | 671,690 | - | - |
| Water | 340,081 | 287,426 | - | - |
| Solid Waste | 154,742 | 142,771 | - | - |
| <i>Total business-type activities</i> | <u>856,600</u> | <u>1,101,887</u> | <u>-</u> | <u>-</u> |
| <i>Total</i> | <u>\$ 1,728,084</u> | <u>\$ 1,173,768</u> | <u>\$ 261,153</u> | <u>\$ -</u> |
| Component unit: | | | | |
| Housing Authority | <u>\$ 640,146</u> | <u>\$ -</u> | <u>\$ 614,043</u> | <u>\$ -</u> |
| General Revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general purposes | | | | |
| Gross receipts taxes | | | | |
| Gasoline and motor vehicle | | | | |
| Franchise taxes | | | | |
| Lodger's taxes | | | | |
| Interest income | | | | |
| Miscellaneous income | | | | |
| Total general revenues | | | | |
| Change in net assets | | | | |
| Net assets, beginning | | | | |
| Net assets, ending | | | | |

The accompanying notes are an integral part of these financial statements

| Net (Expense) Revenue and Changes in Net Assets | | | |
|--|-----------------------------|---------------------|------------------|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Unit |
| \$ (311,342) | \$ - | \$ (311,342) | \$ - |
| (148,305) | - | (148,305) | - |
| (20,417) | - | (20,417) | - |
| (57,861) | - | (57,861) | - |
| (525) | - | (525) | - |
| <u>(538,450)</u> | <u>-</u> | <u>(538,450)</u> | <u>-</u> |
| - | 309,913 | 309,913 | - |
| - | (52,655) | (52,655) | - |
| - | (11,971) | (11,971) | - |
| <u>-</u> | <u>245,287</u> | <u>245,287</u> | <u>-</u> |
| <u>(538,450)</u> | <u>245,287</u> | <u>(293,163)</u> | <u>-</u> |
| | | | <u>(26,103)</u> |
| 38,338 | - | 38,338 | - |
| 232,565 | - | 232,565 | - |
| 19,593 | - | 19,593 | - |
| 23,914 | - | 23,914 | - |
| 10,349 | - | 10,349 | - |
| 1,500 | 810 | 2,310 | - |
| 7,240 | 213,108 | 220,348 | - |
| <u>333,499</u> | <u>213,918</u> | <u>547,417</u> | <u>-</u> |
| <u>(204,951)</u> | <u>459,205</u> | <u>254,254</u> | <u>(26,103)</u> |
| <u>923,912</u> | <u>360,778</u> | <u>1,284,690</u> | <u>116,593</u> |
| <u>\$ 718,961</u> | <u>\$ 819,983</u> | <u>\$ 1,538,944</u> | <u>\$ 90,490</u> |

STATE OF NEW MEXICO
Town of Mountainair
Balance Sheet
Governmental Funds
June 30, 2010

Exhibit B-1
Page 1 of 2

| | <u>General Fund</u> | <u>Fire Protection Fund</u> | <u>Recreation Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|---------------------|-------------------------------------|----------------------------|---|-------------------|
| <i>Assets</i> | | | | | |
| Cash and cash equivalents | \$ 146,059 | \$ 24,446 | \$ 89,371 | \$ 104,206 | \$ 364,082 |
| Property tax receivable | 43,060 | - | - | - | 43,060 |
| Other receivables | 44,084 | - | 8,000 | 3,133 | 55,217 |
| Note receivable- component unit | 4,302 | - | - | - | 4,302 |
| <i>Total assets</i> | <u>\$ 237,505</u> | <u>\$ 24,446</u> | <u>\$ 97,371</u> | <u>\$ 107,339</u> | <u>\$ 466,661</u> |
| <i>Liabilities and fund balances</i> | | | | | |
| <i>Liabilities</i> | | | | | |
| Accounts payable | \$ 8,226 | \$ 4,615 | \$ 1,413 | \$ 9,848 | \$ 24,102 |
| Accrued payroll | 3,612 | - | - | - | 3,612 |
| Deferred revenue - property taxes | 41,221 | - | - | - | 41,221 |
| <i>Total liabilities</i> | <u>53,059</u> | <u>4,615</u> | <u>1,413</u> | <u>9,848</u> | <u>68,935</u> |
| <i>Fund balances</i> | | | | | |
| Unreserved: | | | | | |
| Unreserved, reported in: | | | | | |
| General fund | 184,446 | - | - | - | 184,446 |
| Special revenue funds | - | 19,831 | 95,958 | 97,491 | 213,280 |
| <i>Total fund balances</i> | <u>184,446</u> | <u>19,831</u> | <u>95,958</u> | <u>97,491</u> | <u>397,726</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 237,505</u> | <u>\$ 24,446</u> | <u>\$ 97,371</u> | <u>\$ 107,339</u> | <u>\$ 466,661</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Mountainair

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2010

Exhibit B-1

Page 2 of 2

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

| | | |
|---|----|-----------------------|
| Fund balances - total governmental funds | \$ | 397,726 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 513,472 |
| Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred revenue in the fund financial statements, but are considered revenue in the Statement of Activities | | 41,221 |
| Certain liabilities, including bonds payable, and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Notes and leases payable | | (220,485) |
| Accrued compensated absences | | <u>(12,973)</u> |
| Total net assets-governmental activities | \$ | <u><u>718,961</u></u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Mountainair
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2010

| | General Fund | Fire Protection Fund | Recreation Fund | Other Governmental Funds | Total |
|--|-------------------|----------------------------|--------------------|--------------------------------|-------------------|
| <i>Revenues:</i> | | | | | |
| <i>Taxes:</i> | | | | | |
| Property | \$ 50,152 | \$ - | \$ - | \$ - | \$ 50,152 |
| Gross receipts | 232,565 | - | - | - | 232,565 |
| Gasoline and motor vehicle | - | - | - | 19,593 | 19,593 |
| Other | 24,868 | - | 541 | 8,854 | 34,263 |
| <i>Intergovernmental:</i> | | | | | |
| State operating grants | 157,619 | 87,303 | 8,000 | 8,231 | 261,153 |
| Charges for services | 6,441 | - | 11,685 | - | 18,126 |
| Licenses and fees | 50,572 | - | - | 3,183 | 53,755 |
| Investment income | 1,479 | 21 | - | - | 1,500 |
| Miscellaneous | 7,240 | - | - | - | 7,240 |
| <i>Total revenues</i> | <u>530,936</u> | <u>87,324</u> | <u>20,226</u> | <u>39,861</u> | <u>678,347</u> |
| <i>Expenditures:</i> | | | | | |
| <i>Current:</i> | | | | | |
| General government | 450,906 | - | - | - | 450,906 |
| Public safety | 110,679 | 88,566 | - | 21,880 | 221,125 |
| Public works | - | - | - | 5,867 | 5,867 |
| Culture and recreation | - | - | 54,049 | 29,751 | 83,800 |
| Capital Outlay | - | 203,763 | - | - | 203,763 |
| <i>Debt Service:</i> | | | | | |
| Principal | 6,512 | 13,450 | - | - | 19,962 |
| Interest | 47 | 478 | - | - | 525 |
| <i>Total expenditures</i> | <u>568,144</u> | <u>306,257</u> | <u>54,049</u> | <u>57,498</u> | <u>985,948</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(37,208)</u> | <u>(218,933)</u> | <u>(33,823)</u> | <u>(17,637)</u> | <u>(307,601)</u> |
| <i>Other financing sources (uses)</i> | | | | | |
| Proceeds from issuance of long-term debt | - | 206,819 | - | - | 206,819 |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>206,819</u> | <u>-</u> | <u>-</u> | <u>206,819</u> |
| <i>Net change in fund balance</i> | (37,208) | (12,114) | (33,823) | (17,637) | (100,782) |
| <i>Fund balance - beginning of year</i> | <u>221,654</u> | <u>31,945</u> | <u>129,781</u> | <u>115,128</u> | <u>498,508</u> |
| <i>Fund balance - end of year</i> | <u>\$ 184,446</u> | <u>\$ 19,831</u> | <u>\$ 95,958</u> | <u>\$ 97,491</u> | <u>\$ 397,726</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Mountainair

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ending June 30, 2010

Exhibit B-2

Page 2 of 2

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

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (100,782) |
|--|----|-----------|

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

| | | |
|-------------------------------------|--|----------|
| Capital expenditures | | 203,763 |
| Depreciation expense | | (51,433) |
| Adjustments made for capital outlay | | (59,971) |

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

| | | |
|---|--|----------|
| Change in deferred revenue related to property taxes receivable | | (11,814) |
|---|--|----------|

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

| | | |
|--|--|-------|
| Decrease in accrued compensated absences | | 2,143 |
|--|--|-------|

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

| | | |
|-------------------------------------|--|-----------|
| Loan proceeds | | (206,819) |
| Principal payments on notes payable | | 19,962 |

| | | |
|---|----|------------------|
| Change in net assets of governmental activities | \$ | <u>(204,951)</u> |
|---|----|------------------|

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-1

Town of Mountainair

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variations |
|---|------------------|-----------------|-------------------|--|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ 50,016 | \$ 50,016 | \$ 50,224 | \$ 208 |
| Gross receipt | 375,000 | 375,000 | 214,874 | (160,126) |
| Gasoline and motor vehicle | - | - | - | - |
| Other | 20,200 | 20,200 | 21,476 | 1,276 |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | 131,477 | 131,477 | 157,619 | 26,142 |
| State capital grants | - | - | - | - |
| Charges for services | 10,700 | 10,700 | 6,441 | (4,259) |
| Licenses and fees | 38,210 | 38,750 | 51,755 | 13,005 |
| Investment income | 1,000 | 1,000 | 1,355 | 355 |
| Miscellaneous | 16,550 | 16,550 | 7,240 | (9,310) |
| <i>Total revenues</i> | <u>643,153</u> | <u>643,693</u> | <u>510,984</u> | <u>(132,709)</u> |
| <i>Expenditures</i> | | | | |
| <i>Current:</i> | | | | |
| General Government | 528,281 | 527,805 | 471,087 | 56,718 |
| Public Safety | 142,717 | 143,193 | 109,957 | 33,236 |
| Public Works | - | - | - | - |
| Culture and Recreation | - | - | - | - |
| Capital Outlay | - | - | - | - |
| <i>Debt Service:</i> | | | | |
| Principal | 26,323 | 26,323 | 6,512 | 19,811 |
| Interest | - | - | 47 | (47) |
| <i>Total expenditures</i> | <u>697,321</u> | <u>697,321</u> | <u>587,603</u> | <u>109,718</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(54,168)</u> | <u>(53,628)</u> | <u>(76,619)</u> | <u>(22,991)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | 47,568 | 47,028 | - | (47,028) |
| Transfers in | 6,600 | 6,600 | 3,600 | (3,000) |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>54,168</u> | <u>53,628</u> | <u>3,600</u> | <u>(50,028)</u> |
| <i>Net change in fund balances</i> | - | - | (73,019) | - |
| <i>Fund balance - beginning of year</i> | - | - | 219,078 | 219,078 |
| <i>Fund balance - end of the year</i> | | | <u>\$ 146,059</u> | |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | | \$ (73,019) |
| Adjustments to revenue for tax accruals and note receivable accruals | | | | 19,952 |
| Adjustments to expenditures for general government, and public safety function accruals | | | | 15,859 |
| <i>Net change in fund balance (GAAP)</i> | | | | <u>\$ (37,208)</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-2

