

State of New Mexico

**Village of Reserve
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT THEREON**

For The Fiscal Year Ended June 30, 2006

Village of Reserve
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Village of Reserve
DIRECTORY OF OFFICIALS
June 30, 2006

ELECTED OFFICIALS

Robert Garrison	Mayor
Theresa Estrada	Mayor Pro-Tem
Greg Baca	Trustee
Peggy Birmingham	Trustee
Connie Wehrheim	Trustee

VILLAGE OFFICIALS

Lori Martinez	Clerk-Treasurer
Kathy Harris	Assistant Clerk-Treasurer

MIKE STONE, C.P.A.
LINDA STONE McGEE, C.P.A.
KAY STONE, C.P.A.
JARROD MASON, C.P.A.
KELLEY WYATT, C.P.A.

RYAN MONTOYA, C.P.A.

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and
Mayor and Village Council
Village of Reserve
Reaerve, 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 of the Village of Reserve as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Village's nonmajor governmental funds and enterprise funds presented as other supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Village of Reserve's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Reserve as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, the Fire Protection Fund, the DWI Fund, the Recreation fund, and the Secondary Well 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 of Reserve as of June 30, 2006, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparisons for the nonmajor special revenue funds, the capital projects funds,

and the 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 our report dated March 22, 2009, on our consideration of Village of Reserve's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Village of Reserve has not presented management's discussion and analysis that is required by accounting principles generally accepted in the United States of America to supplement, although not required to be a part of, the basic financial statements.

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

Stone, McGee & Co CPAs

March 22, 2009

Village of Reserve
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and investments	\$ 266,466	\$ 51,207	\$ 317,673
Receivables, net	47,554	12,423	59,977
Prepaid expenses	7,200		7,200
Interfund receivables	<u>-</u>	<u>842</u>	
Total current assets	<u>\$ 321,220</u>	<u>\$ 64,472</u>	<u>\$ 384,850</u>
Noncurrent assets:			
Restricted:			
Cash and investments	\$ -	\$ 11,835	\$ 11,835
Capital assets, net	<u>1,845,350</u>	<u>2,464,030</u>	<u>4,309,380</u>
Total noncurrent assets	<u>\$ 1,845,350</u>	<u>\$ 2,475,865</u>	<u>\$ 4,321,215</u>
Total assets	<u>\$ 2,166,570</u>	<u>\$ 2,540,337</u>	<u>\$ 4,706,065</u>
LIABILITIES			
Current:			
Accounts payable	\$ 11,334	\$ 6,636	\$ 17,970
Interfund payables	842		
Deferred revenue	45,590		45,590
Current maturities of long-term debt	<u>14,571</u>		<u>14,571</u>
Total current liabilities	<u>\$ 72,337</u>	<u>\$ 6,636</u>	<u>\$ 78,131</u>
Noncurrent:			
Payable from restricted assets:			
Customer deposits	\$ -	\$ 11,835	\$ 11,835
Notes payable	30,007		30,007
Compensated absences	<u>2,340</u>	<u>1,739</u>	<u>4,079</u>
Total noncurrent liabilities	<u>\$ 32,347</u>	<u>\$ 13,574</u>	<u>\$ 45,921</u>

Village of Reserve
STATEMENT OF NET ASSETS (concluded)
June 30, 2006

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Total liabilities	<u>\$ 104,684</u>	<u>\$ 20,210</u>	<u>\$ 124,052</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 1,800,772	\$ 2,464,030	\$ 4,264,802
Restricted for:			
Capital projects	52,271		52,271
Other purposes	40,990		40,990
Unrestricted	<u>167,853</u>	<u>56,097</u>	<u>223,950</u>
Total net assets	<u><u>\$ 2,061,886</u></u>	<u><u>\$ 2,520,127</u></u>	<u><u>\$ 4,582,013</u></u>

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

Village of Reserve
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

		Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Functions/Programs</u>	<u>Expenses</u>		
Governmental activities:			
General government	\$ 195,300	\$ 1,775	\$ 60,109
Public safety	170,672		112,587
Highways and streets	14,116		316,216
Health and welfare	4,299		
Culture-recreation	24,280		
Unallocated interest expense	770		
Total governmental activities	\$ 409,437	\$ 1,775	\$ 488,912
Business-type activities:			
Enterprise	\$ 225,024	\$ 128,898	\$ -
Total business-type activities	\$ 225,024	\$ 128,898	\$ -
Total government	\$ 634,461	\$ 130,673	\$ 488,912
General revenues:			
Property taxes			
Gas taxes			
Franchise taxes			
Gross receipts taxes			
Motor vehicle taxes			
Cigarette taxes			
Interest and investment earnings			
Miscellaneous			
Total general revenues			
Change in net assets			
Net assets--beginning			
Net assets--ending			

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

Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets		
	Governmental Activities	Business -Type Activities	Total
\$ -	\$ (133,416)		\$ (133,416)
	(58,085)		(58,085)
23,531	325,631		325,631
	(4,299)		(4,299)
	(24,280)		(24,280)
	(770)		(770)
<u>\$ 23,531</u>	<u>\$ 104,781</u>	<u>\$ -</u>	<u>\$ 104,781</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (96,126)</u>	<u>\$ (96,126)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (96,126)</u>	<u>\$ (96,126)</u>
<u>\$ 23,531</u>	<u>\$ 104,781</u>	<u>\$ (96,126)</u>	<u>\$ 8,655</u>
	\$ 8,521	\$ -	\$ 8,521
	3,664		3,664
	5,903		5,903
	155,881	3,641	159,522
	12,584		12,584
	1,389		1,389
	374	143	517
	49,429		49,429
	<u>\$ 237,745</u>	<u>\$ 3,784</u>	<u>\$ 241,529</u>
	\$ 342,526	\$ (92,342)	\$ 250,184
	<u>1,719,360</u>	<u>2,612,469</u>	<u>4,331,829</u>
	<u>\$ 2,061,886</u>	<u>\$ 2,520,127</u>	<u>\$ 4,582,013</u>

