

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

VILLAGE OF PECOS, NEW MEXICO

Financial Statements, Supplementary Information
and
Independent Auditors' Report

June 30, 2007

VILLAGE OF PECOS, NEW MEXICO

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
List of Principal Officials	i

FINANCIAL SECTION

Independent Auditors' Report	1
------------------------------------	---

Basic Financial Statements

Statement of Net Assets	3
Statement of Activities	4
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	8
Statement of Revenues and Expenditures - Budget and Actual – (Non-GAAP Budgetary Basis):	
General Fund	9
Fire Protection Fund	10
Street Fund	11
Balance Sheet – Proprietary Funds	12
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Statement of Fiduciary Net Assets – Agency Funds	16
Notes to Financial Statements	17

VILLAGE OF PECOS, NEW MEXICO

TABLE OF CONTENTS (CONTINUED)

Supplementary Information

Combining and Individual Fund Statements

Nonmajor Funds

	Page
Combining Balance Sheet.....	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	42
Statements of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis):	
Corrections.....	45
Environmental Gross Receipts Tax	46
Emergency Medical Services.....	47
Emergency 911	48
Law Enforcement Protection	49
Recreation	50
Statements of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis):	
Waste Water Enterprise	51
Water Enterprise	52
Housing Authority	53

SUPPLEMENTAL SCHEDULES

Schedule of Changes in Assets and Liabilities – Agency Funds.....	55
Schedule of Deposit Accounts.....	56
Schedule of Pledged Collateral.....	57
Schedule of Joint Powers Agreements.....	58

VILLAGE OF PECOS, NEW MEXICO
TABLE OF CONTENTS (CONTINUED)
Supplementary Information (Continued)

	Page
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 <i>Governmental Auditing Standards</i>	59
Summary Schedule of Prior Audit Findings.....	62
Schedule of Findings and Responses.....	63
Exit Conference	86

VILLAGE OF PECOS, NEW MEXICO

List of Principal Officials

June 30, 2007

Elected Officials

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

Administrative Officials

Ramona Quintana	Village Clerk
-----------------	---------------

Public Housing Authority Officials

Ricardo Valenzuela	Executive Director
--------------------	--------------------

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 comparisons 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, 2007, 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, 2007, 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, 2007 and for the year then ended, which statements reflect total assets and revenues constituting 30% and 23%, 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, 2007, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village, as of June 30, 2007, and the respective changes in financial position and cash

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

flows, where applicable, thereof and the respective budgetary comparisons 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 respective financial position of each nonmajor governmental fund of the Village, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the nonmajor governmental funds and enterprise 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 April 30, 2010 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, 2007, 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.

Porch & Associates LLC

Albuquerque, New Mexico
April 30, 2010

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 942,393	432,990	1,375,383
Cash and cash equivalents - restricted	-	3,951	3,951
Receivables:			
Taxes:			
Gross receipts	85,043	-	85,043
Gasoline	2,777	-	2,777
Motor vehicle	6,470	-	6,470
Property	121	-	121
Franchise	3,321	-	3,321
Cigarette	1,102	-	1,102
Grant	54,751	96,687	151,438
Accounts receivable, net of allowance	-	39,511	39,511
Due from other funds	780	-	780
Prepaid expenses	-	4,613	4,613
Capital assets, not depreciated	176,758	637,595	814,353
Capital assets, net of accumulated depreciation	1,233,633	1,547,582	2,781,215
Total assets	2,507,149	2,762,929	5,270,078
LIABILITIES			
Accounts payable	21,910	108,372	130,282
Accrued compensation and benefits	2,638	10,633	13,271
Interest payable	-	10,085	10,085
Deposits payable	-	29,859	29,859
Settlement payable	-	1,426	1,426
Noncurrent liabilities:			
Compensated absences, due in one year	2,592	6,441	9,033
Long-term liabilities, due in one year	21,429	29,849	51,278
Long-term liabilities, due in more than one year	128,571	402,298	530,869
Total liabilities	177,140	598,963	776,103
NET ASSETS			
Invested in capital assets, net of related debt	1,260,391	1,753,030	3,013,421
Unrestricted	1,069,618	410,936	1,480,554
Total net assets	\$ 2,330,009	2,163,966	4,493,975

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

<u>Functions/Programs</u>	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 334,029	7,895	120,075	54,751	(151,308)	-	(151,308)
Public safety	69,503	-	91,575	-	22,072	-	22,072
Highways and streets	4,421	-	-	-	(4,421)	-	(4,421)
Health and welfare	4,459	-	-	-	(4,459)	-	(4,459)
Total governmental activities	412,412	7,895	211,650	54,751	(138,116)	-	(138,116)
Business-type activities							
Waste water	81,702	112,225	-	432,493	-	463,016	463,016
Water	284,014	207,025	-	-	-	(76,989)	(76,989)
Housing authority	228,409	93,832	123,133	31,911	-	20,467	20,467
Total business-type activities	594,125	413,082	123,133	464,404	-	406,494	406,494
Total primary government	\$ 1,006,537	420,977	334,783	519,155	(138,116)	406,494	268,378
General Revenues:							
Franchise taxes					15,738	-	15,738
Gasoline taxes					28,864	-	28,864
Gross receipts taxes					325,174	-	325,174
Property taxes					7,915	-	7,915
Cigarette taxes					3,746	-	3,746
Motor vehicle tax					35,743	-	35,743
Other					1,673	-	1,673
Interest					2,898	3,467	6,365
Total general revenues and transfers					421,751	3,467	425,218
Change in net assets					283,635	409,961	693,596
Net assets, beginning of year					1,961,899	1,504,121	3,466,020
Restatement					84,475	249,884	334,359
Net assets, beginning of year, as restated					2,046,374	1,754,005	3,800,379
Net assets, end of year					\$ 2,330,009	2,163,966	4,493,975

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

VILLAGE OF PECOS, NEW MEXICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Fire Protection	Street	Nonmajor Governmental Funds	Total
ASSETS					
Cash	\$ 694,805	1,171	218,904	27,513	942,393
Receivables:					
Taxes:					
Gross receipts	83,119	-	-	1,924	85,043
Gasoline	-	-	2,777	-	2,777
Motor vehicle	6,470	-	-	-	6,470
Property	121	-	-	-	121
Franchise	3,321	-	-	-	3,321
Cigarette	734	-	-	368	1,102
Grant	54,751	-	-	-	54,751
Due from other funds	25,754	-	-	-	25,754
Total assets	\$ 869,075	1,171	221,681	29,805	1,121,732
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 21,910	-	-	-	21,910
Accrued compensation and benefits	2,638	-	-	-	2,638
Due to other funds	-	-	-	24,974	24,974
Total liabilities	24,548	-	-	24,974	49,522
FUND BALANCES					
Unreserved, undesignated reported in:					
General fund	844,527	-	-	-	844,527
Special revenue funds	-	1,171	221,681	4,647	227,499
Capital projects funds	-	-	-	184	184
Total fund balances	844,527	1,171	221,681	4,831	1,072,210
Total liabilities and fund balances	\$ 869,075	1,171	221,681	29,805	1,121,732

