

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF PECOS, NEW MEXICO

**Financial Statements, Supplementary Information
and
Independent Auditors' Report**

June 30, 2006

VILLAGE OF PECOS, NEW MEXICO

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VILLAGE OF PECOS, NEW MEXICO

List of Principal Officials

June 30, 2006

Elected Officials

Tony Jose Roybal	Mayor
Joe Modesto Benavides	Mayor Pro-tem
Herman Gallegos	Trustee
Florencio Varela	Trustee
James Varela	Trustee

Administrative Officials

Lesah Sedillo, CMC	Village Clerk
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Public Housing Authority Officials

Ricardo Valenzuela	Executive Director
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Independent Auditors' Report

Mr. Hector H. Balderas, State Auditor and
Mr. Tony J. Roybal, Mayor and
The Village Trustees
Village of Pecos, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison of the general fund, fire protection fund, and the street fund, of the Village of Pecos (Village) as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules, and budgetary comparison statements as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority, a component unit of the Village, as of June 30, 2006 and for the year then ended, which statements reflect total assets and revenues constituting 36% and 33%, respectively, of the related proprietary fund totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion for June 30, 2006, insofar as it relates to the amounts included for the Housing Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the report of the other auditors provide a reasonable basis for our opinions.

The capital asset balances of the Village are incomplete. The Village owns water tanks, five wells, land, and other capital assets which relate to the enterprise funds. These assets have not been valued and added to the capital asset listing. Their value is estimated to be material to the financial statements.

Mr. Hector H. Balderas, State Auditor and
Mr. Tony J. Roybal, Mayor and
The Village Trustees
Village of Pecos, New Mexico

In our opinion, because of the effects of the unrecorded capital assets discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the business-type activities of the water and waste water funds of the Village as of June 30, 2006, or the respective changes in financial position and budgetary comparison for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Village, as of June 30, 2006 and the respective changes in financial position, and the budgetary comparison for the general fund, fire protection fund and street fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position for the nonmajor governmental funds of the Village, as of June 30, 2006 and the respective changes in financial position thereof, and the respective budgetary comparisons for the nonmajor governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2009 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

For the year ended June 30, 2006, the Village has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and budgetary comparisons of the Village. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mr. Hector H. Balderas, State Auditor and
Mr. Tony J. Roybal, Mayor and
The Village Trustees
Village of Pecos, New Mexico

Perch & Associates LLC

Albuquerque, New Mexico
June 29, 2009

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 513,878	449,600	963,478
Cash and cash equivalents - restricted	-	3,752	3,752
Receivables			
Taxes			
Gross receipts	61,032	-	61,032
Gasoline	5,471	-	5,471
Motor vehicle	3,186	-	3,186
Property	196	-	196
Franchise	1,019	-	1,019
Cigarette	950	-	950
Grant	140,000	49,966	189,966
Accounts receivable, net of allowance	-	34,460	34,460
Due from other funds	761	-	761
Prepaid expenses	-	6,124	6,124
Capital assets, not depreciated	37,532	219,591	257,123
Capital assets, net of accumulated depreciation	1,226,610	1,337,247	2,563,857
Total assets	1,990,635	2,100,740	4,091,375
LIABILITIES			
Accounts payable	16,791	69,749	86,540
Accrued compensation and benefits	5,677	9,662	15,339
Interest payable	-	10,715	10,715
Deposits payable	-	28,751	28,751
Due to other funds	-	-	-
Settlement payable	-	9,979	9,979
Noncurrent liabilities:			
Compensated absences, due in one year	6,268	6,092	12,360
Long-term liabilities, due in one year	-	28,952	28,952
Long-term liabilities, due in more than one year	-	432,719	432,719
Total liabilities	28,736	596,619	625,355
NET ASSETS			
Invested in capital assets, net of related debt	1,264,142	1,095,167	2,359,309
Unrestricted	697,757	408,954	1,106,711
Total net assets	\$ 1,961,899	1,504,121	3,466,020

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 311,054	4,390	103,113	82,395	(121,156)	-	(121,156)
Public safety	85,469	-	68,820	140,000	123,351	-	123,351
Health and welfare	4,639	-	-	-	(4,639)	-	(4,639)
Total governmental activities	<u>401,162</u>	<u>4,390</u>	<u>171,933</u>	<u>222,395</u>	<u>(2,444)</u>	<u>-</u>	<u>(2,444)</u>
Business-type activities							
Waste water	104,011	102,222	-	90,623	-	88,834	88,834
Water	258,402	207,601	-	-	-	(50,801)	(50,801)
Housing authority	238,449	77,361	99,869	23,537	-	(37,682)	(37,682)
Total business-type activities	<u>600,862</u>	<u>387,184</u>	<u>99,869</u>	<u>114,160</u>	<u>-</u>	<u>351</u>	<u>351</u>
Total primary government	<u>\$ 1,002,024</u>	<u>391,574</u>	<u>271,802</u>	<u>336,555</u>	<u>(2,444)</u>	<u>351</u>	<u>(2,093)</u>
General Revenues							
Franchise taxes					12,680	-	12,680
Gasoline taxes					34,362	-	34,362
Gross receipts taxes					269,376	-	269,376
Property taxes					7,913	-	7,913
Cigarette taxes					4,224	-	4,224
Motor vehicle tax					36,766	-	36,766
Other					8,174	944	9,118
Interest					2,995	3,788	6,783
Total general revenues and transfers					<u>376,490</u>	<u>4,732</u>	<u>381,222</u>
Change in net assets					<u>374,046</u>	<u>5,083</u>	<u>379,129</u>
Net assets, beginning of year					1,553,576	1,472,338	3,025,914
Restatement					34,277	26,700	60,977
Net assets, beginning of year, as restated					<u>1,587,853</u>	<u>1,499,038</u>	<u>3,086,891</u>
Net assets, end of year					<u>\$ 1,961,899</u>	<u>1,504,121</u>	<u>3,466,020</u>

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

**VILLAGE OF PECOS, NEW MEXICO
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Fire Protection	Street	Nonmajor Governmental Funds	Total
ASSETS					
Cash	\$ 301,125	-	191,768	20,985	513,878
Receivables					
Taxes					
Gross receipts	59,624	-	-	1,408	61,032
Gasoline	-	-	5,471	-	5,471
Motor vehicle	3,186	-	-	-	3,186
Property	196	-	-	-	196
Franchise	1,019	-	-	-	1,019
Cigarette	703	-	-	247	950
Grant	-	140,000	-	-	140,000
Due from other funds	168,986	-	-	-	168,986
Total assets	\$ 534,839	140,000	197,239	22,640	894,718
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 6,198	10,355	-	238	16,791
Accrued compensation and benefits	5,677	-	-	-	5,677
Due to other funds	-	136,597	-	31,628	168,225
Total liabilities	11,875	146,952	-	31,866	190,693
FUND BALANCES					
Unreserved, undesignated reported in:					
General fund	522,964	-	-	-	522,964
Special revenue funds	-	(6,952)	197,239	(9,460)	180,827
Capital projects funds	-	-	-	234	234
Total fund balances	522,964	(6,952)	197,239	(9,226)	704,025
Total liabilities and fund balances	\$ 534,839	140,000	197,239	22,640	894,718

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

VILLAGE OF PECOS, NEW MEXICO
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

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

Total fund balance - governmental funds	\$	704,025
Accrued compensated absences not payable from current revenues.		(6,268)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		<u>1,264,142</u>
Net assets - governmental activities	\$	<u><u>1,961,899</u></u>

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Fire Protection	Street	Nonmajor Governmental Funds	Total
Revenues					
Taxes	\$ 323,456	-	34,363	7,502	365,321
From local governments					
Grants	185,508	188,820	-	20,000	394,328
Licenses, permits, fees and fines	4,390	-	-	-	4,390
Interest	2,793	179	-	23	2,995
Other	2,841	5,333	-	-	8,174
Total revenues	<u>518,988</u>	<u>194,332</u>	<u>34,363</u>	<u>27,525</u>	<u>775,208</u>
Expenditures					
Current					
General government	281,149	-	-	-	281,149
Public safety	-	48,430	-	18,755	67,185
Health and welfare	-	-	-	4,639	4,639
Capital outlay	120,114	139,679	-	4,206	263,999
Total expenditures	<u>401,263</u>	<u>188,109</u>	<u>-</u>	<u>27,600</u>	<u>616,972</u>
Net change in fund balances	117,725	6,223	34,363	(75)	158,236
Fund balance, beginning	<u>405,239</u>	<u>(13,175)</u>	<u>162,876</u>	<u>(9,151)</u>	<u>545,789</u>
Fund balance, end of year	<u>\$ 522,964</u>	<u>(6,952)</u>	<u>197,239</u>	<u>(9,226)</u>	<u>704,025</u>

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

VILLAGE OF PECOS, NEW MEXICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

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

Net changes in fund balances - governmental funds \$ 158,236

Governmental funds report capital outlay 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. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Depreciation expense	(45,783)	
Capital outlay	<u>263,998</u>	
Excess of capital outlay over depreciation expense		218,215

Accrued compensated absences are expensed under the accrual method, and not the modified accrual method. (2,405)

Change in net assets - governmental activities \$ 374,046

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 270,600	270,600	319,020	48,420
From local governments				
Grants	56,000	103,113	193,989	90,876
Licenses, permits, fees and fines	14,800	14,800	4,390	(10,410)
Interest	1,300	1,300	2,793	1,493
Rents and royalties	7,700	7,700	-	(7,700)
Other	-	-	2,841	2,841
Total revenues	350,400	397,513	523,033	125,520
Expenditures				
General government	290,484	294,484	279,153	15,331
Public safety	21,467	21,467	-	21,467
Capital outlay	-	-	120,114	(120,114)
Total expenditures	311,951	315,951	399,267	(83,316)
Net change in fund balance	38,449	81,562	123,766	42,204
Fund balance, beginning of year	405,239	405,239	405,239	-
Fund balance, end of year	\$ 443,688	486,801	529,005	42,204
Non-GAAP change in fund balance			\$ 123,766	
Change in:				
Taxes receivable			4,436	
Grants receivable			(8,481)	
Accounts payable			(1,671)	
Accrued compensation and benefits			(325)	
GAAP change in fund balance			<u>\$ 117,725</u>	