Town of Mountainair

Fire Protection Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|----------------|------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues</i> | | | | |
| Taxes: | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | 50,000 | 50,000 | - | (50,000) |
| Intergovernmental: | | | | |
| State operating grants | 55,701 | 55,701 | 73,375 | 17,674 |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Investment income | - | - | 21 | 21 |
| Miscellaneous | 2,500 | 2,500 | - | (2,500) |
| <i>Total revenues</i> | <u>108,201</u> | <u>108,201</u> | <u>73,396</u> | <u>(34,805)</u> |
| <i>Expenditures</i> | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | 41,575 | 41,575 | 67,412 | (25,837) |
| Public works | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Capital outlay | 66,626 | 66,626 | 13,808 | 52,818 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>108,201</u> | <u>108,201</u> | <u>81,220</u> | <u>26,981</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>(7,824)</u> | <u>(7,824)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Proceeds from issuance of long-term debt | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balances</i> | - | - | (7,824) | (7,824) |
| <i>Fund balance - beginning of year</i> | <u>-</u> | <u>-</u> | <u>32,270</u> | <u>32,270</u> |
| <i>Fund Balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,446</u> | <u>\$ 24,446</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | | \$ (7,824) |
| No adjustments for revenue accruals | | | | - |
| Adjustments to expenditures for culture and recreation function accruals | | | | (4,290) |
| <i>Net change in fund balance (GAAP)</i> | | | | <u>\$ (12,114)</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-3

Town of Mountainair

Recreation Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|------------------|------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues</i> | | | | |
| Taxes: | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | 700 | 700 | 541 | (159) |
| Other | - | - | - | - |
| Intergovernmental: | | | | |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | 5,000 | 5,000 | 11,685 | 6,685 |
| Licenses and fees | - | - | - | - |
| Investment income | - | - | - | - |
| Miscellaneous | 2,700 | 2,700 | - | (2,700) |
| <i>Total revenues</i> | <u>8,400</u> | <u>8,400</u> | <u>12,226</u> | <u>3,826</u> |
| <i>Expenditures</i> | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Public Safety | - | - | - | - |
| Public Works | - | - | - | - |
| Culture and Recreation | 157,000 | 157,000 | 53,274 | 103,726 |
| Capital Outlay | - | - | - | - |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>157,000</u> | <u>157,000</u> | <u>53,274</u> | <u>103,726</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>(148,600)</u> | <u>(148,600)</u> | <u>(41,048)</u> | <u>107,552</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | 148,600 | 148,600 | - | (148,600) |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>148,600</u> | <u>148,600</u> | <u>-</u> | <u>(148,600)</u> |
| <i>Net change in fund balances</i> | - | - | (41,048) | (41,048) |
| <i>Fund balance - beginning of year</i> | - | - | 130,419 | 130,419 |
| <i>Fund Balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 89,371</u> | <u>\$ 89,371</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | | \$ (41,048) |
| Adjustments to revenue for state operating grant accrual | | | | 8,000 |
| Adjustments to expenditures for culture and recreation function accruals | | | | (775) |
| <i>Net change in fund balance (GAAP)</i> | | | | <u>\$ (33,823)</u> |

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Mountainair
Statement of Net Assets
Proprietary Funds
For the Year Ending June 30, 2010

Exhibit D-1

| | Business-type Activities-Enterprise Funds | | | Total |
|---|---|-------------|---------------------|-------------|
| | Natural Gas Fund | Water Fund | Solid Waste Fund | |
| Assets | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 270,029 | \$ 58,244 | \$ 417 | \$ 328,690 |
| Investments | 419 | 18,097 | - | 18,516 |
| Customer receivables (net of allowance for doubtful accounts of \$19,039 and \$6,547) | 81,714 | 75,880 | 837 | 158,431 |
| <i>Total current assets</i> | 352,162 | 152,221 | 1,254 | 505,637 |
| <i>Noncurrent assets</i> | | | | |
| Restricted cash | 23,818 | 23,124 | - | 46,942 |
| Capital assets | 449,508 | 1,628,699 | - | 2,078,207 |
| Accumulated depreciation | (380,572) | (1,336,481) | - | (1,717,053) |
| <i>Total noncurrent assets</i> | 92,754 | 315,342 | - | 408,096 |
| <i>Total Assets</i> | \$ 444,916 | \$ 467,563 | \$ 1,254 | \$ 913,733 |
| Liabilities and Net Assets | | | | |
| <i>Liabilities</i> | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 7,340 | \$ 7,231 | \$ 12,280 | \$ 26,851 |
| Accrued payroll | - | 8,351 | - | 8,351 |
| Accrued compensated absences | 1,098 | - | - | 1,098 |
| Customer deposits | 23,818 | 23,124 | - | 46,942 |
| <i>Total current liabilities</i> | 32,256 | 38,706 | 12,280 | 83,242 |
| <i>Noncurrent liabilities</i> | | | | |
| Accrued compensated absences | 3,545 | 6,963 | - | 10,508 |
| <i>Total noncurrent liabilities</i> | 3,545 | 6,963 | - | 10,508 |
| <i>Total liabilities</i> | 35,801 | 45,669 | 12,280 | 93,750 |
| <i>Net Assets</i> | | | | |
| Invested in capital assets | 68,936 | 292,218 | - | 361,154 |
| Unrestricted | 340,179 | 129,676 | (11,026) | 458,829 |
| <i>Total net assets</i> | 409,115 | 421,894 | (11,026) | 819,983 |
| <i>Total liabilities and net assets</i> | \$ 444,916 | \$ 467,563 | \$ 1,254 | \$ 913,733 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-2

Town of Mountainair
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ending June 30, 2010

| | Natural Gas Fund | Water Fund | Solid Waste Fund | Total |
|--|---------------------|-------------------|---------------------|-------------------|
| <i>Operating revenues:</i> | | | | |
| Charges for services | \$ 671,690 | 287,426 | \$ 142,771 | \$ 1,101,887 |
| <i>Total operating revenues</i> | <u>671,690</u> | <u>287,426</u> | <u>142,771</u> | <u>1,101,887</u> |
| <i>Operating expenses:</i> | | | | |
| Cost of gas sold | 288,441 | - | - | 288,441 |
| Salaries | 1,319 | 160,992 | - | 162,311 |
| Supplies | 3,082 | - | - | 3,082 |
| Depreciation | 14,931 | 56,722 | - | 71,653 |
| Contract services | 800 | - | 141,030 | 141,830 |
| Other operating expense | 53,204 | 122,367 | 13,712 | 189,283 |
| <i>Total operating expenses</i> | <u>361,777</u> | <u>340,081</u> | <u>154,742</u> | <u>856,600</u> |
| <i>Operating income (loss)</i> | <u>309,913</u> | <u>(52,655)</u> | <u>(11,971)</u> | <u>245,287</u> |
| <i>Non-operating revenues (expenses):</i> | | | | |
| Interest income | 476 | 334 | - | 810 |
| Miscellaneous income | 35,714 | 177,394 | - | 213,108 |
| <i>Total non-operating revenues (expenses)</i> | <u>36,190</u> | <u>177,728</u> | <u>-</u> | <u>213,918</u> |
| <i>Change in net assets</i> | 346,103 | 125,073 | (11,971) | 459,205 |
| <i>Total net assets, beginning of year</i> | <u>63,012</u> | <u>296,821</u> | <u>945</u> | <u>360,778</u> |
| <i>Total net assets, end of year</i> | <u>\$ 409,115</u> | <u>\$ 421,894</u> | <u>\$ (11,026)</u> | <u>\$ 819,983</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Mountainair
Statement of Cash Flows - Proprietary Funds
For the Year Ending June 30, 2010

| | Natural Gas Fund | Water Fund |
|---|------------------|--------------|
| <i>Cash flows from operating activities:</i> | | |
| Cash received from user charges | \$ 626,054 | \$ 268,464 |
| Cash payments to employees for services | (1,298) | (152,293) |
| Cash payments to suppliers for goods and services | (362,823) | (315,178) |
| <i>Net cash provided (used) by operating activities</i> | 261,933 | (199,007) |
| <i>Cash flows from capital and related financing activities:</i> | | |
| Acquisition of capital assets | (35,714) | - |
| <i>Net cash (used) by capital and related financing activities</i> | (35,714) | - |
| <i>Cash flows from investing activities:</i> | | |
| Interest on investments | 476 | 334 |
| <i>Net cash provided by investing activities</i> | 476 | 334 |
| <i>Net (decrease) increase in cash and cash equivalents</i> | 262,409 | (21,279) |
| <i>Cash and cash equivalents - beginning of year</i> | 31,438 | 102,647 |
| <i>Cash and cash equivalents - end of year</i> | \$ 293,847 | \$ 81,368 |
| <i>Reconciliation of operating income (loss) to net cash provided (used)</i> | | |
| <i>by operating activities</i> | | |
| Operating income (loss) | \$ 309,913 | \$ (52,655) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 14,931 | 56,722 |
| Adjustments made for accumulated depreciation | - | (195,869) |
| Changes in assets and liabilities: | | |
| Receivables | (45,636) | (18,962) |
| Accounts payable | (17,296) | (430) |
| Accrued payroll | (1,412) | 6,933 |
| Accrued compensated absences | 1,433 | 1,766 |
| Customer deposits | - | 3,488 |
| <i>Net cash provided (used) by operating activities</i> | \$ 261,933 | \$ (199,007) |

The accompanying notes are an integral part of these financial statements

| <u>Solid Waste Fund</u> | <u>Total</u> |
|-------------------------|-------------------|
| \$ 142,438 | \$ 1,036,956 |
| - | (153,591) |
| <u>(152,750)</u> | <u>(830,751)</u> |
| <u>(10,312)</u> | <u>52,614</u> |
| - | <u>(35,714)</u> |
| - | <u>(35,714)</u> |
| - | <u>810</u> |
| - | <u>810</u> |
| (10,312) | 230,818 |
| <u>10,729</u> | <u>144,814</u> |
| <u>\$ 417</u> | <u>\$ 375,632</u> |
| | |
| \$ (11,971) | \$ 245,287 |
| - | 71,653 |
| - | (195,869) |
| (333) | (64,931) |
| 1,992 | (15,734) |
| - | 5,521 |
| - | 3,199 |
| - | <u>3,488</u> |
| <u>\$ (10,312)</u> | <u>\$ 52,614</u> |

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STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies

The Town of Mountainair (Town) was incorporated in 1945 under provisions of Chapter 3, Article 2, NMSA, 1978 as amended. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public improvements; planning and zoning; and general administrative services.

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

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

This summary of significant accounting policies of the Town is presented to assist in the understanding of Town's financial statements. The financial statements and notes are the representation of Town of Mountainair's management that is responsible for their integrity and objectivity. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Discretely Presented Component Unit

Town of Mountainair Housing Authority (The Authority): This component unit has separate elected and/or appointed board and provides services to residents, generally within the geographic boundaries of the government. GASB Statement No. 14 requires the inclusion of this unit in the reporting entity.

The component unit's activities include enterprise funds as detailed on Exhibits A-1 and A-2 and Schedules A-3, A-4, A-5, and A-6 in the Town's financial reports.

Separate financial statements for the Authority are not available.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

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

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

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

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

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to availability criterion. Property taxes are recognized as revenue in the period for which they are levied, net of estimated refunds and uncollectible amounts, subject to availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

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

The *Recreation Fund* accounts for the operation and maintenance of recreational facilities in the Town. Financing is provided by a specific annual cigarette tax levy. Authority: NMSA 7-12-1 & 7-12-15.

The *Fire Protection Fund* accounts for grant funds received from state sources for development of an EMS system within the Town. Authorized by state law. Emergency Medical Services Fund, Section 24-10A-1, NMSA 1978.

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

The *Natural Gas Fund* accounts for fees generated from charges for the distribution of natural gas and related services.

The *Water Fund* accounts for fees generated from charges for the distribution of water.

The *Solid Waste Fund* accounts for fees generated from charges for trash collection.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

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

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Town's enterprise fund is charges for services at the various enterprises. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If applicable, the Town reports capital contributions and transfers separately from operating income (loss) and non-operating revenues (expenses).

