

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
TOWN OF MOUNTAINAIR
ANNUAL FINANCIAL REPORT
JUNE 30, 2012



STATE OF NEW MEXICO
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ANNUAL FINANCIAL REPORT
JUNE 30, 2012

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Town of Mountainair
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STATE OF NEW MEXICO

Town of Mountainair

Official Roster

June 30, 2012

TOWN COUNCIL

<u>Name</u>	<u>Title</u>
Chester Riley	Mayor
George Immerwhar	Mayor Pro tem
Larry Zamora	Councilor
Frank Anaya	Councilor
Barbara Chung	Councilor

ADMINISTRATION

Patricia Autrey	Judge
Suzan Brazil	Town Clerk
Kathy Anglin	Treasurer
Annabel Torres	Housing Authority Executive Director

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The U.S. Office of Management and Budget and
The Town Council
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 aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue fund of the Town of Mountainair, New Mexico (Town), as of and for the year ended June 30, 2012, 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 component unit funds and the respective budgetary comparisons for the remaining nonmajor governmental funds, proprietary funds and the component unit funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 such 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, 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 of the Town as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons referred to above present fairly, in all material respects, the respective budgetary comparisons for the year then ended in conformity with the cash basis of accounting and more fully described in note 2, which is a comprehensive basis of accounting other than 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, 2012 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.

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

Our audit was conducted for the purpose of forming opinions on the 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 U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying financial information listed as Supporting Schedules I through III in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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, 2012

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

Town of Mountainair
Statement of Net Assets
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 588,635	\$ 855,123	\$ 1,443,758	\$ 129,739
Investments	201,150	420	201,570	-
Property tax receivable	46,096	-	46,096	-
Other receivables	82,361	-	82,361	2,933
Customer receivables (net of allowance for doubtful accounts of \$45,919)	-	90,420	90,420	-
Due from primary government	-	-	-	7,200
Total Current Assets	<u>918,242</u>	<u>945,963</u>	<u>1,864,205</u>	<u>139,872</u>
Noncurrent Assets				
Restricted cash	-	53,244	53,244	-
Capital assets	2,189,034	2,078,207	4,267,241	62,951
Less: accumulated depreciation	<u>(1,733,571)</u>	<u>(1,820,309)</u>	<u>(3,553,880)</u>	<u>(40,206)</u>
Total Noncurrent Assets	<u>455,463</u>	<u>311,142</u>	<u>766,605</u>	<u>22,745</u>
Total Assets	<u>\$ 1,373,705</u>	<u>\$ 1,257,105</u>	<u>\$ 2,630,810</u>	<u>\$ 162,617</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	\$ 26,478	\$ 19,171	\$ 45,649	\$ -
Accrued payroll	4,519	3,194	7,713	593
Due to component unit	7,200	-	7,200	-
Accrued compensated absences	6,526	3,624	10,150	1,765
Accrued interest	446	-	446	-
Customer deposits	-	53,244	53,244	-
Current portion of notes and leases payable	19,947	-	19,947	4,153
Total Current Liabilities	<u>65,116</u>	<u>79,233</u>	<u>144,349</u>	<u>6,511</u>
Noncurrent Liabilities				
Accrued compensated absences	6,107	12,368	18,475	1,858
Notes and leases payable	147,423	-	147,423	12,312
Total Noncurrent Liabilities	<u>153,530</u>	<u>12,368</u>	<u>165,898</u>	<u>14,170</u>
Total Liabilities	<u>218,646</u>	<u>91,601</u>	<u>310,247</u>	<u>20,681</u>
Net Assets				
Invested in capital assets, net of related debt	288,093	257,898	545,991	6,280
Restricted for:				
Housing assistance payments	-	-	-	87,798
Other purposes - special revenue	339,324	-	339,324	-
Unrestricted	527,642	907,606	1,435,248	47,858
Total Net Assets	<u>1,155,059</u>	<u>1,165,504</u>	<u>2,320,563</u>	<u>141,936</u>
Total Liabilities and Net Assets	<u>\$ 1,373,705</u>	<u>\$ 1,257,105</u>	<u>\$ 2,630,810</u>	<u>\$ 162,617</u>

STATE OF NEW MEXICO
Town of Mountainair
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary Government:			
General government	\$ 400,838	\$ 30,481	\$ 246,344
Public safety	156,401	23,419	122,201
Public works	21,896	-	-
Culture and recreation	39,226	7,490	25,000
Interest on long-term debt	3,048	-	-
<i>Total governmental activities</i>	<u>621,409</u>	<u>61,390</u>	<u>393,545</u>
Business-type Activities:			
Natural Gas	401,877	548,941	-
Water	350,509	303,235	-
Solid Waste	145,941	170,252	-
<i>Total business-type activities</i>	<u>898,327</u>	<u>1,022,428</u>	<u>-</u>
<i>Total</i>	<u>\$ 1,519,736</u>	<u>\$ 1,083,818</u>	<u>\$ 393,545</u>
Component unit:			
Housing Authority	<u>\$ 605,739</u>	<u>\$ -</u>	<u>624,703</u>

General Revenues

Taxes:
Property, levied for general purposes
Gross receipts
Gasoline and motor vehicle
Other
Investment income
Miscellaneous income

Total general revenues

Change in net assets

Net assets, beginning

Net assets restatement (Note 17)

Net assets, as restated

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
\$ (124,013)	\$ -	\$ (124,013)	\$ -
(10,781)	-	(10,781)	-
(21,896)	-	(21,896)	-
(6,736)	-	(6,736)	-
(3,048)	-	(3,048)	-
<u>(166,474)</u>	<u>-</u>	<u>(166,474)</u>	<u>-</u>
-	147,064	147,064	-
-	(47,274)	(47,274)	-
-	24,311	24,311	-
<u>-</u>	<u>124,101</u>	<u>124,101</u>	<u>-</u>
(166,474)	124,101	(42,373)	-
-	-	-	18,964
49,797	-	49,797	-
272,801	-	272,801	-
21,986	-	21,986	-
25,424	-	25,424	-
1,486	745	2,231	-
-	-	-	2,309
<u>371,494</u>	<u>745</u>	<u>372,239</u>	<u>2,309</u>
<u>205,020</u>	<u>124,846</u>	<u>329,866</u>	<u>21,273</u>
924,790	1,004,005	1,928,795	120,663
<u>25,249</u>	<u>36,653</u>	<u>61,902</u>	<u>-</u>
<u>950,039</u>	<u>1,040,658</u>	<u>1,990,697</u>	<u>120,663</u>
<u>\$ 1,155,059</u>	<u>\$ 1,165,504</u>	<u>\$ 2,320,563</u>	<u>\$ 141,936</u>

STATE OF NEW MEXICO

Town of Mountainair

Balance Sheet

Governmental Funds

June 30, 2012

Exhibit B-1

Page 1 of 2

	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<i>Assets</i>				
Cash and cash equivalents	\$ 448,285	\$ 59,674	\$ 80,676	\$ 588,635
Investments	-	201,150	-	201,150
Property tax receivable	46,096	-	-	46,096
Other receivables	<u>58,778</u>	<u>-</u>	<u>23,583</u>	<u>82,361</u>
<i>Total assets</i>	<u>\$ 553,159</u>	<u>\$ 260,824</u>	<u>\$ 104,259</u>	<u>\$ 918,242</u>
<i>Liabilities and fund balances</i>				
<i>Liabilities</i>				
Accounts payable	\$ 11,068	\$ 12,811	\$ 2,599	\$ 26,478
Accrued payroll	4,519	-	-	4,519
Deferred revenue - property taxes	44,334	-	-	44,334
Due to component unit	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>7,200</u>
<i>Total liabilities</i>	<u>67,121</u>	<u>12,811</u>	<u>2,599</u>	<u>82,531</u>
<i>Fund balances</i>				
<i>Spendable</i>				
<i>Restricted for:</i>				
Public safety	-	-	41,946	41,946
Promotion	-	-	10,926	10,926
Culture and recreation	-	248,013	-	248,013
Public works	-	-	48,788	48,788
<i>Committed to:</i>				
Minimum fund balance	37,531	-	-	37,531
Unassigned	<u>448,507</u>	<u>-</u>	<u>-</u>	<u>448,507</u>
<i>Total fund balances</i>	<u>486,038</u>	<u>248,013</u>	<u>101,660</u>	<u>835,711</u>
<i>Total liabilities and fund balances</i>	<u>\$ 553,159</u>	<u>\$ 260,824</u>	<u>\$ 104,259</u>	<u>\$ 918,242</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, 2012

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	\$	835,711
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		455,463
Other liabilities not due and payable in the current period and therefore are not reported in the fund statements		
Accrued interest		(446)
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		44,334
Certain liabilities, including notes and leases 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		(167,370)
Accrued compensated absences		<u>(12,633)</u>
Total net assets-governmental activities	\$	<u><u>1,155,059</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 Ended June 30, 2012