Village of Reserve
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Fire Protection	Recreation
Assets			
Cash and investments	\$ 121,214	\$ 74,174	\$ -
Interest receivable		4,544	
Taxes receivable	30,220		53
Prepaid expenses	7,200		
Interfund receivable	17,116		
Due from other governments			
Total assets	\$ 175,750	\$ 78,718	\$ 53
 Liabilities and Fund Balance			
Accounts payable	\$ 4,715	\$ 2,016	\$ -
Interfund payable	842		11,053
Deferred revenue	578	45,590	
Total liabilities	\$ 6,135	\$ 47,606	\$ 11,053
Fund balance:			
Reserved for capital projects	\$ -	\$ -	\$ -
Unreserved reported in:			
General fund	169,615		
Special revenue funds		31,112	(11,000)
Total fund balance	\$ 169,615	\$ 31,112	\$ (11,000)
Total liabilities and fund balance	\$ 175,750	\$ 78,718	\$ 53

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

<u>DWI Grant</u>	<u>Secondary Well</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$ 19,641	\$ -	\$ 51,437	\$ 266,466
		834	4,544
<u>11,903</u>			<u>31,107</u>
			7,200
			17,116
			<u>11,903</u>
<u>\$ 31,544</u>	<u>\$ -</u>	<u>\$ 52,271</u>	<u>\$ 338,336</u>
\$ 4,603	\$ -	\$ -	\$ 11,334
		6,063	17,958
<u>4,603</u>			<u>46,168</u>
<u>\$ 4,603</u>	<u>\$ -</u>	<u>\$ 6,063</u>	<u>\$ 75,460</u>
\$ -	\$ -	\$ 52,271	\$ 52,271
<u>26,941</u>		<u>(6,063)</u>	<u>169,615</u>
			40,990
<u>\$ 26,941</u>	<u>\$ -</u>	<u>\$ 46,208</u>	<u>\$ 262,876</u>
<u>\$ 31,544</u>	<u>\$ -</u>	<u>\$ 52,271</u>	<u>\$ 338,336</u>

Village of Reserve
**RECONCILIATION OF TOTAL GOVERNMENTAL
 FUND BALANCE TO NET ASSETS OF
 GOVERNMENTAL ACTIVITIES**

Total governmental fund balances	\$	262,876
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,845,350
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		578
Long-term liabilities, including interest payable are not reported in the funds.		<u>(46,918)</u>
<i>Net assets of governmental activities</i>	<u>\$</u>	<u>2,061,886</u>

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

Village of Reserve
**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES**
IN FUND BALANCES-GOVERNMENTAL FUNDS
For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Fire Protection</u>	<u>Recreation</u>
Revenues:			
Property taxes	\$ 8,305	\$ -	\$ -
Franchise taxes	5,903		
Gross receipts taxes	155,881		
Cigarette taxes	926		463
Motor vehicle taxes	12,584		
Gas taxes	3,664		
Intergovernmental	60,109	39,017	
Fines, licenses and permits	1,775		
Earnings	294	80	
Miscellaneous	45,610		
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 295,051</u>	<u>\$ 39,097</u>	<u>\$ 463</u>
Expenditures:			
Current:			
General government	\$ 156,437	\$ -	\$ -
Public safety	27,700	34,847	
Highways and streets	5,385		
Health and welfare	3,000		
Culture recreation	6,629		12,438
Debt service:			
Principal		14,359	
Interest		770	
Capital outlay	16,656		
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 215,807</u>	<u>\$ 49,976</u>	<u>\$ 12,438</u>
Net change in fund balance	\$ 79,244	\$ (10,879)	\$ (11,975)
Other financing sources (uses):			
Transfer out			
Transfer in			
	<u> </u>	<u> </u>	<u> </u>
Net change in fund balance after other financing sources (uses)	\$ 79,244	\$ (10,879)	\$ (11,975)
Fund balance, July 1, 2005	<u>90,371</u>	<u>41,991</u>	<u>975</u>
Fund balance, June 30, 2006	<u><u>\$ 169,615</u></u>	<u><u>\$ 31,112</u></u>	<u><u>\$ (11,000)</u></u>

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

<u>DWI Grant</u>	<u>Secondary Well</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 8,305
			5,903
			155,881
			1,389
			12,584
			3,664
99,118	316,216	23,531	537,991
			1,775
			374
<u>3,819</u>			<u>49,429</u>
<u>\$ 102,937</u>	<u>\$ 316,216</u>	<u>\$ 23,531</u>	<u>\$ 777,295</u>
\$ -	\$ -	\$ -	\$ 156,437
68,436			130,983
		4,236	9,621
			3,000
			19,067
			14,359
			770
	<u>316,216</u>	<u>39,098</u>	<u>371,970</u>
<u>\$ 68,436</u>	<u>\$ 316,216</u>	<u>\$ 43,334</u>	<u>\$ 706,207</u>
\$ 34,501	\$ -	\$ (19,803)	\$ 71,088
			-
			-
<u>\$ 34,501</u>	<u>\$ -</u>	<u>\$ (19,803)</u>	<u>\$ 71,088</u>
<u>(7,560)</u>		<u>66,011</u>	<u>191,788</u>
<u>\$ 26,941</u>	<u>\$ -</u>	<u>\$ 46,208</u>	<u>\$ 262,876</u>