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

D. Assets, Liabilities and Net Assets or Fund Equity

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

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

Investments for the Town are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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

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

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, property taxes receivable are accrued based on information obtained from the Town. Revenues for sales taxes are recognized when the underlying exchange has occurred. Grant revenues are recognized when all eligibility requirements are met.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after May 10th are considered delinquent. The taxes attach as an enforceable lien on property as of January 1st.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Because the Town of Mountainair was a phase III government for purposes of implementing GASB 34, the Town could elect not to capitalize and depreciate its additions and

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

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

improvements to its infrastructure retroactively back to 1979. But since the implementation of GASB 34 in FY 04, the Town has been required to capitalize and depreciate infrastructure additions. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Library books and periodicals are estimated to have a useful life of less than one year or are under the capitalization threshold and are expensed when purchased.

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. The total interest expense incurred by the Town during the current fiscal year was \$525. No interest was included as part of the cost of capital assets under construction.

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Vehicles | 6 |
| Equipment | 5-30 |
| Buildings and improvements | 45-60 |

Deferred Revenues: Accounting principles generally accepted in the United States of America require that grant revenue be recognized at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, such amounts received and not expended are shown as deferred revenues. GASB Statement No. 33 requires the revenues of grants that are not on a reimbursement basis to be recognized at the beginning of the period the grant applies to; in the fund financial statements the portion of this type of grant that is not received during the period of availability is “deferred revenue.” Utility service prepayments in the Enterprise Funds are reported as deferred revenue until the earnings process is complete.

Compensated Absences: Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of ten days to fifteen days per year, depending on length of service. Employees may accumulate up to 200 hours (twenty-five days) of annual leave and carry that leave forward from calendar year to calendar year. Upon termination, employees will be paid for up to 200 hours (twenty-five days) of accrued annual leave.

Qualified employees are entitled to accumulate sick leave at a rate of twelve days per year. Sick leave can be carried over from year to year up to 360 hours (45 days). Upon termination employees receive no pay for sick time accumulated.

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

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For bonds issued after 2004, bond premiums and discounts, as well as issuance costs, will be deferred and amortized over the life of the bonds using the effective interest method; and bonds payable will be reported net of the applicable bond premium or discount.

Net Assets or Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Equity Classifications

Government-wide Statements

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

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

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates of the Town are management’s estimate of depreciation on assets over their useful lives, allowance for doubtful accounts, and accrued compensated absences.

Reclassifications: Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year’s presentation.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

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

The governmental fund budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The enterprise fund budgets are prepared on the GAAP basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles for the governmental funds, reconciliations of the resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2010 are presented at Exhibit C and Schedule B. The budgetary comparisons for the enterprise funds do not require reconciliations because they are on the GAAP basis.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 2. Stewardship, Compliance and Accountability (Continued)

| | Excess (deficiency) of revenues over expenditures/change in net assets | |
|---------------------------------|---|--------------|
| | Original Budget | Final Budget |
| Governmental Activities | | |
| General Fund | \$ (54,168) | \$ (53,628) |
| Fire Protection | \$ - | \$ - |
| Recreation | \$ (148,600) | \$ (148,600) |
| Nonmajor Funds | \$ 100 | \$ 100 |
| Business-type Activities | | |
| Natural Gas | \$ 141,950 | \$ 141,950 |
| Water | \$ (49,286) | \$ (52,761) |
| Solid Waste | \$ 680 | \$ 680 |

Component Unit

The Town of Mountainair Housing Authority did not have a budget for the fiscal year ended June 30, 2010 because it qualified for Section Eight Management Assessment Program (SEMAP) deregulation. The Authority has less than 250 Section Eight ACC units and was not designated as “troubled” for the previous year.

NOTE 3. Deposits and Investments

State statutes authorize the investment of Town funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The Town is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Town. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution in accordance with statute.

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

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). State law limits deposits of public monies to certain banks or credit unions. In addition, the depository must pledge eligible collateral to the extent of 50% of the balance of uninsured funds. At June 30, 2010, \$502,268 of the Town’s deposits of \$752,268 was exposed to custodial credit risk.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 3. Deposits and Investments (Continued)

\$254,852 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Town's name and \$247,416 was uninsured and uncollateralized.

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for a least one half of the amount in excess of FDIC coverage on deposit with the institution.

| | |
|---|-------------------|
| | <u>MyBank</u> |
| Amount of deposits | \$ 752,268 |
| FDIC Coverage | <u>(250,000)</u> |
| Total uninsured public funds | <u>502,268</u> |
| | |
| Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Town's name | <u>254,852</u> |
| Uninsured and uncollateralized | <u>\$ 247,416</u> |
| | |
| Collateral requirement (50% of uninsured funds) | \$ 251,134 |
| Pledged Collateral | <u>254,852</u> |
| Over (Under) collateralized | <u>\$ 3,718</u> |

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

The Town utilizes pooled accounts for their funds. The General, Special Revenue, Capital Projects, Debt Service and Agency Funds are all in multiple accounts.

Component Unit

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority's deposits may not be returned to it. The Housing Authority does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). State law limits deposits of public monies to certain banks or credit unions. In addition, the depository must pledge eligible collateral to the extent of 50% of the balance of uninsured funds. At June 30, 2010, none of the Housing Authority's deposits of \$106,663 were exposed to custodial credit risk.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 3. Deposits and Investments (continued)

| | Wells Fargo Bank, N.A. |
|---|---------------------------|
| Amount of deposits | \$ 106,663 |
| FDIC Coverage | 106,663 |
| Total uninsured public funds | - |
| | |
| Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Town's name | - |
| Uninsured and uncollateralized | \$ - |
| | |
| Collateral requirement (50% of uninsured funds) | \$ - |
| Pledged Collateral | - |
| Over (Under) collateralized | \$ - |

NM State Statutes require collateral pledged for repurchase agreements in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Town for at least 102% of the amount on deposit with the institution. There are no repurchase agreements for the year ended June 30, 2010.

Investments

Interest Rate Risk

As of June 30, 2010, the Town's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's.

The New MexiGROW Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 3. Deposits and Investments (continued)

The Town's investments at June 30, 2010 include the following:

| Investments | Rated | Fair Value | Weighted Average Maturity |
|--|---------|---------------------------------|------------------------------|
| New MexiGROW LGIP | AAAm | \$ 409 | 50 days |
| Reserve Contingency Fund | Unrated | 10 | Does not earn interest |
| U.S. Treasury Money Market Mutual Funds | AAA | <u>3,075</u> <u>\$ 3,494</u> | <365 days |

Interest Rate Risk – Investments. The Town does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates. The Town follows state law with respect to its investment activities.

Concentration of Credit Risk – Investments. For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the Town. The investments in the New MexiGROW LGIP and U.S Treasury Money Market Mutual Funds represent 12% and 88%, respectively, of the investment portfolio. Since the Town only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the Town. The Town's policy related to concentration credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

Primary Government

Reconciliation to the Statement of Net Assets:

| | |
|--|--------------------------|
| Cash and cash equivalents per Exhibit A-1 | \$ 689,697 |
| Investments per A-1 | 18,516 |
| Restricted cash and cash equivalents per Exhibit A-1 | <u>50,017</u> |
| Total cash and cash equivalents | 758,230 |
| Add: outstanding checks | 18,325 |
| Less: deposits in transit | (2,697) |
| Less: Investments not considered cash equivalents | (18,096) |
| Less: investment in NewMexiGROW LGIP | (419) |
| Less: U.S. Treasury Money Market Mutual Fund | <u>(3,075)</u> |
| Bank balance of deposits | <u><u>\$ 752,268</u></u> |

Component Unit

Reconciliation to the Statement of Net Assets:

| | |
|--|--------------------------|
| Cash and cash equivalents per Exhibit A-1 | \$ 87,364 |
| Restricted cash and cash equivalents per Exhibit A-1 | 6,854 |
| Add: Outstanding checks and other reconciling items | 12,495 |
| Less: petty cash | <u>(50)</u> |
| Bank balance of deposits | <u><u>\$ 106,663</u></u> |

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 4. Receivables

Receivables as of June 30, 2010, are as follows:

| Governmental Activities: | <u>General</u> | <u>Recreation Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|------------------|----------------------------|---|-------------------|
| Property tax receivable | \$ 43,060 | \$ - | \$ - | \$ 43,060 |
| Intergovernmental receivables: | | | | |
| State | - | 8,000 | - | 8,000 |
| Other receivables: | | | | |
| Gross receipts taxes | 39,520 | - | - | 39,520 |
| Gasoline and oil taxes | 1,098 | - | 3,133 | 4,231 |
| Franchise taxes | 3,466 | - | - | 3,466 |
| Totals by category | <u>\$ 87,144</u> | <u>\$ 8,000</u> | <u>\$ 3,133</u> | <u>\$ 98,277</u> |
| | | | | |
| Customer receivables | \$ 100,753 | \$ 82,427 | \$ 837 | \$ 184,017 |
| Less: allowance for doubtful accounts | <u>(19,039)</u> | <u>(6,547)</u> | - | <u>(25,586)</u> |
| | | | | |
| Total net receivables | <u>\$ 81,714</u> | <u>\$ 75,880</u> | <u>\$ 837</u> | <u>\$ 158,431</u> |

The Town has estimated approximately 13% or \$25,586 of utility billings will not be collected. Other than this, all receivables are deemed to be 100% collectible.

NOTE 5. Interfund Receivables, Payables, and Transfers

The Town did not make an interfund receivable, payable or transfer during the fiscal year ended June 30, 2010.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2010 follows. Land is not subject to depreciation.

Governmental Activities:

| | Balance June 30, 2009 | Adjustments | Additions | Deletions | Balance June 30, 2010 |
|---|--------------------------|--------------------|-------------------|-------------|--------------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 167,344 | \$ 1,985 | \$ - | \$ - | \$ 169,329 |
| Total capital assets, not depreciated | <u>167,344</u> | <u>1,985</u> | <u>-</u> | <u>-</u> | <u>169,329</u> |
| Capital assets, depreciated: | | | | | |
| Equipment | 151,515 | 28,175 | - | - | 179,690 |
| Vehicles | 620,442 | (15,470) | 203,763 | - | 808,735 |
| Buildings and improvements | 1,104,757 | - | - | - | 1,104,757 |
| Total capital assets, being depreciated | <u>1,876,714</u> | <u>12,705</u> | <u>203,763</u> | <u>-</u> | <u>2,093,182</u> |
| Less accumulated depreciation: | | | | | |
| Equipment | 83,642 | 48,404 | 20,833 | - | 152,879 |
| Vehicles | 474,034 | 21,989 | 26,333 | - | 522,356 |
| Buildings and improvements | 1,065,269 | 4,268 | 4,267 | - | 1,073,804 |
| Total accumulated depreciation | <u>1,622,945</u> | <u>74,661</u> | <u>51,433</u> | <u>-</u> | <u>1,749,039</u> |
| Total capital assets, net of depreciation | <u>\$ 421,113</u> | <u>\$ (59,971)</u> | <u>\$ 152,330</u> | <u>\$ -</u> | <u>\$ 513,472</u> |

Adjustments were made to capital outlay and accumulated depreciation due to new capital asset computer program implemented which caused errors in depreciation expense and beginning balances. Due to the qualified opinion on capital assets and related depreciation, beginning balances were not restated only adjustments were made. The Town could not determine what amount should be the correct.

There were no material infrastructure additions during the year ended June 30, 2010, only infrastructure repairs.