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
FIRE PROTECTION FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
From local governments				
Grants	\$ 48,820	53,702	48,820	(4,882)
Interest income	75	75	179	104
Other	-	100	5,333	5,233
Total revenues	48,895	53,877	54,332	455
Expenditures				
Public safety	19,650	19,650	38,150	(18,500)
Capital outlay	11,276	151,276	139,679	11,597
Total expenditures	30,926	170,926	177,829	(6,903)
Net change in fund balance	17,969	(117,049)	(123,497)	(6,448)
Fund balance, beginning of year	(13,175)	(13,175)	(13,175)	-
Fund balance, end of year	4,794	(130,224)	(136,672)	(6,448)
Prior year cash appropriated	-	130,224	136,672	
	\$ -	-	-	
Non-GAAP change in fund balance			\$ (123,497)	
Change in:				
Accounts receivable			140,000	
Accounts payable			<u>(10,280)</u>	
GAAP change in fund balance			<u>\$ 6,223</u>	

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
STREET FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Gasoline taxes	\$ 34,000	37,000	36,105	(895)
Total revenues	34,000	37,000	36,105	(895)
Expenditures				
Highways and streets	53,338	53,338	-	53,338
Total expenditures	53,338	53,338	-	53,338
Net change in fund balance	(19,338)	(16,338)	36,105	52,443
Fund balance, beginning of year	162,876	162,876	162,876	-
Fund balance, end of year	\$ 143,538	146,538	198,981	52,443
Non-GAAP change in fund balance			\$ 36,105	
Change in:				
Accounts receivable			(1,742)	
GAAP change in fund balance			<u>\$ 34,363</u>	

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

VILLAGE OF PECOS, NEW MEXICO
BALANCE SHEET -
PROPRIETARY FUNDS
June 30, 2006

	Waste Water	Water	Housing Authority	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 105,236	321,485	22,879	449,600
Cash and cash equivalents - restricted	-	-	3,752	3,752
Accounts receivable, net of allowance	11,432	22,348	680	34,460
Grant receivable	49,966	-	-	49,966
Prepaid expenses	-	-	6,124	6,124
Total current assets	166,634	343,833	33,435	543,902
Capital Assets				
Land	-	-	14,400	14,400
Construction work in progress	179,455	-	25,736	205,191
Housing authority building and improvements	-	-	1,284,989	1,284,989
Furniture and fixtures	-	-	90,102	90,102
Plant and equipment	245,524	534,275	-	779,799
Accumulated depreciation	(64,533)	(124,509)	(628,601)	(817,643)
Total capital assets, net of accumulated depreciation	360,446	409,766	786,626	1,556,838
Total assets	\$ 527,080	753,599	820,061	2,100,740
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 56,768	6,595	6,386	69,749
Accrued compensation and benefits	1,712	4,519	3,431	9,662
Interest payable	-	10,715	-	10,715
Deposits payable	-	24,999	3,752	28,751
Compensated absences	304	5,431	357	6,092
Settlement payable	9,979	-	-	9,979
Loans payable - current	-	15,152	-	15,152
Bonds payable - current	-	13,800	-	13,800
Total current liabilities	68,763	81,211	13,926	163,900
Noncurrent Liabilities				
Loans payable	-	100,923	-	100,923
Bonds payable	-	331,796	-	331,796
Total noncurrent liabilities	-	432,719	-	432,719
Total liabilities	68,763	513,930	13,926	596,619
Net Assets				
Invested in capital assets, net of related debt	360,446	(51,905)	786,626	1,095,167
Unrestricted	97,871	291,574	19,509	408,954
Total net assets	458,317	239,669	806,135	1,504,121
Total liabilities and net assets	\$ 527,080	753,599	820,061	2,100,740

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Waste Water	Water	Housing Authority	Total
Operating Revenues				
Sales, services and rents	\$ 102,222	207,601	77,361	387,184
Operating Expenses				
Operating expenses	94,244	209,391	186,901	490,536
Depreciation	9,767	28,310	51,548	89,625
Total operating expenses	104,011	237,701	238,449	580,161
Operating Loss	(1,789)	(30,100)	(161,088)	(192,977)
Nonoperating Revenues (Expenses)				
From local governments				
Grant income	90,623	-	123,406	214,029
Interest income	979	2,235	574	3,788
Interest expense	-	(20,701)	-	(20,701)
Other income	-	944	-	944
Total nonoperating revenues (expenses)	91,602	(17,522)	123,980	198,060
Net income (loss)	89,813	(47,622)	(37,108)	5,083
Net assets:				
Beginning of year	368,504	260,591	843,243	1,472,338
Restatement	-	26,700	-	26,700
Beginning of year, as restated	368,504	287,291	843,243	1,499,038
Net assets, end of year	\$ 458,317	239,669	806,135	1,504,121

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Waste Water	Water	Housing Authority	Total
Cash Flows From Operating Activities				
Cash received from customers, tenants	\$ 102,753	208,221	77,984	388,958
Cash payments to vendors and employees	(97,334)	(204,456)	(189,648)	(491,438)
Net cash provided (used) by operating activities	5,419	3,765	(111,664)	(102,480)
Cash Flows From Noncapital and Related Financing Activities				
Change in due to/from account	(64,124)	(40,914)	-	(105,038)
Change in customer deposits	-	762	-	762
Grant income	-	-	99,869	99,869
Other income	-	944	-	944
Net cash (used) provided by noncapital financing activities	(64,124)	(39,208)	99,869	(3,463)
Cash Flows From Capital and Related Financing Activities				
Purchase of capital assets	(90,624)	-	(24,594)	(115,218)
Grant received	90,968	-	23,537	114,505
Principle payment on bonds	-	(12,700)	-	(12,700)
Principle payment on loans	-	(15,406)	-	(15,406)
Interest payment on bonds and loans	-	(21,263)	-	(21,263)
Net cash provided (used) by capital and related financing activities	344	(49,369)	(1,057)	(50,082)
Cash Flows From Investing Activities				
Interest income	979	2,235	30,484	33,698
Net cash provided by investing activities	979	2,235	30,484	33,698
Net increase in cash	(57,382)	(82,577)	17,632	(122,327)
Cash, beginning of year	162,618	404,062	8,999	575,679
Cash, end of year	\$ 105,236	321,485	26,631	453,352

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2006

	Waste Water	Water	Housing Authority	Total
Operating loss	\$ (1,789)	(30,100)	(161,088)	(192,977)
Adjustments to reconcile operating income to net cash flows:				
Depreciation expense	9,767	28,310	51,548	89,625
Changes in assets and liabilities:				
Accounts receivable	531	620	(232)	919
Prepaid expenses	-	-	(29)	(29)
Accounts payable	5,043	6,579	(809)	10,813
Accrued expenses	163	93	592	848
Compensated absences	257	(1,737)	(2,500)	(3,980)
Settlement payable	(8,553)	-	-	(8,553)
Deposits payable	-	-	854	854
Net cash provided (used) by operating activities	\$ 5,419	3,765	(111,664)	(102,480)

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUNDS
June 30, 2006

ASSETS

Cash	\$ 50
Total assets	<u><u>\$ 50</u></u>

LIABILITIES

Due to other entities	\$ (711)
Due to other funds	761
Total liabilities	<u><u>\$ 50</u></u>

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

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity. The Village of Pecos (Village) was incorporated in 1950 under the laws of the State of New Mexico. The Village operates under a Mayor-Trustee form of government and provides the following services as authorized by its charter: public safety (fire), streets, sanitation, health and social services, culture and recreation, education, public improvements, and general administrative services.

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

A. Financial Reporting Entity

As required by GAAP, the financial statements present the Village and entities for which the Village is considered to be financially accountable. The Village reports the Housing Authority of the Village of Pecos as a blended component unit.

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 Village. 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 Activities demonstrates the degree to which the direct expenses of a given function or segment are 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 and enterprise funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principle ongoing operations.

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 recorded.

Governmental 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. For this purpose, the Village 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 made.

The Village follows the following revenue recognition principles applied to nonexchange transactions which are in accordance with GASB *Statement 33, Accounting and Reporting for Nonexchange Transactions*:

Derived tax revenues are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include gross receipts tax, gasoline taxes, and cigarette taxes.

Imposed nonexchange revenues – property taxes are levied and collected by the San Miguel County treasurer on behalf of the Village. The taxes are levied in November and payable in two installments, November 10th and April 10th. The County remits to the Village a percentage of the collections made during the month. Taxes are considered delinquent and subject to lien, penalty, and interest 30 days after the date on which they are due.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Imposed nonexchange revenues other than property taxes are recognized in the period when an enforceable legal claim has arisen and the resources are available.

Government-mandated nonexchange transactions and voluntary nonexchange transactions are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

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

The Village reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Village before it has legal claim to the resources, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The Village reports the following major governmental funds:

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

Fire Protection Fund – is a special revenue fund used to account for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. Authority is NMSA 59-A-53-1. Funding was also provided by the State of New Mexico Department of Finance and Administration as per the Laws of 2006, Chapter 111, Section 52, Paragraph 527. These expenditures are restricted for the purpose of purchase and equipping a fire truck.

Street Fund – is a special revenue fund used to account for funds used to maintain road for which the Village is responsible. Financing sources include gasoline taxes imposed by Chapter 7, Article 12, NMSA 1978 and distributed to the village pursuant to 7-1-6.9, NMSA 1978. Funding is also provided by the New Mexico State Highway Department’s Cooperative Agreement Grant per 67-3-28, NMSA 1978.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Expenditures are restricted for the purpose of construction, reconstruction, resurfacing and other improvements of public roads, streets, alleys and bridges, including right-of-way acquisition.

Proprietary funds are accounted for on the flow of economic resources measurement focus (all assets and all liabilities associated with the operation of these funds are included on the balance sheet) and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Village applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The following proprietary funds are major funds.