Village of Reserve
**RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES**

Net changes in fund balances - total governmental funds	\$ 71,088
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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 as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.	282,327
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	(25,332)
Repayment of debt is an expenditure in the governmental funds, but the payment reduces long term liabilities in the Statement of Net Assets.	14,359
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	<u>84</u>
 <i>Change in Net Assets of Governmental Activities</i>	 <u><u>\$ 342,526</u></u>

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

Village of Reserve
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 127,588	\$ 127,588	\$ 163,954	\$ 36,366
Licenses and permits	1,550	1,550	1,775	225
Intergovernmental	35,000	35,000	77,161	42,161
Miscellaneous	250	250	45,904	45,654
Total revenues	\$ 164,388	\$ 164,388	\$ 288,794	\$ 124,406
Expenditures:				
Current:				
General government	\$ 108,629	\$ 108,629	\$ 155,118	\$ (46,489)
Public safety	35,000	35,000	27,700	7,300
Highways and streets	5,000	5,000	5,385	(385)
Health and welfare	3,000	3,000	3,000	-
Culture - recreation	2,000	2,000	4,069	(2,069)
Capital outlay	-	-	23,856	(23,856)
Total expenditures	\$ 153,629	\$ 153,629	\$ 219,128	\$ (65,499)
Net change in fund balance	\$ 10,759	\$ 10,759	\$ 69,666	\$ 58,907
Other financing sources (uses):				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance after other financing sources (uses)	\$ 10,759	\$ 10,759	\$ 69,666	\$ 58,907
Fund balance, July 1, 2005	103,436	103,436	68,664	(34,772)
Fund balance, June 30, 2006	\$ 114,195	\$ 114,195	\$ 138,330	\$ 24,135

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

Village of Reserve
FIRE PROTECTION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 48,820	\$ 63,820	\$ 84,121	\$ 20,301
Miscellaneous				-
Total revenues	<u>\$ 48,820</u>	<u>\$ 63,820</u>	<u>\$ 84,121</u>	<u>\$ 20,301</u>
Expenditures:				
Current:				
Public safety	\$ 35,189	\$ 50,189	\$ 50,189	\$ -
Capital outlay				-
Total expenditures	<u>\$ 35,189</u>	<u>\$ 50,189</u>	<u>\$ 50,189</u>	<u>\$ -</u>
Net change in fund balance	\$ 13,631	\$ 13,631	\$ 33,932	\$ 20,301
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ 13,631	\$ 13,631	\$ 33,932	\$ 20,301
Fund balance, July 1, 2005	<u>29,499</u>	<u>29,499</u>	<u>39,499</u>	<u>10,000</u>
Fund balance, June 30, 2006	<u><u>\$ 43,130</u></u>	<u><u>\$ 43,130</u></u>	<u><u>\$ 73,431</u></u>	<u><u>\$ 30,301</u></u>

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

Village of Reserve
DWI GRANT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 110,810	\$ 110,810	\$ 91,034	\$ (19,776)
Expenditures:				
Current:				
Public safety	\$ 71,950	\$ 71,950	\$ 63,833	\$ 8,117
Capital outlay	-	-	-	-
Total expenditures	\$ 71,950	\$ 71,950	\$ 63,833	\$ 8,117
Net change in fund balance	\$ 38,860	\$ 38,860	\$ 27,201	\$ 66,061
Other financing sources (uses):				
Transfers in	-	-	-	-
Net change in fund balance after other financing sources (uses)	\$ 38,860	\$ 38,860	\$ 27,201	\$ 66,061
Fund balance, June 30, 2005	(7,560)	(7,560)	(7,560)	-
Fund balance, June 30, 2006	<u>\$ 31,300</u>	<u>\$ 31,300</u>	<u>\$ 19,641</u>	<u>\$ 66,061</u>

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

Village of Reserve
RECREATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 300	\$ 300	\$ 469	\$ 169
Expenditures:				
Current:				
Culture recreation	<u>8,600</u>	<u>8,600</u>	<u>12,438</u>	<u>(3,838)</u>
Net change in fund balance	\$ (8,300)	\$ (8,300)	\$ (11,969)	\$ (3,669)
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ (8,300)	\$ (8,300)	\$ (11,969)	\$ (3,669)
Fund balance, July 1, 2005	<u>253</u>	<u>253</u>	<u>916</u>	<u>663</u>
Fund balance, June 30, 2006	<u><u>\$ (8,047)</u></u>	<u><u>\$ (8,047)</u></u>	<u><u>\$ (11,053)</u></u>	<u><u>\$ (3,006)</u></u>

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

Village of Reserve
SECONDARY WELL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 357,209	\$ 357,209	\$ 316,216	\$ (40,993)
Expenditures:				
Capital outlay	<u>357,209</u>	<u>357,209</u>	<u>316,216</u>	<u>40,993</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2006	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

Village of Reserve
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Water/Sewer/Sanitation</u>
Assets	
Current:	
Cash and investments	\$ 51,207
Accounts receivable	11,848
Taxes receivable	575
Interfund receivable	842
Total current assets	\$ 64,472
Noncurrent assets:	
Restricted cash and investments	\$ 11,835
Capital assets net of accumulated depreciation	2,464,030
Total noncurrent assets	\$ 2,475,865
Total assets	\$ 2,540,337
Liabilities	
Current:	
Accounts payable	\$ 6,636
Customer deposits	11,835
Current maturities of long-term debt	
Total current liabilities	\$ 18,471
Noncurrent liabilities:	
Compensated absences	\$ 1,739
Total liabilities	\$ 20,210
Net Assets	
Invested in capital assets	\$ 2,464,030
Unrestricted	56,097
Total net assets	\$ 2,520,127