Depreciation expense for the year ended June 30, 2010 was allocated as follows:

| | |
|--------------------|------------------|
| General government | \$ 5,287 |
| Public safety | 31,596 |
| Public works | <u>14,550</u> |
| Total depreciation | <u>\$ 51,433</u> |

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 6. Capital Assets (continued)

Business-type Activities:

| | Balance June 30, 2009 | Adjustments | Additions | Deletions | Balance June 30, 2010 |
|--|--------------------------|-------------------|--------------------|-------------|--------------------------|
| Capital assets, depreciated: | | | | | |
| Equipment | \$ 14,607 | \$ - | \$ 18,475 | \$ - | \$ 33,082 |
| Vehicles | 63,550 | (14,293) | - | - | 49,257 |
| Buildings and improvements | 1,995,868 | - | - | - | 1,995,868 |
| Total capital assets, being depreciated | 2,074,025 | (14,293) | 18,475 | - | 2,078,207 |
| Less accumulated depreciation: | | | | | |
| Equipment | 14,607 | 3,695 | 3,695 | - | 21,997 |
| Vehicles | 63,550 | (17,151) | 1,429 | - | 47,828 |
| Buildings and improvements | 1,794,644 | (213,945) | 66,529 | - | 1,647,228 |
| Total accumulated depreciation | 1,872,801 | (227,401) | 71,653 | - | 1,717,053 |
| Total capital assets, net of depreciation | \$ 201,224 | \$ 213,108 | \$ (53,178) | \$ - | \$ 361,154 |

Depreciation expense for the year ended June 30, 2010 was allocated as follows:

| | |
|---------------------------|-------------------------|
| Natural Gas | \$ 14,931 |
| Water | <u>56,722</u> |
| Total depreciation | \$ <u>71,653</u> |

Component Unit:

| | Balance 6/30/2009 | Adjustments | Additions | Deletions | Balance 6/30/2010 |
|-----------------------------|----------------------|-------------|-------------|-------------|----------------------|
| Capital assets, depreciated | | | | | |
| Equipment | \$ 37,472 | \$ - | \$ - | \$ - | \$ 37,472 |
| Accumulated depreciation | 37,472 | - | - | - | 37,472 |
| Net book value | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 7. Long-term Debt

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

| | Balance | | | Balance | |
|--------------------------------|------------------|-------------------|------------------|-------------------|------------------------|
| | June 30, 2009 | Additions | Retirements | June 30, 2010 | Due within One year |
| Governmental activities: | | | | | |
| NMFA Pumper Loan | \$ 27,116 | \$ - | \$ 13,450 | \$ 13,666 | \$ 13,666 |
| John Deere Grader Loan | 6,512 | - | 6,512 | - | - |
| Fire Pumper Loan | - | 206,819 | - | 206,819 | 19,665 |
| Compensated absences | 15,116 | 2,727 | 4,870 | 12,973 | 4,870 |
| Total governmental | <u>\$ 48,744</u> | <u>\$ 209,546</u> | <u>\$ 24,832</u> | <u>\$ 233,458</u> | <u>\$ 38,201</u> |
| Business-type activities: | | | | | |
| Compensated absences | \$ 11,123 | \$ 4,318 | \$ 1,098 | \$ 12,231 | \$ 1,098 |
| Total business-type activities | <u>\$ 11,123</u> | <u>\$ 4,318</u> | <u>\$ 1,098</u> | <u>\$ 12,231</u> | <u>\$ 1,098</u> |
| Component unit: | | | | | |
| Compensated absences | \$ 2,737 | \$ 1,102 | \$ 1,727 | \$ 2,112 | \$ 1,727 |

The New Mexico Finance Authority (NMFA) Class A Pumper acquisition loan is a note payable issued in the original amount of \$124,631. The note was being issued pursuant to Sections 3-31-1 through 3-31-12 NMSA 1978, as amended, to provide funds for the purpose of acquiring a Class A Pumper for the Town. The loan is payable in monthly installments of principal and interest amounts ranging from \$13,274 to \$13,948 over the term of the loan. The loan bears interest of 3.02% to 4.15% and matures in May 2011. The note payable and all payments of principal and interest thereon are paid with pledged revenues payable from the revenues distributed to it by the New Mexico Taxation and Revenue Department pursuant to Sections 7-9-7, NMSA 1978, as amended, 7-1-6.1 and 7-1-6.4 NMSA, as amended and 7-1-6.15 NMSA, 1978 as amended.

The annual requirements to amortize the NMFA note payable as of June 30, 2010, including interest payments are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total Debt Service |
|--------------------------------|------------------|---------------|-----------------------|
| 2011 | \$ 13,666 | \$ 282 | \$ 13,948 |
| Total | <u>\$ 13,666</u> | <u>\$ 282</u> | <u>\$ 13,948</u> |

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 7. Long-term Debt

The NMFA loan is paid annually by the Fire Protection Fund.

The New Mexico Finance Authority (NMFA) Class A Pumper acquisition loan is a note payable issued in the original amount of \$206,819. The note was being issued pursuant to Sections 3-31-1 through 3-31-12 NMSA 1978, as amended, to provide funds for the purpose of acquiring a Class A Pumper for the Town. The loan is payable in annual (principal) and semi-annual (interest) installments of principal and interest amounts ranging from \$19,665 to \$22,151 over the term of the loan. The loan bears interest of 0.61% to 2.13% and matures in May 2020. The note payable and all payments of principal and interest thereon are paid with pledged revenues payable from the revenues distributed to it by the New Mexico Taxation and Revenue Department pursuant to Sections 7-9-7, NMSA 1978, as amended, 7-1-6.1 and 7-1-6.4 NMSA, as amended and 7-1-6.15 NMSA, 1978 as amended.

The annual requirements to amortize the NMFA note payable as of June 30, 2010, including interest payments are as follows:

| <u>Fiscal Year</u> <u>Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt</u> <u>Service</u> |
|--|-------------------|------------------|-------------------------------------|
| 2011 | 19,665 | 4,339 | 24,004 |
| 2012 | 19,784 | 2,839 | 22,623 |
| 2013 | 19,947 | 2,674 | 22,621 |
| 2014 | 20,148 | 2,354 | 22,502 |
| 2015 | 20,390 | 2,092 | 22,482 |
| 2016-2020 | <u>106,885</u> | <u>6,492</u> | <u>113,377</u> |
| Total | <u>\$ 206,819</u> | <u>\$ 20,790</u> | <u>\$ 227,609</u> |

The NMFA loan is paid annually by the Fire Protection Fund.

Compensated Absences – Employees of the Town are able to accrue a limited amount of vacation and other compensatory time during the year. During fiscal year June 30, 2010, compensated absences decreased \$2,143 for governmental activities and decreased \$483 for business type activities over the prior year accrual. Compensated absences are paid by each fund in the same proportion as the salaries charged to accrue the compensated absences.

NOTE 8. Risk Management

The Town is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The Town participates in the New Mexico Self-Insurers' Fund risk pool.

The Town has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the Town which exceeds the insurance coverage, the Town would not be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage's have not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2010, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance.

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

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 9. Other Required Individual Fund Disclosures

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

A. Deficit fund balance of individual funds: There was one fund with deficit fund balances for the year ended June 30, 2010.

| | |
|-------------|--------|
| EMS Fund | \$ 419 |
| Solid Waste | 11,026 |

B. Budgetary compliance is required at the fund level. The following funds exceeded approved budgetary authority for the year ended June 30, 2010:

| | |
|----------------------|---------------|
| | <u>Excess</u> |
| Correction Fees Fund | \$ 717 |
| EMS Fund | 1,149 |
| Lodger's Tax Fund | 12,997 |
| Component Unit | 616,077 |

The Town is going to work with their budget analyst to ensure that this problem does not happen in the future.

C. Designated cash appropriation exceeded prior year available balances. The following funds exceeded designated cash appropriations in excess of available balances for the year ended June 30, 2010:

| | |
|-----------------|---------------|
| | <u>Excess</u> |
| Recreation Fund | \$18,181 |

NOTE 10. PERA Pension Plan

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

Funding Policy: Plan members are required to contribute the following percentages of their gross salary: 7% for law enforcement and fire protection employees; and 9.15% for Town employees. The Town was required to contribute the following percentages of the gross covered salary: 10% for law enforcement and fire protection plan members; and 9.15% for Town plan members. The contribution requirements of plan members and the Town's are established in State Statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Town's contributions to PERA for the fiscal years ending June 30, 2010, 2009, and 2008 were \$30,522, \$35,117, and \$25,910, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. Contingent Liabilities

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

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2010

NOTE 12. Federal and State Grants

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

NOTE 13. Restricted Net Assets

The government wide statement of net assets reports \$259,005 of restricted net assets of which none is restricted by enabling legislation.

NOTE 14. Component Unit Payable to the Primary Government

The primary government reports a note receivable from the component unit for \$4,302 because of a loan the component unit received from the primary government ten years ago to pay off an expense it could not afford on its own. The original amount of the loan was \$40,000.

NOTE 15. Subsequent Events

The New Mexico State Treasurer's Office invested a portion of the Local Government Investment Pool (LGIP) in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen.

On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represents approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. There is \$108 million still remaining with the Reserve at this time and the State Treasurer's Office has no information about timing nor amounts of potential future distributions. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from The Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date.

The date to which events occurring after June 30, 2010, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosures is November 29, 2010, which is the date on which the financial statements were issued.

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Fund Descriptions
June 30, 2010

CORRECTION FEES FUND – To establish an additional source of funds for municipalities to offset the costs of corrections. The source of funds is a five dollar fee, which must be paid by all persons violating laws relating to the operation of a motor vehicle. Authority: NMSA 33-0-3.

EMS FUND- To account for grant funds received from state sources for development of an EMS system within the Town. Authorized by state law. Emergency Medical Services Fund, Section 24-10A-1, NMSA 1978.

LAW ENFORCEMENT FUND – To account for the operations and maintenance of the fire department. Contributions and grants from the state fire allotment, emergency medical and state forestry provide financing. Fire Protection Fund, Section 59A-53-1, NMSA 1978.

LODGER’S TAX FUND – To account for the lodger’s tax as authorized under 3-38-13 through 3-38-24 NMSA 1978. The Town must use not less than 40% of the tax collected for advertising, publicizing and promotion of tourist-related attractions, facilities and events.

STREET FUND – To account for the receipts of the statewide increase of two cents per gallon of gasoline tax of which one cent is redistributed to municipalities for highway and street maintenance. Authorized by NMSA 1978, 7-1-6.9 and 7-13-1 to 7-13-18.

FEMA FUND – FEMA grant to repair roads damaged by flood pursuant to Title 44, Chapter 1, Federal Emergency Management Agency, Part 13 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, 44C FR 13-02.