	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<i>Revenues:</i>				
<i>Taxes:</i>				
Property	\$ 43,201	\$ -	\$ -	\$ 43,201
Gross receipts	272,801	-	-	272,801
Gasoline and motor vehicle	-	-	21,986	21,986
Other	18,966	-	6,458	25,424
<i>Intergovernmental:</i>				
State operating grants	246,344	25,000	122,201	393,545
Charges for services	33,727	1,513	-	35,240
Licenses and fees	26,121	-	29	26,150
Investment income	733	753	-	1,486
<i>Total revenues</i>	<u>641,893</u>	<u>27,266</u>	<u>150,674</u>	<u>819,833</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	396,849	-	-	396,849
Public safety	53,520	-	73,284	126,804
Public works	-	-	21,896	21,896
Culture and recreation	-	30,924	8,302	39,226
<i>Debt service:</i>				
Principal	-	-	19,784	19,784
Interest	-	-	2,839	2,839
<i>Total expenditures</i>	<u>450,369</u>	<u>30,924</u>	<u>126,105</u>	<u>607,398</u>
<i>Net change in fund balances</i>	191,524	(3,658)	24,569	212,435
<i>Fund balances - beginning of year</i>	<u>294,514</u>	<u>251,671</u>	<u>77,091</u>	<u>623,276</u>
<i>Fund balances - end of year</i>	<u>\$ 486,038</u>	<u>\$ 248,013</u>	<u>\$ 101,660</u>	<u>\$ 835,711</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Mountainair

Governmental Funds

Exhibit B-2

Page 2 of 2

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$	212,435
<p>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:</p>		
Depreciation expense		(34,354)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds:</p>		
Change in deferred revenue related to property taxes receivable		6,596
<p>Expenses in the Statement of Activities that do not require current financial resources are not reported as expenditures in the funds:</p>		
Increase in accrued interest		(209)
Decrease in accrued compensated absences		768
<p>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:</p>		
Principal payments on notes payable		19,784
Change in net assets of governmental activities	\$	205,020

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 Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Taxes:				
Property	\$ 40,061	\$ 40,061	\$ 44,560	\$ 4,499
Gross receipt	233,300	233,300	256,852	23,552
Gasoline and motor vehicle	-	-	-	-
Other	16,500	16,500	17,094	594
Intergovernmental:				
State operating grants	175,710	175,710	246,344	70,634
Charges for services	42,450	42,450	33,727	(8,723)
Licenses and fees	12,750	12,750	26,654	13,904
Investment income	-	-	733	733
Miscellaneous	27,200	27,200	-	(27,200)
<i>Total revenues</i>	<u>547,971</u>	<u>547,971</u>	<u>625,964</u>	<u>77,993</u>
<i>Expenditures</i>				
Current:				
General government	381,645	381,645	387,331	(5,686)
Public safety	133,303	133,303	49,933	83,370
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>514,948</u>	<u>514,948</u>	<u>437,264</u>	<u>77,684</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>33,023</u>	<u>33,023</u>	<u>188,700</u>	<u>155,677</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(33,023)	(33,023)	-	33,023
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(33,023)</u>	<u>(33,023)</u>	<u>-</u>	<u>33,023</u>
<i>Net change in fund balances</i>	-	-	188,700	188,700
<i>Fund balance - beginning of year</i>	-	-	259,585	259,585
<i>Fund balance - end of the year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448,285</u>	<u>\$ 448,285</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>				\$ 188,700
Adjustments to revenues for gross receipts tax and property tax revenue.				15,929
Adjustments to expenditures for supplies and personnel services.				(13,105)
<i>Net change in fund balance (GAAP)</i>				<u>\$ 191,524</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit C-2

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 Ended June 30, 2012

	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	7,700	7,700	25,000	17,300
Charges for services	-	-	1,513	1,513
Licenses and fees	-	-	-	-
Investment income	-	-	753	753
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>7,700</u>	<u>7,700</u>	<u>27,266</u>	<u>19,566</u>
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	7,000	7,000	19,765	(12,765)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,000</u>	<u>7,000</u>	<u>19,765</u>	<u>(12,765)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>700</u>	<u>700</u>	<u>7,501</u>	<u>6,801</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(700)	(700)	-	700
<i>Total other financing sources (uses)</i>	<u>(700)</u>	<u>(700)</u>	<u>-</u>	<u>700</u>
<i>Net change in fund balances</i>	-	-	7,501	7,501
<i>Fund balance - beginning of year</i>	-	-	253,323	253,323
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,824</u>	<u>\$ 260,824</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>				\$ 7,501
No adjustments to revenues				-
Adjustments to expenditures for supplies				(11,159)
<i>Net change in fund balance (GAAP)</i>				<u>\$ (3,658)</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit D-1

Town of Mountainair
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Natural Gas Fund	Water Fund	Solid Waste Fund	Total
Assets				
<i>Current assets</i>				
Cash and cash equivalents	\$ 711,153	\$ 118,079	\$ 25,891	\$ 855,123
Investments	420	-	-	420
Customer receivables (net of allowance for doubtful accounts of \$29,039 and \$16,880)	29,181	61,239	-	90,420
<i>Total current assets</i>	<u>740,754</u>	<u>179,318</u>	<u>25,891</u>	<u>945,963</u>
<i>Noncurrent assets</i>				
Restricted cash	30,118	23,126	-	53,244
Capital assets	449,508	1,628,699	-	2,078,207
Accumulated depreciation	(415,757)	(1,404,552)	-	(1,820,309)
<i>Total noncurrent assets</i>	<u>63,869</u>	<u>247,273</u>	<u>-</u>	<u>311,142</u>
<i>Total Assets</i>	<u>\$ 804,623</u>	<u>\$ 426,591</u>	<u>\$ 25,891</u>	<u>\$ 1,257,105</u>
Liabilities and Net Assets				
<i>Liabilities</i>				
<i>Current liabilities</i>				
Accounts payable	\$ 6,746	\$ 12,425	\$ -	\$ 19,171
Accrued payroll	1,229	1,965	-	3,194
Accrued compensated absences	1,061	2,563	-	3,624
Customer deposits	30,118	23,126	-	53,244
<i>Total current liabilities</i>	<u>39,154</u>	<u>40,079</u>	<u>-</u>	<u>79,233</u>
<i>Noncurrent liabilities</i>				
Accrued compensated absences	12,368	-	-	12,368
<i>Total noncurrent liabilities</i>	<u>12,368</u>	<u>-</u>	<u>-</u>	<u>12,368</u>
<i>Total liabilities</i>	<u>51,522</u>	<u>40,079</u>	<u>-</u>	<u>91,601</u>
<i>Net Assets</i>				
Invested in capital assets	33,751	224,147	-	257,898
Unrestricted	719,350	162,365	25,891	907,606
<i>Total net assets</i>	<u>753,101</u>	<u>386,512</u>	<u>25,891</u>	<u>1,165,504</u>
<i>Total liabilities and net assets</i>	<u>\$ 804,623</u>	<u>\$ 426,591</u>	<u>\$ 25,891</u>	<u>\$ 1,257,105</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Mountainair
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit D-2

	Natural Gas Fund	Water Fund	Solid Waste Fund	Total
<i>Operating revenues:</i>				
Charges for services	\$ 548,941	\$ 303,235	\$ 170,252	\$ 1,022,428
<i>Total operating revenues</i>	<u>548,941</u>	<u>303,235</u>	<u>170,252</u>	<u>1,022,428</u>
<i>Operating expenses:</i>				
Cost of gas sold	181,076	-	-	181,076
Personnel	66,903	103,943	-	170,846
Supplies	4,578	-	-	4,578
Depreciation	13,502	56,723	-	70,225
Contract services	32,245	-	135,042	167,287
Other operating expense	103,573	189,843	10,899	304,315
<i>Total operating expenses</i>	<u>401,877</u>	<u>350,509</u>	<u>145,941</u>	<u>898,327</u>
<i>Operating income (loss)</i>	<u>147,064</u>	<u>(47,274)</u>	<u>24,311</u>	<u>124,101</u>
<i>Non-operating revenues (expenses):</i>				
Interest income	621	124	-	745
<i>Total non-operating revenues (expenses)</i>	<u>621</u>	<u>124</u>	<u>-</u>	<u>745</u>
<i>Change in net assets</i>	<u>147,685</u>	<u>(47,150)</u>	<u>24,311</u>	<u>124,846</u>
<i>Total net assets, beginning of year</i>	612,167	390,258	1,580	1,004,005
<i>Net assets restatement (Note 17)</i>	<u>(6,751)</u>	<u>43,404</u>	<u>-</u>	<u>36,653</u>
<i>Total net assets, as restated</i>	<u>605,416</u>	<u>433,662</u>	<u>1,580</u>	<u>1,040,658</u>
<i>Total net assets, end of year</i>	<u>\$ 753,101</u>	<u>\$ 386,512</u>	<u>\$ 25,891</u>	<u>\$ 1,165,504</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 Ended June 30, 2012

	Natural Gas Fund	Water Fund
<i>Cash flows from operating activities:</i>		
Cash received from user charges	\$ 549,833	\$ 303,768
Cash payments to employees for services	(63,639)	(65,463)
Cash payments to suppliers for goods and services	(317,650)	(235,830)
<i>Net cash provided by operating activities</i>	168,544	2,475
<i>Cash flows from investing activities:</i>		
Interest on investments	621	124
<i>Net cash provided by investing activities</i>	621	124
<i>Net increase in cash and cash equivalents</i>	169,165	2,599
<i>Cash and cash equivalents - beginning of year</i>	572,106	138,606
<i>Cash and cash equivalents - end of year</i>	\$ 741,271	\$ 141,205
 <i>Reconciliation of operating income (loss) to net cash provided by operating activities</i>		
Operating income (loss)	\$ 147,064	\$ (47,274)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	13,502	56,723
Adjustments to close out account	-	(1,969)
Changes in assets and liabilities:		
Receivables	892	533
Accounts payable	(3,202)	(709)
Accrued payroll	1,193	1,967
Accrued compensated absences	8,823	(6,892)
Customer deposits	272	96
<i>Net cash provided by operating activities</i>	\$ 168,544	\$ 2,475

The accompanying notes are an integral part of these financial statements

<u>Solid Waste Fund</u>	<u>Total</u>
\$ 171,020	\$ 1,024,621
-	(129,102)
<u>(158,671)</u>	<u>(712,151)</u>
12,349	183,368
<u>-</u>	<u>745</u>
<u>-</u>	<u>745</u>
12,349	184,113
<u>13,542</u>	<u>724,254</u>
<u>\$ 25,891</u>	<u>\$ 908,367</u>
\$ 24,311	\$ 124,101
-	70,225
-	(1,969)
768	2,193
(12,730)	(16,641)
-	3,160
-	1,931
<u>-</u>	<u>368</u>
<u>\$ 12,349</u>	<u>\$ 183,368</u>

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STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

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 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 GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The government-wide and the proprietary funds 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 Town has elected not to follow subsequent private-sector guidance. The more significant of the Town's accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

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

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 Statements D-1, D-2, D-3, D-4, and Schedule III of the Town's financial report.