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

Village of Reserve
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2006

	Water/Sewer/ Sanitation
Operating revenues:	
Charges for services	\$ 128,898
Operating expenses:	
Personnel	\$ 71,774
Operating	65,320
Depreciation	87,930
Total operating expenses	\$ 225,024
Net operating income	\$ (96,126)
Non-operating revenue (expense):	
Investment income	\$ 143
Dedicated gross receipts tax	3,641
Interest expense	-
Total non-operating revenue (expense)	\$ 3,784
Income before contributions and operating transfers	\$ (92,342)
Transfers out	-
Transfers in	-
Change in net assets	\$ (92,342)
Net assets, beginning of year	2,612,469
Net assets, end of year	\$ 2,520,127

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

Village of Reserve
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2006

	<u>Water/Sewer/Sanitation</u>
Cash flows from operating activities:	
Receipts from customers	\$ 148,110
Payments to suppliers	(64,321)
Payments to employees	(68,717)
Receipts of customer meter deposits	2,800
Refunds of customer meter deposits	(999)
	<u>16,873</u>
Net cash provided (used) by operating activities	\$ <u>16,873</u>
Cash flows from noncapital financing activities:	
Dedicated tax receipts	\$ 2,672
Transfers from other funds	-
Transfers to other funds	-
	<u>-</u>
Net cash provided (used) by noncapital financing activities	\$ <u>2,672</u>
Cash flows from capital and related financing activities:	
Principal paid on capital debt	\$ (16,425)
Interest paid on capital debt	-
	<u>-</u>
Net cash provided (used) by capital and related financing activities	\$ <u>(16,425)</u>
Cash flows from investing activities:	
Earnings on investments	\$ <u>143</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,263
Cash and equivalents, beginning of year	<u>59,779</u>
Cash and equivalents, end of year	<u>\$ 63,042</u>

Village of Reserve
STATEMENT OF CASH FLOWS (concluded)
PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2006

	<u>Water/Sewer/Sanitation</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (96,126)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	87,930
Changes in assets and liabilities:	
Receivables, net	20,211
Accounts payable	6,636
Accrued expenses	(2,667)
Customer deposits	1,801
Compensated absences	(912)
	<u>16,873</u>
Net cash provided (used) by operating activities	\$ 16,873

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

Village of Reserve
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 Summary of Significant Accounting Policies

A. GENERAL

The Village of Reserve, a political subdivision of the State of New Mexico, operates under the council-manager form of government. The Village provides the following authorized services: public safety, highways and streets, sanitation, health and welfare, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Village complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For business-type activities/enterprise funds, GASB Statement No.'s 20 and 34 provide the Village the option of electing to apply FASB pronouncements issued after November 30, 1989. The Village has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2004, the Village implemented the new financial reporting requirements of GASB Statement No. 34. As a result, an entirely new financial presentation format has been implemented.

B. FINANCIAL REPORTING ENTITY

The Village's basic financial statements include the accounts of all Village operations. The criteria for including organizations as component units within the Village's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Village holds the corporate powers of the organization
- the Village appoints a voting majority of the organization's board
- the Village is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Village
- there is fiscal dependency by the organization on the Village

Based on the aforementioned criteria, the Village has no component units.

C. BASIS OF PRESENTATION

Governmental-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Village and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are not allocated, but are presented as separate functions. Program revenues include charges paid by recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational and capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which a program or business segment is self-financing or draws from the general revenues of the Village.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Village and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Major Funds

The funds classified as major are as follows:

General – accounts for all activities except those accounted for in other funds.

DWI – to account for the resources to be utilized for DWI education and prevention. This fund is a Special Revenue Fund.

Secondary Well - to account for the resources to be utilized for refurbishing the Village's secondary well. This fund is a Special Revenue Fund.

Fire Protection – to account for the proceeds of the state fire allotment, and the expenditures for public safety therefrom. Established by Section 59A-6-5 NMSA 1978 as authorized by Section 59A-53-7. This fund is a Special Revenue Fund.

Recreation – to account for receipts, such as the cigarette tax revenue, which is restricted for use in recreational areas only. Established by Section 7-12-5 NMSA 1978. This fund is a Special Revenue Fund.

Proprietary - accounts for activities associated with the provision of water and sewer services to the citizenry.

Nonmajor Funds

Fund description for all funds are included in the “Other Supplementary Information” section of this report.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means

collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported when due.

Substantially all governmental fund revenues are accrued. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Property taxes receivable are recognized net of estimated refunds and uncollectible amounts in the period for which the taxes are levied, even if they are not available. Property taxes not collected within 60 days of year end are reported as deferred revenue in the fund financial statements. Derived tax revenues are recognized when the underlying exchange transaction takes place.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

E. BUDGETS

Budgets for the General, Special Revenue, Capital Projects, and Enterprise Funds are prepared by management and approved by the local council and the New Mexico Department of Finance and Administration.

These budgets are prepared on the NON-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be reappropriated in the budget of the subsequent fiscal year. Because the budget process in the State of New Mexico requires that the beginning cash balance be appropriated in the budget of the subsequent fiscal year, the amount is presented as a designated portion of fund balance.