Waste Water. To account for the provision of waste water services to the residents of the Village. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance billing, and collection.

Water. To account for the provisions of water services to the residents of the Village. All activities necessary to provide such services are accounted for in this fund. Financing is provided through charges to customers for service.

Housing Authority. The Housing Authority is a component unit of the Village. The financial statements of the Housing Authority have been blended into the financial statements of the Village. The Housing Authority has a yearly audit, which may be obtained by written request at 1114 Chamisa Ln., Pecos, NM 87552.

The Village reports the following fund types:

General Fund is the general operating fund of the Village. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important functions of the Village, including the Village's general services and administration, are accounted for in this fund.

Special Revenue Funds are used to account for revenues derived from specific sources, which are usually required by law or regulation to be accounted for in separate funds.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those constructed for proprietary funds.

Agency Funds are used to account for monies held by the Village in a custodial capacity on behalf of third parties or other agencies.

B. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, savings accounts and certificates of deposit with an original maturity of three months or less from the date of acquisition. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

The Village does not have an investment policy. Village funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.
2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government investment Pool).

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C. Capital Assets

Capital assets, which include software, 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 Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Governmental Accounting Standards Board (GASB) 34 *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* allows phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Village has elected to not retroactively record infrastructure assets.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets in governmental funds are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years

Capital Assets in proprietary funds are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	25 - 50 years
Equipment	10 - 50 years
Infrastructure	5 - 50 years

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to the General Fixed Asset Account Group and a yearly inventory of those assets must be taken.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. Accrued Employee Benefits

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

E. Fund Equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. Fund equity and net assets were reported as follows:

Unreserved, undesignated - Amounts which have not been reserved or designated for any purpose. These funds are available for unrestricted usage by the Village.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

G. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for 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. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

H. Cash Flows

For purposes of the Statement of Cash Flows, the various enterprise funds consider all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents.

I. Budgetary Information

Actual amounts on the budgetary basis are prepared on the cash basis of accounting which recognizes revenues when received and expenditures when paid. Annual budgets are adopted for the general, special revenue, and enterprise funds. The Village has not adopted a budget for the EDA Capital Project fund.

The Village follows the following procedures for establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the Village Administrator submits to the Village Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them based on previous year's history. Public hearings are conducted at the Village Hall to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance.
2. The Village Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the Village Council and New Mexico State Department of Finance, Division of Local Governments.
3. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects fund and enterprise funds.
4. The level of classification detail in which expenditures of expenses may not legally exceed appropriations for each budget is in fund total. Appropriations lapse at year-end.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

J. Use of Estimates

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

NOTE 2. CASH AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is, in the event of the failure of a depository financial institution, the Village will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Village does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name. As of June 30, 2006, the Village's bank balance total of \$979,682 was exposed to credit risk in the amount of \$813,236 as follows:

Uninsured and collateral held by pledging bank's trust department or agent but not in the Village's name	<u>\$ 813,236</u>
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In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Village is required to collateralize an amount equal to one-half of the public money in excess of \$100,000 at each financial institution.

The total balance in any single financial institution may at times exceed the \$100,000 in FDIC coverage available to individual depositors. The Village is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account.

The amounts reported as restricted cash and cash equivalents consist of amounts held for customer rent and pet deposits for the Housing Authority.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS

Accounts receivable represents billings for waste water and water fees, and for uncollected rents. It is management’s policy to cut off waste water and water service for non-payment. A lien is placed on the properties which have outstanding water bills. Accounts receivable is comprised of the following at June 30, 2006:

	Waste Water	Water
Accounts receivable	\$ 11,774	23,013
Allowance for uncollectible accounts	(342)	(665)
	<u>\$ 11,432</u>	<u>22,348</u>

Accounts receivable for the housing authority is \$680 net of allowance of \$1,200 at June 30, 2006.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4. CAPITAL ASSETS

Governmental fund capital asset activity for the year was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental Activities					
Capital assets, not depreciated:					
Construction in process	\$ 11,672	25,860	-	-	37,532
Total, not depreciated	\$ 11,672	25,860	-	-	37,532
Capital assets, depreciated:					
Buildings and improvements	\$ 1,133,638	79,172	-	-	1,212,810
Equipment	317,599	158,966	(15,000)	-	461,565
Total, depreciated	1,451,237	238,138	(15,000)	-	1,674,375
Accumulated depreciation for:					
Buildings and improvements	244,447	23,569	-	-	268,016
Equipment	206,812	22,214	(15,000)	(34,277)	179,749
Total accumulated depreciation	451,259	45,783	(15,000)	(34,277)	447,765
Total capital assets, depreciated, net	\$ 999,978	192,355	-	34,277	1,226,610
Total capital assets, net	\$ 1,011,650	218,215	-	34,277	1,264,142

The adjustment consists of capital assets that were over-depreciated in prior periods. It is better described in Note 14 – Prior Period Adjustments.

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities

General government	\$ 27,500
Public safety	18,283
Total depreciation expense	\$ 45,783

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4. CAPITAL ASSETS (CONTINUED)

Enterprise fund capital asset activity for the year was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type Activities					
Capital assets, not depreciated:					
Land	\$ 14,400	-	-	-	14,400
Construction in process	2,200	114,159	-	88,832	205,191
Total, not depreciated	\$ 16,600	114,159	-	88,832	219,591
Capital assets, depreciated:					
Buildings and improvements	\$ 1,284,989	-	-	-	1,284,989
Equipment	350,860	1,057	(15,353)	-	336,564
Infrastructure	622,169	-	-	(88,832)	533,337
Total, depreciated	2,258,018	1,057	(15,353)	(88,832)	2,154,890
Accumulated depreciation for:					
Buildings and improvements	524,031	41,432	-	(1,000)	564,463
Equipment	166,009	32,269	(15,353)	-	182,925
Infrastructure	53,333	15,922	-	1,000	70,255
Total accumulated depreciation	743,373	89,623	(15,353)	-	817,643
Total capital assets, depreciated, net	\$ 1,514,645	(88,566)	-	(88,832)	1,337,247
Total capital assets, net	\$ 1,531,245	25,593	-	-	1,556,838

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5. LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS

During the year ended June 30, 2006, the following changes occurred:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 3,863	3,812	(1,407)	<u>6,268</u>	<u>6,268</u>

Accrued Compensated Absences. Employees accrue either eight or ten hours per pay period depending on if the employee has been with the village less than or more than ten years, respectively. The maximum number of annual leave hours which may be accrued is 212 hours. Compensated absence balances have been liquidated with general fund money in prior years. Village employees accrue vacation leave as follows:

Total Years of Village Service	Yearly Accumulation
0-5 (inclusive)	96 hours
6-10 (inclusive)	120 hours
11 or more	144 hours

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS

	Beginning Balance	Adjustments and Additions	Deletions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	\$ 10,071	7,467	(11,446)	6,092	6,092
Notes payable	131,481	-	(15,406)	116,075	15,152
Bonds payable	358,296	-	(12,700)	345,596	13,800
Total	<u>\$ 499,848</u>	<u>7,467</u>	<u>(39,552)</u>	<u>467,763</u>	<u>35,044</u>

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS (CONTINUED)

Notes Payable. The Village financed the construction of the water plant and distribution system with notes payable to the New Mexico Environmental Department. The following notes are outstanding at June 30, 2006:

Water supply construction loan for \$162,111, interest at 2%, payments of \$16,596 annually in January, maturing January 1, 2012	\$ 92,964
Rural Infrastructure loan for \$25,000, interest at 3%, payments of \$1,680 annually in June, maturing June 14, 2024	<u>23,111</u>
Total loans payable	<u>\$ 116,075</u>

The future requirements for notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 15,724	2,552	18,276
2008	16,049	2,227	18,276
2009	16,379	1,897	18,276
2010	16,718	1,558	18,276
2011	17,063	1,213	18,276
2012 to 2016	22,346	2,652	24,998
2017 to 2021	7,043	1,359	8,402
2022 to 2024	4,753	288	5,041
	<u>\$ 116,075</u>	<u>13,746</u>	<u>129,821</u>

Bonds Payable.

The Village issued \$65,000 in Water and Sewer System Revenue Bonds, Series 1970. Interest is at 5% and the bonds mature January 1, 2010.

The Village issued \$450,000 in Water and Sewer System Revenue Bonds, Series 1984. Interest is at 5% and the bonds mature January 1, 2025.

The Village issued \$35,000 in Water and Sewer System Revenue Bonds, Series 1984A. Interest is at 6.75% and the bonds mature January 1, 2024.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS (CONTINUED)

The future requirements for bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 12,800	17,745	30,545
2008	13,800	17,091	30,891
2009	13,900	16,387	30,287
2010	16,000	15,676	31,676
2011	14,000	14,859	28,859
2012 to 2016	79,500	62,947	142,447
2017 to 2021	104,400	40,096	144,496
2022 to 2025	91,196	10,975	102,171
	<u>\$ 345,596</u>	<u>195,776</u>	<u>541,372</u>

NOTE 7. INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following amounts:

Due to general fund from:		
Nonmajor governmental funds	\$	168,255
Agency fund		<u>761</u>
Total due to general fund	\$	<u>168,986</u>

Interfund balances were caused by the General fund covering negative cash balances in other funds.

NOTE 8. LANDFILL CLOSURE COSTS

The Village acquired a landfill in the year ending June 30, 2003. The Village's has been classified as a small landfill. As a result, the Village is not required to provide financial assurance for closure and post closure costs. Accordingly, no liability has been accrued for closure or post closure costs.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9. PROPERTY TAXES

San Miguel County is responsible for assessing, collecting and distributing property taxes for the Village. Property taxes are assessed on November 1 of each year based on the assessed value on the prior January 1 and are payable in two equal installments by November 10 of the year in which the tax bill is prepared and by April 10 of the following year. Property taxes are delinquent if not paid by December 10 and May 10. Taxes on real property are liened on January 1 of the year for which the taxes are imposed.