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) 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.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements (continued)

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.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, 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.

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.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 Special Revenue 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 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.

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.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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 in the event they are not received within 60 days of year end.

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, delinquent property taxes are recorded when levied. Property taxes are considered to be 100% collectible. 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 December 10th and May 10th. Property taxes uncollected after December 10th and May 10th are considered delinquent and the Town may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Torrance Town and remitted monthly to the Town.

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used.

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 improvements to its infrastructure retroactively back to 1979. Since the implementation of GASB 34 in FY 04, the Town has been required to capitalize and depreciate infrastructure additions, however the Town has not obtained an adequate system to calculate and record depreciation. Information Technology Equipment including software is required to be 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.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 \$2,839. 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 (voluntary nonexchange transactions) be recognized as revenue in the government-wide financial statements when all eligibility requirements have been met and recognized as revenue in the governmental fund financial statements based on the same factors subject to the availability criterion. Amounts received from reimbursement basis grants are recorded as deferred revenue in the governmental fund financial statements when received more than 90 days after year end and amounts received after 60 days after year end for property taxes. 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, are deferred and amortized over the life of the bonds using the effective interest method; and bonds payable are reported net of the applicable bond premium or discount.

Fund Balance Classification Policies and Procedures: For committed fund balance, the Town's highest level of decision-making authority is the Town Council. The formal action that is required to be taken to establish a fund balance commitment is the Town Council.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

For assigned fund balance, the Town Council or an official or body to which the Town Council delegates the authority is authorized to assign amounts to a specific purpose. Under the current authorization system, for funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

For the classification of fund balances, the Town considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the Town considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted and Committed Fund Balance: At June 30, 2012, the Town has presented restricted fund balance on the governmental funds balance sheet in the amount of \$349,673 for various Town operations as restricted by enabling legislation. The details of these fund balance items are located on the governmental funds balance sheet as detailed on page 18.

Minimum Fund Balance Policy: The Town's policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the Town holds cash reserves of 1/12th the General Fund expenditures, which is \$37,531 at June 30, 2012.

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 by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net assets restricted for "special revenue" are described on pages 32 and 51.
- 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."

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

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 Councilors, 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 Councilors 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 and the proprietary 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 component unit 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, 2012 are presented at Exhibit C, Statement B, and Statement C.

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

	<u>Excess (deficiency) of revenues over expenditures/operating income (loss)</u>	
	<u>Original Budget</u>	<u>Final Budget</u>
Governmental Activities		
General Fund	\$ 33,023	\$ 33,023
Recreation	\$ 700	\$ 700
Nonmajor Funds	\$ 1,143	\$ 1,143
Business-type Activities		
Natural Gas	\$ 64,754	\$ 64,754
Water	\$ 3,625	\$ 3,625
Solid Waste	\$ 680	\$ 680

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual and Statements of Revenues, Expenses and Changes in Net Assets-Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance and Accountability (continued)

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 accounting principles generally accepted in the United States of America (GAAP), a reconciliation of 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, 2012 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

Component Unit

The Town of Mountainair Housing Authority did not submit a budget to HUD for the fiscal year ended June 30, 2012 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. The Authority did have a board approved budget for internal monitoring purposes.

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. All invested funds of the Town properly followed State investment requirements as of June 30, 2012.

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 collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

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 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. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, 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. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts in all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to December 31, 2012 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts)
- Up to \$250,000 for the combined amount of all interest-bearing demand deposits accounts, and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

Through July 20, 2012, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to 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). At June 30, 2012, \$1,247,764 of the Town’s bank balance of \$1,718,522 was exposed to custodial credit risk. \$730,000 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the Town’s name. \$517,764 of the Town’s deposits were uninsured and uncollateralized at June 30, 2012.

	MyBank
Amount of deposits	\$ 1,718,522
Deposit Accounts Covered by the "Dodd-Frank Deposit Insurance Provision"	(19,608)
FDIC Coverage	(451,150)
Total uninsured public funds	1,247,764
Collateralized by securities held by pledging institution or by its trust department or agent in other than the Town's name	730,000
Uninsured and uncollateralized	\$ 517,764
Collateral requirement (50% of uninsured funds)	\$ 623,882
Pledged Collateral	730,000
Over (Under) collateralized	\$ 106,118

The collateral pledged is listed on Schedule I 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 and Special Revenue 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). At June 30, 2012, none of the Housing Authority’s bank balance of \$131,244 was exposed to custodial credit risk.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (continued)

Deposits (continued)

Component Unit

	MyBank - Housing Authority
Amount of deposits	\$ 131,244
FDIC Coverage	(131,244)
Total uninsured public funds	-
Collateralized by securities held by pledging institution or by its trust department or agent in other than the Housing Authority's name	-
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ -
Pledged Collateral	-
Over (Under) collateralized	\$ -

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 Housing Authority for a least one half of the amount in excess of FDIC coverage on deposit with the institution. At June 30, 2012 the financial institution did not pledge any collateral for the Housing Authority's deposits.

Investments

Credit Risk

As of June 30, 2012, 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, 2012

NOTE 3. Deposits and Investments (continued)

Investments (continued)

The Town's investments at June 30, 2012 include the following:

Investments	Rated	Fair Value	Weighted Average Maturity
New MexiGROW LGIP	AAAm	\$ 420	60 days
		\$ 420	

The investments are listed on Schedule II of this report. The types of investment, interest rate, maturity date and fair value per security are included in the schedule.

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 investment in the New MexiGROW LGIP represents 100% 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).

The Town has presented certificates of deposits of \$201,150 as investments in the Statement of Net Assets, however, these are classified as deposits for disclosure purposes.

Primary Government

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents per Exhibit A-1	\$	1,443,758
Investments per Exhibit A-1		201,570
Restricted cash per Exhibit A-1		53,244
 Total cash and cash equivalents and investments		 1,698,572
 Add: outstanding checks		 22,637
Less: deposits in transit		(2,267)
Less: investment in NewMexiGROW LGIP		(420)
 Bank balance of deposits	\$	 1,718,522

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (continued)

Component Unit

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents per Exhibit A-1	\$ 129,739
Add: outstanding checks	1,555
Less: petty cash	(50)
Bank balance of deposits	\$ 131,244

NOTE 4. Receivables

Receivables as of June 30, 2012, are as follows:

Governmental Activities:	General	Other Governmental Funds	Total
Property tax receivable	\$ 46,096	\$ -	\$ 46,096
Other receivables:			
Gross receipts taxes	53,440	20,600	74,040
Gasoline and oil taxes	-	2,983	2,983
Franchise taxes	5,338	-	5,338
Totals by category	\$ 104,874	\$ 23,583	\$ 128,457

In accordance with GASB Statement No. 33, property tax revenues in the amount of \$44,334 that were not collected within the period of availability have been reclassified as deferred revenue in the governmental fund financial statements.

Business-type Activities:	Natural Gas	Water	Total
Customer receivables	\$ 58,220	\$ 78,119	\$ 136,339
Less: allowance for doubtful accounts	(29,039)	(16,880)	(45,919)
Total net receivables	\$ 29,181	\$ 61,239	\$ 90,420
Component Unit:	Housing Authority		
Other receivables	\$ 2,933		
Total net receivables	\$ 2,933		

The Town has estimated approximately 37% or \$45,919 of utility billings will not be collected. Other than this, all receivables are deemed to be 100% collectible.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 5. Interfund Receivables, Payables, and Transfers

The Town records temporary intergovernment receivables and payables to account for an overpayment from the component unit to the primary government. The composition of intergovernment balances during the year ended June 30, 2012 is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Component Unit - Housing Authority	Primary Government - General Fund	\$ 7,200
	Total Intergovernment Balances	<u>\$ 7,200</u>

All intergovernment balances are intended to be repaid within one year.

There were no operating transfers during the year ended June 30, 2012.

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2012 follows. Land is not subject to depreciation.