Actual expenditures may not exceed the budget on a by fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local Council approval. If a transfer between "funds" or a budget increase is required, approval must also be obtained from the Department of Finance and Administration.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

F. CASH AND INVESTMENTS

For the purpose of the Statement of Net Assets, "cash and investments" includes all demand, savings accounts, and certificates of deposits of the Village. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include

all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of six months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivisions, and the state treasurers investment pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Village. The pledged securities remain in the name of the financial institution. Premiums (discounts) on investments are amortized by the interest method, or methods approximating the interest method.

G. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables". Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

H. RECEIVABLES

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include gross receipts and use taxes, franchise taxes, and grants. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as gross receipts tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. CAPITAL ASSETS

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Assets acquired with an original cost of \$5,000 or more are capitalized.

Prior to July 1, 2003, governmental funds' infrastructure assets were capitalized. The Village did not elect to utilize the infrastructure transition option in the implementation of GASB Statement No. 34.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

• Buildings	25-50 years
• Improvements	10-50 years
• Machinery and Equipment	03-20 years
• Utility Plant	25-75 years
• Infrastructure	25-75 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

J. RESTRICTED ASSETS

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to utility meter deposits.

K. LONG-TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

L. COMPENSATED ABSENCES

The Village's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

M. EQUITY CLASSIFICATIONS

Government-wide Statements

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

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

Fund Statements

Equity is classified as fund balance and displayed in two components:

- a. Reserved – Consists of governmental fund balances that are not appropriable, legally segregated for specific usage, or commitments to outside third parties.
- b. Unreserved – Consists of designations of amounts representing tentative management plans for governmental fund balances, but subject to change (Designated), and undesignated, for which no restrictions or designations exist.

N. REVENUES, EXPENDITURES, AND EXPENSES

Gross Receipts Tax

The Village levies a 6.5625% gross receipts tax on taxable gross receipts within the Village. The rate includes both Village and State assessments. The tax is collected by the New Mexico Taxation and Revenue Department and remitted to the Village in the month following receipt by the Department. The Department receives the tax one month after collection by vendors. Included in this tax is amounts dedicated to the Sanitation Fund, and those dedicated amounts are recorded directly in that fund.

Gross receipts tax collected by the State in June and July (which represent May and June transactions) and received by the Village in July and August have been accrued and are included under the caption “Due from Other Governments.”

Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semiannual installments by November 10 and April 10 of the subsequent year and become delinquent 30 days later. Taxes are collected on behalf of the Village by the County Treasurer, and are remitted to the Village in the month following collection. Because the Treasurer of the County in which the Village is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable county to the Village.

The Village is permitted to levy taxes for general operating purposes based on a state formula, per \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the Village is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters of the Village. The Village’s total tax rate to finance general government services for the year ended June 30, 2006 was \$1.980 per \$1,000 for non-residential property and \$2.225 for residential property. The Village’s tax rate for debt service was -0- per \$1,000 for both residential and nonresidential property.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Operating revenues normally include license fees, user fees and copy charges.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Fund – By Character: Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Fund-By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

The Village first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Village does not allocate indirect costs.

O. INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds and between individual proprietary funds have been eliminated.

P. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 Custodial Credit Risk

Custodial credit risk is the risk in the event of a bank failure the Governments deposits may not be returned to it. The Village does not have a deposit policy for credit risk beyond that disclosed in Note 1. As of June 30, 2006, the Village's bank balance of \$365,460 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized		\$ <u>-0-</u>
	<u>Bank</u>	<u>Carrying</u>
	<u>Balance</u>	<u>Amount</u>
Deposits by custodial risk		
Category:		
Insured	\$ 100,000	\$ 100,000
Collateral held by the pledging bank's agent in Village's name	<u>265,460</u>	<u>218,765</u>
	<u>\$ 365,460</u>	<u>\$ 318,765</u>

Note 2A Investments

At June 30, 2006, the Village had the following investments:

<u>Investment Type</u>	<u>Amortized</u>
	<u>Cost</u>
U.S. EE Bonds	<u>\$ 10,000</u>

The Village has reported its investment at original cost plus accrued interest at June 30, 2006.

The Village has no interest rate risk or credit risk since all investments are in U.S. backed government securities.

Concentration of Credit Risk – The Village places no limits on the amount it may invest in any one issuer. The Village currently has 100% of its investments in EE Bonds.

Custodial Credit Risk – The Village is not subject to custodial credit risk since the Village holds the investments and they are in the name of the Village.

Note 3 Receivables

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Accounts receivable:		
Services	\$ -0-	\$ 11,848
Interest receivable	\$ 4,544	\$ -0-
Taxes receivable:		
Gasoline taxes	\$ 1,507	\$
Cigarette tax	160	
Gross receipts tax	24,608	575
Franchise taxes	2,944	
Property taxes	933	
Motor vehicle taxes	<u>955</u>	
	\$ 31,107	\$ 575
Due from other governments:		
Intergovernmental grants	\$ 11,903	
	<u>\$ 11,903</u>	<u>\$ -0-</u>
Total	<u>\$ 47,554</u>	<u>\$ 12,423</u>

No allowance for doubtful accounts has been recorded, since the Village considers all receivables fully collectible.