NOTE 10. PERA PENSION PLAN

Plan Description: Substantially all of the Village'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, 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. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy. Plan members are required to contribute 13.15% of their gross salary and the Village is required to make a contribution of 9.15%. The Village has elected to pay 75% of the employee's contribution. The contribution requirements of plan members and the Village are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Village's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$41,600, \$40,206, and \$35,697, respectively.

NOTE 11. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents, with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 11. POST-EMPLOYMENT BENEFITS (CONTINUED)

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retirement Health Care Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the time between the employer's effective date and the date of retirement; (2) Retirees defined by the Act who retired prior to July 1, 1990; and former legislators who served at least two years.

Fund Contributions: Each participating employer makes contributions to the fund in the amount of 7.675% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution in an amount equal to 9.4% of the employee's annual salary. Employer and employee contributions will increase annually through the year 2011. Each participating retiree pays a monthly premium of \$94.08 for the basic single plan and an additional \$5.00 if eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that included post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also included the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd N.E., Suite 104, Albuquerque, New Mexico 87109.

For the fiscal years ended June 30, 2006, 2005, and 2004, the Village remitted \$3,448, \$2,950, and \$2,656, respectively, in employer contributions to the Retiree Health Care Authority.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 12. RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Village participates in the State of New Mexico Self-Insurers Fund for workers' compensation claims and employers' liability insurance including general, auto, uninsured motorist, law enforcement, and public official's errors and omissions liabilities. The policy limits for workers' compensation is unlimited and \$1,050,000 per occurrence for employer's liability. There is no deductible. Liability policy limits range from \$100,000 to \$750,000 per occurrence, with a \$4,000,000 annual aggregate per policy. Deductibles range from \$500 to \$5,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is reported in the General Long-Term Debt Account Group because it is not expected to be liquidated with expendable available financial resources.

**VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

NOTE 13. SPECIAL APPROPRIATIONS

The Authority has received the following special appropriations:

	Original Appropriation	Expended	Appropriation Period
05-L-G-1566 Improvements and cleanup to the arroyos	\$ 16,000	-	2006 - 2010
05-L-G-1785 To acquire land and construct baseball fields	\$ 20,000	-	2006 - 2010
05-L-G-364 Construction of a parking lot at the municipal building	\$ 100,000	2,669	2006 - 2010
06-L-G-1809 To purchase and equip a fire truck	\$ 140,000	140,000	2006 - 2008
Pass Thru Appropriation from the New Mexico Aging and Long-Term Services Department Contract No. 2005-216 Construction of a senior center	\$ 556,380	-	2005 - 2009
Pass Thru Appropriation from the New Mexico Aging and Long-Term Services Department Contract No. 2005-078 Construction of a senior center	\$ 100,000	31,662	2004 - 2008
SAP-04-0209-STB Waste water facility and System improvements	<u>\$ 1,000,000</u>	<u>179,455</u>	2004 - 2007
Total	<u>\$ 1,932,380</u>	<u>353,786</u>	

None of the above appropriations were encumbered at year-end. As of the date of the audit report, \$372,056 of the above appropriations was unexpended.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 14. PRIOR PERIOD ADJUSTMENT

A check issued in November 1999 in the amount of \$26,700 was recorded in the enterprise funds cash account and held as an outstanding item. It was determined in the year under audit that this check was not a valid outstanding item. A prior period adjustment has been made to correct this error.

Four capital assets in governmental funds were over depreciated by a combined total of \$34,277. The capital assets were all vehicles for the fire protection fund purchased between 1952 and 1981 with a 10 year useful life. All of the assets should have been fully depreciated by 1991. There was no current year depreciation. A prior period adjustment has been made to correct this error.

NOTE 15. BUDGET OVERAGES

The Village incurred expenses greater than the authorized budget in the General, Fire Protection, and Waste Water funds which were over budget by \$83,316, \$6,903, and \$90,946, respectively. The overages were the result of the Village not having a system to track budget overages.

NOTE 16. CONTINGENCIES

Litigation. The Village is a defendant in a small number of lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Village.

Grant Compliance. The Village receives significant financial assistance from the State and U.S. Government. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable state and federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantor. As of June 30, 2006, management estimates that no material liabilities will result from such audits.

NOTE 17. DEFICIT FUND BALANCE

The Village had a deficit fund balance of \$51 in the Emergency Medical Services fund, \$6,952 in the Fire Protection fund, and \$31,815 in the Law Enforcement Protection fund. The cause of the deficit is unknown. Money will be transferred to the fund to increase the fund balance and eliminate the deficit.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 18. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the following major subsequent events occurred:

- The Village began construction of a new waste water treatment plant with an estimated total cost of \$3,600,000. The federal government is anticipated to supply 75% of the funding, and the state of New Mexico is anticipated to supply 25% of the funding for the project.
- The Village received \$125,000 to construct a new park at the municipal building.
- The Village received \$1,200,000 in funding to pave highway 63.
- The Village borrowed \$150,000 in order to hire a consulting firm and an auditing firm to complete the Villages audits from June 30, 2004 to June 30, 2007.

VILLAGE OF PECOS, NEW MEXICO
NONMAJOR FUNDS
June 30, 2006

SPECIAL REVENUE FUNDS

Corrections. To establish an additional sources 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 the operations of a motor vehicle. Authority is NMSA 33-9-3.

Environmental Gross Receipts Tax. To account for the revenue received from the State through gross receipts and subsequently given to the Otero/Lincoln County Regional Landfill in accordance with a joint powers agreement. Authority is by Joint Powers Agreement.

EMS Ambulance. To account for funds available for emergency medical equipment and supplies attributable to such services. Financing is provided by the State of New Mexico. Authority is the Emergency Medical Services Fund Act, NMSA 24-10A.

Emergency 911. To account for grant funds available for the basic 911 emergency telephone number. Financing is provided by the State of New Mexico. Authority is the Enhanced 911 Regulations at 10 NMAC 6.2, and Sections 63-9D-1 et. seq. NMSA 1978.

Law Enforcement Protection. To account for the expenditures from the State of New Mexico for training, equipment and capital outlay. Authority is NMSA 29-13-4.

Recreation. To account for revenues and expenditures relating to village recreational facilities and programs. Financing is provided by the State. Such revenue provides for payment of all current operating costs and may be used for that purpose only. Authority is NMSA 7-12-15.

EDA. To account for the proceeds of a grant from the State of New Mexico, Environmental Department, for capital outlay at the Village's landfill station.

VILLAGE OF PECOS, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2006

	Special Revenue		
	Corrections	Environmental Gross Receipts Tax	Emergency Medical Services
ASSETS			
Cash	\$ 4,221	8,485	-
Receivables			
Taxes			
Gross receipts	-	1,408	-
Cigarette	-	-	-
Total assets	\$ 4,221	9,893	-
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	-	-
Due to other funds	-	-	51
Total liabilities	-	-	51
FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	4,221	9,893	(51)
Capital projects funds	-	-	-
Total fund balances	4,221	9,893	(51)
Total liabilities and fund balances	\$ 4,221	9,893	-

VILLAGE OF PECOS, NEW MEXICO
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2006

	Special Revenue		
	Emergency 911	Law Enforcement Protection	Recreation
ASSETS			
Cash	\$ 3,659	-	4,386
Receivables			
Taxes			
Gross receipts	-	-	-
Cigarette	-	-	247
Total assets	\$ 3,659	-	4,633
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	238	-
Due to other funds	-	31,577	-
Total liabilities	-	31,815	-
FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	3,659	(31,815)	4,633
Capital projects funds	-	-	-
Total fund balances	3,659	(31,815)	4,633
Total liabilities and fund balances	\$ 3,659	-	4,633

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2006**

	Total Special Revenue	EDA Capital Project	Total Nonmajor
ASSETS			
Cash	\$ 20,751	234	20,985
Receivables			
Taxes			
Gross receipts	1,408	-	1,408
Cigarette	247	-	247
Total assets	<u>\$ 22,406</u>	<u>234</u>	<u>22,640</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 238	-	238
Due to other funds	31,628	-	31,628
Total liabilities	<u>31,866</u>	<u>-</u>	<u>31,866</u>
FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	(9,460)	-	(9,460)
Capital projects funds	-	234	234
Total fund balances	<u>(9,460)</u>	<u>234</u>	<u>(9,226)</u>
Total liabilities and fund balances	<u>\$ 22,406</u>	<u>234</u>	<u>22,640</u>

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2006**

	Special Revenue		
	Corrections	Environmental Gross Receipts Tax	Emergency Medical Services
Revenues			
Taxes	\$ -	6,164	-
Interest	-	-	-
Grant	-	-	-
	<hr/>		
Total revenues	-	6,164	-
	<hr/>		
Expenditures			
Current			
Public safety	-	-	-
Health and welfare	-	4,639	-
Capital outlay	-	-	-
	<hr/>		
Total expenditures	-	4,639	-
	<hr/>		
Net change in fund balances	-	1,525	-
Fund balance, beginning	4,221	8,368	(51)
	<hr/>		
Fund balance, end of year	\$ 4,221	9,893	(51)
	<hr/> <hr/>		

**VILLAGE OF PECOS, NEW MEXICO
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR FUNDS
Year Ended June 30, 2006**

	Special Revenue		
	Emergency 911	Law Enforcement Protection	Recreation
Revenues			
Taxes	\$ -	-	1,338
Interest	-	-	23
Grant	-	20,000	-
	<hr/>		
Total revenues	-	20,000	1,361
	<hr/>		
Expenditures			
Current			
Public safety	-	18,755	-
Health and welfare	-	-	-
Capital outlay	-	4,206	-
	<hr/>		
Total expenditures	-	22,961	-
	<hr/>		
Net change in fund balances	-	(2,961)	1,361
Fund balance, beginning	3,659	(28,854)	3,272
	<hr/>		
Fund balance, end of year	\$ 3,659	(31,815)	4,633
	<hr/> <hr/>		