Governmental Activities:

	<u>Balance June 30, 2011</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets, not depreciated					
Land	\$ 169,329	\$ -	\$ -	\$ -	\$ 169,329
Total capital assets, not depreciated	<u>169,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,329</u>
Capital assets, depreciated:					
Equipment	179,690	(16,904)	-	-	162,786
Vehicles	782,481	(30,319)	-	-	752,162
Buildings and improvements	<u>1,104,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,104,757</u>
Total capital assets, being depreciated	<u>2,066,928</u>	<u>(47,223)</u>	<u>-</u>	<u>-</u>	<u>2,019,705</u>
Less accumulated depreciation:					
Equipment	171,847	(19,790)	4,418	-	156,475
Vehicles	521,771	(50,019)	25,669	-	497,421
Buildings and improvements	<u>1,078,071</u>	<u>(2,663)</u>	<u>4,267</u>	<u>-</u>	<u>1,079,675</u>
Total accumulated depreciation	<u>1,771,689</u>	<u>(72,472)</u>	<u>34,354</u>	<u>-</u>	<u>1,733,571</u>
Total capital assets, net of depreciation	<u>\$ 464,568</u>	<u>\$ 25,249</u>	<u>\$ (34,354)</u>	<u>\$ -</u>	<u>\$ 455,463</u>

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 6. Capital Assets (continued)

Governmental Activities (continued)

Depreciation expense for the year ended June 30, 2012 was allocated as follows:

General government	\$ 4,267
Public safety	25,669
Public works	<u>4,418</u>
Total depreciation	<u>\$ 34,354</u>

Business-type Activities:

	<u>Balance June 30, 2011</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets, depreciated:					
Equipment	\$ 33,082	\$ -	\$ -	\$ -	\$ 33,082
Vehicles	49,257	-	-	-	49,257
Buildings and improvements	<u>1,995,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,995,868</u>
Total capital assets, being depreciated	<u>2,078,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,078,207</u>
Less accumulated depreciation:					
Equipment	25,692	(11,677)	3,695	-	17,710
Vehicles	49,257	-	-	-	49,257
Buildings and improvements	<u>1,713,757</u>	<u>(26,945)</u>	<u>66,530</u>	<u>-</u>	<u>1,753,342</u>
Total accumulated depreciation	<u>1,788,706</u>	<u>(38,622)</u>	<u>70,225</u>	<u>-</u>	<u>1,820,309</u>
Total capital assets, net of depreciation	<u>\$ 289,501</u>	<u>\$ 38,622</u>	<u>\$ (70,225)</u>	<u>\$ -</u>	<u>\$ 257,898</u>

Depreciation expense for the year ended June 30, 2012 was allocated as follows:

Natural Gas	\$ 13,502
Water	<u>56,723</u>
Total depreciation	<u>\$ 70,225</u>

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 6. Capital Assets (continued)

Component Unit:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets, depreciated:				
Equipment	\$ 62,951	\$ -	\$ -	\$ 62,951
Less accumulated depreciation:				
Equipment	37,682	2,524	-	40,206
Total capital assets, net of depreciation	<u>\$ 25,269</u>	<u>\$ (2,524)</u>	<u>\$ -</u>	<u>\$ 22,745</u>

NOTE 7. Long-term Debt

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due within</u> <u>One year</u>
Governmental activities:					
Fire Pumper Loan	\$ 187,154	\$ -	\$ 19,784	\$ 167,370	\$ 19,947
Compensated absences	13,401	5,758	6,526	12,633	6,526
Total governmental	<u>\$ 200,555</u>	<u>\$ 5,758</u>	<u>\$ 26,310</u>	<u>\$ 180,003</u>	<u>\$ 26,473</u>
Business-type activities:					
Compensated absences	\$ 12,598	\$ 8,783	\$ 5,389	\$ 15,992	\$ 3,624
Total business-type activities	<u>\$ 12,598</u>	<u>\$ 8,783</u>	<u>\$ 5,389</u>	<u>\$ 15,992</u>	<u>\$ 3,624</u>
Component unit:					
Note payable	\$ 21,231	\$ -	\$ 4,766	\$ 16,465	\$ 4,153
Compensated absences	2,878	3,623	2,878	3,623	1,765
Total component unit	<u>\$ 24,109</u>	<u>\$ 3,623</u>	<u>\$ 7,644</u>	<u>\$ 20,088</u>	<u>\$ 5,918</u>

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 7. Long-term Debt (continued)

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 \$22,621 to \$22,623 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, 2012, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2013	\$ 19,947	\$ 2,674	\$ 22,621
2014	20,148	2,475	22,623
2015	20,390	2,232	22,622
2016	20,670	1,953	22,623
2017	20,875	1,748	22,623
2018-2020	65,340	2,529	67,869
	<u>\$ 167,370</u>	<u>\$ 13,611</u>	<u>\$ 180,981</u>

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

Component Unit:

The note payable for the Component Unit is for the acquisition of a 2010 Ford Escape vehicle for the Housing Authority which is to be paid over 60 months with a monthly payment for principal and interest of \$461.61 over the term of the note. The note bears an interest rate of 9.50% and matures in May 2016.

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, 2012, compensated absences decreased \$768 for governmental activities, increased \$3,394 for business type activities, and increased \$745 for the component unit 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 has not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2012, 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, 2012

NOTE 9. Other Required Individual Fund Disclosures

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

- A. Deficit fund balances of individual funds. The Town did not have any deficit fund balances for the year ended June 30, 2012.
- B. Excess of expenditures over appropriations. The following funds had expenditures in excess of their budgeted appropriations for the year ended June 30, 2012:

Major Fund

Recreation Special Revenue Fund	\$ (12,765)
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Nonmajor Funds

EMS Special Revenue Fund	(1,940)
Fire Protection Special Revenue Fund	(30,286)
Lodger's Tax Special Revenue Fund	(6,787)
Street Special Revenue Fund	<u>(30,826)</u>

Total Governmental Funds	\$ <u>(82,604)</u>
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Proprietary Funds

Water Proprietary Fund	\$ (19,333)
Solid Waste Proprietary Fund	<u>(49,351)</u>

Total Proprietary Funds	\$ <u>(68,684)</u>
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- C. Designated ash appropriations in excess of available balances. The Town did not have any funds' budgets in excess of their approved budgetary authority for the year ended June 30, 2012.

NOTE 10. Pension Plan – Public Employees Retirement Association

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 Employees 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 13.15% 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, 2012, 2011, and 2010 were \$25,925, \$24,957 and \$30,522, respectively, which equal the amount of the required contributions for each fiscal year.

The Town does not contribute to the New Mexico Retiree Health Care Fund.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

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.

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. Concentrations

The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State Appropriations.

NOTE 14. Restricted Net Assets

The government wide statement of net assets and component unit's government wide statement of net assets report \$339,324 and \$87,798, of restricted net assets, respectively, all of which is restricted by enabling legislation. For descriptions of the related enabling legislation for special revenue funds, see pages 32 and 51.

NOTE 15. Subsequent Events

The date to which events occurring after June 30, 2012, 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, 2012 which is the date on which the financial statements were issued.

NOTE 16. Subsequent Pronouncements

In November 2010, GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Effective Date: For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Town is still evaluating the possible effects of this standard.

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the Town in upcoming years.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Town will implement this standard during fiscal year June 30, 2013.

STATE OF NEW MEXICO
Town of Mountainair
Notes to Financial Statements
June 30, 2012

NOTE 16. Subsequent Pronouncements (continued)

In June 2012, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Town in upcoming years.

In March 2012, Statement No. 65 *Items Previously Reported as Assets and Liabilities*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In March 2012, Statement No. 66 *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In June 2012, Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statements No. 25*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the Town in upcoming years.

In June 2012, Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statements No. 27*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard is expected to have no effect on the Town in upcoming years.

NOTE 17. Net Assets Restatement

The Town has restated prior year's net assets for the governmental activities for accumulated depreciation due to its depreciation report calculating ending accumulated depreciation incorrectly in the net amount of \$25,249 for the year ended June 30, 2012.

The Town has also restated the prior year's net assets for the business-type activities for a cash account in the Water fund being closed in the amount of (\$1,969) and for accumulated depreciation due to its depreciation report calculating ending accumulated depreciation incorrectly in the amounts of (\$6,751) and \$45,373 in the Natural Gas and Water Funds, respectively for a total restatement of the business-type net assets of \$36,653 for the year ended June 30, 2012.

SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Fund Descriptions
June 30, 2012

SPECIAL REVENUE FUNDS

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.

FIRE PROTECTION - 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.

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.

STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2012

	Special Revenue			
	Correction Fees Fund	EMS Fund	Fire Protection Fund	Law Enforcement Fund
<i>Assets</i>				
Cash and cash equivalents	\$ 3,358	\$ 893	\$ 2,939	\$ 5,918
Other receivables	-	-	-	20,600
<i>Total assets</i>	<u>\$ 3,358</u>	<u>\$ 893</u>	<u>\$ 2,939</u>	<u>\$ 26,518</u>
<i>Liabilities</i>				
Accounts payable	\$ -	\$ -	\$ 1,084	\$ -
<i>Total liabilities</i>	-	-	1,084	-
<i>Fund balances</i>				
Spendable				
Restricted for:				
Public safety	3,358	893	1,855	26,518
Promotion	-	-	-	-
Public works	-	-	-	-
<i>Total fund balances</i>	<u>3,358</u>	<u>893</u>	<u>1,855</u>	<u>26,518</u>
<i>Total liabilities and fund balances</i>	<u>\$ 3,358</u>	<u>\$ 893</u>	<u>\$ 2,939</u>	<u>\$ 26,518</u>

The accompanying notes are an integral part of these financial statements

Special Revenue			Total Nonmajor Governmental Funds
Lodger's Tax Fund	Street Fund	FEMA Fund	
\$ 12,441	\$ 45,805	\$ 9,322	\$ 80,676
-	2,983	-	23,583
<u>\$ 12,441</u>	<u>\$ 48,788</u>	<u>\$ 9,322</u>	<u>\$ 104,259</u>
\$ 1,515	\$ -	\$ -	\$ 2,599
<u>1,515</u>	<u>-</u>	<u>-</u>	<u>2,599</u>
-	-	9,322	41,946
10,926	-	-	10,926
-	48,788	-	48,788
<u>10,926</u>	<u>48,788</u>	<u>9,322</u>	<u>101,660</u>
<u>\$ 12,441</u>	<u>\$ 48,788</u>	<u>\$ 9,322</u>	<u>\$ 104,259</u>

STATE OF NEW MEXICO
Town of Mountainair
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2012

	Special Revenue			
	Correction Fees Fund	EMS Fund	Fire Protection Fund	Law Enforcement Fund
<i>Revenues:</i>				
<i>Taxes:</i>				
Gasoline and motor vehicle	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
<i>Intergovernmental:</i>				
State operating grants	-	8,175	72,826	41,200
Licenses and fees	29	-	-	-
<i>Total revenues</i>	<u>29</u>	<u>8,175</u>	<u>72,826</u>	<u>41,200</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Public safety	2,448	10,240	42,757	17,839
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Debt service:</i>				
Principal	-	-	19,784	-
Interest	-	-	2,839	-
<i>Total expenditures</i>	<u>2,448</u>	<u>10,240</u>	<u>65,380</u>	<u>17,839</u>
<i>Net change in fund balances</i>	(2,419)	(2,065)	7,446	23,361
<i>Fund balances - beginning of year</i>	<u>5,777</u>	<u>2,958</u>	<u>(5,591)</u>	<u>3,157</u>
<i>Fund balances - end of year</i>	<u>\$ 3,358</u>	<u>\$ 893</u>	<u>\$ 1,855</u>	<u>\$ 26,518</u>

The accompanying notes are an integral part of these financial statements

Special Revenue			Total Nonmajor Governmental Funds
Lodger's Tax Fund	Street Fund	FEMA Fund	
\$ -	\$ 21,986	\$ -	\$ 21,986
6,458	-	-	6,458
-	-	-	122,201
-	-	-	29
<u>6,458</u>	<u>21,986</u>	<u>-</u>	<u>150,674</u>
-	-	-	73,284
-	21,896	-	21,896
8,302	-	-	8,302
-	-	-	19,784
-	-	-	2,839
<u>8,302</u>	<u>21,896</u>	<u>-</u>	<u>126,105</u>
(1,844)	90	-	24,569
<u>12,770</u>	<u>48,698</u>	<u>9,322</u>	<u>77,091</u>
<u>\$ 10,926</u>	<u>\$ 48,788</u>	<u>\$ 9,322</u>	<u>\$ 101,660</u>

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STATE OF NEW MEXICO

Statement 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 Ended June 30, 2012

	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	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	2,700	2,700	29	(2,671)
Investment income	-	-	-	-
<i>Total revenues</i>	<u>2,700</u>	<u>2,700</u>	<u>29</u>	<u>(2,671)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	2,500	2,500	2,448	52
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>2,500</u>	<u>2,500</u>	<u>2,448</u>	<u>52</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>200</u>	<u>200</u>	<u>(2,419)</u>	<u>(2,619)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(200)	(200)	-	200
<i>Total other financing sources (uses)</i>	<u>(200)</u>	<u>(200)</u>	<u>-</u>	<u>200</u>
<i>Net change in fund balance</i>	-	-	(2,419)	(2,419)
<i>Fund balance - beginning of year</i>	-	-	5,777	5,777
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,358</u>	<u>\$ 3,358</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ (2,419)	
No adjustments to revenues			-	
No adjustments to expenditures			-	
<i>Net change in fund balance (GAAP)</i>			<u>\$ (2,419)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement 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 Ended June 30, 2012

	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	8,175	(125)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>8,300</u>	<u>8,300</u>	<u>8,175</u>	<u>(125)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	8,300	8,300	10,240	(1,940)
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Debt service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>8,300</u>	<u>8,300</u>	<u>10,240</u>	<u>(1,940)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(2,065)	(2,065)
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balance</i>	-	-	(2,065)	(2,065)
<i>Fund balance - beginning of year</i>	-	-	2,958	2,958
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 893</u>	<u>\$ 893</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ (2,065)	
No adjustments to revenues			-	
No adjustments to expenditures			-	
<i>Net change in fund balance (GAAP)</i>			<u>\$ (2,065)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-3

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 Ended June 30, 2012

	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	43,203	43,203	72,826	29,623
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>43,203</u>	<u>43,203</u>	<u>72,826</u>	<u>29,623</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	43,203	43,203	50,866	(7,663)
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Debt Service:</i>				
Principal	-	-	19,784	(19,784)
Interest	-	-	2,839	(2,839)
<i>Total expenditures</i>	<u>43,203</u>	<u>43,203</u>	<u>73,489</u>	<u>(30,286)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(663)</u>	<u>(663)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	(663)	(663)
<i>Fund balance- beginning of year</i>	<u>-</u>	<u>-</u>	<u>3,602</u>	<u>3,602</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,939</u>	<u>\$ 2,939</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ (663)	
No adjustments to revenues			-	
Adjustments to expenditures for supplies and other operating costs			<u>8,109</u>	
<i>Net change in fund balance (GAAP)</i>			<u>7,446</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-4

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 Ended June 30, 2012

	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	20,600	20,600	20,600	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>20,600</u>	<u>20,600</u>	<u>20,600</u>	<u>-</u>
<i>Expenditures</i>				
Current:				
General government	-	-	-	-
Public safety	23,757	23,757	17,839	5,918
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>23,757</u>	<u>23,757</u>	<u>17,839</u>	<u>5,918</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,157)</u>	<u>(3,157)</u>	<u>2,761</u>	<u>5,918</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	3,157	3,157	-	-
<i>Total other financing sources (uses)</i>	<u>3,157</u>	<u>3,157</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	2,761	5,918
<i>Fund balance - beginning of year</i>	-	-	3,157	3,157
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,918</u>	<u>\$ 9,075</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ 2,761	
Adjustments to revenues for grants			20,600	
No adjustments to expenditures			-	
<i>Net change in fund balance (GAAP)</i>			<u>\$ 23,361</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-5

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 Ended June 30, 2012

	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	6,632	2,532
<i>Intergovernmental:</i>				
State operating grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>4,100</u>	<u>4,100</u>	<u>6,632</u>	<u>2,532</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	6,787	(6,787)
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>6,787</u>	<u>(6,787)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>4,100</u>	<u>4,100</u>	<u>(155)</u>	<u>(4,255)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	<u>(4,100)</u>	<u>(4,100)</u>	<u>-</u>	<u>4,100</u>
<i>Total other financing sources (uses)</i>	<u>(4,100)</u>	<u>(4,100)</u>	<u>-</u>	<u>4,100</u>
<i>Net change in fund balance</i>	-	-	(155)	(155)
<i>Fund balance - beginning of year</i>	-	-	12,596	12,596
<i>Fund Balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,441</u>	<u>\$ 12,441</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ (155)	
Adjustments to revenues for lodger's tax			(174)	
Adjustments to expenditures for other operating expenditures			(1,515)	
<i>Net change in fund balance (GAAP)</i>			<u>\$ (1,844)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-6

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 Ended June 30, 2012

	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	19,554	4,554
Other	-	-	-	-
<i>Intergovernmental:</i>				
State operating grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>15,000</u>	<u>15,000</u>	<u>19,554</u>	<u>4,554</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	15,000	15,000	45,826	(30,826)
Culture and recreation	-	-	-	-
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>15,000</u>	<u>15,000</u>	<u>45,826</u>	<u>(30,826)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(26,272)</u>	<u>(26,272)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	(26,272)	(26,272)
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>72,077</u>	<u>72,077</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,805</u>	<u>\$ 45,805</u>
<i>Net change in fund balance (non-GAAP budgetary basis)</i>			\$ (26,272)	
Adjustments to revenues for gasoline and motor vehicle taxes accruals			2,432	
Adjustments to expenditures for services performed			23,930	
<i>Net change in fund balance (GAAP)</i>			<u>\$ 90</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement B-7

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 Ended June 30, 2012

	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	9,322	9,322	-	(9,322)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
<i>Total revenues</i>	<u>9,322</u>	<u>9,322</u>	<u>-</u>	<u>(9,322)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General government	9,322	9,322	-	9,322
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>9,322</u>	<u>9,322</u>	<u>-</u>	<u>9,322</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)	-	-	-	-
<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 adjustments to revenues			-	
No adjustments to expenditures			-	
<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