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 61,858	\$ -0-	\$ -0-	\$ 61,858
Construction in progress	<u>201,090</u>			<u>201,090</u>
	<u>\$ 262,948</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 262,948</u>
Other capital assets:				
Buildings and improvements	\$ 334,496	\$ 2,114	\$ -0-	\$ 336,610
Infrastructure	821,644	355,314		1,176,958

Equipment	<u>751,285</u>	<u>14,542</u>	<u> </u>	<u>765,827</u>
Total other assets, at historical cost	\$ <u>1,907,425</u>	\$ <u>371,970</u>	\$ <u>-0-</u>	\$ <u>2,279,395</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (96,824)	\$ (225)	\$ -0-	\$ (97,049)
Infrastructure	(107,476)	(2,013)		(109,489)
Equipment	<u>(403,050)</u>	<u>(87,405)</u>	<u> </u>	<u>(490,455)</u>
Total accumulated depreciation	\$ <u>(607,350)</u>	\$ <u>(89,643)</u>	\$ <u>-0-</u>	\$ <u>(696,993)</u>
Governmental activities, capital assets, net	<u>\$1,563,023</u>	<u>\$ 282,327</u>	<u>\$ -0-</u>	<u>\$ 1,845,350</u>
Business Type Activities: Capital assets not being depreciated:				
Land	\$ 21,838	\$ -0-	\$ -0-	\$ 21,838
Other capital assets:				
Buildings	\$ 80,869	\$ -0-	\$ -0-	80,869
Utility plant	3,195,651			3,195,651
Equipment	<u>95,543</u>	<u> </u>	<u> </u>	<u>95,543</u>
Total other assets at historical cost	\$ <u>3,372,063</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>3,372,063</u>
Less accumulated depreciation for:				
Buildings	\$ (47,561)	\$ (6,690)	\$ -0-	\$ (54,251)
Utility plant	(761,852)	(60,424)		(822,276)
Equipment	<u>(32,528)</u>	<u>(20,816)</u>	<u> </u>	<u>(53,344)</u>
Total accumulated depreciation	\$ <u>(841,941)</u>	\$ <u>(87,930)</u>	\$ <u>-0-</u>	\$ <u>(929,871)</u>
Business-type activities capital assets, net	<u>\$2,551,960</u>	<u>\$ (87,930)</u>	<u>\$ -0-</u>	<u>\$ 2,464,030</u>

The Village has various construction projects ongoing at various stages of completion.

Depreciation was charged to the Governmental Activities as follows:

General Government	\$ 38,947
Public Safety	39,689
Highways and Streets	4,495
Health and Welfare	1,299
Culture-Recreation	<u>5,213</u>
	<u>\$ 89,643</u>

Note 5 Long-Term Debt

Changes in long-term debt were as follows during the year ended June 30, 2006.

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retire-</u> <u>ments</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Notes payable	\$ 58,937	\$ -0-	\$ 14,359	\$ 44,578	\$ 14,571
Compensated absences	<u>2,424</u>	<u>3,614</u>	<u>3,698</u>	<u>2,340</u>	<u>-0-</u>
	<u>\$ 61,361</u>	<u>\$ 3,614</u>	<u>\$ 18,057</u>	<u>\$ 46,918</u>	<u>\$ 14,571</u>
Business Type Activities:					
Notes payable	\$ 16,425	\$ -0-	\$ 16,425	\$ -0-	\$ -0-
Compensated absences	<u>2,651</u>	<u>3,486</u>	<u>4,398</u>	<u>1,739</u>	<u>-0-</u>
	<u>\$ 19,076</u>	<u>\$ 3,486</u>	<u>\$ 20,823</u>	<u>\$ 1,739</u>	<u>\$ -0-</u>

Governmental Activities Note Payable

The Village entered into a loan and intercept agreement with the New Mexico Finance Authority to acquire a fire pumper. The payments are to be made solely from the distributions of law enforcement protection funds. These payments from the State Treasurer will be made directly to New Mexico Finance Authority pursuant to the intercept agreement for the payment of principal and interest. The terms call for annual payments of \$15,560, including interest at rates between .088% and 2.36%. The note matures in 2009.

Business-Type Activities Note Payable

The Village entered into a loan agreement with the New Mexico Department of Finance and Administration for water/sewer line improvements. The payments are to be made solely from the Water/Sewer/Sanitation Fund. The loan calls for annual payments of \$3,285, without interest, until paid in full. The note matures in 2009, but was retired in the 2005-2006 fiscal year.

Compensated Absences

The amount of compensated absences due within the next year is not estimable. The liabilities will be paid from the fund which is charged with the employee as a direct cost, and the liability will be paid with funds available. Typically the general and water and sewer funds bear the majority of the compensated absences cost.

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2006 is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 14,571	\$ 884	\$ -0-	\$ -0-
2008	14,835	656		
2009	<u>15,172</u>	<u>358</u>		
	<u>\$ 44,578</u>	<u>\$ 1,898</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Note 6 Restricted Net Assets

The net assets "Restricted for Other Purposes" in the Statement of Net Assets consist of the special revenue fund balances, which are restricted to each fund's specific purpose, as follows:

DWI Grant	\$ 26,941
Recreation	(11,000)
Fire	31,112
State Co-op	<u>(6,063)</u>
	<u>\$ 40,990</u>

Note 7 Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note 8 Subsequent Events

The Village has contracts and grant awards for construction projects in various stages of completion. Such contracts, funded principally by federal and state agencies, constitute future commitments.

Note 9 Risk Management

The Village is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The

Village has joined together with other municipalities in the State and obtained insurance through the New Mexico Self Insurers Fund, a public risk pool currently operating as a common risk management and insurance program for local governments. The Village pays an annual premium to New Mexico Self Insurers Fund for its general insurance coverage and all risk of loss is transferred.