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2006**

	Total Special Revenue	EDA Capital Project	Total Non-major
Revenues			
Taxes	\$ 7,502	-	7,502
Interest	23	-	23
Grant	20,000	-	20,000
	<hr/>		
Total revenues	27,525	-	27,525
	<hr/>		
Expenditures			
Current			
Public safety	18,755	-	18,755
Health and welfare	4,639	-	4,639
Capital outlay	4,206	-	4,206
	<hr/>		
Total expenditures	27,600	-	27,600
	<hr/>		
Net change in fund balances	(75)	-	(75)
Fund balance, beginning	(9,385)	234	(9,151)
	<hr/>		
Fund balance, end of year	\$ (9,460)	234	(9,226)
	<hr/> <hr/>		

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
CORRECTIONS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	4,221	4,221	4,221	-
Fund balance, end of year	\$ 4,221	4,221	4,221	-

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
ENVIRONMENTAL GROSS RECEIPTS TAX
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Municipal taxes	\$ 5,500	5,500	6,055	555
Miscellaneous	-	-	-	-
Total revenues	5,500	5,500	6,055	555
Expenditures				
Health and welfare	5,500	5,500	4,639	861
Total expenditures	5,500	5,500	4,639	861
Net change in fund balance	-	-	1,416	1,416
Fund balance, beginning of year	8,368	8,368	8,368	-
Fund balance, end of year	\$ 8,368	8,368	9,784	1,416
Non-GAAP change in fund balance			1,416	
Change in:				
Accounts receivable			109	
GAAP change in fund balance			<u>\$ 1,525</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
EMERGENCY MEDICAL SERVICES FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Grants	\$ -	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
Expenditures				
Public safety	-	-	-	-
Capital outlay	51,905	51,905	50,000	1,905
Total expenditures	51,905	51,905	50,000	1,905
Net change in fund balance	(51,905)	(51,905)	(50,000)	1,905
Fund balance, beginning of year	(51)	(51)	(51)	-
Fund balance, end of year	(51,956)	(51,956)	(50,051)	1,905
Prior year cash appropriated	51,956	51,956	50,051	
	<u>\$ -</u>	<u>-</u>	<u>-</u>	
Non-GAAP change in fund balance			(50,000)	
Change in:				
Accounts payable			50,000	
GAAP change in fund balance			<u>\$ -</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
EMERGENCY 911
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive (Negative)
Revenues				
Miscellaneous	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	3,659	3,659	3,659	-
Fund balance, end of year	\$ 3,659	3,659	3,659	-

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
LAW ENFORCEMENT PROTECTION
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Grants	\$ 20,000	20,000	20,000	-
Total revenues	20,000	20,000	20,000	-
Expenditures				
Public safety	20,685	20,685	18,517	2,168
Capital outlay	4,300	4,300	4,206	94
Total expenditures	24,985	24,985	22,723	2,262
Net change in fund balance	(4,985)	(4,985)	(2,723)	2,262
Fund balance, beginning of year	(28,854)	(28,854)	(28,854)	-
Fund balance, end of year	(33,839)	(33,839)	(31,577)	2,262
Prior year cash appropriated	33,839	33,839	31,577	
	<u>\$ -</u>	<u>-</u>	<u>-</u>	
Non-GAAP change in fund balance			(2,723)	
Change in:				
Accounts payable			(238)	
GAAP change in fund balance			<u>\$ (2,961)</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
RECREATION
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Cigarette tax	\$ 460	460	1,223	763
Interest	-	-	23	23
Total revenues	460	460	1,246	786
Expenditures				
Culture and recreation	460	460	-	460
Total expenditures	460	460	-	460
Net change in fund balance	-	-	1,246	1,246
Fund balance, beginning of year	3,272	3,272	3,272	-
Fund balance, end of year	\$ 3,272	3,272	4,518	1,246
Non-GAAP change in fund balance			1,246	
Change in:				
Accounts receivable			115	
GAAP change in fund balance			<u>\$ 1,361</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
WASTE WATER ENTERPRISE FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 101,000	101,000	102,751	1,751
Grant income	-	-	90,968	90,968
Interest	-	-	979	979
Total revenues	101,000	101,000	194,698	93,698
Expenses				
Operating	87,632	92,032	97,355	(5,323)
Capital outlay	5,000	5,000	90,623	(85,623)
Total expenditures	92,632	97,032	187,978	(90,946)
Net change in net assets	8,368	3,968	6,720	2,752
Net assets, beginning of year	368,504	368,504	368,504	-
Net assets, end of year	\$ 376,872	372,472	375,224	2,752
Non-GAAP change in fund balance			\$ 6,720	
Change in:				
Utility receivables			(529)	
Grant receivable			(345)	
Accounts payable			3,510	
Other accrued expenses			(399)	
Capital expenditures capitalized			90,623	
Non-budgeted items				
Depreciation			(9,767)	
GAAP change in net assets			\$ 89,813	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
WATER ENTERPRISE FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Charges for services	\$ 207,000	207,000	208,221	1,221
Interest	150	150	2,235	2,085
Other	-	-	944	944
Total revenues	207,150	207,150	211,400	4,250
Expenses				
Operating	212,283	212,283	203,695	8,588
Debt service	58,573	58,573	49,369	9,204
Total expenditures	270,856	270,856	253,064	17,792
Net change in net assets	(63,706)	(63,706)	(41,664)	22,042
Net assets, beginning of year	287,291	287,291	287,291	-
Net assets, end of year	\$ 223,585	223,585	245,627	22,042
Non-GAAP change in fund balance			\$ (41,664)	
Change in:				
Receivables			(620)	
Accounts payable			(6,578)	
Accrued compensation and benefits			(93)	
Interest payable			562	
Deposits payable			(762)	
Settlement payable			-	
Compensated absences			1,737	
Capital expenditures capitalized			-	
Non-budgeted items				
Debt service principal			28,106	
Depreciation			(28,310)	
GAAP change in net assets			<u>\$ (47,622)</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
HOUSING AUTHORITY ENTERPRISE FUND
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental - federal	\$ 70,029	70,029	70,029	-
Charges for services	67,800	67,800	73,801	6,001
Operating grants	59,827	59,827	29,840	(29,987)
Capital grants	64,173	64,173	23,537	(40,636)
Interest	-	-	574	574
Miscellaneous	4,020	4,020	4,972	952
Total revenues	265,849	265,849	202,753	(63,096)
Expenses				
Administration	58,980	58,980	66,849	(7,869)
Utilities	35,520	35,520	45,967	(10,447)
Maintenance	44,400	44,400	63,872	(19,472)
Capital outlay	64,173	64,173	23,537	40,636
General	13,200	13,200	11,626	1,574
Total expenditures	216,273	216,273	211,851	4,422
Excess of revenues over expenditures	49,576	49,576	(9,098)	(58,674)
Other financing sources (uses)				
Operating transfers in	19,202	19,202	29,840	10,638
Operating transfers out	(59,827)	(59,827)	(29,840)	29,987
Total other financing sources (uses)	(40,625)	(40,625)	-	40,625
Net change in net assets	8,951	8,951	(9,098)	(18,049)
Net assets, beginning of year	843,243	843,243	843,243	-
Net assets, end of year	\$ 852,194	852,194	834,145	(18,049)
Non-GAAP change in fund balance			\$ (9,097)	
Non-budgeted items				
Capitalization of capital outlay expenditures			23,537	
Depreciation			(51,548)	
GAAP change in net assets			\$ (37,108)	

VILLAGE OF PECOS, NEW MEXICO
AGENCY FUNDS
June 30, 2006

Motor Vehicle Fund. To account for motor vehicle fees collected by the Village on behalf of the State of New Mexico.

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
Year Ended June 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
MOTOR VEHICLE FUND				
ASSETS				
Cash	\$ (616)	250,396	249,730	50
Total assets	<u>\$ (616)</u>	<u>250,396</u>	<u>249,730</u>	<u>50</u>
LIABILITIES				
Due to other entities	\$ (616)	250,396	250,491	(711)
Due to other entities	-	761	-	761
Total liabilities	<u>\$ (616)</u>	<u>251,157</u>	<u>250,491</u>	<u>50</u>

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2006

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Bank of Las Vegas	General Fund	Checking	\$ 341,521	339,597
Bank of Las Vegas	Fire Protection	Checking	15,463	14,862
Bank of Las Vegas	Recreation	Checking	4,506	4,506
Bank of Las Vegas	Water and Sewer Enterprise	Checking	494,169	492,213
Bank of Las Vegas	Capital Projects	Checking	234	234
Bank of Las Vegas	Pecos Housing Authority	Checking	6,321	5,133
Bank of Las Vegas	Pecos Housing Authority	Checking	1	1
Bank of Las Vegas	Pecos Housing Authority	Checking	3,752	3,752
Bank of Las Vegas	Pecos Housing Authority	Checking	17,695	17,695
Bank of Las Vegas	Water Deposit	Checking	24,281	23,720
Bank of America	Sewer Replacement Fund	Checking	11,082	11,082
Bank of America	Sewer System Repair and Replacement	Checking	6,953	6,953
Bank of America	Reserve Fund 1986	Checking	15,126	14,858
Bank of America	Water Replacement Fund	Checking	12,416	12,416
Bank of America	Joint Water and Sewer System	Checking	3,777	3,777
Del Norte Credit Union	Sewer System Reserve Fund	Checking	17,092	17,092
			<u>974,389</u>	<u>967,891</u>
Petty Cash	Utility Clerk		-	50
Petty Cash	Pecos Housing Authority		-	50
Total deposit accounts - non-agency			<u>\$ 974,389</u>	<u>967,991</u>
Agency funds cash accounts				
Bank of Las Vegas	MVD		\$ 5,293	(761)
Petty Cash	MVD Clerk		-	50
Total cash - agency funds			<u>\$ 5,293</u>	<u>(711)</u>

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2006

	Bank of Las Vegas	Bank of America	Del Norte Credit Union	Total
Deposits at June 30, 2006	\$ 913,236	49,354	17,092	979,682
Less: FDIC coverage	100,000	49,354	17,092	166,446
Uninsured public funds	813,236	-	-	813,236
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	1,025,000	-	-	1,025,000
Uninsured and uncollateralized	\$ -	-	-	-
50% pledged collateral requirement per statute	\$ 406,618	-	-	406,618
Total pledged collateral	1,025,000	-	-	1,025,000
Pledged collateral over the requirement	\$ (618,382)	-	-	(618,382)

Pledged collateral at June 30, 2006 consists of the following:

Security	CUSIP	Maturity	Par Value
Bloomfield, NM, muni bond	094077HB3	8/1/2006	200,000
San Juan County, NM, muni bond	79835HM8	2/15/2008	325,000
UNM Valencia County, muni bond	914696CE7	8/1/2009	200,000
Gallup, McKinley County, muni bond	364010LS5	8/1/2011	300,000
Total pledged collateral			\$ 1,025,000

The custodian of the pledged securities for the Bank of Las Vegas is Federal Home Loan Bank in Dallas, Texas.