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, 2007

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

Total fund balance - governmental funds	\$ 1,072,210
Accrued compensated absences not payable from current revenues.	(2,592)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,410,391
Long-term notes payable are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(150,000)</u>
Net assets - governmental activities	<u><u>\$ 2,330,009</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, 2007

	General	Fire Protection	Street	Nonmajor Governmental Funds	Total
Revenues					
Taxes	\$ 379,569	-	28,863	8,748	417,180
From local governments:					
Grants	174,826	61,156	-	30,419	266,401
Licenses, permits, fees and fines	3,895	-	-	-	3,895
Interest	2,673	200	-	25	2,898
Rents and royalties	4,000	-	-	-	4,000
Other	1,673	-	-	-	1,673
Total revenues	<u>566,636</u>	<u>61,356</u>	<u>28,863</u>	<u>39,192</u>	<u>696,047</u>
Expenditures					
Current					
General government	308,143	-	-	-	308,143
Public safety	-	16,843	-	13,351	30,194
Highways and streets	-	-	4,421	-	4,421
Health and welfare	-	-	-	4,459	4,459
Capital outlay	86,930	36,390	-	7,325	130,645
Total expenditures	<u>395,073</u>	<u>53,233</u>	<u>4,421</u>	<u>25,135</u>	<u>477,862</u>
Excess of revenues over expenditures before other financings sources	<u>171,563</u>	<u>8,123</u>	<u>24,442</u>	<u>14,057</u>	<u>218,185</u>
Other Financing Sources					
Proceeds from long-term debt	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Net change in fund balances	<u>321,563</u>	<u>8,123</u>	<u>24,442</u>	<u>14,057</u>	<u>368,185</u>
Fund balance, beginning	<u>522,964</u>	<u>(6,952)</u>	<u>197,239</u>	<u>(9,226)</u>	<u>704,025</u>
Fund balance, end of year	<u>\$ 844,527</u>	<u>1,171</u>	<u>221,681</u>	<u>4,831</u>	<u>1,072,210</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, 2007

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

Net changes in fund balances - governmental funds **\$ 368,185**

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	(68,871)	
Capital outlay	130,645	
Excess of capital outlay over depreciation expense		61,774

The issuance of long-term notes payable provides current financial resources to governmental funds, while the repayment of the principal of long-term notes payable consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences. (150,000)

Accrued compensated absences are expensed under the accrual method, and not the modified accrual method. 3,676

Change in net assets - governmental activities **\$ 283,635**

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, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 273,300	273,300	362,131	88,831
From local governments:				
Grants	1,529,000	1,529,000	120,075	(1,408,925)
Licenses, permits, fees and fines	15,400	15,400	3,895	(11,505)
Interest	2,000	2,000	2,673	673
Rents and royalties	-	-	4,000	4,000
Other	-	-	1,673	1,673
Total revenues	1,819,700	1,819,700	494,447	(1,325,253)
Expenditures				
General government	318,817	303,438	295,470	7,968
Public safety	22,536	22,536	-	22,536
Capital outlay	1,473,000	1,473,000	86,930	1,386,070
Total expenditures	1,814,353	1,798,974	382,400	1,416,574
Excess of revenues over expenditures	5,347	20,726	112,047	91,321
Other financing sources				
Proceeds from long-term debt	-	-	150,000	150,000
Net change in fund balance	5,347	20,726	262,047	241,321
Fund balance, beginning of year	522,964	522,964	522,964	-
Fund balance, end of year	\$ 528,311	543,690	785,011	241,321
Non-GAAP change in fund balance			\$ 262,047	
Change in:				
Taxes receivable			17,438	
Grants receivable			54,751	
Accounts payable			(15,711)	
Accrued compensation and benefits			3,038	
GAAP change in fund balance			<u>\$ 321,563</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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
From local governments:				
Grants	\$ 72,584	72,584	201,156	128,572
Interest income	100	100	200	100
Total revenues	72,684	72,684	201,356	128,672
Expenditures				
Public safety	50,184	50,184	27,198	22,986
Capital outlay	22,500	22,500	36,390	(13,890)
Total expenditures	72,684	72,684	63,588	9,096
Net change in fund balance	-	-	137,768	137,768
Fund balance, beginning of year	(6,952)	(6,952)	(6,952)	-
Fund balance, end of year	(6,952)	(6,952)	130,816	137,768
Prior year cash appropriated	6,952	6,952	-	
	\$ -	-	-	
Non-GAAP change in fund balance			\$ 137,768	
Change in:				
Accounts receivable			(140,000)	
Accounts payable			10,355	
GAAP change in fund balance			<u>\$ 8,123</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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Gasoline taxes	\$ 30,000	30,000	31,557	1,557
From local governments:				
Grants	30,000	30,000	-	(30,000)
Total revenues	60,000	60,000	31,557	(28,443)
Expenditures				
Highways and streets	20,000	20,000	4,421	15,579
Capital outlay	40,000	40,000	-	40,000
Total expenditures	60,000	60,000	4,421	55,579
Net change in fund balance	-	-	27,136	27,136
Fund balance, beginning of year	197,239	197,239	197,239	-
Fund balance, end of year	\$ 197,239	197,239	224,375	27,136
Non-GAAP change in fund balance			\$ 27,136	
Change in:				
Accounts receivable			(2,694)	
GAAP change in fund balance			\$ 24,442	

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

VILLAGE OF PECOS, NEW MEXICO
BALANCE SHEET -
PROPRIETARY FUNDS
June 30, 2007

	Waste Water	Water	Housing Authority	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 131,778	243,577	57,635	432,990
Cash and cash equivalents - restricted	-	-	3,951	3,951
Accounts receivable, net of allowance	13,448	25,766	297	39,511
Grant receivable	96,687	-	-	96,687
Prepaid expenses	-	-	4,613	4,613
Total current assets	241,913	269,343	66,496	577,752
Capital Assets				
Land	-	11,248	14,400	25,648
Water rights	-	238,636	-	238,636
Construction work in progress	611,947	-	-	611,947
Buildings and improvements	-	701,594	1,341,389	2,042,983
Equipment	49,390	197,072	91,350	337,812
Infrastructure	196,135	337,202	-	533,337
Accumulated depreciation	(75,746)	(854,414)	(675,026)	(1,605,186)
Total capital assets, net of accumulated depreciation	781,726	631,338	772,113	2,185,177
Total assets	\$ 1,023,639	900,681	838,609	2,762,929
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 97,513	5,585	5,274	108,372
Accrued compensation and benefits	2,437	5,508	2,688	10,633
Interest payable	-	10,085	-	10,085
Deposits payable	-	26,433	3,426	29,859
Compensated absences	-	6,441	-	6,441
Settlement payable	1,426	-	-	1,426
Loans payable - current	-	16,049	-	16,049
Bonds payable - current	-	13,800	-	13,800
Total current liabilities	101,376	83,901	11,388	196,665
Noncurrent Liabilities				
Loans payable	-	84,302	-	84,302
Bonds payable	-	317,996	-	317,996
Total noncurrent liabilities	-	402,298	-	402,298
Total liabilities	101,376	486,199	11,388	598,963
Net Assets				
Invested in capital assets, net of related debt	781,726	199,191	772,113	1,753,030
Unrestricted	140,537	215,291	55,108	410,936
Total net assets	922,263	414,482	827,221	2,163,966
Total liabilities and net assets	\$ 1,023,639	900,681	838,609	2,762,929