Note 10 Budgetary Reconciliations

The Statements of Revenues, Expenditures and Changes in Fund Balance Budget (NON-GAAP Budgetary Basis) and Actual present comparisons of legally adopted budgets with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of changes in net assets by the General, DWI Grant, Secondary Well, and SH Cooperative Funds for the year ended June 30, 2005 is as follows:

	<u>General</u>	<u>DWI Grant</u>	<u>Recreation</u>	<u>Fire Protection</u>
Revenues and other sources over (under) expenditures and other uses (GAAP Basis)	\$ 79,244	\$ 34,501	\$ (11,975)	\$ (10,879)
Revenue accruals	(6,257)	(11,903)		45,024
Expenditure accruals	<u>(3,321)</u>	<u>4,603</u>	<u>6</u>	<u>(213)</u>
Revenues and other sources over (under) expenditures and other uses (NON- GAAP) Budgetary Basis	<u>\$ 69,666</u>	<u>\$ 27,201</u>	<u>\$ (11,969)</u>	<u>\$ 33,932</u>

Note 11 Deficit Unreserved Fund Balance

The deficit unreserved fund balances; Recreation (\$11,000), State Highway Co-op (\$6,063), are the result of the application of generally accepted accounting principles to cash basis budgeting, and the modified accrual basis limitation of 60 days on the accrual of revenue. Because cash balances are legally appropriated in the budget for the subsequent fiscal year, liabilities remaining unpaid at year end cause a deficit fund balance. As the liabilities are cleared in the subsequent fiscal year, the deficit fund balance will be reduced.

Note 12 Interfund Activity

Interfund balances were as follows at June 30, 2006:

	<u>Interfund Payable</u>			
	<u>General</u>	<u>Recreation</u>	<u>Other Funds</u>	<u>Total</u>
<u>Interfund Receivable</u>				
General	\$ -0-	\$ 11,053	\$ 6,063	\$ 17,116
Proprietary	<u>842</u>	<u> </u>	<u> </u>	<u>842</u>
	<u>\$ 842</u>	<u>\$ 11,053</u>	<u>\$ 6,063</u>	<u>\$ 17,958</u>

All amounts are expected to be paid in the next fiscal year. The purpose of these activities was to fund ongoing activities in the short-term.

Note 13 Budgetary Control

The Village had expenditures in excess of budgetary authority as follows:

General Fund	\$ 65,499
Recreation	3,838
Water/Sewer/Sanitation	28,483

The Village intends to review budgets at monthly meetings to prevent this in the future.

SPECIAL REVENUE FUNDS

Fire Fund – to account for the proceeds of the state fire allotment, and the expenditures for public safety therefrom. Established by Section 59A-6-5 NMSA 1978 as authorized by Section 59A-53-7.

Recreation Fund – to account for receipts, such as the cigarette tax revenue, which is restricted for use in recreational areas only. Established by Section 7-12-5 NMSA 1978.

Youth Delinquency Fund – to account for local donations and resources received to assist local youth in participating in local prevention programs. Authorization is NMSA 6-1-6

Correction Fees Fund – to account for the fees collected by the municipal judge which are legally restricted to expenditure for jail related costs. Established by Section 35-14-11B.(1) NMSA 1978.

Municipal Road Fund – to account for motor vehicle fees which are to be used only for additions and improvements to the Village's roads and streets. Authorization is NMSA 7-24A-1 to 7-24A-21

DWI Fund – to account for the resources to be used for DWI education and prevention. Authorization is the Village Council.

Secondary Well – to account for the resources to be used for refurbishing the Village's secondary well. Authorization is the Village Council.

State Highway Co-op – to account for the cooperative agreement with the New Mexico Highway Department for street maintenance. Authorization is NMSA 1978 Section 67-3-57.

CAPITAL PROJECTS FUNDS

CDBG Comprehensive Plan – to account for the federal grant (CDBG) revenues and the New Mexico Highway Department revenues and expenditures therefrom to conduct study of Village needs.

Street Improvements – to account for state grant revenues to facilitate street improvements.

ENTERPRISE FUNDS

Enterprise Fund – to account for services including water and sewer provided to the citizens of the Village.

Village of Reserve
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	Special Revenue Funds	Capital Projects Funds	
	State Highway Co-op	Municipal Road	Street Improvements
Assets			
Cash and investments	\$ -	\$ 10,426	\$ 39,428
Taxes receivable		834	
	<u>\$ -</u>	<u>\$ 11,260</u>	<u>\$ 39,428</u>
Liabilities and Fund Balance			
Interfund payable	\$ 6,063	\$ -	\$ -
Total liabilities	<u>\$ 6,063</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:			
Reserved for capital projects		\$ 11,260	\$ 39,428
Unreserved	(6,063)		
Total fund balances	<u>\$ (6,063)</u>	<u>\$ 11,260</u>	<u>\$ 39,428</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 11,260</u>	<u>\$ 39,428</u>

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

<u>Capital Projects Funds</u> <u>CDBG</u> <u>Comprehensive Plan</u>	<u>Total</u>
\$ 1,583	\$ 51,437
	834
<u>\$ 1,583</u>	<u>\$ 52,271</u>
<u>\$ -</u>	<u>\$ 6,063</u>
<u>\$ -</u>	<u>\$ 6,063</u>
<u>\$ 1,583</u>	<u>\$ 52,271</u>
	<u>(6,063)</u>
<u>\$ 1,583</u>	<u>\$ 46,208</u>
<u>\$ 1,583</u>	<u>\$ 52,271</u>

Village of Reserve
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For The Fiscal Year Ended June 30, 2006