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF JOINT POWERS AGREEMENTS
June 30, 2006

Joint Power Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Village	Amount contributed by Village during fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
NM State Police	New Mexico State Police Village of Pecos	Village of Pecos	The New Mexico State Police provide law enforcement and police protection within the limits of Pecos.	7/14/2000 No end date	The Village must provide office space for the NMSP. The Village was also required to provide a four-wheel drive Jccp Grand Cherokee. The vehicle was provided in a prior audit year. There is no cash expense paid for the office space. The NMSP is using Village office space.	\$ -	Village of Pecos	New Mexico State Police

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS
3915 CARLISLE BLVD NE
ALBUQUERQUE, NM 87107

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

Mr. Hector H. Balderas, State Auditor and
Mr. Tony J. Roybal, Mayor and
The Village Trustees
Village of Pecos, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and budgetary comparisons, of the Village of Pecos (Village), as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 29, 2009. That report expressed an adverse opinion on the water and waste water business type funds. We also have audited the financial statements of each of the Village's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules, and budgetary comparisons, as of and for the year ended June 30, 2006, 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

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations and responses as items 04-2, 04-3, 04-4, 04-6, 04-7, 04-8, 04-9, and 04-11.

Mr. Hector H. Balderas, State Auditor and
Mr. Tony J. Roybal, Mayor and
The Village Trustees
Village of Pecos, New Mexico

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 04-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and recommendations and responses as items 04-1, 04-5, and 04-8 for the Village, and items 01-04, and 2004-04 for the Housing Authority.

This report is intended solely for the information and use of the Village of Pecos' management, Village Trustees, federal awarding agencies, and the Office of the State Auditor and the Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Porch & Associates LLC

Albuquerque, New Mexico
June 29, 2009

VILLAGE OF PECOS, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2006

Village of Pecos

04-1	Due Date of Audit Report	Modified and repeated
04-2	Disaster Recover Plan and Information Technology General Controls	Modified and repeated
04-3	Utility Billing, Accounts Receivable and Internal Controls	Modified and repeated
04-4	Cash Disbursements and Procurement	Modified and repeated
04-5	Expenditures in Excess of Budget and Report Retention	Modified and repeated
04-6	Payroll Disbursements	Modified and repeated
04-7	Bank Reconciliations and Old Outstanding Items	Modified and repeated
04-8	Travel and Per Diem Disbursements	Modified and repeated
04-9	Water Deposit Liability	Modified and repeated
04-10	Payroll Taxes and PERA Processing and Reporting	Resolved
04-11	Capital Asset Additions	Modified and repeated
04-12	Administrative Fees in Gross Receipt Tax Revenue	Resolved

Housing Authority

01-04	Audit Report	Modified and repeated
2004-04	Expenditures in Excess of Budget	Modified and repeated

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT

04-1 Late Audit Report

CONDITION

The June 30, 2006 audit report was not filed timely as required by State Auditor Rule NMAC 2.2.2.9.A. The audit report was submitted to the Office of the State Auditor on August 11, 2009.

CRITERIA

According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 following the fiscal year-end, thus requiring the June 30, 2006 report to be filed by December 1, 2006.

EFFECT

The Village is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2006. The Village does not have audited financial statements for use in borrowing, bonds, and grant applications.

CAUSE

The books and records were not reconciled until after the due date. Also, there was significant turnover of key accounting staff during the period the audit was to be prepared.

RECOMMENDATION

The Village should consider hiring an outside public accountant to help train the accounting staff, help reconcile the accounting records, and help with the year-end close and audit preparation.

MANAGEMENT RESPONSE

Management concurs with this finding. The oversight (untimely submission of annual audits), was discovered when the existing Mayor and Village administration assumed responsibility for administration of the Village affairs. Upon discovery of this requirement, management immediately addressed this matter. The Village secured a loan from the New Mexico State Board of Finance, promptly hired a financial consulting firm to prepare and make available financial audit information for audit, communicated and

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-1 Late Audit Report (Continued)

MANAGEMENT RESPONSE (CONTINUED)

coordinated with the Office of the State Auditor, issued a request for proposal for audit services, and engaged an independent audit firm to begin addressing this important requirement. The Village of Pecos is making progress addressing prior audits. Audits for fiscal years ending 2004, 2005, and 2006 have now been completed. We are currently evaluating responses to our request for proposals to perform the fiscal year 2007 audit. Financial statements and necessary records for fiscal year ending 2007 audit prepared by our consultant are now available to be audited the audit for fiscal year 2007 will begin as soon as the Office of the State Auditor approves the Village's selection of an audit firm based on the required evaluation criteria.

We take seriously the audit recommendation to hire an outside public accountant to help train our accounting staff and perform all required accounting functions necessary to maintain accurate and timely financial information and preserve the integrity of our accounting processes and systems. The Village recently hired a CPA firm on contract to train our accounting staff. However, through a misunderstanding of the scope of work, the firm addressed other financial issues unrelated to training of accounting staff and the Village thereby terminated the contract. We are still considering pursuing this effort and will do so when sufficient resources become available.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-2 Disaster Recovery Plan and Information Technology General Controls

CONDITION

The disaster recovery plan in place is inadequate for the size and operations of the Village. A disaster recovery plan should be a map for reestablishing operations after a disaster. This map should include details of, at minimum, the following:

- What hardware and software are in place and which vendors may be used to replace the hardware and software.
- Potential off-site locations for running operations.
- Names and telephone numbers of critical operations personnel that should be contacted during a disaster.
- Backup and recovery procedures for data.
- The location of the offsite data backups.
- A detailed list of instructions to be followed in order to reestablish operations.

We reviewed the information technology general controls and found the following:

- There are no operational policies for the information technology function of the Village.
- System backups are not taken offsite. This is inadequate for the amount of data being processed by the Village.

CRITERIA

Section 12-6-5, NMSA 1978, requires the annual financial and compliance audit of agencies to detail any violation of law or good accounting practices found by the audit. An adequate disaster recover plan is a requirement for continuing operations after a disaster. Backups should go offsite at least once a week. The Village should develop sufficient policies and procedures to govern the information technology function.

The Village would not be able to continue operations if there was a significant disaster.

EFFECT

The Village may not be able to continue operations in the event of a disaster.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

**04-2 Disaster Recovery Plan and Information Technology General Controls
(Continued)**

CAUSE

The Village had developed a disaster recovery plan, but had not determined that it was insufficient. They did not review the plan to ensure it was sufficient.

RECOMMENDATION

We recommend that the Village prepare a detailed disaster recovery plan. We further recommend that the Village consider taking the backups offsite at least once a week. The Village should consider developing policies and procedures governing the information technology function.

MANAGEMENT RESPONSE

We recognize that the existing disaster recovery plan is inadequate and therefore concur with this finding. Our understanding is that our entire data processing system is connected to the Office of the State Police's main server, which is housed in the same Village municipal building complex. Because the Office of the State Police is a state agency, its entire data processing system is managed, controlled and monitored by the Office of Information Processing of the General Services Department. As such, it is subject to the same disaster recovery system and security protocols that apply to all of state government. We agree that system backups containing data files should be stored offsite. The Village of Pecos does maintain a back system with all accounting data and information on a weekly basis. The backup information is stored on a remote offsite location at the Bank of Las Vegas, Pecos Branch, which is far enough to maintain safe keeping in the event of a disaster and is available for recovery if necessary.

We fully intend to develop, implement and enforce policies addressing a Disaster Recovery Plan and Information Technology General Controls immediately upon the hiring of a full-time accountant. Such policies will contain a detailed plan requirement for continuing operations complete with a list of vendors and appropriate contacts that will enable the Village to resume operations with a minimum of interruptions in the event of a disaster.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-3 Utility Billing, Accounts Receivable and Internal Controls

CONDITION

We tested 24 utility billings as part of our audit. We noted the following:

- The ordinance for water and sewer billing has a flat rate for service. We found that one of the twenty-four customers tested are being charged a rate which is not authorized by the water and sewer ordinance. The amount of overbilling was \$5.
- Two of the twenty-four customers tested were not being billed consistently at either the commercial rate or the residential rate. Both customers were billed at the commercial rate for water, and at the residential rate for sewer.

We reviewed the internal controls related to the utility billing and collections process and found the following:

- The water and sewer clerk can make adjustments to the billing and accounts receivable system without approval. We also found that adjustments to accounts receivable are not being reviewed and approved.

CRITERIA

- Village Ordinance No. 99-4 (as updated by ordinance No. 2004-3) details the rate to be charged for utility services. Customers should be billed at the rates provided by the ordinances.
- Customers should be classified as either residential or commercial, and charged the corresponding rate for both sewer and water.
- Adjustments and writeoffs of accounts receivable balances should be approved before they are made. The monthly activity of adjustments and writeoffs should be reviewed in order to make sure that all adjustments and writeoffs were approved.

EFFECT

Village utility customers may have been over or under charged. As a result, revenue may be over or under stated on the statement of activities. The Village may not know the correct amount of revenue for budgeting.