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, 2007

	Waste Water	Water	Housing Authority	Total
Operating Revenues				
Sales, services, and rents	\$ 112,225	207,025	93,832	413,082
Operating Expenses				
Operating expenses	70,489	236,035	181,984	488,508
Depreciation	11,213	28,312	46,425	85,950
Total operating expenses	81,702	264,347	228,409	574,458
Operating Income (Loss)	30,523	(57,322)	(134,577)	(161,376)
Nonoperating Revenues (Expenses)				
From local governments:				
Grant income	432,493	-	155,044	587,537
Interest income	930	1,918	619	3,467
Interest expense	-	(19,667)	-	(19,667)
Total nonoperating revenues (expenses)	433,423	(17,749)	155,663	571,337
Net income (loss)	463,946	(75,071)	21,086	409,961
Net assets:				
Beginning of year	458,317	239,669	806,135	1,504,121
Restatement	-	249,884	-	249,884
Beginning of year, as restated	458,317	489,553	806,135	1,754,005
Net assets, end of year	\$ 922,263	414,482	827,221	2,163,966

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, 2007

	Waste Water	Water	Housing Authority	Total
Cash Flows From Operating Activities				
Cash received from customers, tenants	\$ 110,209	203,607	92,591	406,407
Cash payments to vendors and employees	(37,876)	(235,046)	(181,388)	(454,310)
Net cash provided (used) by operating activities	72,333	(31,439)	(88,797)	(47,903)
Cash Flows From Noncapital and Related Financing Activities				
Change in customer deposits	-	1,434	-	1,434
Grant income	-	-	123,133	123,133
Net cash provided by noncapital financing activities	-	1,434	123,133	124,567
Cash Flows From Capital and Related Financing Activities				
Purchase of capital assets	(432,493)	-	(31,911)	(464,404)
Grant received	385,772	-	31,911	417,683
Principle payment on bonds	-	(13,800)	-	(13,800)
Principle payment on loans	-	(15,724)	-	(15,724)
Interest payment on bonds and loans	-	(20,297)	-	(20,297)
Net cash used by capital and related financing activities	(46,721)	(49,821)	-	(96,542)
Cash Flows From Investing Activities				
Interest income	930	1,918	619	3,467
Net cash provided by investing activities	930	1,918	619	3,467
Net change in cash	26,542	(77,908)	34,955	(16,411)
Cash and cash equivalents, beginning of year	105,236	321,485	26,631	453,352
Cash and cash equivalents, end of year	\$ 131,778	243,577	61,586	436,941

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, 2007

	Waste Water	Water	Housing Authority	Total
Operating income (loss)	\$ 30,523	(57,322)	(134,577)	(161,376)
Adjustments to reconcile operating income to net cash flows:				
Depreciation expense	11,213	28,312	46,425	85,950
Changes in assets and liabilities:				
Accounts receivable	(2,016)	(3,418)	383	(5,051)
Prepaid expenses	-	-	1,511	1,511
Accounts payable	40,745	(1,010)	2,053	41,788
Accrued expenses	725	989	(743)	971
Compensated absences	(304)	1,010	(356)	350
Settlement payable	(8,553)	-	-	(8,553)
Deposits payable	-	-	(327)	(327)
Other current liabilities	-	-	(3,166)	(3,166)
Net cash provided (used) by operating activities	\$ 72,333	(31,439)	(88,797)	(47,903)

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

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUNDS
June 30, 2007

ASSETS

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

LIABILITIES

Due to other entities	\$ (730)
Due to other funds	780
Total liabilities	<u>\$ 50</u>

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

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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. Copies of the Housing Authority's audit may be obtained from the Village.

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, 2007

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 Village 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.

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, 2007

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 may report 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 – 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.

Street Fund – a special revenue fund used to account for funds used to maintain roads 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.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Proprietary funds are accounted for using the 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:

The 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.

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.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

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 their 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, 2007

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, 2007

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, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

H. Cash Flows

For purposes of the Statement of Cash Flows, 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, 2007

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 CASH EQUIVALENTS

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, 2007, the Village's bank balance total of \$1,429,027 was exposed to credit risk in the amount of \$1,262,501 as follows:

Uninsured and collateral held by pledging bank's trust department or agent but not in the Village's name	<u>\$ 1,262,501</u>
---	---------------------

The total balance in any single financial institution may at times exceed the \$100,000 in FDIC coverage available to individual depositors. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Village is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal one-half of the public money in excess of \$100,000 at each financial institution.

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, 2007

NOTE 3. ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS

Accounts receivable in the proprietary funds represent billings for waste water and water fees, and for uncollected rents. It is management’s policy to cut off waste water and water services 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, 2007:

	Waste Water	Water
Accounts receivable	\$ 13,970	26,769
Allowance for uncollectible accounts	<u>(522)</u>	<u>(1,003)</u>
	<u>\$ 13,448</u>	<u>25,766</u>

Accounts receivable for the housing authority is \$297 net of an allowance for uncollectible accounts of \$297 at June 30, 2007.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Transfers	Adjustments	Ending Balance
Governmental Activities						
Capital assets, not depreciated:						
Land	\$ -	-	-	-	84,475	84,475
Construction in process	37,532	54,751	-	-	-	92,283
Total, not depreciated	\$ 37,532	54,751	-	-	84,475	176,758
Capital assets, depreciated:						
Buildings and improvements	\$ 1,212,810	12,330	-	-	18,391	1,243,531
Equipment	461,565	63,564	-	-	-	525,129
Total, depreciated	1,674,375	75,894	-	-	18,391	1,768,660
Accumulated depreciation for:						
Buildings and improvements	268,016	24,177	-	-	18,391	310,584
Equipment	179,749	44,694	-	-	-	224,443
Total accumulated depreciation	447,765	68,871	-	-	18,391	535,027
Total capital assets, depreciated, net	\$ 1,226,610	7,023	-	-	-	1,233,633
Total capital assets, net	\$ 1,264,142	61,774	-	-	84,475	1,410,391

The adjustment consists of capital assets obtained in prior periods that were not included on the capital asset listing. 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	\$ 29,562
Public safety	<u>39,309</u>
Total depreciation expense	<u>\$ 68,871</u>

VILLAGE OF PECOS, NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE 4. CAPITAL ASSETS (CONTINUED)