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STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2010

| | Special Revenue | | |
|---|----------------------|----------|----------------------|
| | Correction Fees Fund | EMS Fund | Law Enforcement Fund |
| <i>Assets</i> | | | |
| Cash and cash equivalents | \$ 5,862 | \$ - | \$ 24,408 |
| Property tax receivable | - | - | - |
| Other receivables | - | - | - |
| <i>Total assets</i> | \$ 5,862 | \$ - | \$ 24,408 |
| <i>Liabilities</i> | | | |
| Accounts payable | \$ - | \$ 419 | \$ - |
| <i>Total liabilities</i> | - | 419 | - |
| <i>Fund balances</i> | | | |
| Unreserved: | | | |
| Unreserved, reported in special revenue funds | 5,862 | (419) | 24,408 |
| <i>Total fund balances</i> | 5,862 | (419) | 24,408 |
| <i>Total liabilities and fund balances</i> | \$ 5,862 | \$ - | \$ 24,408 |

The accompanying notes are an integral part of these financial statements

| <u>Special Revenue</u> | | | |
|--------------------------|--------------------|------------------|--|
| <u>Lodger's Tax Fund</u> | <u>Street Fund</u> | <u>FEMA Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
| \$ 12,369 | \$ 52,245 | \$ 9,322 | \$ 104,206 |
| - | - | - | - |
| - | 3,133 | - | 3,133 |
| <u>\$ 12,369</u> | <u>\$ 55,378</u> | <u>\$ 9,322</u> | <u>\$ 107,339</u> |
| <u>\$ 8,000</u> | <u>\$ 1,429</u> | <u>\$ -</u> | <u>\$ 9,848</u> |
| <u>8,000</u> | <u>1,429</u> | <u>-</u> | <u>9,848</u> |
| <u>4,369</u> | <u>53,949</u> | <u>9,322</u> | <u>97,491</u> |
| <u>4,369</u> | <u>53,949</u> | <u>9,322</u> | <u>97,491</u> |
| <u>\$ 12,369</u> | <u>\$ 55,378</u> | <u>\$ 9,322</u> | <u>\$ 107,339</u> |

STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ending June 30, 2010

| | Special Revenue | | |
|--|----------------------|-----------------|----------------------|
| | Correction Fees Fund | EMS Fund | Law Enforcement Fund |
| <i>Revenues:</i> | | | |
| <i>Taxes:</i> | | | |
| Property | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - |
| Gasoline and motor vehicle | - | - | - |
| Other | - | - | - |
| <i>Intergovernmental:</i> | | | |
| State operating grants | - | 8,231 | - |
| State capital grants | - | - | - |
| Charges for services | - | - | - |
| Licenses and fees | 3,183 | - | - |
| Investment income | - | - | - |
| Miscellaneous | - | - | - |
| <i>Total revenues</i> | <u>3,183</u> | <u>8,231</u> | <u>-</u> |
| <i>Expenditures:</i> | | | |
| <i>Current:</i> | | | |
| General Government | - | - | - |
| Public Safety | 3,868 | 9,799 | 8,213 |
| Public Works | - | - | - |
| Culture and Recreation | - | - | - |
| Capital Outlay | - | - | - |
| <i>Debt Service:</i> | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| <i>Total expenditures</i> | <u>3,868</u> | <u>9,799</u> | <u>8,213</u> |
| <i>Net change in fund balances</i> | (685) | (1,568) | (8,213) |
| <i>Fund balances - beginning of year</i> | <u>6,547</u> | <u>1,149</u> | <u>32,621</u> |
| <i>Fund balances - end of year</i> | <u>\$ 5,862</u> | <u>\$ (419)</u> | <u>\$ 24,408</u> |

The accompanying notes are an integral part of these financial statements

| Special Revenue | | | |
|-------------------|------------------|-----------------|--------------------------------------|
| Lodger's Tax Fund | Street Fund | FEMA Fund | Total Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ - |
| - | - | - | - |
| - | 19,593 | - | 19,593 |
| 8,854 | - | - | 8,854 |
| - | - | - | 8,231 |
| - | - | - | - |
| - | - | - | 3,183 |
| - | - | - | - |
| - | - | - | - |
| <u>8,854</u> | <u>19,593</u> | <u>-</u> | <u>39,861</u> |
| - | - | - | - |
| - | - | - | 21,880 |
| - | 5,867 | - | 5,867 |
| 29,751 | - | - | 29,751 |
| - | - | - | - |
| - | - | - | - |
| <u>29,751</u> | <u>5,867</u> | <u>-</u> | <u>57,498</u> |
| (20,897) | 13,726 | - | (17,637) |
| <u>25,266</u> | <u>40,223</u> | <u>9,322</u> | <u>115,128</u> |
| <u>\$ 4,369</u> | <u>\$ 53,949</u> | <u>\$ 9,322</u> | <u>\$ 97,491</u> |

STATE OF NEW MEXICO
Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Net Assets
June 30, 2010

Schedule A-3

| | <u>Section 8 Housing Choice Vouchers Program</u> |
|--|--|
| ASSETS | |
| <i>Current assets:</i> | |
| Cash and cash equivalents | \$ 87,364 |
| Accounts receivable | 4,070 |
| <i>Total current assets</i> | <u>91,434</u> |
| <i>Noncurrent Assets:</i> | |
| Restricted cash and cash equivalents | 6,854 |
| Capital assets | 37,472 |
| Less: accumulated depreciation | <u>(37,472)</u> |
| <i>Total assets</i> | <u>\$ 98,288</u> |
| LIABILITIES AND NET ASSETS | |
| <i>Current liabilities:</i> | |
| Accounts payable | \$ 1,000 |
| Accrued payroll | 384 |
| Current portion of long term debt | 3,545 |
| Compensated absences, current portion | <u>1,727</u> |
| <i>Total current liabilities</i> | <u>6,656</u> |
| <i>Non-current liabilities:</i> | |
| Notes payable, net of current portion | 757 |
| Compensated absences, long term debt portion | <u>385</u> |
| <i>Total non-current liabilities</i> | <u>1,142</u> |
| <i>Total liabilities</i> | <u>7,798</u> |
| <i>Net assets:</i> | |
| Restricted for: | |
| Housing assistance payments equity | 6,854 |
| Unrestricted | <u>83,636</u> |
| <i>Total net assets</i> | <u>90,490</u> |
| <i>Total liabilities and net assets</i> | <u>\$ 98,288</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ending June 30, 2010

Schedule A-4

| | Section 8 Housing Choice Vouchers Program |
|--|---|
| <i>Operating revenues</i> | |
| Tenant charges | \$ - |
| <i>Total operating revenues</i> | - |
| <i>Operating expenses</i> | |
| Personnel services | 38,249 |
| Utilities | 4,434 |
| Maintenance and materials | 1,617 |
| Housing assistance payments | 578,416 |
| Tenant services- other | 5,271 |
| Miscellaneous expenses | 12,034 |
| <i>Total operating expenses</i> | 640,021 |
| <i>Operating (loss)</i> | (640,021) |
| <i>Non-operating revenues (expenses)</i> | |
| Federal grants | 614,043 |
| Interest income | - |
| Interest expense | (125) |
| Miscellaneous income | - |
| <i>Total non-operating revenues (expenses)</i> | 613,918 |
| <i>Change in net assets</i> | (26,103) |
| <i>Net assets, beginning of year</i> | 116,593 |
| <i>Net assets, end of year</i> | \$ 90,490 |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Cash Flows
Proprietary Funds
For the Year Ending June 30, 2010

Schedule A-5

| | <u>Section 8 Housing Choice Vouchers Program</u> |
|--|--|
| <i>Cash flows from operating activities:</i> | |
| Cash payments to employees for services | \$ (39,052) |
| Cash payments to suppliers for goods and services | <u>(604,773)</u> |
| <i>Net cash (used) by operating activities</i> | <u>(643,825)</u> |
| <i>Cash flows from noncapital financing activities:</i> | |
| Federal grants | 614,043 |
| Miscellaneous income | 600 |
| Change in noncurrent accrued compensated absences | <u>(625)</u> |
| <i>Net cash provided by noncapital financing activities</i> | <u>614,018</u> |
| <i>Cash flows from capital and related financing activities:</i> | |
| Principal payments on notes | (3,475) |
| Interest Paid | <u>(125)</u> |
| <i>Net cash (used) by capital and related financing activities</i> | <u>(3,600)</u> |
| <i>Net (decrease) in cash and cash equivalents</i> | (33,407) |
| <i>Cash and cash equivalents - beginning of year</i> | <u>127,625</u> |
| <i>Cash and cash equivalents - end of year</i> | <u>\$ 94,218</u> |
| <i>Reconciliation of operating (loss) to net cash provided (used) by operating activities:</i> | |
| Operating (loss) | (640,022) |
| <i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i> | |
| <i>Changes in assets and liabilities:</i> | |
| Accounts payable | (3,000) |
| Accrued payroll expenses | <u>(803)</u> |
| <i>Net cash (used) by operating activities</i> | <u>\$ (643,825)</u> |
| <i>Reconciliation of total cash and cash equivalents:</i> | |
| Cash and cash equivalents | \$ 87,364 |
| Restricted cash and cash equivalents | <u>6,854</u> |
| <i>Total cash and cash equivalents</i> | <u>\$ 94,218</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Revenues, Expenses and Changes in
Net Assets - Budget (GAAP Basis) and Actual
Section 8 Housing Choice Vouchers Program
For the Year Ending June 30, 2010

Schedule A-6

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|-------|-------------------|---|
| | Original | Final | | |
| <i>Operating revenues:</i> | | | | |
| Tenant charges | \$ - | \$ - | \$ - | \$ - |
| <i>Total operating revenues</i> | - | - | - | - |
| <i>Operating expenses:</i> | | | | |
| Administration | - | - | 38,249 | (38,249) |
| Utilities | - | - | 4,434 | (4,434) |
| Ordinary maintenance and operations | - | - | 1,617 | (1,617) |
| Housing assistance payments | - | - | 583,687 | (583,687) |
| Miscellaneous | - | - | 12,035 | 12,035 |
| <i>Total operating expenses</i> | - | - | 640,022 | (615,952) |
| <i>Operating Income (loss)</i> | - | - | (640,022) | (615,952) |
| <i>Non-operating revenues (expenses):</i> | | | | |
| Operating grants | - | - | 614,043 | 614,043 |
| Interest income | - | - | - | - |
| Interest expense | - | - | (125) | (125) |
| Miscellaneous income | - | - | - | - |
| <i>Total non-operating revenues (expenses)</i> | - | - | 613,918 | 613,918 |
| <i>Change in net assets</i> | \$ - | \$ - | \$ (26,104) | \$ (26,104) |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-1

Town of Mountainair

Correction Fees Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances Favorable (Unfavorable) |
|--|------------------|--------------|---------------------|---|
| | Original | Final | (Non-GAAP Basis) | Final to Actual |
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | 3,800 | 3,800 | 3,151 | (649) |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>3,800</u> | <u>3,800</u> | <u>3,151</u> | <u>(649)</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | - | - | - | - |
| Public safety | 3,800 | 3,800 | 3,868 | (68) |
| Culture and recreation | - | - | - | - |
| <i>Total expenditures</i> | <u>3,800</u> | <u>3,800</u> | <u>3,868</u> | <u>(68)</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>(717)</u> | <u>(717)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balance</i> | - | - | (717) | (717) |
| <i>Fund balance - beginning of year</i> | - | - | 6,579 | 6,579 |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,862</u> | <u>\$ 5,862</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ (717) | |
| Adjustments to revenues for license and fees accruals | | | 32 | |
| No adjustments for expenditure accruals | | | - | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>\$ (685)</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-2

Town of Mountainair

EMS Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|--------------|---------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | 8,300 | 8,300 | 8,231 | (69) |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>8,300</u> | <u>8,300</u> | <u>8,231</u> | <u>(69)</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | - | - | - | - |
| Public safety | 8,300 | 8,300 | 9,380 | (1,080) |
| Public works | - | - | - | - |
| <i>Total expenditures</i> | <u>8,300</u> | <u>8,300</u> | <u>9,380</u> | <u>(1,080)</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>(1,149)</u> | <u>(1,149)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balance</i> | - | - | (1,149) | (1,149) |
| <i>Fund balance - beginning of year</i> | <u>-</u> | <u>-</u> | <u>1,149</u> | <u>1,149</u> |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ (1,149) | |
| No adjustments for revenue accruals | | | - | |
| Adjustments to expenditures for accounts payable | | | (419) | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>\$ (1,568)</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-3

Town of Mountainair

Law Enforcement Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|---------------|-------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues</i> | | | | |
| Taxes: | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| Intergovernmental: | | | | |
| State operating grants | 21,200 | 21,200 | 21,200 | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Investment income | - | - | - | - |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>21,200</u> | <u>21,200</u> | <u>21,200</u> | <u>-</u> |
| <i>Expenditures</i> | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | 12,000 | 12,000 | 8,213 | 3,787 |
| Public works | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Capital Outlay | 9,200 | 9,200 | - | 9,200 |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>21,200</u> | <u>21,200</u> | <u>8,213</u> | <u>12,987</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>12,987</u> | <u>12,987</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balance</i> | - | - | 12,987 | |
| <i>Fund balance - beginning of year</i> | - | - | 11,421 | 11,421 |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,408</u> | <u>\$ 11,421</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ 12,987 | |
| Adjustments to revenues for state operating grants accrual | | | (21,200) | |
| No adjustments for expenditure accruals | | | - | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>\$ (8,213)</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-4