There may be undetected fraud in the accounts receivable system. Accounts may have been adjusted or written off in order to cover up the theft of cash.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-3 Utility Billing, Accounts Receivable and Internal Controls (Continued)

CAUSE

The utility billing system has not been set up to bill the correct amount. There is insufficient approval of adjustments and writeoffs.

RECOMMENDATION

The Village should review the setup of the utility billing system to ensure it is billing correctly and posting to revenue correctly. The Village should consider testing a sample of billings each month in order to ensure the utility billing system is working correctly.

All accounts receivable adjustments and writeoffs should be approved before they are made. A month-end report of all adjustments and writeoffs should be reviewed to make sure that all adjustments and writeoffs have been approved.

MANAGEMENT RESPONSE

We agree with this finding. Mismanagement and fraud are of serious concerns to management and staff. We value policies, procedures and internal controls that will mitigate the risks of fraud and mismanagement. The billing system is relatively new. We have contacted and already made arrangements with vendor technical support staff to thoroughly explain and train our staff on the billing system. Although the cost of a one-day training seems prohibitive, we recognize that this is an investment in ensuring accurate recording of billing data and in enhancing internal control procedures. Currently, we manually input transaction activity from the billing system into our accounting system. This process, of course, exposes itself to errors and inaccuracies. We are in communication with our new accounting system technical support staff to fully integrate the billing system as well as other accounting modules with our general ledger accounting module in order to facilitate and make the system more accurate and error free. The existing accounting system has the ability to segregate actual revenue from gross receipts taxes and properly post accounting entries when properly entered. We recognize the importance of accurate customer billing to prevent understating or overstating of revenue and accounts receivable.

A full-time accountant onsite will be able to supervise all accounting functions and approve appropriate journal entries, adjustment and write offs.

We believe that a review of ordinances addressing rates and security deposits on water and sewer hookups is now required. New ordinances have been drafted and more will be forthcoming as necessary and put forth to the Mayor and Council for consideration and adoption to ensure accuracy, consistency and equity in the billing process.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-4 Cash Disbursements and Procurement

CONDITION

We tested 23 cash disbursements and 5 large disbursements as part of our audit. We noted the following:

- For one of the items tested we found that the check that cleared the bank had only one signature on it. Two signatures are required on all checks. The check was written in the amount of \$20.00.
- For one of the items tested the Village could not find supporting documents for the transaction. The check was written in the amount of \$143.

CRITERIA

- State Auditor Rule 2.2.2.10 J, and Section 12-6-5, NMSA 1978, requires good accounting practices to be followed. Support for all transactions should be maintained.
- The Village's accounting procedures requires two signatures on all checks.

EFFECT

The Village may have paid items that were not approved.

CAUSE

Inadequate review and approval of cash disbursements and payment processing.

RECOMMENDATION

The Village should maintain backup for all transactions.

The Village should also review all transactions to ensure they have two signatures on the check.

MANAGEMENT RESPONSE

With concur that compliance with State Auditor rules and regulations entails not only a good accounting system but development and implementation of sound accounting policies and procedures. Management is striving to achieve this goal as part of its overall long-term strategic plan and is beginning to implement, albeit however slowly,

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-5 Cash Disbursements and Procurement (Continued)

MANAGEMENT RESPONSE (Continued)

accounting systems, policies and procedures specific to governmental accounting; and hiring staff with experience and skills in governmental accounting and budgeting. All payment transactions are now being more closely reviewed to ensure appropriate supporting documentation and to ensure checks have two signatures before remitting payment to vendors.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-5 Expenditures in Excess of Budget and Report Retention

CONDITION

The following funds had expenditures in excess of approved budget:

General	\$83,816
Fire Protection	\$6,903
Waste Water Enterprise	\$90,946

We also noted that the Village was unable to produce the Municipal Financial Quarterly Report submitted to the Department of Finance (DFA) for the period ending June 30, 2006. The Village produced a Municipal Periodic Report for the quarter ending June 30, 2006; however the report was not complete, and omitted totals for the approved budget, and the adjusted budget.

CRITERIA

Expenditures in excess of budget is a violation of 6-6-6, NMSA 1978.

As per NMSA 1978, 6-3A-9 B, quarterly reports shall compare actual performance for the report period with targeted performance and shall be filed with the division and committee within thirty days of the end of a reporting period.

EFFECT

The Village is in violation of state statute. Overspending the current year's budget may mean that sufficient funds may not be available in future years.

Because the Village was unable to produce the fourth quarter budget report we were unable to determine if all budget adjustment requests were approved by DFA.

CAUSE

Budget adjustments were not being requested. Budgets were not being properly monitored.

Proper record keeping policies were not followed.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-5 Expenditure in Excess of Budget and Report Retention (Continued)

RECOMMENDATION

The Village should consider implementing a system to track budgets and request budget adjustments for funds over budget.

The Village should ensure that records are retained in accordance with record retention policies, and to ensure supporting documentation is complete for Financial Statement audits.

MANAGEMENT RESPONSE

We agree with this finding. Management is fully cognizant of the importance of ensuring budget sufficiency to avoid overspending and of accurate, comprehensive quarterly reporting to the Department of Finance and Administration. Our existing accounting software is unique to governmental accounting and can better track revenues, expenditures and financial activity. The existing accounting software which was not implemented until fiscal year 2007 provides for input of budget information at the beginning of the fiscal year. Year-to-date expenditures by fund and expenditure line item are available via online, real-time for review as well as on hard copy. This feature enables management and staff to better monitor expenditures for historical information, planning purposes, decision making and to avert overspending of authorized budget. It allows sufficient time to request authorization for budget adjustments from the Mayor, Council and the Department of Finance & Administration as necessary. However, it does not have the ability to inherently manage and control expenditures. Only upon continuous monitoring and observation of financial activity and upon reliance on the use of quarterly financial reports can management effectively control excess of expenditures over revenues. The DFA has recently revised and simplified its reporting requirements to ensure accurate reporting and appropriate monitoring of the Village's financial health. As a result, we are now filing all quarterly reports within the statutory reporting period and are better equipped to monitor revenues and expenditures. The Village Treasurer is responsible for developing, monitoring and controlling the budget process and maintains complete oversight of the Village's accounting system. Policies and procedures are being collectively developed by the Treasurer, Accounts Payable and Accounts Receivable personnel to ensure compliance with statutory requirements and to enhance internal control procedures.

Now all accounting records and supporting documentation are being maintained in accordance with record retention policies.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-6 Payroll Disbursements

CONDITION

We tested 26 payroll disbursements as part of our audit. We noted the following:

- For all of the twenty-six disbursements tested the pay rate paid to the employee did not have the pay rate documented in the employees personnel file.
- Four personnel file tested did not include an I-9 form.
- For three of the disbursements tested the Village accrued annual or sick leave at an incorrect rate.
- For two of the disbursements tested the payroll files did not include a PERA application.
- For two of the disbursements tested the employee had 3% withheld from their paycheck for PERA. The payroll policy indicates that 3.29% should be withheld. The total amount under withheld was \$8.

CRITERIA

Good accounting practices dictate that pay rate increases should not only be input into the payroll system, but should be documented in the employee's personnel files. Payroll should be reviewed sufficiently to be sure it does not contain errors in PERA, leave accrual and that the time cards are calculated correctly and approved.

PERA should be withheld from employee paychecks at the approved rate.

EFFECT

Payroll errors may occur and not be caught by the internal controls in place. The result would be incorrect payroll expense and related leave accruals.

Employees have not had the correct amount of PERA withheld from their paychecks. PERA may be underpaid, or the Village may have paid part of the employee's share of PERA.

CAUSE

The Village has inadequate procedures over the maintenance of personnel files. There is insufficient review of payroll.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-6 Payroll Disbursements (Continued)

RECOMMENDATION

The Village should consider performing a personnel file audit in order to correct any deficiencies. It should also consider implementing procedures to ensure that the files are maintained.

The Village should consider reviewing payroll more thoroughly to ensure that errors in accrued leave, time cards and payroll processing are caught and corrected before final checks are processed.

MANAGEMENT RESPONSE

We agree with this finding. Although a personnel file exists for all employees, Mayor and Council, file information is not always updated. The findings indicated are a result of the previously used accounting software. The existing payroll system accurately records gross-to-net information, maintains year-to-date data on accrued sick and annual leave, and accrued benefits. Employee data is entered manually from approved time sheets. Unless employee information is entered incorrectly into the system, it should virtually be error proof. Notwithstanding the system's assumed accuracy, we appreciate the importance of oversight and supervision for payroll personnel and will ensure that supervision is appropriately administered. To this end we are in constant communication with our accounting software technical support personnel to ensure accurate payroll input of employee compensation and deductions.

It is management's desire to incorporate 'personnel action' sheets in the future to record and maintain an employee's employment history, record of salary increases, promotions, demotions, terminations and other relevant information. Again, this is consistent with our goal of upgrading our systems and processes and fine tuning them so as to achieve accuracy, accountability, appropriate disclosure, and transparency. Accurate and timely submission of federal and state payroll withholding reports lends itself to a more thorough review of payroll information.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-7 Bank Reconciliations and Old Outstanding Items

CONDITION

We reviewed the bank and investment reconciliations as part of our audit of cash and investments and internal controls over cash and investments. We noted that there were checks and deposits greater than six months old. Checks that are more than a month old should be reviewed as part of the monthly bank reconciliation procedure to be sure that they have not been processed in error or that the bank account has been improperly reconciled. There were seven outstanding checks totaling \$645.

CRITERIA

Good accounting practices dictate that outstanding checks and deposits older than one month should be reviewed to be sure they have been processed correctly, that the bank account has been reconciled correctly, or for other problems.

EFFECT

Cash accounts were misstated at year-end.

CAUSE

Inadequate review of the bank reconciliations.

RECOMMENDATION

The Village should establish a monthly review procedure whereby the outstanding checks and deposits over a month old are reviewed for correctness.

The Village should record the petty cash account on the books.