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

	Beginning Balance	Additions	Deletions	Transfers	Adjustments	Ending Balance
Business-type Activities						
Capital assets, not depreciated:						
Land	\$ 14,400	-	-	-	11,248	25,648
Water rights	-	-	-	-	238,636	238,636
Construction in process	205,191	464,404	-	(57,648)	-	611,947
Total, not depreciated	\$ 219,591	464,404	-	(57,648)	249,884	876,231
Capital assets, depreciated:						
Buildings and improvements	\$ 1,284,989	-	-	56,400	701,594	2,042,983
Equipment	336,564	-	-	1,248	-	337,812
Infrastructure	533,337	-	-	-	-	533,337
Total, depreciated	2,154,890	-	-	57,648	701,594	2,914,132
Accumulated depreciation for:						
Buildings and improvements	564,463	39,520	-	-	701,594	1,305,577
Equipment	182,925	29,057	-	-	-	211,982
Infrastructure	70,255	17,372	-	-	-	87,627
Total accumulated depreciation	817,643	85,949	-	-	701,594	1,605,186
Total capital assets, depreciated, net	\$ 1,337,247	(85,949)	-	57,648	-	1,308,946
Total capital assets, net	\$ 1,556,838	378,455	-	-	249,884	2,185,177

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5. LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS

During the year ended June 30, 2007, the following changes occurred:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 6,268	3,193	(6,869)	2,592	2,592
Notes payable	-	150,000	-	150,000	21,429
Total	<u>\$ 6,268</u>	<u>153,193</u>	<u>(6,869)</u>	<u>152,592</u>	<u>24,021</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

Notes Payable. The Village financed \$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 with a note payable to the State of New Mexico, State Board of Finance. The following note is outstanding at June 30, 2007:

Consulting and auditing loan for \$150,000, non-interest bearing, payments of \$21,429 annually in June, maturing June 30, 2014	<u>\$ 150,000</u>
---	-------------------

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5. LONG-TERM OBLIGATIONS – GOVERNMENTAL FUNDS
(CONTINUED)

The future requirements for notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 21,429	-	21,429
2009	21,429	-	21,429
2010	21,429	-	21,429
2011	21,429	-	21,429
2012	21,429	-	21,429
2013 to 2014	42,855	-	42,855
	<u>\$ 150,000</u>	<u>-</u>	<u>150,000</u>

NOTE 6. LONG-TERM DEBT - ENTERPRISE FUNDS

	Beginning Balance	Adjustments and Additions	Deletions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences	\$ 6,092	5,930	(5,581)	6,441	6,441
Notes payable	116,075	-	(15,724)	100,351	16,049
Bonds payable	345,596	-	(13,800)	331,796	13,800
Total	<u>\$ 467,763</u>	<u>5,930</u>	<u>(35,105)</u>	<u>438,588</u>	<u>36,290</u>

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, 2007:

Water supply construction loan for \$162,111, interest at 2%, payments of \$16,596 annually in January, maturing January 1, 2012	\$ 78,227
Rural Infrastructure loan for \$25,000, interest at 3%, payments of \$1,680 annually in June, maturing June 14, 2024	<u>22,124</u>
Total loans payable	<u>\$ 100,351</u>

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

The future requirements for notes payable are as follows:

Year Ending June 30	Principal	Interest	Total
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	17,415	861	18,276
2013 to 2017	6,258	2,142	8,400
2018 to 2022	7,254	1,146	8,400
2023 to 2024	3,215	145	3,360
	<u>\$ 100,351</u>	<u>11,189</u>	<u>111,540</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.

The future requirements for bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 13,800	17,041	30,841
2009	14,900	16,337	31,237
2010	17,000	15,576	32,576
2011	14,000	14,709	28,709
2012	15,100	13,991	29,091
2013 to 2017	88,000	57,509	145,509
2018 to 2022	115,100	32,211	147,311
2023 to 2025	53,896	4,357	58,253
	<u>\$ 331,796</u>	<u>171,731</u>	<u>503,527</u>

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7. INTERFUND BALANCES

Interfund balances at June 30, 2007 consisted of the following amounts:

Due to general fund from:	
Nonmajor governmental funds	\$ 24,974
Agency fund	<u>780</u>
Total due to general fund	<u>\$ 25,754</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.

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.

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 10. PERA PENSION PLAN (CONTINUED)

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, 2007, 2006 and 2005 were \$29,506, \$41,600, and \$40,206, 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.

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

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 11. POST-EMPLOYMENT BENEFITS (CONTINUED)

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, 2007, 2006, and 2005, the Village remitted \$3,108, \$3,448, and \$2,950, respectively, in employer contributions to the Retiree Health Care Authority.

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, 2007

NOTE 13. SPECIAL APPROPRIATIONS

The Authority has received the following special appropriations:

	Original Appropriation	Expended	Appropriation Period
04-L-G-994 Construction of a municipal park at the municipal building	\$ 125,000	-	2005 – 2009
05-L-G-364 Construction of a parking lot at the municipal building	100,000	11,807	2006 - 2010
06-L-G-498 To purchase information technology for emergency medical system use	50,000	50,000	2007 - 2010
Pass Thru Appropriation from the New Mexico Aging and Long-Term Services Department Contract No. 2005-078 Construction of a senior center	100,000	71,325	2004 – 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. 2007-2429 Construction of a senior center	495,000	-	2007 – 2010
SAP-04-0209-STB Waste water facility and system improvements	1,000,000	551,570	2004 – 2009
SAP-05-1146-GF Waste water facility and system improvements	500,000	-	2007 - 2010
SAP-06-1207-GF Waste water facility and System improvements	<u>400,000</u>	<u>60,377</u>	2007 – 2010
Total	<u>\$ 3,326,380</u>	<u>745,079</u>	

VILLAGE OF PECOS, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 13. SPECIAL APPROPRIATIONS (CONTINUED)

None of the above appropriations were encumbered at year-end. As of the date of the audit report, \$560,752 of the above appropriations was unexpended.

NOTE 14. PRIOR PERIOD ADJUSTMENT

Land and a building obtained in prior periods for governmental funds were not included on the capital asset listing. The building valued at \$18,391 is completely depreciated and the land valued at \$84,475 was recorded as a prior period adjustment. In addition, land, water rights, water tanks, wells, a booster station, and a pump house obtained in prior periods for proprietary funds were not included on the capital asset listing. All assets with the exception of the land, and the water rights were valued at \$701,954 and were fully depreciated. The land valued at \$11,248 and the water rights valued at \$238,636 were recorded as a prior period adjustment.

NOTE 15. 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, 2007, management estimates that no material liabilities will result from such audits.

NOTE 16. DEFICIT FUND BALANCE

The Village had a deficit fund balance of \$780 in the MVD fund, and \$24,974 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, 2007

NOTE 18. SUBSEQUENT EVENTS

Subsequent to June 30, 2007, 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, 2007

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 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.