Statement C-1

Town of Mountainair

Natural Gas Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (Non-GAAP Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 558,200	\$ 558,200	\$ 550,105	\$ (8,095)
<i>Total operating revenues</i>	<u>558,200</u>	<u>558,200</u>	<u>550,105</u>	<u>(8,095)</u>
<i>Operating expenses:</i>				
Cost of gas sold	-	-	183,118	(183,118)
Salaries	-	-	56,887	(56,887)
Supplies	-	-	4,578	(4,578)
Contract services	-	-	32,245	(32,245)
Other operating expenses	493,446	493,446	104,733	388,713
<i>Total operating expenses</i>	<u>493,446</u>	<u>493,446</u>	<u>381,561</u>	<u>111,885</u>
<i>Operating income (loss)</i>	<u>64,754</u>	<u>64,754</u>	<u>168,544</u>	<u>103,790</u>
<i>Non-operating revenues (expenses):</i>				
Interest income	2,000	2,000	621	(1,379)
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses):</i>	<u>2,000</u>	<u>2,000</u>	<u>621</u>	<u>(1,379)</u>
Designated cash (budgeted increase in cash)	(66,754)	(66,754)	-	66,754
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Change in net assets</i>	-	-	169,165	169,165
<i>Total net assets - beginning of year</i>	<u>-</u>	<u>-</u>	<u>572,526</u>	<u>572,526</u>
<i>Total net assets - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,691</u>	<u>\$ 741,691</u>
<i>Change in net assets (non-GAAP budgetary basis)</i>			\$ 169,165	
Adjustments to revenues for charges for services			(1,164)	
Adjustments to expenditures for depreciation and contract service expenses			(20,316)	
<i>Change in net assets (GAAP)</i>			<u>\$ 147,685</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-2

Town of Mountainair

Water Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 283,712	\$ 283,712	\$ 303,864	\$ 20,152
<i>Total operating revenues</i>	<u>283,712</u>	<u>283,712</u>	<u>303,864</u>	<u>20,152</u>
<i>Operating expenses:</i>				
Salaries	-	-	106,904	(106,904)
Supplies	-	-	-	-
Contract services	-	-	-	-
Capital outlay	-	-	-	-
Other operating expenses	280,087	280,087	192,516	87,571
<i>Total operating expenses</i>	<u>280,087</u>	<u>280,087</u>	<u>299,420</u>	<u>(19,333)</u>
<i>Operating income (loss)</i>	<u>3,625</u>	<u>3,625</u>	<u>4,444</u>	<u>819</u>
<i>Non-operating revenues (expenses):</i>				
Interest income	250	250	124	(126)
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses):</i>	<u>250</u>	<u>250</u>	<u>124</u>	<u>(126)</u>
Designated cash (budgeted increase in cash)	(3,875)	(3,875)	-	3,875
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Change in net assets</i>	<u>-</u>	<u>-</u>	<u>4,568</u>	<u>4,568</u>
<i>Total net assets - beginning of year</i>	-	-	138,606	138,606
<i>Net assets restatement (Note 17)</i>	-	-	(1,969)	(1,969)
<i>Total net assets, as restated</i>	<u>-</u>	<u>-</u>	<u>136,637</u>	<u>136,637</u>
<i>Total net assets - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,205</u>	<u>\$ 141,205</u>
<i>Change in net assets (non-GAAP budgetary basis)</i>			\$ 4,568	
Adjustments to revenues for charges for services			(629)	
Adjustments to expenditures for depreciation and contract service expenses			(51,089)	
<i>Change in net assets (GAAP)</i>			<u>\$ (47,150)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement C-3

Town of Mountainair

Solid Waste Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Assets

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 110,000	\$ 110,000	\$ 171,020	\$ 61,020
<i>Total operating revenues</i>	<u>110,000</u>	<u>110,000</u>	<u>171,020</u>	<u>61,020</u>
<i>Operating expenses:</i>				
Salaries	-	-	-	-
Supplies	-	-	-	-
Depreciation	-	-	-	-
Contract services	109,320	109,320	135,042	(25,722)
Other operating expenses	-	-	23,629	(23,629)
<i>Total operating expenses</i>	<u>109,320</u>	<u>109,320</u>	<u>158,671</u>	<u>(49,351)</u>
<i>Operating income (loss)</i>	<u>680</u>	<u>680</u>	<u>12,349</u>	<u>11,669</u>
<i>Non-operating revenues (expenses):</i>				
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses):</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Designated cash (budgeted increase in cash)	(680)	(680)	-	680
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Change in net assets</i>	-	-	12,349	12,349
<i>Total net assets - beginning of year</i>	<u>-</u>	<u>-</u>	<u>13,542</u>	<u>13,542</u>
<i>Total net assets - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,891</u>	<u>\$ 25,891</u>
<i>Change in net assets (non-GAAP budgetary basis)</i>			\$ 12,349	
Adjustments to revenues for charges for services			(768)	
Adjustments to expenditures for contract services			<u>12,730</u>	
<i>Change in net assets (GAAP)</i>			<u>\$ 24,311</u>	

The accompanying notes are an integral part of these financial statements

COMPONENT UNIT

SECTION 8
HOUSING CHOICE
VOUCHERS PROGRAM

STATE OF NEW MEXICO
Town of Mountainair
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Net Assets
Proprietary Fund
June 30, 2012

Statement D-1

Section 8
Housing Choice
Vouchers Program

ASSETS

Current assets:

Cash and cash equivalents	\$	129,739
Accounts receivable		2,933
Receivable from primary government		7,200
		139,872

Noncurrent Assets:

Capital assets		62,951
Less: accumulated depreciation		(40,206)
		22,745
<i>Total noncurrent assets</i>		22,745
<i>Total assets</i>	\$	162,617

LIABILITIES AND NET ASSETS

Current liabilities:

Accrued payroll	\$	593
Compensated absences, current portion		1,765
Current portion of long term debt		4,153
		6,511

Non-current liabilities:

Compensated absences, long term portion		1,858
Notes payable, net of current portion		12,312
		14,170
<i>Total non-current liabilities</i>		14,170
<i>Total liabilities</i>		20,681

Net assets:

Invested in capital assets, net of related debt		6,280
Restricted for:		
Housing assistance payments		87,798
Unrestricted		47,858
		141,936
<i>Total net assets</i>		141,936
<i>Total liabilities and net assets</i>	\$	162,617

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-2

Town of Mountainair
 Town of Mountainair Housing Authority
 A Component Unit of the Town of Mountainair
 Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Fund
 For the Year Ended June 30, 2012

	Section 8 Housing Choice Vouchers Program
<i>Operating expenses</i>	
Personnel services	\$ 35,863
Occupancy expenses	6,993
Maintenance and materials	2,652
Housing assistance payments	536,373
Depreciation	2,524
Bad debt expense	1,592
Other administrative expenses	13,070
Miscellaneous expenses	4,976
	<hr/>
<i>Total operating expenses</i>	604,043
	<hr/>
<i>Operating (loss)</i>	(604,043)
	<hr/>
<i>Non-operating revenues (expenses)</i>	
Interest expense	(1,696)
Miscellaneous income	2,309
	<hr/>
<i>Total non-operating revenues (expenses)</i>	613
	<hr/>
Federal grants	624,703
	<hr/>
<i>Change in net assets</i>	21,273
	<hr/>
<i>Net assets, beginning of year</i>	120,663
	<hr/>
<i>Net assets, end of year</i>	\$ 141,936
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Mountainair
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2012

Statement D-3

	<u>Section 8 Housing Choice Vouchers Program</u>
<i>Cash flows from operating activities:</i>	
Cash payments to employees for services	\$ (36,803)
Cash payments to suppliers for goods and services	<u>(564,064)</u>
<i>Net cash (used) by operating activities</i>	<u>(600,867)</u>
<i>Cash flows from noncapital and other financing activities:</i>	
Federal grants	624,703
Miscellaneous income	1,369
Change in receivable from primary government	(3,700)
Change in current portion of accrued compensated absences	<u>1,858</u>
<i>Net cash provided by noncapital and other financing activities</i>	<u>624,230</u>
<i>Cash flows from capital and related financing activities:</i>	
Interest paid	(1,696)
Principal payments on note payable	<u>(4,766)</u>
<i>Net cash (used) by capital and related financing activities</i>	<u>(6,462)</u>
<i>Net increase in cash and cash equivalents</i>	16,901
<i>Cash and cash equivalents - beginning of year</i>	<u>112,838</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 129,739</u></u>
<i>Reconciliation of operating (loss) to net cash (used) by operating activities:</i>	
Operating (loss)	\$ (604,043)
<i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i>	
Depreciation	2,524
Bad debt expense	1,592
<i>Changes in assets and liabilities:</i>	
Accrued payroll expenses	173
Current accrued compensated absences	<u>(1,113)</u>
<i>Net cash (used) by operating activities</i>	<u><u>\$ (600,867)</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-4