Town of Mountainair

Lodger's Tax Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|--------------|--------------------|--|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | 4,100 | 4,100 | 8,854 | 4,754 |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Interest income | - | - | - | - |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>4,100</u> | <u>4,100</u> | <u>8,854</u> | <u>4,754</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Culture and recreation | 4,000 | 4,000 | 21,751 | (17,751) |
| Health and welfare | - | - | - | - |
| Capital Outlay | - | - | - | - |
| <i>Debt Service:</i> | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>4,000</u> | <u>4,000</u> | <u>21,751</u> | <u>(17,751)</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>100</u> | <u>100</u> | <u>(12,897)</u> | <u>(12,997)</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | (100) | (100) | - | 100 |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>(100)</u> | <u>(100)</u> | <u>-</u> | <u>100</u> |
| <i>Net change in fund balance</i> | - | - | (12,897) | (12,897) |
| <i>Fund balance - beginning of year</i> | - | - | 25,266 | 25,266 |
| <i>Fund Balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,369</u> | <u>\$ 12,369</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ (12,897) | |
| No adjustments for revenue accruals | | | - | |
| Adjustments to expenditures for accounts payable | | | (8,000) | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>\$ (20,897)</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-5

Town of Mountainair

Street Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variances |
|--|------------------|---------------|---------------------|---|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | 15,000 | 15,000 | 18,048 | 3,048 |
| Other | - | - | - | - |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>15,000</u> | <u>15,000</u> | <u>18,048</u> | <u>3,048</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | 15,000 | 15,000 | 4,438 | 10,562 |
| Culture and recreation | - | - | - | - |
| <i>Total expenditures</i> | <u>15,000</u> | <u>15,000</u> | <u>4,438</u> | <u>10,562</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | - | - | 13,610 | 13,610 |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | - | - | - | - |
| <i>Net change in fund balance</i> | - | - | 13,610 | 13,610 |
| <i>Fund balance - beginning of year</i> | - | - | 38,635 | 38,635 |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 52,245</u> | <u>\$ 52,245</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ 13,610 | |
| Adjustments to revenue for gasoline and motor vehicle taxes accruals | | | 1,545 | |
| Adjustments to expenditures for accounts payable | | | (1,429) | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>\$ 13,726</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule B-6

Town of Mountainair

FEMA Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual | Variance |
|--|------------------|-------------|------------------|--|
| | Original | Final | (Non-GAAP Basis) | Favorable (Unfavorable) Final to Actual |
| <i>Revenues:</i> | | | | |
| <i>Taxes:</i> | | | | |
| Property | \$ - | \$ - | \$ - | \$ - |
| Gross receipts | - | - | - | - |
| Gasoline and motor vehicle | - | - | - | - |
| Other | - | - | - | - |
| <i>Intergovernmental:</i> | | | | |
| State operating grants | - | - | - | - |
| State capital grants | - | - | - | - |
| Charges for services | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Miscellaneous | - | - | - | - |
| <i>Total revenues</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Expenditures:</i> | | | | |
| <i>Current:</i> | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Capital Outlay | - | - | - | - |
| <i>Debt Service:</i> | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| <i>Total expenditures</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Excess (deficiency) of revenues over expenditures</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfer out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Net change in fund balance</i> | - | - | - | - |
| <i>Fund balance- beginning of year</i> | <u>-</u> | <u>-</u> | <u>9,322</u> | <u>9,322</u> |
| <i>Fund balance - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,322</u> | <u>\$ 9,322</u> |
| <i>Net change in fund balance (non-GAAP budgetary basis)</i> | | | \$ - | |
| No adjustment for revenue accruals | | | - | |
| No adjustments to expenditures for accruals | | | - | |
| <i>Net change in fund balance (GAAP)</i> | | | <u>-</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule C-1

Town of Mountainair

Natural Gas Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------------|------------------------|--|
| | Original | Final | | |
| <i>Operating revenues:</i> | | | | |
| Charges for services | \$ 556,200 | \$ 556,200 | \$ 671,690 | \$ 115,490 |
| <i>Total operating revenues</i> | <u>556,200</u> | <u>556,200</u> | <u>707,404</u> | <u>151,204</u> |
| <i>Operating expenses:</i> | | | | |
| Current: | | | | |
| Cost of gas sold | 350,000 | 350,000 | 288,441 | 61,559 |
| Salaries | 750 | 2,050 | 1,319 | 731 |
| Supplies | 2,000 | 4,000 | 3,082 | 918 |
| Contract services | 4,000 | 700 | 800 | (100) |
| Other operating expenses | 59,500 | 59,500 | 53,204 | 6,296 |
| <i>Total operating expenses</i> | <u>416,250</u> | <u>416,250</u> | <u>346,846</u> | <u>69,404</u> |
| <i>Operating income (loss)</i> | <u>139,950</u> | <u>139,950</u> | <u>360,558</u> | <u>220,608</u> |
| <i>Non-operating revenues (expenses):</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Interest income | 2,000 | 2,000 | 476 | (1,524) |
| Interest expense | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>2,000</u> | <u>2,000</u> | <u>476</u> | <u>(1,524)</u> |
| <i>Change in net assets</i> | | | 361,034 | 219,084 |
| <i>Net assets - beginning of year</i> | | | 63,012 | |
| <i>Net assets - end of year</i> | | | <u>\$ 424,046</u> | |
| <i>Changes in net assets, above</i> | | | 361,034 | |
| <i>Depreciation</i> | | | <u>14,931</u> | |
| <i>Change in net assets, Exhibit D-2</i> | | | <u>\$ 346,103</u> | |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule C-2

Town of Mountainair

Water Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances |
|---|--------------------|--------------------|------------------------|---|
| | Original | Final | | Favorable (Unfavorable) Final to Actual |
| <i>Operating revenues:</i> | | | | |
| Charges for services | \$ 259,000 | \$ 259,000 | \$ 287,426 | \$ 28,426 |
| <i>Total operating revenues</i> | <u>259,000</u> | <u>259,000</u> | <u>323,140</u> | <u>64,140</u> |
| <i>Operating expenses:</i> | | | | |
| Current: | | | | |
| Salaries | 154,809 | 154,809 | 160,992 | (6,183) |
| Supplies | - | - | - | - |
| Contract services | - | - | - | - |
| Capital outlay | 15,000 | 18,475 | - | 18,475 |
| Other operating expenses | <u>92,750</u> | <u>92,750</u> | <u>122,367</u> | <u>(29,617)</u> |
| <i>Total operating expenses</i> | <u>262,559</u> | <u>266,034</u> | <u>283,359</u> | <u>(17,325)</u> |
| <i>Operating income (loss)</i> | <u>(3,559)</u> | <u>(7,034)</u> | <u>39,781</u> | <u>46,815</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | (38,837) | (38,837) | - | 38,837 |
| Interest income | 250 | 250 | 334 | 84 |
| Miscellaneous income | 4,000 | 4,000 | 177,394 | 173,394 |
| Interest expense | - | - | - | - |
| Transfers in | (4,140) | (4,140) | - | 4,140 |
| Transfers out | <u>(7,000)</u> | <u>(7,000)</u> | <u>-</u> | <u>7,000</u> |
| <i>Total other financing sources (uses)</i> | <u>(45,727)</u> | <u>(45,727)</u> | <u>177,728</u> | <u>223,455</u> |
| <i>Change in net assets</i> | (49,286) | (52,761) | 217,509 | 270,270 |
| <i>Net assets - beginning of year</i> | <u>-</u> | <u>-</u> | <u>296,812</u> | <u>296,812</u> |
| <i>Net assets - end of year</i> | <u>\$ (49,286)</u> | <u>\$ (52,761)</u> | <u>\$ 514,321</u> | <u>\$ 567,082</u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Schedule C-3

Town of Mountainair

Solid Waste Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (GAAP Basis) and Actual

For the Year Ending June 30, 2010

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Favorable (Unfavorable) Final to Actual |
|---|------------------|----------------|------------------------|--|
| | Original | Final | | |
| <i>Operating revenues:</i> | | | | |
| Charges for services | \$ 110,000 | \$ 110,000 | \$ 142,771 | \$ 32,771 |
| Licenses and fees | - | - | - | - |
| Interest income | - | - | - | - |
| Miscellaneous | - | - | 35,714 | 35,714 |
| <i>Total operating revenues</i> | <u>110,000</u> | <u>110,000</u> | <u>178,485</u> | <u>68,485</u> |
| <i>Operating expenses:</i> | | | | |
| Current: | | | | |
| Cost of gas sold | - | - | - | - |
| Salaries | - | - | - | - |
| Supplies | - | - | - | - |
| Depreciation | - | - | - | - |
| Contract services | 82,320 | 82,320 | 141,030 | (58,710) |
| Other operating expenses | 27,000 | 27,000 | 13,712 | 13,288 |
| <i>Total operating expenses</i> | <u>109,320</u> | <u>109,320</u> | <u>154,742</u> | <u>(45,422)</u> |
| <i>Operating income (loss)</i> | <u>680</u> | <u>680</u> | <u>23,743</u> | <u>23,063</u> |
| <i>Other financing sources (uses)</i> | | | | |
| Designated cash (budgeted increase in cash) | - | - | - | - |
| Interest income | - | - | - | - |
| Interest expense | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| <i>Total other financing sources (uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Change in net assets</i> | <u>680</u> | <u>680</u> | <u>23,743</u> | <u>23,063</u> |
| <i>Net assets - beginning of year</i> | <u>-</u> | <u>-</u> | <u>945</u> | <u>945</u> |
| <i>Net assets - end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 24,688</u> | <u>\$ 24,008</u> |

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO

Schedule I

Town of Mountainair
 Schedule of Collateral Pledged by Depository for Public Funds
 June 30, 2010

| <u>Name of Depository</u> | <u>Description of Pledged Collateral</u> | <u>Maturity</u> | <u>CUSIP Number</u> | <u>Fair Market Value June 30, 2010</u> | <u>Location of Safekeeper</u> |
|-------------------------------|--|-----------------|-------------------------|--|-----------------------------------|
| Primary Government | | | | | |
| MyBank | | | | | |
| | US Agency - FHLB | 1/17/2015 | 3133XNUU1 | \$ 76,736 | Dallas, Texas |
| | US Agency - FHLB | 1/17/2015 | 3133XNUU1 | 102,315 | Dallas, Texas |
| | US Agency - FHLB | 2/18/2011 | 3133XSZ43 | <u>75,801</u> | Dallas, Texas |
| | Total MyBank | | | <u>254,852</u> | |
| | Total Pledged Collateral | | | <u><u>\$ 254,852</u></u> | |

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Mountainair
Schedule of Deposit and Investment Accounts
For the Year Ending June 30, 2010

Schedule II
Page 1 of 2

Primary Government

| Bank Account Type/Name | MyBank | Bank of Albuquerque | Total |
|---|-------------------|------------------------|-------------------|
| Deposits | | | |
| Checking - Natural Gas Revenue Fund | \$ 292,717 | \$ - | \$ 292,717 |
| Checking -Municipal Water | 58,848 | - | 58,848 |
| Checking - Payroll Account | 27,078 | - | 27,078 |
| Checking - Motor Vehicle | - | - | - |
| Checking - General Fund | 351,936 | - | 351,936 |
| Checking - Depreciation Replacement Account | 19,722 | - | 19,722 |
| Checking -Water Bond Fund | 1,967 | - | 1,967 |
| Certificate of Deposit -Water Bond- Investment | 18,096 | - | 18,096 |
| Total on deposit | <u>770,364</u> | <u>-</u> | <u>770,364</u> |
| Investments | | | |
| United States Treasury Money Market Mutual Funds-NMFA | - | 3,075 | 3,075 |
| New MexiGROW LGIP | 409 | - | 409 |
| LGIP Reserve Contingency Fund | 10 | - | 10 |
| Total investments | <u>419</u> | <u>3,075</u> | <u>3,494</u> |
| Total deposits and investments | 770,783 | 3,075 | 773,858 |
| Reconciling items | <u>(15,628)</u> | <u>-</u> | <u>(15,628)</u> |
| Reconciled balance | <u>\$ 755,155</u> | <u>\$ 3,075</u> | <u>\$ 758,230</u> |
| Total unrestricted cash and cash equivalents per Exhibit A-1 | | | \$ 689,697 |
| Total restricted cash and cash equivalents per Exhibit A-1 | | | 50,017 |
| Total Investments per Exhibit A-1 | | | <u>18,516</u> |
| Total cash and cash equivalents and investments per Exhibit A-1 | | | <u>\$ 758,230</u> |