CAPITAL PROJECTS FUNDS

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, 2007

	Special Revenue		
	Corrections	Environmental Gross Receipts Tax	Emergency Medical Services
ASSETS			
Cash	\$ 4,221	10,936	2,901
Receivables			
Taxes			
Gross receipts	-	1,924	-
Cigarette	-	-	-
Total assets	\$ 4,221	12,860	2,901
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	-	-	-
Total liabilities	\$ -	-	-
 FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	4,221	12,860	2,901
Capital projects funds	-	-	-
Total fund balances	4,221	12,860	2,901
 Total liabilities and fund balances	\$ 4,221	12,860	2,901

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2007**

	Special Revenue		
	Emergency 911	Law Enforcement Protection	Recreation
ASSETS			
Cash	\$ 3,659	-	5,612
Receivables			
Taxes			
Gross receipts	-	-	-
Cigarette	-	-	368
Total assets	\$ 3,659	-	5,980
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	-	24,974	-
Total liabilities	\$ -	24,974	-
FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	3,659	(24,974)	5,980
Capital projects funds	-	-	-
Total fund balances	3,659	(24,974)	5,980
Total liabilities and fund balances	\$ 3,659	-	5,980

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 June 30, 2007**

	Total Special Revenue	EDA Capital Project	Total Nonmajor
ASSETS			
Cash	\$ 27,329	184	27,513
Receivables			
Taxes			
Gross receipts	1,924	-	1,924
Cigarette	368	-	368
Total assets	<u>\$ 29,621</u>	<u>184</u>	<u>29,805</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	24,974	-	24,974
Total liabilities	<u>\$ 24,974</u>	<u>-</u>	<u>24,974</u>
FUND BALANCES			
Unreserved, undesignated, special revenues			
Special revenue funds	4,647	-	4,647
Capital projects funds	-	184	184
Total fund balances	<u>4,647</u>	<u>184</u>	<u>4,831</u>
Total liabilities and fund balances	<u>\$ 29,621</u>	<u>184</u>	<u>29,805</u>

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2007**

	Special Revenue		
	Corrections	Environmental Gross Receipts Tax	Emergency Medical Services
Revenues			
Taxes	\$ -	7,426	-
Interest	-	-	-
Grant	-	-	10,419
	<hr/>		
Total revenues	-	7,426	10,419
	<hr/>		
Expenditures			
Current			
Public safety	-	-	7,467
Health and welfare	-	4,459	-
Capital outlay	-	-	-
	<hr/>		
Total expenditures	-	4,459	7,467
	<hr/>		
Net change in fund balances	-	2,967	2,952
Fund balance, beginning	4,221	9,893	(51)
	<hr/>		
Fund balance, end of year	\$ 4,221	12,860	2,901
	<hr/> <hr/>		

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2007**

	Special Revenue		
	Emergency 911	Law Enforcement Protection	Recreation
Revenues			
Taxes	\$ -	-	1,322
Interest	-	-	25
Grant	-	20,000	-
Total revenues	-	20,000	1,347
Expenditures			
Current			
Public safety	-	5,834	-
Health and welfare	-	-	-
Capital outlay	-	7,325	-
Total expenditures	-	13,159	-
Net change in fund balances	-	6,841	1,347
Fund balance, beginning	3,659	(31,815)	4,633
Fund balance, end of year	\$ 3,659	(24,974)	5,980

**VILLAGE OF PECOS, NEW MEXICO
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR FUNDS
 Year Ended June 30, 2007**

	Total Special Revenue	EDA Capital Project	Total Non-major
Revenues			
Taxes	\$ 8,748	-	8,748
Interest	25	-	25
Grant	30,419	-	30,419
	<hr/>		
Total revenues	39,192	-	39,192
	<hr/>		
Expenditures			
Current			
Public safety	13,301	50	13,351
Health and welfare	4,459	-	4,459
Capital outlay	7,325	-	7,325
	<hr/>		
Total expenditures	25,085	50	25,135
	<hr/>		
Net change in fund balances	14,107	(50)	14,057
Fund balance, beginning	(9,460)	234	(9,226)
	<hr/>		
Fund balance, end of year	\$ 4,647	184	4,831
	<hr/> <hr/>		

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
CORRECTIONS
Year Ended June 30, 2007

	<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, 2007

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Municipal taxes	\$ 5,500	5,500	6,910	1,410
Miscellaneous	-	-	-	-
Total revenues	5,500	5,500	6,910	1,410
Expenditures				
Health and welfare	5,500	5,500	4,459	1,041
Total expenditures	5,500	5,500	4,459	1,041
Net change in fund balance	-	-	2,451	2,451
Fund balance, beginning of year	9,893	9,893	9,893	-
Fund balance, end of year	\$ 9,893	9,893	12,344	2,451
Non-GAAP change in fund balance			\$ 2,451	
Change in:				
Accounts receivable			<u>516</u>	
GAAP change in fund balance			<u>\$ 2,967</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
EMERGENCY MEDICAL SERVICES
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Grants	\$ 13,000	13,000	10,419	(2,581)
Other	-	-	-	-
Total revenues	13,000	13,000	10,419	(2,581)
Expenditures				
Public safety	19,000	19,000	7,467	11,533
Capital outlay	13,000	13,000	-	13,000
Total expenditures	32,000	32,000	7,467	24,533
Net change in fund balance	(19,000)	(19,000)	2,952	21,952
Fund balance, beginning of year	(51)	(51)	(51)	-
Fund balance, end of year	(19,051)	(19,051)	2,901	21,952
Prior year cash appropriated	19,051	19,051	-	
\$	-	-	-	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
EMERGENCY 911
Year Ended June 30, 2007