Town of Mountainair
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Section 8 Housing Choice Vouchers Program
Statement of Revenues, Expenses and Changes in Net Assets
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<i>Operating expenses:</i>				
Personnel services	\$ -	\$ -	\$ 35,863	\$ (35,863)
Occupancy expenses	-	-	6,993	(6,993)
Maintenance and materials	-	-	2,652	(2,652)
Housing assistance payments	646,371	646,371	536,373	109,998
Bad debt expense	-	-	1,592	(1,592)
Other administrative expenses	-	-	13,070	(13,070)
Miscellaneous expenses	-	-	4,976	(4,976)
<i>Total operating expenses</i>	<u>646,371</u>	<u>646,371</u>	<u>601,519</u>	<u>44,852</u>
<i>Operating (loss)</i>	<u>(646,371)</u>	<u>(646,371)</u>	<u>(601,519)</u>	<u>44,852</u>
<i>Non-operating revenues (expenses):</i>				
Interest expense	-	-	(1,696)	(1,696)
Miscellaneous income	-	-	2,309	2,309
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>-</u>	<u>613</u>	<u>613</u>
Federal grants	<u>573,895</u>	<u>573,895</u>	<u>624,703</u>	<u>50,808</u>
<i>Net contributions</i>	<u>573,895</u>	<u>573,895</u>	<u>624,703</u>	<u>50,808</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	<u>72,476</u>	<u>72,476</u>	<u>-</u>	<u>72,476</u>
<i>Total other financing sources (uses)</i>	<u>72,476</u>	<u>72,476</u>	<u>-</u>	<u>72,476</u>
<i>Change in net assets</i>	<u>\$ -</u>	<u>\$ -</u>	<u>23,797</u>	<u>\$ (23,797)</u>
<i>Depreciation</i>			<u>2,524</u>	
<i>Change in net assets, Statement D-2</i>			<u>21,273</u>	
<i>Net assets, beginning of year</i>			120,663	
<i>Net assets, end of year</i>			<u>\$ 141,936</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO

Schedule I

Town of Mountainair

Schedule of Collateral Pledged by Depository for Public Funds

June 30, 2012

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Par Value June 30, 2012	Location of Safekeeper
Primary Government					
MyBank					
	CHAMA VY ISD #19 NM	8/1/2013	157670CN8	\$ 230,000	Dallas, Texas
	LUNA CNTY NM SCH DISTRICT	8/1/2016	550340DL4	<u>500,000</u>	Dallas, Texas
	Total MyBank			<u>\$ 730,000</u>	

See independent auditors' report

STATE OF NEW MEXICO
Town of Mountainair
Schedule of Deposit and Investment Accounts
June 30, 2012

Schedule II

Primary Government

Bank Account Type/Name	MyBank	LGIP	Total
Deposits			
Checking - Natural Gas Revenue Fund	\$ 741,172	\$ -	\$ 741,172
Checking -Municipal Water	140,639	-	140,639
Checking - Payroll Account	19,608	-	19,608
Checking - General Fund	615,953	-	615,953
Certificate of Deposit - Recreation	201,150	-	201,150
Total on deposit	<u>1,718,522</u>	<u>-</u>	<u>1,718,522</u>
Investments			
State Pool - LGIP Funds Pool 4101	-	420	420
Total investments	<u>-</u>	<u>420</u>	<u>420</u>
Total deposits and investments	1,718,522	420	1,718,942
Reconciling items	<u>(20,370)</u>	<u>-</u>	<u>(20,370)</u>
Reconciled balance	<u>\$ 1,698,152</u>	<u>\$ 420</u>	1,698,572
Less: investments per Exhibit A-1			<u>(201,570)</u>
Total cash and cash equivalents per Exhibit A-1			<u>\$ 1,497,002</u>

Component Unit

Bank Account Type/Name	MyBank
Checking -Section 8 Housing	<u>\$ 131,244</u>
Total on deposit	131,244
Reconciling items	<u>(1,555)</u>
Reconciled balance	129,689
Plus: petty cash	<u>50</u>
Total cash and cash equivalents per Exhibit A-1	<u>\$ 129,739</u>

See independent auditors' report

STATE OF NEW MEXICO
Town of Mountainair
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Financial Data Schedule
June 30, 2012

Line Item Number	Account Description	Section 8 Housing Choice Vouchers Program
Current assets:		
111	Cash - unrestricted	\$ 41,941
113	Cash - other restricted	87,798
100	Total cash	<u>129,739</u>
124	Accounts Receivable - Other government	7,200
128	Fraud Recovery	2,933
120	Total receivables, net of allowance for doubtful accounts	<u>10,133</u>
150	Total current assets	<u>139,872</u>
Fixed assets:		
164	Furniture, equipment & machinery - administration	62,951
166	Accumulated depreciation	(40,206)
160	Total fixed assets, net of accumulated depreciation	<u>22,745</u>
180	Total non current assets	<u>22,745</u>
190	Total assets	<u><u>\$ 162,617</u></u>
Current liabilities:		
321	Accrued wage/payroll taxes payable	\$ 593
322	Accrued compensated absences - current portion	1,765
344	Current portion of long-term debt - operating borrowings	4,153
310	Total current liabilities	<u>6,511</u>
Noncurrent liabilities:		
352	Long-term debt, net of current - operating borrowings	12,312
354	Accrued compensated absences - noncurrent	1,858
350	Total noncurrent liabilities	<u>14,170</u>
300	Total liabilities	<u>20,681</u>
Equity:		
508.1	Invested in capital assets, net of related debt	6,280
511.1	Restricted net assets	87,798
512.1	Unrestricted net assets	47,858
513	Total equity/net assets	<u>141,936</u>
600	Total liabilities and equity/net assets	<u><u>\$ 162,617</u></u>
Revenues:		
70600	HUD PHA operating grants	\$ 624,703
71400	Fraud recovery	1,280
71500	Other Revenue	1,029
70000	Total revenue	<u><u>\$ 627,012</u></u>

See independent auditors' report

Line Item Number	Account Description	Section 8 Housing Choice Vouchers Program
Expenses:		
91100	Administrative salaries	\$ 31,034
91200	Auditing fees	4,815
91500	Employee benefit contributions - administrative	4,729
91000	Total operating - administrative	<u>40,578</u>
92400	Tenant services - other	5,201
92500	Total tenant services	<u>5,201</u>
93100	Water	151
93800	Other utilities expense	3,842
93000	Total utilities	<u>3,993</u>
94300	Ordinary maintenance & operations - contracts	2,652
94000	Total maintenance	<u>2,652</u>
96200	Other general expenses	11,130
96600	Bad debt - other	1,592
96000	Total other general expenses	<u>12,722</u>
96900	Total operating expenses	<u>65,146</u>
96720	Interest on notes payable (short and long term)	1,696
96700	Total interest expense and amortization cost	<u>1,696</u>
96900	Total operating expenses	<u>66,842</u>
97000	Excess operating revenue over operating expenses	<u>560,170</u>
97300	Housing assistance payments	536,373
97400	Depreciation expense	2,524
90000	Total expenses	<u><u>\$ 605,739</u></u>
10000	Excess (deficiency) of operating revenue over (under) expenses	21,273
11030	Beginning equity	<u>120,663</u>
	Ending equity	<u><u>\$ 141,936</u></u>
11170	Administrative Fee Equity	\$ 54,138
11180	Housing Assistance Payments Equity	\$ 87,798
1120	Unit Months Available	1,632
1121	Number of Unit Months Leased	1,158

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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 H. Balderas
New Mexico State Auditor
The U.S. Office of Management and Budget and
The Town Council
Town of Mountainair
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 aggregate remaining fund information, and the budgetary comparisons for the General Fund and major special revenue fund of the Town of Mountainair, New Mexico (the “Town”), as of and for the year ended June 30, 2012, which collectively comprise the Town’s basic financial statements as listed in the table of contents and have issued our report thereon dated November 29, 2012. We also have audited the financial statements of each of the Town’s nonmajor governmental funds and component unit funds, and the respective budgetary comparisons for the remaining nonmajor governmental funds, proprietary funds and the component unit funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012 as listed in the table of contents. 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

Management of the Town is responsible for establishing and maintaining effective 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 discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weaknesses and a deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 2010-02, FS 2012-01, FS 2007-05, and FS 2008-01 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 deficiency described in the accompanying schedule of findings and questioned costs as FS 2005-01 to be a significant deficiency.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item FS 2005-06.

We also noted certain other matters that are required to be reported pursuant to *Governmental Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as findings FS 2012-02 and FS 2011-01-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 management, others within the organization, the Town Council, the Office of the State Auditor, the New Mexico State Legislature and its committees, the New Mexico Department of Finance and Administration, and applicable federal grantors 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, NM
November 29, 2012

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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' 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 H. Balderas
New Mexico State Auditor
The U.S. Office of Management and Budget and
The Town Council
Town of Mountainair
Mountainair, New Mexico

Compliance

We have audited the Town of Mountainair, New Mexico's ("the Town") compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 control over compliance 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 a 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, others within the organization, the Town Council, the Office of the State Auditor, the New Mexico State Legislature and its committees, the New Mexico Department of Finance and Administration, and applicable federal grantors and is not intended to be and should not be used by anyone other than these parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
November 29, 2012

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STATE OF NEW MEXICO
Town of Mountainair
Town of Mountainair Housing Authority
A Component Unit of the Town of Mountainair
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Schedule IV

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 (Housing Voucher Cluster)	14.871	\$ 605,739 *
Total U.S. Department of Housing and Urban Development		<u>605,739</u>
Total Expenditures of Federal Awards		<u><u>\$ 605,739</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*.

2. Sub-recipients

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

3. Non-Cash Federal Assistance

The Authority did not receive any non-cash federal assistance during the year.

See independent auditor's report

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STATE OF NEW MEXICO
Town of Mountainair
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditors’ report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses 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="text-align: center; width: 50%;"><u>CFDA
Number</u></td> <td style="text-align: center; width: 50%;"><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 under the requirements set forth by OMB Circular A-133 section 530? | No | | | | |

SECTION II – FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT

FS 2005-01-Significant Deficiency: Lack of Adequate Documentation for Expenditures (Repeated/Modified)

Condition: Currently the Town does not have a policy stating that receipts are required with purchases. 2 of 10 disbursements tested were missing receipt support.