See accompanying independent auditors' report

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Deposit and Investment Accounts
June 30, 2010

Component Unit

| Bank Account Type/Name | Wells Fargo Bank |
|--|------------------|
| Checking -Section 8 Housing | \$ 106,663 |
| Total on deposit | 106,663 |
| Reconciling items | <u>(12,495)</u> |
| Reconciled balance | <u>\$ 94,168</u> |
| Total unrestricted cash and cash equivalents per Exhibit A-1 | \$ 87,314 |
| Total restricted cash and cash equivalents per Exhibit A-1 | <u>6,854</u> |
| Total cash and cash equivalents per Exhibit A-1 | <u>\$ 94,168</u> |

See accompanying independent auditors' report

STATE OF NEW MEXICO
Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Financial Data Schedule
June 30, 2010

Schedule III
Page 1 of 2

| Line Item Number | Account Description | Section 8 Housing Choice Vouchers Program |
|-------------------------|---|---|
| Current assets: | | |
| 111 | Cash - unrestricted | \$ 87,364 |
| 113 | Cash - other restricted | <u>6,854</u> |
| 100 | Total cash | <u>94,218</u> |
| 125 | Accounts receivable - miscellaneous | <u>4,070</u> |
| 120 | Total receivables, net of allowance for doubtful accounts | <u>4,070</u> |
| 150 | Total current assets | <u>98,288</u> |
| Fixed assets: | | |
| 164 | Furniture, equipment & machinery - administration | 37,472 |
| 166 | Accumulated depreciation | <u>(37,472)</u> |
| 160 | Total fixed assets, net of accumulated depreciation | <u>-</u> |
| 180 | Total non current assets | <u>-</u> |
| 190 | Total assets | <u><u>\$ 98,288</u></u> |
| Current liabilities: | | |
| 312 | Accounts payable ≤ 90 Days | 1,000 |
| 321 | Accrued wage/payroll taxes payable | 384 |
| 322 | Accrued compensated absences - current portion | 1,727 |
| 344 | Current portion of long-term debt - operating borrowings | <u>3,545</u> |
| 310 | Total current liabilities | <u>6,656</u> |
| Noncurrent liabilities: | | |
| 352 | Long-term debt, net of current - operating borrowings | 757 |
| 354 | Accrued compensated absences - noncurrent | <u>385</u> |
| 350 | Total noncurrent liabilities | <u>1,142</u> |
| 300 | Total liabilities | <u>\$ 7,798</u> |
| Net assets: | | |
| 511.1 | Restricted net assets | 6,854 |
| 512.1 | Unrestricted net assets | <u>83,636</u> |
| 513 | Total equity/net assets | <u>90,490</u> |
| 600 | Total liabilities and equity/net assets | <u><u>\$ 98,288</u></u> |

See accompanying independent auditors' report

| Line Item Number | Account Description | Section 8 Housing Choice Vouchers Program |
|------------------------|--|---|
| Revenue: | | |
| 705 | Total tenant revenue | \$ - |
| 704 | Tenant revenue - other | - |
| 706 | HUD PHA operating grants | <u>614,043</u> |
| 700 | Total revenue | <u>\$ 614,043</u> |
| Expenses: | | |
| 911 | Administrative salaries | \$ 31,583 |
| 912 | Auditing fees | 7,500 |
| 915 | Employee benefit contributions - administrative | 5,331 |
| 916 | Other operating - administrative | <u>1,335</u> |
| | Administration | <u>45,749</u> |
| 924 | Tenant services - other | <u>6,984</u> |
| | Tenant services | <u>6,984</u> |
| 931 | Water | 135 |
| 938 | Other utilities expense | <u>4,299</u> |
| | Utilities | <u>4,434</u> |
| 943 | Ordinary maintenance & operation - contract costs | <u>1,617</u> |
| | Ordinary maintenance | <u>1,617</u> |
| 962 | Other general expenses | 4,534 |
| 967 | Interest expense | <u>125</u> |
| | General | <u>4,659</u> |
| 969 | Total operating expenses | <u>63,443</u> |
| 970 | Excess operating revenue over operating expenses | <u>550,600</u> |
| 973 | Housing assistance payments | <u>576,703</u> |
| 900 | Total expenses | <u>\$ 640,146</u> |
| 1000 | Excess (deficiency) of operating revenue over (under) expenses | (26,103) |
| 1103 | Beginning equity | <u>116,593</u> |
| | Ending equity | <u>\$ 90,490</u> |

See accompanying independent auditors' report

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COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

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

Hector Balderas
New Mexico State Auditor
The United States Office of Management and Budget and
The Town Council
Mountainair, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the budgetary comparison of the general fund, the fire protection fund and recreation fund and the aggregate remaining fund information of the Town of Mountainair, New Mexico (the “Town”), as of and for the year ended June 30, 2010, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 29, 2010. Our opinion was qualified because we were unable to verify the cost of capital assets, the related accumulated depreciation and the current year depreciation expense, therefore, we were unable to determine the effect, if any, on net assets and the change in net assets. We have also have audited the financial statements of each of the Town’s nonmajor governmental funds and budgetary comparisons for the proprietary funds, and the remaining nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 questioned costs as items FS 2005-01, FS 2007-05, FS 2008-01, and FS 2010-02, to be material weaknesses.

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 questioned costs as items FS 2007-04, and FS 2009-01, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item FS 2009-04.

We also noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings FS 2005-01, FS2005-06, FS 2010-01, FS 2010-03 and FS 2009-04-CU.

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

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 29, 2010

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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

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

Hector Balderas
New Mexico State Auditor
The United States Office of Management and Budget and
To the Honorable Mayor and Council Members
Town of Mountainair
Mountainair, New Mexico

Compliance

We have audited the compliance of Town of Mountainair, New Mexico (“the Town”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The Town’s major federal program is identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town’s management. Our responsibility is to express an opinion on the Town’s compliance based on our audit.

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

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
November 29, 2010

STATE OF NEW MEXICO
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Schedule of Expenditures of Federal Awards
For the Year Ending June 30, 2010

Schedule VI

| Federal Grantor Program Title | Federal CFDA Number | Federal Expenditures |
|---|---------------------------|--------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | |
| Direct Programs: | | |
| Section 8 Housing Choice Vouchers | 14.871 | \$ 640,147 * |
| Total U.S. Department of Housing and Urban Development | | <u>640,147</u> |
| Total Expenditures of Federal Awards | | <u><u>\$ 640,147</u></u> |

* Major Program

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

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

2. Sub-recipients

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

See accompanying independent auditors' report

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Findings and Questioned Costs
For the Year Ending June 30, 2010

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|-----------|
| 1. Type of auditors’ report issued | Qualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | | | | |
|---|-----------------------------------|------------------------|--------|-----------------------------------|--|
| 1. Internal control over major programs: | | | | | |
| a. Material weaknesses identified? | No | | | | |
| b. Significant deficiencies identified not considered to be material weaknesses? | No | | | | |
| 2. Type of auditors’ report issued on compliance for major programs | Unqualified | | | | |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No | | | | |
| 4. Identification of major programs: | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u>CFDA Number</u></td> <td style="width: 50%; text-align: center;"><u>Federal Program</u></td> </tr> <tr> <td style="text-align: center;">14.871</td> <td style="text-align: center;">Section 8 Housing Choice Vouchers</td> </tr> </table> | <u>CFDA Number</u> | <u>Federal Program</u> | 14.871 | Section 8 Housing Choice Vouchers | |
| <u>CFDA Number</u> | <u>Federal Program</u> | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | |
| 6. Auditee qualified as low-risk auditee? | Yes | | | | |

SECTION II – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT AND COMPONENT UNIT

FS 2007-05 — Preparation of Financial Statements – (Repeat/Modified)

Condition: The financial statements and related disclosures are not being prepared by the Town and component unit.

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures.

Effect: When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Cause: The Town and component unit's personnel do not have the time and have not been adequately trained in understanding the elements of external financial reporting including the preparation of financial statements and related footnote disclosures.

Auditors' Recommendation: We recommend Town and component unit's management and personnel receive training on understanding the requirements of external financial reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
 - Governmental Accounting Standards Board (GASB)
 - Generally Accepted Accounting Principles (specifically as applied to governmental units)
 - Financial Accounting Standards Board (FASB)
 - U.S. Department of Housing and Urban Development (as applied to housing authorities)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
 - Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

In addition, we recommend that they develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency's Response: The Town's realizes this is an issue with the Town of Mountainair and will continue to be a finding on our part. We have only three employees in the office and due to the fact it is time consuming and we do not have the man power to do this. We can only try to do the best we can to modify the problem. The Housing Authority will contact the audit firm in advance before the audit begins to get a listing of what the Housing Authority is to have available for the auditor.

SECTION II – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT AND COMPONENT UNIT (continued)

FS 2008-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight- (Repeat/ Modified)

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

Primary Government

- There are no fraud assessments done at the Town.
- No supporting documentation for manual journal entries and there aren't any segregation of duties or monitoring for the journal entry process.
- Material adjustments were required for cash, accounts receivable, accrued payroll, and accounts payable.
- Lack of segregation of duties in the process of preparing disbursements. It was observed that the Treasurer is responsible for authorizing purchase orders, preparing the payment vouchers, posting expenditures to the general ledger, and correcting errors in posting to the general ledger.
- Lack of segregation of duties in the process of payroll and other related processes. It was observed that the Treasurer performs all the duties and functions that are required to process payroll without review by another party and also enters new employees and updates employee information in the accounting system.
- Lack of segregation of duties in the process of depositing cash and other related processes. It was observed that the Treasurer performs all the duties and functions that are required deposit, reconcile, or adjust cash without review by another party and also enters new employees and updates employee information in the accounting system.
- The Town has not developed a formal deposit policy that limits the government's allowable deposit and addresses the specific types of risk to which the government is exposed.
- Changes to the vendor master file are not periodically reviewed for reasonableness.
- The payroll system master file change log, showing all changes made to payroll information, is not reviewed by management to ensure it reflects accurate and complete information.
- Current payrolls are not compared with previous payrolls and variances are investigated and documented.
- Management has not established practices for the identification of risks affecting the entity as well as appropriate fraud risk assessment and monitoring processes.
- Management does not implement controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.

Component Unit

- There are no fraud assessments done at the Housing Authority.
- A backup and data retention policy/schedule - no formalized policy in place, even though an employee backs up monthly on the server on a thumb drive and tests the recoverability once a month.
- Information security policy - no formalized policy in place.
- Change management policy - no formalized policy in place.

SECTION II – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT AND COMPONENT UNIT (continued)

FS 2008-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight- (Repeat/ Modified) (Continued)

- Lack of segregation of duties in the process of preparing disbursements, and depositing cash and other related procedures. It was observed that the Finance Director performs all duties without review by another party.

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

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

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

Cause: For the fiscal year 2010 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the Town document internal control policies and that the governing body review and approve them. We also recommend the Town design and implement controls to ensure accurate and timely financial reporting to reduce the risk of material misstatements.

Agency's Response: This is another problem we have due to lack of personnel in City Hall. We do have job descriptions that state what we are to do in the office. This does not limit us to do just one specific duty. We do help check each others work such as deposits, daily's, receipts, and readings on the gas and water bills. We can implement controls and add them to the job descriptions to help modify the problem. The Housing Authority will adopt and approve policies. Security policies, and management policies. The Executive Director will research with other housing authorities their security and management policies to adopt, and approve these policies.