	<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, 2007

	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	15,000	15,000	6,072	8,928
Capital outlay	5,000	5,000	7,325	(2,325)
Total expenditures	20,000	20,000	13,397	6,603
Net change in fund balance	-	-	6,603	6,603
Fund balance, beginning of year	(31,815)	(31,815)	(31,815)	-
Fund balance, end of year	(31,815)	(31,815)	(25,212)	6,603
Prior year cash appropriated	31,815	31,815	25,212	
	<u>\$ -</u>	<u>-</u>	<u>-</u>	
Non-GAAP change in fund balance			\$ 6,603	
Change in:				
Accounts payable			<u>238</u>	
GAAP change in fund balance			<u>\$ 6,841</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
RECREATION
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive (Negative)
Revenues				
Cigarette tax	\$ 500	500	1,201	701
Interest	-	-	25	25
Total revenues	500	500	1,226	726
Expenditures				
Culture and recreation	500	500	-	500
Total expenditures	500	500	-	500
Net change in fund balance	-	-	1,226	1,226
Fund balance, beginning of year	4,633	4,633	4,633	-
Fund balance, end of year	\$ 4,633	4,633	5,859	1,226
Non-GAAP change in fund balance			\$ 1,226	
Change in:				
Accounts receivable			121	
GAAP change in fund balance			<u>\$ 1,347</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
WASTE WATER ENTERPRISE
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 101,000	101,000	110,209	9,209
Grant income	1,770,511	1,770,511	385,772	(1,384,739)
Interest	-	-	930	930
Total revenues	1,871,511	1,871,511	496,911	(1,374,600)
Expenses				
Operating	101,000	116,379	37,876	78,503
Capital outlay	1,813,417	1,813,417	432,492	1,380,925
Total expenditures	1,914,417	1,929,796	470,368	1,459,428
Net change in net assets	(42,906)	(58,285)	26,543	84,828
Net assets, beginning of year	458,317	458,317	458,317	-
Net assets, end of year	\$ 415,411	400,032	484,860	84,828
Non-GAAP change in fund balance			\$ 26,543	
Change in:				
Utility receivables			2,016	
Grant receivable			46,721	
Accounts payable			(40,745)	
Other accrued expenses			8,132	
Capital expenditures capitalized			432,492	
Non-budgeted items				
Depreciation			(11,213)	
GAAP change in net assets			<u>\$ 463,946</u>	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
WATER ENTERPRISE
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Charges for services	\$ 211,000	211,000	203,607	(7,393)
Interest	150	150	1,918	1,768
Other	-	-	-	-
Total revenues	211,150	211,150	205,525	(5,625)
Expenses				
Operating	211,000	211,000	233,612	(22,612)
Capital outlay	74,000	74,000	-	74,000
Debt service	58,573	58,573	49,821	8,752
Total expenditures	343,573	343,573	283,433	60,140
Net change in net assets	(132,423)	(132,423)	(77,908)	54,515
Net assets, beginning of year	489,553	489,553	489,553	-
Net assets, end of year	\$ 357,130	357,130	411,645	54,515
Non-GAAP change in fund balance			\$ (77,908)	
Change in:				
Receivables			3,418	
Accounts payable			1,010	
Accrued compensation and benefits			(989)	
Interest payable			630	
Deposits payable			(1,434)	
Settlement payable			-	
Compensated absences			(1,010)	
Capital expenditures capitalized			-	
Non-budgeted items				
Debt service principal			29,524	
Depreciation			(28,312)	
GAAP change in net assets			\$ (75,071)	

VILLAGE OF PECOS, NEW MEXICO
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS)
HOUSING AUTHORITY ENTERPRISE
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental - federal	\$ 66,140	66,140	59,771	(6,369)
Charges for services	67,000	87,210	93,832	6,622
Operating grants	36,773	60,870	63,362	2,492
Capital grants	58,501	34,404	31,911	(2,493)
Interest	-	-	619	619
Miscellaneous	-	-	-	-
Total revenues	228,414	248,624	249,495	871
Expenses				
Administration	63,438	82,311	81,456	855
Utilities	34,890	34,890	28,741	6,149
Maintenance	28,880	47,880	60,965	(13,085)
Capital outlay	58,501	34,404	-	34,404
General	13,680	15,680	10,822	4,858
Total expenditures	199,389	215,165	181,984	33,181
Excess of revenues over expenditures	29,025	33,459	67,511	34,052
Other financing sources (uses)				
Operating transfers in	-	43,609	34,407	(9,202)
Operating transfers out	(25,085)	(43,609)	(34,407)	9,202
Total other financing sources (uses)	(25,085)	-	-	-
Net change in net assets	3,940	33,459	67,511	34,052
Net assets, beginning of year	806,135	806,135	806,135	-
Net assets, end of year	\$ 810,075	839,594	873,646	34,052
Non-GAAP change in fund balance			\$ 67,511	
Non-budgeted items				
Capitalization of capital outlay expenditures			-	
Depreciation			(46,425)	
GAAP change in net assets			<u>\$ 21,086</u>	

VILLAGE OF PECOS, NEW MEXICO
AGENCY FUNDS
June 30, 2007

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, 2007

	Beginning Balance	Additions	Deductions	Ending Balance
MOTOR VEHICLE FUND				
ASSETS				
Cash	\$ 50	237,339	237,339	50
Total assets	<u>\$ 50</u>	<u>237,339</u>	<u>237,339</u>	<u>50</u>
LIABILITIES				
Due to other entities	\$ (711)	237,339	237,358	(730)
Due to other funds	761	19	-	780
Total liabilities	<u>\$ 50</u>	<u>237,358</u>	<u>237,358</u>	<u>50</u>

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2007

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Bank of Las Vegas	General Fund	Checking	\$ 718,466	697,939
Bank of Las Vegas	Fire Protection	Checking	21,977	13,526
Bank of Las Vegas	Recreation	Checking	5,731	5,731
Bank of Las Vegas	Water and Sewer Enterprise	Checking	522,568	508,655
Bank of Las Vegas	Capital Projects	Checking	184	184
Bank of Las Vegas	Pecos Housing Authority	Checking	11,832	11,766
Bank of Las Vegas	Pecos Housing Authority	Checking	1	1
Bank of Las Vegas	Pecos Housing Authority	Checking	3,950	3,950
Bank of Las Vegas	Pecos Housing Authority	Checking	45,819	45,819
Bank of Las Vegas	Water Deposit	Checking	26,112	25,745
Bank of America	Sewer Replacement Fund	Checking	11,124	11,124
Bank of America	Sewer System Repair and Replacement	Checking	6,958	6,958
Bank of America	Reserve Fund 1986	Checking	14,914	14,914
Bank of America	Water Replacement Fund	Checking	12,464	12,636
Bank of America	Joint Water and Sewer System	Checking	3,789	3,789
Del Norte Credit Union	Sewer System Reserve Fund	Checking	17,277	17,277
			<u>1,423,166</u>	<u>1,380,014</u>
Petty Cash	Utility Clerk		-	50
Petty Cash	Pecos Housing Authority		-	50
Total deposit accounts - non-agency			<u>\$ 1,423,166</u>	<u>1,380,114</u>
Agency funds cash accounts				
Bank of Las Vegas	MVD		\$ 5,861	(780)
Petty Cash	MVD Clerk		-	50
Total cash - agency funds			<u>\$ 5,861</u>	<u>(730)</u>

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2007

	Bank of Las Vegas	Bank of America	Del Norte Credit Union	Total
Deposits at June 30, 2007	\$ 1,362,501	49,249	17,277	1,429,027
Less: FDIC coverage	100,000	49,249	17,277	166,526
Uninsured public funds	1,262,501	-	-	1,262,501
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	1,325,000	-	-	1,325,000
Uninsured and uncollateralized	\$ -	-	-	-
50% pledged collateral requirement per statute	\$ 631,251	-	-	631,251
Total pledged collateral	1,325,000	-	-	1,325,000
Pledged collateral over the requirement	\$ (693,750)	-	-	(693,750)

Pledged collateral at June 30, 2007 consists of the following:

Security	CUSIP	Maturity	Par Value
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	500,000
Alamogordo, NM 3.50%, muni bond	01145NAL7	6/1/2013	300,000
Total pledged collateral			\$ 1,325,000

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

VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF JOINT POWERS AGREEMENTS
June 30, 2007

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 Jeep 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
10612 ROYAL BIRKDALE NE
ALBUQUERQUE, NM 87111

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 general fund, fire protection fund, and the street fund, of the Village of Pecos (Village), as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 30, 2010. 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, 2007, 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 as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings, recommendations and responses to be significant deficiencies in internal control over financial reporting: 04-2, 04-3, 04-6, 04-7, 04-8, 04-9, 04-11, and 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies 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, 04-6, 04-8, and 07-1 for the Village, and items 01-04, and 2007-01 for the Housing Authority.