MANAGEMENT RESPONSE

We concur with this finding. Our existing accounting system easily lends itself to reconcile bank and investments balances with those from the bank. We will ensure that bank reconciliations for all our cash accounts continue to be performed timely on a monthly basis. Although significant progress has been achieved by substantially reducing outstanding old and stale-dated checks, we will continue to address this finding. All state dated or outstanding checks will be researched as to their validity and deleted or disposed of as appropriate.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-8 Travel and Per Diem Disbursements

CONDITION

We tested 12 travel and per diem disbursements as part of our audit. We noted the following:

- Four of the items tested did not have a travel voucher with supporting information, or the travel voucher was not complete enough to determine the proper reimbursement. The total of the reimbursements was \$3,331.
- For three of the items tested the employee was reimbursed a per diem rate of \$85 per day and was also reimbursed an additional meal allowance in addition to the per diem reimbursement. The total overpayment was \$118.
- For three of the items tested the employees were given 100% advances. Advances should be limited to 80%. The 20% overpayment was \$173.
- For one item tested the employee was reimbursed a per diem rate of \$85 per day when meals were provided. Employees should be reimbursed actual expenses when meals or lodging are provided.

CRITERIA

- All travel vouchers should be approved before payment. Reimbursements should be supported by underlying receipts and other supporting documentation.
- 2.42.10 A. NMAC states that employees may request to be advanced up to 80 percent of the per diem rates and mileage cost or for the actual costs of lodging, meals, and other travel expenses.
- The review and approval of travel and per diem vouchers should be sufficient to ensure compliance with the state's travel and per diem act. Travel vouchers and supporting schedules and documents shall conform to the policies and procedures manuals issued by the financial control division of the Department of Finance and Administration per 2.42..2.13 NMAC and DFA Rule 95-1, Section 9, 07/01/03.
- 2.42.2.8 A. NMAC states that where lodging and/or meals are provided or paid for by the agency, the governing body, or another entity, the public officer or employee is entitled to reimbursement only for actual expenses.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-8 Travel and Per Diem Disbursements (Continued)

EFFECT

The Village is not in compliance with the Travel and Per Diem Act. The Village may have overpaid employees for travel and per diem.

CAUSE

Inadequate review and approval of travel vouchers and payment processing.

RECOMMENDATION

The Village should consider reviewing travel and per diem processing more thoroughly to ensure that errors are caught and corrected before final checks are processed.

MANAGEMENT RESPONSE

We agree with this finding. Management will ensure that thorough review of travel requests is conducted to ensure accuracy and compliance with the Travel and Per Diem Act before authorizing payment.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-9 Water Deposit Liability

CONDITION

The Village is not able to produce a report showing the amount of water deposits collected and held for customers.

CRITERIA

Good accounting practices dictate that the Village should keep a deposit register showing which utility customers have paid deposits. The Village will have to pay back the deposits in the future. If they do not track the deposits, then they do not know who they owe money to.

EFFECT

The Village does not know which utility billing customers have paid deposits.

CAUSE

Inadequate training regarding the proper accounting for water deposits.

RECOMMENDATION

The Village should reconstruct the deposit liability register. They should then maintain and reconcile the register to the general ledger on a monthly basis.

MANAGEMENT RESPONSE

We agree with this finding. The Village will attempt to reconstruct the deposit liability register as well as maintain and reconcile the register to the general ledger. Integration of the billing module to the existing accounting system should facilitate the reconciliation process and maintain an accurate list of customers who have made deposits.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-11 Capital Asset Additions – MATERIAL WEAKNESS

CONDITION

The Village is not maintaining its capital asset listing. Capital assets were acquired during the year but were not added to the listing. These assets were discovered during audit testwork and were added to the capital asset listings for both governmental and proprietary funds.

In addition, the Village owns water tanks, five wells, land, and other capital assets which relate to the enterprise funds. These assets have not been valued and added to the capital asset listing. Their value is estimated to be material to the financial statements.

In addition, the Village did not perform the required annual physical inventory of capital assets.

CRITERIA

Governmental Accounting Standards No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, details the requirements to track and report capital assets. The Village should be tracking capital assets.

Section 12-6-10, NMSA 1978, requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency’s auditors.

EFFECT

The Village’s capital asset listing and depreciation expenses were misstated before adjustment. In addition, the proprietary capital asset balances are misstated at year-end.

CAUSE

The Village does not have a mechanism to track capital asset additions and deletions.

RECOMMENDATION

The Village should develop a policy and system which require the tracking of additions and deletions to capital assets.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-11 Capital Asset Additions (Continued) – MATERIAL WEAKNESS

MANAGEMENT RESPONSE

We agree with this finding. Our existing accounting system has a Fixed Asset and Capital Project tracking module which has not yet been implemented. Management intends to ensure that this module has sufficient capability to perform all aspects of Capital Project accounting, to include more comprehensive cost information, so that investors may make informed decisions concerning our municipal government's ability to maintain its infrastructure while repaying its debts. The system, at a minimum, should have the capability to differentiate which assets to expense and which to capitalize and to maintain a comprehensive inventory of infrastructure assets. We intend to require the accountant to implement an asset management system that meets the minimum requirements of GASB 34, and develop policies and procedures for the efficient reporting of capital assets. These policies and procedures should include: depreciable lives for capital assets; appropriate categories for asset classification; capitalization thresholds for each class of assets for reporting and control purposes; depreciation methods; salvage values for different classes of assets; a methodology for allocation of depreciation to the function and program level for the government-wide statement of activities, if applicable; and definition of preservation costs, maintenance costs, the costs of improvements to the efficiency or capacity of the assets and a method for capturing costs. In the event the existing module does not possess the desired capability, we will ensure that a system is implemented to properly account for fixed assets and infrastructure. As of fiscal year 2007, our consultant has developed a more comprehensive list of Capital Assets and will contact an appraisal firm to properly assign values to our Capital Assets.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)
HOUSING AUTHORITY**

01-04 Audit Report

CONDITION

The Housing Authority did not submit its audit report for the year ended June 30, 2006 by the due date of December 1, 2006. The audit report was submitted to the State Auditor's office on August 22, 2007.

CRITERIA

The State Auditor's Rule, section 2.2.2.9 A. (1) (d), establishes a due date of December 1 for the audit reports of Municipalities, Special Districts, and Local Work Force Investment Boards. Since the Housing Authority of the Village of Pecos is a department of the Village of Pecos the due date for the audit report of the Housing Authority is also December 1.

EFFECT

State Auditor Rule 2.2.2.9 A. (1) (d) and HUD deadlines have not been met. As a result, the Housing Authority of the Village of Pecos has been given a designation as a "troubled Housing Authority" but the U.S. Department of Housing and Urban Development (HUD).

CAUSE

Permission to audit the Housing Authority of the Village of Pecos as a separate entity (component unit of the Village of Pecos) was not finalized until March 1, 2007. It became necessary to audit the Housing Authority as a separate entity because the Village's audit was not being accomplished in a timely manner. The contract to audit the fiscal year ended June 30, 2005 was signed on April 23, 2007.

RECOMMENDATION

The State Auditor should consider granting the request of the Housing Authority to be audited as a separated unit until such time that the audit of the Village of Pecos can be completed in a timely manner. The request should be expedited by all parties.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)
HOUSING AUTHORITY**

01-04 Audit Report (Continued)

MANAGEMENT RESPONSE

The New Mexico State Auditors Office has been very instrumental in assisting the Pecos Housing Authority in obtaining Independent Audits as recognized per approval and completed Financial Audits for FY-04, FY-05 and approval of FY-06.

Upon completion and approval of our Financial Audit for FY-06 the Pecos Housing Authority will again follow due process in obtaining an Independent Financial Audit for FY-07 (year ending June 2007).

If we can begin and complete our Financial Audit for FY-07 by September 2007 the Pecos Housing Authority will finally be in compliance with the REAC regulations pertaining to yearly Financial Audits.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)
HOUSING AUTHORITY**

2004-04 Expenditures in Excess of Budget

CONDITION

During the year ended June 30, 2006 the budgeted expenditures for the Low Rent Housing Program exceeded the authorized budget by \$36,214.

CRITERIA

A budget is a proposed plan of financial operations for a give period of time. The annual budget authorizes and provides the basis for control of financial operations during the budget period. The budget should be analyzed monthly to insure expenditures remain within the legally adopted budget and revisions should be made whenever necessary. Section 6-6-6, NMSA, 1978 Compilation prohibits governing officials from incurring expenses in excess of approved budgets.

EFFECT

Expenditures were made without proper budget authorization.

CAUSE

Management noted that rental income was higher than budgeted and made the decision to utilize the extra income to make needed repairs to the units that had been deferred over the several previous years. Unfortunately, management neglected to request the needed budget increases to authorize the additional expenditures. In addition, butane prices increased significantly over the year. Operating transfers from the Capital Funds Program offset the increased cost in administration.

RECOMMENDATION

In the future, as additional monies, if any, become available, authorization should be requested for a budget revision to authorize the increases anticipated in expenditures/expenses. The fee accountant should work with the Executive Director to monitor the budget more carefully and make recommendations for budget adjustments in a timely manner.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006**

**FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)
HOUSING AUTHORITY**

2004-04 Expenditures in Excess of Budget (Continued)

MANAGEMENT RESPONSE

Review of FY-06 expenditures and Rent Income to include income from our Operations Fund demonstrates that we have had to utilize monies from our SAVINGS due to the increase of the cost of Propane.

Effective April of 2007 we have submitted a budget revision as needed to accommodate our projected increase in expenditures due to unforeseen expense per our Propane system and the propane itself.

We commit to reviewing these line items monthly so as to bring our office in to compliance.

VILLAGE OF PECOS, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2005

An exit conference was held on August 3, 2009, and attended by the following:

Village of Pecos, New Mexico

Tony Jose Roybal, Mayor
Jimmy Varela, Council Member
Mona Quintana, Village Clerk
Arthur Varela, Interim Village Clerk

Porch & Associates LLC

Thad Porch, Partner

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The financial statements were prepared by Porch & Associates LLC from the books and records of the Village of Pecos. However, the contents of these financial statements remain the responsibility of the Village's management.