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Findings and Questioned Costs
For the Year Ending June 30, 2010

Schedule VII
Page 5 of 11

SECTION II – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT AND COMPONENT UNIT (continued)

FS 2010-03 — Late Audit Report

Condition: The Town did not issue its audit report by December 1, 2010 deadline.

Criteria: The Town is required to submit its audit report for the year ended June 30, 2010 on or before December 1 subsequent to the fiscal year end in accordance with State Statute (Chapter 12, Section 6: NMSA 1978) and Section 2.2.2.9.A (1) of NMAC.

Effect: The Town could be affected by a late submission by not catching problems in a timely fashion to correct findings. The financial statements are not available for use by the Town in a timely fashion for purposes such as debt applications.

Cause: The report was submitted on December 1, 2010 to the State Auditor, who rejected the audit report due to their new interpretation of state law regarding budgetary compliance for municipalities.

Auditors' Recommendations: The Town must ensure that all future audit reports are filed in a timely manner with all of the required disclosures.

Agency's Response: The Town of Mountainair will make sure that all future reports are filed on time and with all of the required disclosures for the the up coming years. We will try very hard not to let this happen again.

STATE OF NEW MEXICO
 Town of Mountainair
 Schedule of Findings and Questioned Costs
 For the Year Ending June 30, 2010

SECTION III – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT

FS 2005-01 —Lack of Adequate Documentation for Expenditures (Repeat/ Modified)

Condition: The Town’s policy is to have a written purchase order for all nonrecurring purchases, however, during our disbursements test work we noted 3 instances out of 10 totaling \$2,926 when the Town did not have a completed P.O. before the purchase was made. In addition, the Town is required to date stamp when paid to cancel the invoice, however, during our disbursement testwork we noted 1 instance out of 10 totaling \$2,755 was missing a date stamp.

Criteria: NMSA Section 13-1-1 to 13-1-20 requires the Town to establish and implement written policies and procedures for purchasing which shall be in compliance with the procurement Code, Section 13-1-21 et seq., NMSA 1978.

Effect: Having lack of authorization for purchases made increases the risk for misappropriation, budget over expending, or fraudulent activities. In addition not date stamping an invoice increases the chance of duplicate payments.

Cause: There was an oversight in the internal control process, and items were not authorized through a P.O. before the purchase was made. The Town overlooked the date stamp procedure.

Auditors’ Recommendations: We recommend the Town follow their policies and procedures, and state statute for all transactions.

Agency’s Response: Sometimes we have instances where things are done on a Saturday or a day that the City Hall is closed and the purchase order is done on the following day and considered an emergency situation. We will try to be more observant on the issuing of purchase orders and have sent out memos to all departments concerning this matter. No Purchase order means that you are held responsible for the purchase.

FS 2005-06 —Budgetary Noncompliance- (Repeat/ Modified)

Condition: The Town following funds exceeded approved budgetary authority for the year ended June 30, 2010:

| <u>Fund</u> | Approved Excess <u>(Deficiency)</u> | Actual Excess <u>(Deficiency)</u> | Amount <u>Exceeded</u> |
|----------------------|---|---|---------------------------|
| Correction Fees Fund | \$ - | \$ (717) | \$ 717 |
| EMS Fund | - | (1,149) | 1,149 |
| Lodger’s Tax Fund | 100 | (12,897) | 12,997 |

Criteria: A budget is a proposed plan of financial operations for a given period of time. The annual budget authorizes and provides the basis for control of financial operations during the fiscal year. The Town cannot exceed its budget as required by NMSA 1978 Section 6-6-1 to 6-6-19.

Cause: The Town did not adequately monitor its budget in these areas. Expenditures were approved in excess of available budget or budget adjustments were not approved and journal entries were not made to cover the expenditure approved.

Effect: The Town is spending funds that were not authorized by the Town Council.

Auditors’ Recommendation: We recommend that expenditures not be approved which would cause the budget to be exceeded. We also recommend that timely budget adjustments be prepared when necessary.

Agency’s Response: We have a new Council and have DFA and Local Government come and help explain the budget and its procedures that we need to follow. The actual expenditure were approved by the Council but needed to be adjusted accordingly. We will keep a closer watch on the expenditures and do the adjustments needed.

SECTION III – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (continued)

FS 2007-04 — Insufficient Insurance coverage – (Repeat)

Condition: During our testwork of insurance, we discovered that the Town does not have adequate insurance coverage in relationship to recorded assets.

Criteria: Sound business practices require entities to have adequate insurance coverage in relationship to recorded assets.

Effect: Without policies and procedures to insure proper insurance coverage, the Town does not have enough coverage for the assets that are on the books.

Cause: The Town does not have adequate policies and procedures to follow up on asset additions, and insure correct insurance coverage for the assets that are on their books.

Auditors' Recommendation: Develop a formal policy and implement procedures to review asset additions in order to have enough insurance coverage for all assets on their books.

Agency's Response: We will have the issue on the campground insurance coverage resolved quickly.

FS 2009-01 Payroll Authorization (Repeat/Modified)

Condition: During our testwork of payroll it was noted that four of the five timecards tested did not have a department head or equivalent signature. Timecards are required to be signed by department supervisors approving the employees hours. Total amount of gross pay without authorization totaled \$3,231.

Criteria: Good internal controls and sound business practice requires that the Town provide adequate control over the authorization of payroll hours paid to employees.

Effect: Because the internal control structure is not consistently followed, management and staff are unable to prevent unauthorized hours being paid during the payroll process.

Cause: The Town failed to follow its own policy regarding timecard authorization.

Auditor's Recommendation: The Town should begin to follow key controls that are in place and verify that all timecards are properly authorized to ensure that internal controls over the payroll process are operating effectively.

Agency's Response: The department heads signed the time cards. The supervisor then turned the time cards into the Town Clerk which then gave them to the Treasurer. The only time cards not signed were the supervisors. The policy states that the department heads sign the time cards. We all use the same type of time card and if the department head needs a signature on it then our policy does not state this. Also, we will have the Mayor sign the supervisor's time cards and eliminate the problem.

STATE OF NEW MEXICO
 Town of Mountainair
 Schedule of Findings and Questioned Costs
 For the Year Ending June 30, 2010

SECTION III – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (continued)

FS 2010-01 — Cash Appropriations in Excess of Available Cash Balances

Condition: The Town rebudgeted “cash balances” in excess of available cash balances in the following funds:

| | Designated Cash | Beginning Year Cash & AR Available | Cash Appropriation in excess of available |
|-----------------|--------------------|--|---|
| Recreation Fund | \$ 148,600 | \$ 130,419 | \$ 18,181 |

Criteria: Per Section 6-6-11 NMSA, it is unlawful for any board of Town commissioners, municipal governing body or any purpose whatsoever to become indebted or contract any debts of any kind or mature whatsoever during any current year which, at the end of such current year, is not and cannot then be paid out of the money actually collected and belonging to that current year.

Effect: The Town has budgeted cash balances that do not exist. If the Town expends all budgeted expenditures it could incur debt if the budgeted designated cash does not exist.

Cause: The reason for these deficits is inadequate monitoring of cash available to be rebudgeted.

Auditors’ Recommendations: The budget should be reviewed to insure all funds have adequate budget authority and cash balances for budgeted expenditures. Greater attention should be given to the budget monitoring process end-of-the-year cash balance estimates for all funds. Budgets should be amended for over-appropriated funds once a year.

Agency’s Response: The budget will be reviewed and will pay more attention to the end of the year cash balances for all funds and amend for over appropriated funds.

FS 2010-02 Capital Assets

Condition: The capital asset inventory system was not being reconciled. Ending capital assets balance at prior year end did not agree with current year beginning balance. Current year depreciation is not being calculated correctly. Upon entry of asset into the asset system a full year of depreciation will be taken no matter the date of service.

Criteria: Section 2.20.1 of NMAC requires agencies to properly account for capital assets. The required capital asset accounting system is described in Section 2.20.1.8 of NMAC. Proper controls over the capital assets are described in Section 2.20.1.15 of NMAC. The statutory annual inventory requirement is described in Section 2.20.1.16 of NMAC. Section 12-6-10 NMSA 1978 requires that the agency’s capital asset inventory list any item costing more than \$5,000, effective June 17, 2005. Per guidance from the State Auditor dated September 8, 2006, the older capital asset items that did not meet the new capitalization threshold were supposed to remain on the list until they are disposed of in accordance with applicable statutes.

Effect: Without proper accounting for capital asset additions, deletions, and depreciation the financial statements of the Town may be misstated.

Cause: The Town does not have an sufficient internal control system in place to properly account for capital assets.

Auditors’ Recommendation: We recommend the Town properly account for capital assets and related depreciation.

Agency’s Response: The program that was created for the capital assets did not work properly. We tried to correct but it still did not work. We will have the program fixed and this problem will be corrected. I will also work with auditor’s in getting the right beginning amounts to reprocess the list so that the depreciation amounts are correct.

SECTION IV – FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

FS 2009-04- CU- Budgets not being prepared

Condition: The Housing Authority has not legally adopted a budget.

Criteria: Audit Rule Section 2.2.2.10 A. Scope of Annual Financial Audit subsection, an “legally adopted budget” must be developed any time an agency receives federal, state, or any other appropriated funds.

Effect: Since budgets are not prepared the Housing Authority has no way to determine if they are expending more than the budget allows, or find discrepancies that could be the result of fraudulent activities.

Cause: The Housing Authority qualifies for SEMAP deregulation and therefore did not prepare budgets.

Auditors’ Recommendation: We recommend that the Housing Authority prepared a legally adopted budget to remain in compliance with State Audit Rule.

Agency’s Response: The Housing Authority did prepare an estimated 2009-2010 operating budget, but it was not given to the board of commissioners for their approval. At the next scheduled quorum board meeting an operating budget will be on the agenda for approval.

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Findings and Questioned Costs
For the Year Ending June 30, 2010

Schedule VII
Page 10 of 11

SECTION V – FEDERAL AWARD FINDINGS

No findings.

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Findings and Questioned Costs
For the Year Ending June 30, 2010

Schedule VII
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SECTION VI – PRIOR YEAR AUDIT FINDINGS

Prior Year Audit Findings – Primary Government and Component Unit

FS 2005-01: Lack of Authorization for Expenditures, Repeated and Modified

FS 2005-06: Budget Over-Expenditure, Repeated and Modified

FS 2007-04: Insufficient Insurance Coverage, Repeated

FS 2007-05: Preparation of Financial Statements, Repeated and Modified

FS 2008-01: Deficiencies in Internal Control Structure Design, Operation, and Oversight, Repeated and Modified

FS 2009-01: Payroll Authorization, Repeated and Modified

FS 2009-02: Incorrect Billings for Utilities, Resolved

FS 2009-02: CU- Entity Level and Activity Level Internal Control Weaknesses, Resolved

FS 2009-04: CU- Budgets not Being Prepared, Repeated

STATE OF NEW MEXICO
Town of Mountainair
Other Disclosures
For the Year Ended June 30, 2010

OTHER DISCLOSURES

Exit Conference

An exit conference was held on November 29, 2010. In attendance were the following:

Representing the Town of Mountainair:

Chester Riley, Mayor
Suzan Brazil, Town Clerk
Annebelle Torres, Housing Executive Director
Donna Lajeunesse, Housing Authority Board Member

Representing Accounting & Consulting Grouping, LLP:

James Hartogenesis, CPA

Auditor Prepared Financial Statements

Although it would be preferred and desirable for the Town to prepare its own financial statements, the Town's personnel did not have the time to prepare them. Accounting and Consulting Group, LLP prepared the financial statements of the Town of Mountainair from the original books and records provided to them by the management of the Town. The Town of Mountainair is responsible for the contents of the report.