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

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

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.

Perch & Associates LLC

Albuquerque, New Mexico
April 30, 2010

VILLAGE OF PECOS, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2007

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	Resolved
04-5	Expenditures in Excess of Budget and Report Retention	Resolved
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
04-11	Capital Asset Additions	Modified and repeated

Housing Authority

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

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

FINDINGS – FINANCIAL STATEMENTS AUDIT

04-1 Late Audit Report

CONDITION

The June 30, 2007 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 June 3, 2010.

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, 2007 report to be filed by December 1, 2007.

EFFECT

The Village is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2007. 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, 2007**

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.

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, 2007**

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, 2007**

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, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-3 Utility Billing, Accounts Receivable and Internal Controls

CONDITION

We tested 25 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-five customers tested are being charged a rate which is not authorized by the water and sewer ordinance. The amount of overbilling was \$1.
- One of the twenty-five customers tested was not being billed consistently at either the commercial rate or the residential rate. The customer was billed at the commercial rate for water, and at the residential rate for sewer.
- Five of the twenty-five billings tested assessed a 7.2% tax rate to the water charges and a 5.0% tax rate was assessed to the sewer charges.

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.
- As per the New Mexico Taxation and Revenue Department, a governmental gross receipts tax of 5% is imposed on the receipts of New Mexico state and local governments from sewage services and the sale of water by a utility owned or operated by a municipality.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

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

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.

The gross receipts tax remitted to the State of New Mexico Taxation and Revenue Department may have been over or under calculated.

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 seem 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

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

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

MANAGEMENT RESPONSE (CONTINUED)

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, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-6 Payroll Disbursements

CONDITION

We tested 25 payroll disbursements as part of our audit. We noted the following:

- For all of the twenty-five disbursements tested the pay rate paid to the employee did not have the pay rate documented in the employees personnel file.
- Four personnel files tested did not include an I-9 form.
- For sixteen of the items tested the employees' I-9 form did not have section 2 filled out, which documents the two forms of identification presented upon hire. We noted there was a copy of the employees drivers' license in the personnel file, however there was not a copy of the second form of identification.
- For two of the disbursements tested the Village was unable to produce a copy of the timesheets for the payperiod.
- For two of the disbursements tested the Village accrued sick leave at an incorrect rate.
- For two of the disbursements tested the payroll files did not include a PERA application.
- For one of the disbursements tested sick leave deducted from the employees leave balance did not match the amount of sick time taken per the timesheet.

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.

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, 2007**

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, 2007**

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. We noted eight outstanding items over 6 months old totaling \$891.

CRITERIA

Good accounting practices dictate that 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.

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.

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, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-8 Travel and Per Diem Disbursements

CONDITION

We tested 9 travel and per diem disbursements as part of our audit. We noted the following:

- For three of the items tested there was no travel voucher or supporting documentation or receipts were not attached to the travel voucher. The total of the reimbursements was \$1,660.
- 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.
- For one of the items tested the employee was given 100% advance. Advances should be limited to 80%. The 20% overpayment was \$221.

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.
- 2.42.2.9 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.

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.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

04-8 Travel and Per Diem Disbursements (Continued)

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, 2007**

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, 2007**

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 proprietary funds in the amount of \$432,492.

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 were misstated at year-end before adjustment.

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, 2007**

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 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, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-1 Payroll Tax Reporting

CONDITION

Salary expense per the trial balance does not match the amount of salaries reported on the quarterly 941 reports. The 941 reports for July 2006 through June 2007 report wages, tips, and other compensation at an amount higher than taxable social security wages. Because the amount of wages, tips and other compensation does not include elective deferrals, but the amount reported in taxable social security wages includes elective deferrals, the amount reported for total wages should not be higher than the amount reported for social security wages.

CRITERIA

Internal Revenue Service Publication 15 (Circular E) defines amounts that are includable in taxable wages and amounts that are includable in total wages. Elective deferrals such as a retirement plan should not be included in Wages, tips, and other compensation but should be included in taxable social security wages.

CAUSE

The Village does not have sufficient training in payroll tax reporting.

EFFECT

Wages were incorrectly reported to the Internal Revenue Service, which could result in fines and penalties for underpayment of federal taxes.

RECOMMENDATION

The Village should consider reviewing IRS definitions of reportable wages. The Village should also consider reconciling the 941 reports to salary expense on a quarterly basis.

MANAGEMENT RESPONSE

If wages, tips and other compensation for some employees are an amount higher than social security and Medicare wages, we concur that this is incorrect. However, it is entirely possible that in some cases total wages and compensation will equal social security and Medicare wages, elective deferrals notwithstanding. This is because the Village of Pecos instituted a policy that provides for additional P.E.R.A retirement contribution in lieu of salary increases for its employees. In previous fiscal years we have had difficulty reconciling our 941 reports to the accounting system due to a lack of

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-1 Payroll Tax Reporting (Continued)

MANAGEMENT RESPONSE (CONTINUED)

familiarity with the new payroll system. We have since attended training and are in continuous communication with our accounting system consultants to ensure that payroll reporting is in full compliance with state and federal requirements.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

01-04 Late Audit Report

CONDITION

The Housing Authority did not submit its audit report for the year ended June 30, 2007 by the due date of December 1, 2007. The audit report was submitted to the State Auditor's office on July 8, 2008.

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

The Housing Authority was unable to obtain an auditor in a timely manner due to lack of response from auditing firms when the RFP was issued. The auditor chosen did not receive the contract until March 25, 2008. The contract was not approved by the New Mexico State Auditor until April 4, 2008. Due to prior scheduling by the audit firm, fieldwork did not begin until May 3, 2008. After the audit field work was completed additional time was required by the fee accountant to approve the audit adjustments and to prepare the MD&A.

RECOMMENDATION

Contracting for audit services should be made one of the top priorities of management.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

01-04 Audit Report (Continued)

MANAGEMENT RESPONSE

Listed are my efforts and achievements in trying to obtain an Auditor in a timely manner from the State Auditors list of approved Auditors for the State of New Mexico.

AUDIT FOR FISCAL YEAR 2007 (YEAR ENDING June 30, 2007)

August 13, 2007 – Exit Conference per FY-06 Audit (year ending June 30, 2006)

August 20, 2007 – FY-06 Audit Submitted to REAC

September 10, 2007 – Notified by Auditor Gary Gaylord that FY-06 Audit had been released from State Auditors Office

September 10, 2007 – Downloaded current list of approved Audit Firms from State Auditors approved Auditors List

- Total approved firms, seventy-four
 - Fourteen firms were from out of state
 - Twenty-one firms were South of Albuquerque
 - Due to our small budget, cost of per diem is a major factor
 - Three firms were not allowed to conduct audits
 - Three auditors were not considered due to past experiences
 - Thirty-three audit firms were sent a request for proposals for audit services
 - Three negative responses received in Oct. 2007

September 13, 2007 – Received FY-06 completed audit from auditor Gary Gaylord, CPA

- Submitted FY-06 financial audit to Albuquerque HUD Office.