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 receipt support for purchases made increases the risk for misappropriation, budget over expending, or fraudulent activities.

Cause: Although finance wants all employees to turn in receipts for purchases made, it is not strictly enforced and many purchases are made with no receipt being turned in.

Auditors' Recommendations: We recommend the Town institute an official formal policy stating that a receipt must be turned in before an employee may be reimbursed.

Management's Response: The Town will put in place a formal policy stating that receipts shall be turned in before an employee is reimbursed.

FS 2005-06-Noncompliance: Budgetary (Repeated/Modified)

Condition: The Town incurred expenditures in excess of the approved budget in the following funds.

<u>Fund</u>	Approved <u>Budget</u>	<u>Actual</u> <u>Expenditures</u>	Amount Over- <u>Expended</u>
Recreation Special Revenue Fund	\$ 7,000	\$ 19,765	\$ 12,765
EMS Special Revenue Fund	8,300	10,240	1,940
Fire Protection Special Revenue Fund	43,203	73,489	30,286
Lodger's Tax Special Revenue Fund	-	6,787	6,787
Street Special Revenue Fund	15,000	45,826	30,826
Water Proprietary Fund	280,087	299,420	19,333
Solid Waste Proprietary Fund	109,320	158,671	49,351

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 6-3-1 to 6-3-25 and State Auditor Rule 2.2.2.10G.

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' Recommendations: 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.

Management's Response: Everything we (the Town) spend does go through the governing body for approval.

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

FS 2010-02-Material Weakness: Capital Assets (Repeated/Modified)

Condition: The capital asset inventory system was not being reconciled. Current year depreciation is being calculated correctly but accumulated depreciation is not. 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 NMSA1978 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 a sufficient internal control system in place to properly account for capital assets. They hired a contractor to come in to try and fix the problem but accumulated depreciation is still being calculated incorrectly.

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

Management's Response: Will still have the programmer work on the program again and fix it so it calculates the right amount of accumulated depreciation correctly.

FS 2012-01-Material Weakness: Payroll cash account is not being reconciled to the GL.

Condition: During our audit procedures, we noted that the Town doesn't reconcile the payroll cash account to the general ledger.

Criteria: Per Section 6.20.2.13 of NMAC, all Towns shall establish and maintain an accurate general ledger in accordance with GAAP. The general ledger will be comprised of individual funds and account groups using the department's uniform chart of accounts and shall be reconciled every fiscal year with department records. The general ledger must tie with the accounting documentation including the utility aging reports and other ledgers. Towns shall use funds and account groups to report their financial position and operating results accurately. In accordance with GASB 34, Town shall use a full accrual basis of accounting in preparation of annual financial statements.

Effect: The Town's payroll cash account did not reconcile to the subsidiary ledger by \$1,005 which could result in misstatements going undetected.

Cause: The Town does not have a mechanism in place to reconcile the payroll cash account to the subsidiary ledgers.

Auditors' Recommendations: We recommend a process be put in place to agree the payroll cash account subsidiary ledgers/reports to the balance on the trial balance each month. In addition, we recommend that the Town include in this process a review of the subsidiary ledger to determine that balance is reasonable and the reconciliation process is occurring.

Management's Response: The Town is getting a new software accounting system and all reconciliations will be done the same.

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

FS 2012-02-Other Matter: Stale Dated Checks

Condition: The Town maintained one check totaling \$200 in the outstanding checks listing of the General Fund bank reconciliation that was dated over one year old at June 30, 2012.

Criteria: Chapter 7 Article 8A, NMSA 1978, and related regulations require that the Town provide information about the payees and the related funds to Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Effect: The Town is in violation of state statutes regarding stale-dated checks. Carrying stale dated bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds.

Cause: The Town did not implement a process to account for stale dated outstanding checks and did not void this check on a timely basis.

Auditors' Recommendations: We recommend the Town implement a procedure to review the outstanding check listings for all bank accounts and track stale-dated checks. If checks on the outstanding check listings are greater than one year old we recommend they be voided, replaced or submitted to the Property Division of New Mexico Taxation and Revenue Department as required.

Management's Response: The Town is getting a new software accounting system and all reconciliations will be done the same. The program will alert the Town about old checks.

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

FS 2007-05-Material Weakness: Preparation of Financial Statements (Repeated)

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

Criteria: According to the Auditing Standards Board 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' Recommendations: 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.

Management's Response: We will probably never be able to do this. We are not financially able to send someone to do training or hire someone with this type of experience to be placed in this position.

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

FS 2008-01-Material Weakness: Deficiencies in Internal Control Structure Design, Operation, and Oversight (Repeated/Modified)

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

Primary Government

- 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 depositing cash and other related processes. It was observed that the Treasurer performs all the duties and functions that are required to deposit, reconcile, and adjust cash without review by another party and also enters new employees and updates employee information in the accounting system.
- Management does not implement controls over financial reporting through ongoing monitoring, independent evaluations, and remediation of identified deficiencies.
- During the testing of voided checks, 3 of the 28 voided checks tested were not adequately defaced.
- No travel and per diem authorization form was included in the file for 2 of 5 employees tested.
- 1 of 10 outstanding checks on the Payroll Reconciliation should not have been included as a reconciling item. The check amount was \$5,063 which caused the reconciliation to be incorrect by \$5,063.

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.
- 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 with limited 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.

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

FS 2008-01-Material Weakness: Deficiencies in Internal Control Structure Design, Operation, and Oversight (Repeated/Modified) (Continued)

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 2012 management did not have a documented policy in place to ensure internal controls were in place and working properly.

Auditors' Recommendations: We recommend that the Town and the component unit 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.

Management's Response: As Town Clerk we will try to implement internal control policies and have the council review and approve them to ensure accurate and timely financial reporting.

SECTION IV – FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

FS 2011-01-CU-Other Matter: Incorrect filing of W-2 (Repeated/Modified)

Condition: During personal use of vehicles testwork, we noted the following item:

- One instance of personal use of a government vehicle not included as a fringe benefit on the employee's W-2 for the 2011 calendar year.

Criteria: According to Internal Revenue Service Publication 15 B, personal use of a vehicle to commute to one's home must be added as taxable fringe benefit to an employee's W2.

Effect: The Housing Authority could be withholding and reporting incorrect social security and Medicare taxes and failing to report correct income.

Cause: The Housing Authority believed Board approval to take home vehicles would negate the Internal Revenue Service requirement. In addition, they believed this policy necessary to secure assets from theft.

Auditors' Recommendation: We recommend the Housing Authority implement a procedure to add the vehicle fringe benefit to gross income on the employee's W2.

Management's Response: The Board will put a policy in place to make sure all fringe benefits are properly included in income.

SECTION V – FEDERAL AWARD FINDINGS

None

SECTION VI – PRIOR YEAR AUDIT FINDINGS

Prior Year Audit Findings – Primary Government and Component Unit

FS 2005-01: Lack of Adequate Documentation for Expenditures, Repeated/Modified

FS 2005-06: Budgetary Noncompliance, Repeated/Modified

FS 2007-05: Preparation of Financial Statements, Repeated

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

FS 2010-02: Capital Assets, Repeated/Modified

FS 2011-01-CU: Auto Fringe Benefit, Repeated/Modified

STATE OF NEW MEXICO

Town of Mountainair

Other Disclosures

June 30, 2012

OTHER DISCLOSURES

Exit Conference

An exit conference was held on November 29, 2012. In attendance were the following:

Representing the Town of Mountainair:

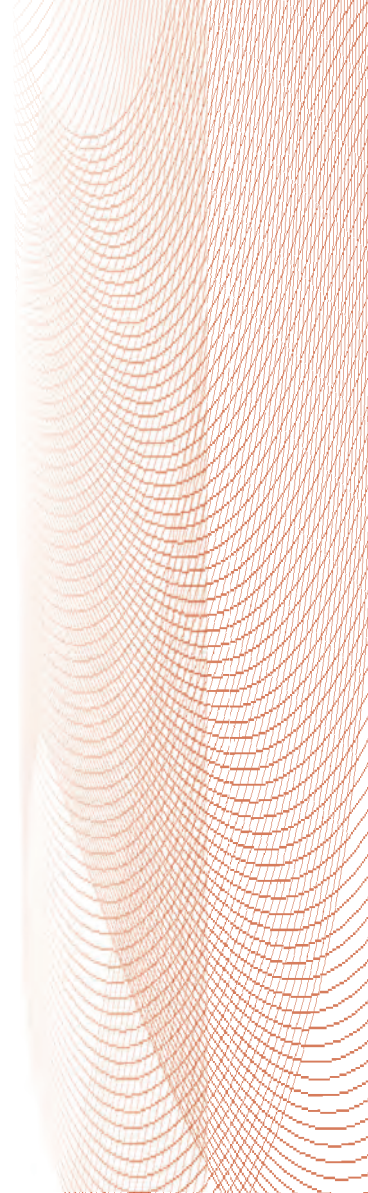
Chester Riley, Mayor
Suzan Brazil, Town Clerk
Kathy Anglin, Town Treasurer
Annebelle Torres, Housing Authority Executive Director

Representing Accounting & Consulting Grouping, LLP:

Robert "Bobby" Cordova, CPA
Lorie Lawlis

Auditor Prepared Financial Statements

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of the Town of Mountainair from the original books and records provided to them by the management of the Town. The responsibility for the financial statements remains with the Town.



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