October 1, 2007 thru October 12, 2007 – Advertised for RFP (Request for Proposals) for FY-07 financial audit.

During my initial quest for an Auditor I was informed by the State Auditors Office that the firm of Gary E. Gaylord, LTD was not being allowed to conduct another audit due to the fact he had not been cleared by the State Auditors Office at that time.

As time went by, it was apparent that no firm was going to be able to conduct my audit based on the waiting time of my RFP mailings. In the middle of January I contacted the firm of Gary Gaylord at which time he felt he was caught up and was going to see if the State Auditors Office would allow him to conduct our audit.

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

01-04 Audit Report (Continued)

MANAGEMENT RESPONSE (CONTINUED)

I then decided to send a special letter of request to the State Auditors Office to see if the firm of Gary Gaylord could be approved to conduct my audit.

February 13, 2008 – Sent letter to State Auditors Office requesting permission to utilize services of previous auditor Mr. Gary Gaylord

March 13, 2008 – Received approval letter from State Auditors Office to use previous Auditor Gary Gaylord.

March 13, 2008 – Contract received from State Auditor had incorrect fee for compensation figures.

March 25, 2008 – Received corrected contract from State Auditors Office.

- Signed and mailed contract to auditor Gary Gaylord

March 31, 2008 – AUDIT FY-07 (year ending June 30, 2007) SUBMISSION DUE DATE

April 2, 2008 – State Auditor received signed contract from Auditor Gary Gaylord, March 31, 2008.

April 9, 2008 – I received signed contract from State Auditors Office, showing he had signed the contract on April 4, 2008

May 3, 2008 – Auditor Gary Gaylord arrived and began our financial audit for FY-07, (year ending June 30, 2007)

As you can see by my time line of dates and actions, I feel I have been very persistent in trying to obtain a financial audit within the time frame allowed.

Once again, upon notice that our audit for FY-07 is released from the State Auditors Office, I will immediately begin the process to procure and auditor for FY-08.

I will continue to be persistent in my quest for the completion of financial audits for FY-08 (year ending June 30, 2008) for the Pecos Housing Authority with the primary objective of achieving compliance.

Ricardo Valenzuela, Executive Director

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

2007-01 Late Filing with REAC

CONDITION

The FDS submission to HUD/REAC was no made in a timely manner, as required by 24 CFR part 5, Subpart H (Uniform Financial Reporting Standards).

CRITERIA

Audited financial statements are required to be submitted electronically through the internet, or in such other electronic format designated by HUD, or in such non-electronic format as HUD may allow, to HUD/REAC no later than nine months after the PHA's fiscal year end, in accordance with the Single Audit Act and OMB Circular A-133.

EFFECT

The Housing Authority may be designated as a troubled housing authority by HUD.

CAUSE

All parties involved in the audit contracting process acted untimely and were busy with other commitments.

RECOMMENDATION

Contracting for audit services and the required filing with HUD/REAC should be made one of the top priorities of management.

MANAGEMENT RESPONSE

Listed are my efforts and achievements in trying to submit my audit for FY-07 to REAC by March 31, 2008.

AUDIT FOR FISCAL YEAR 2007 (YEAR ENDING June 30, 2007)

Process, status and achievements for May 2008.

Audit for fiscal year 2007 (year ending June 30, 2007)

August 13, 2007 – Exit Conference per FY-06 Audit (year ending June 30, 2006)

August 20, 2007 – FY-06 Audit Submitted to REAC

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

2007-01 Late Filing with REAC (Continued)

MANAGEMENT RESPONSE (CONTINUED)

September 10, 2007 – Notified by Auditor Gary Gaylord that FY-06 Audit had been released from State Auditors Office

September 10, 2007 – Downloaded current list of approved Audit Firms from State Auditors approved Auditors List

- Total approved firms, seventy-four
 - Fourteen firms were from out of state
 - Twenty-one firms were South of Albuquerque
 - Due to our small budget, cost of per diem is a major factor
 - Three firms were not allowed to conduct audits
 - Three auditors were not considered due to past experiences
 - Thirty-three audit firms were sent a request for proposals for audit services
 - Three negative responses received in Oct. 2007

September 13, 2007 – Received FY-06 completed audit from auditor Gary Gaylord, CPA

- Submitted FY-06 financial audit to Albuquerque HUD Office.

October 1, 2007 thru October 12, 2007 – Advertised for RFP (Request for Proposals) for FY-07 financial audit.

During my initial quest for an Auditor I was informed by the State Auditors Office that the firm of Gary E. Gaylord, LTD was not being allowed to conduct another audit due to the fact he had not been cleared by the State Auditors Office at that time.

As time went by, it was apparent that no firm was going to be able to conduct my audit based on the waiting time of my RFP mailings. In the middle of January I contacted the firm of Gary Gaylord at which time he felt he was caught up and was going to see if the State Auditors Office would allow him to conduct our audit.

I then decided to send a special letter of request to the State Auditors Office to see if the firm of Gary Gaylord could be approved to conduct my audit.

February 13, 2008 – Sent letter to State Auditors Office requesting permission to utilize services of previous auditor Mr. Gary Gaylord

March 13, 2008 – Received approval letter from State Auditors Office to use previous Auditor Gary Gaylord

**VILLAGE OF PECOS, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2007**

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

2007-01 Late Filing with REAC (Continued)

MANAGEMENT RESPONSE (CONTINUED)

March 13, 2008 – Contract received from State Auditor had incorrect fee for compensation figures.

March 25, 2008 – Received corrected contract from State Auditors Office.

- Signed and mailed contract to auditor Gary Gaylord

March 31, 2008 – AUDIT FY-07 (year ending June 30, 2007) SUBMISSION DUE DATE

April 2, 2008 – State Auditor received signed contract from Auditor Gary Gaylord, March 31, 2008.

April 9, 2008 – I received signed contract from State Auditors Office, showing he had signed the contract on April 4, 2008

May 3, 2008 – Auditor Gary Gaylord arrived and began our financial audit for FY-07, (year ending June 30, 2007)

As you can see by my time line of dates and actions, I feel I have been very persistent in trying to obtain a financial audit with in the time frame allowed.

Once again, upon notice that our audit for FY-07 is released from the State Auditors Office, I will immediately begin the process to procure and auditor for FY-08.

I will continue to be persistent in my quest for the completion of financial audits for FY-08 (year ending June 30, 2008) for the Pecos Housing Authority with the primary objective of achieving compliance.

Ricardo Valenzuela, Executive Director

**VILLAGE OF PECOS, NEW MEXICO
EXIT CONFERENCE
Year Ended June 30, 2007**

An exit conference was held on May 21, 2010, and attended by the following:

Village of Pecos, New Mexico

Tony Jose Roybal, Mayor
Florencio Varela, Council Member
Arthur Varela, Interim Village Clerk

Porch & Associates LLC

Thad Porch, Partner

* * * * *

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.