	Special Revenue Funds		Capital Projects Funds	
	State	Highway Co-op	Municipal Road	Street Improvements
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Intergovernmental				\$ 18,323
Miscellaneous				
Total revenues	\$ -		\$ -	\$ 18,323
Expenditures:				
Current:				
Highways and streets	\$ 611			
Capital Outlay				39,098
Total expenditures	\$ 611		\$ -	\$ 39,098
Net change in fund balance	\$ (611)		\$ -	\$ (20,775)
Other financing sources (uses):				
Transfer out				
Transfer in				
Net change in fund balance after other financing sources (uses)	\$ (611)		\$ -	\$ (20,775)
Fund balance, July 1, 2005	(5,452)		11,260	60,203
Fund balance, June 30, 2006	<u>\$ (6,063)</u>		<u>\$ 11,260</u>	<u>\$ 39,428</u>

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

Capital Projects Funds		
CDBG		
Comprehensive Plan		Total
\$ 5,208		\$ 23,531
		-
<u>\$ 5,208</u>		<u>\$ 23,531</u>
\$ 3,625		\$ 4,236
		39,098
<u>\$ 3,625</u>		<u>\$ 43,334</u>
\$ 1,583		\$ (19,803)
		-
<u> </u>		<u>-</u>
\$ 1,583		\$ (19,803)
		66,011
<u> </u>		<u>66,011</u>
<u>\$ 1,583</u>		<u>\$ 46,208</u>

Village of Reserve
STATE HIGHWAY CO-OP
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 882,286	\$ 882,286	\$ -	\$ (882,286)
Expenses:				
Capital outlay	882,286	882,286	6,063	876,223
Net change in fund balance	\$ -	\$ -	\$ (6,063)	\$ (6,063)
Fund balance, July 1, 2005	-	-	-	-
Fund balance, June 30, 2006	\$ -	\$ -	\$ (6,063)	\$ (6,063)
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (611)
Revenue accruals (net)				(5,452)
Expenditure accruals (net)				-
Other financing sources				-
Net change in fund balance, NON-GAAP budgetary basis				\$ (6,063)

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

Village of Reserve
MUNICIPAL ROAD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Fund balance, July 1, 2005	<u>-</u>	<u>-</u>	<u>10,426</u>	<u>10,426</u>
Fund balance, June 30, 2006	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,426</u></u>	<u><u>\$ 10,426</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ -
Revenue accruals (net)				-
Expenditure accruals (net)				<u>-</u>
Net change in fund balance, NON-GAAP budgetary basis				<u><u>\$ -</u></u>

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

Village of Reserve
STREET IMPROVEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 499,497	\$ 499,497	\$ 18,323	\$ (481,174)
Expenditures:				
Capital outlay	559,700	559,700	39,098	520,602
Net change in fund balance	\$ (60,203)	\$ (60,203)	\$ (20,775)	\$ 39,428
Other financing sources (uses):				
Transfers in	-	-	-	-
Net change in fund balance after other financing sources (uses)	\$ (60,203)	\$ (60,203)	\$ (20,775)	\$ 39,428
Fund balance, July 1, 2005	60,203	60,203	60,203	-
Fund balance, June 30, 2006	\$ -	\$ -	\$ 39,428	\$ 39,428
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (20,775)
Revenue accruals (net)				-
Expenditure accruals (net)				-
Other financing sources (net)				-
Net change in fund balance, NON-GAAP budgetary basis				\$ (20,775)

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

Village of Reserve
CDBG COMPREHENSIVE PLAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 9,750	\$ 9,750	\$ 10,083	\$ 333
Expenditures:				
Highways and streets	<u>9,750</u>	<u>9,750</u>	<u>8,500</u>	<u>1,250</u>
Net change in fund balance	\$ -	\$ -	\$ 1,583	\$ 1,583
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ 1,583	\$ 1,583
Fund balance, July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2006	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,583</u></u>	<u><u>\$ 1,583</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ 1,583
Revenue accruals (net)				4,875
Expenditure accruals (net)				<u>(4,875)</u>
Net change in fund balance, NON-GAAP budgetary basis				<u><u>\$ 1,583</u></u>

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

Village of Reserve
WATER, SEWER AND SANITATION FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 2,200	\$ 2,200	\$ 2,672	\$ 472
Charges for services	134,000	134,000	151,053	17,053
Total revenues	\$ 136,200	\$ 136,200	\$ 153,725	\$ 17,525
Expenses:				
Current:				
Personnel	\$ 68,829	\$ 68,829	\$ 68,717	\$ 112
Operating	51,400	53,150	81,745	(28,595)
Total expenditures	\$ 120,229	\$ 121,979	\$ 150,462	\$ (28,483)
Net change in fund balance	\$ 15,971	\$ 14,221	\$ 3,263	\$ (10,958)
Other financing sources (uses):				
Transfers out	-	-	-	-
Net change in fund balance after other financing sources (uses)	\$ 15,971	\$ 14,221	\$ 3,263	\$ (10,958)
Fund balance, July 1, 2005	59,779	59,779	59,779	-
Fund balance, June 30, 2006	\$ 75,750	\$ 74,000	\$ 63,042	\$ (10,958)
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (92,342)
Revenue accruals (net)				21,043
Expenditure accruals (net)				74,562
Other financing uses (net)				-
Net change in fund balance, NON-GAAP budgetary basis				\$ 3,263

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

Village of Reserve
SCHEDULE OF DEPOSITORY COLLATERAL
 June 30, 2006

	Ambank
Total deposits	\$ 365,460
FDIC Insurance	(100,000)
Total uninsured public funds	\$ 265,460
50% collateralization requirement (Section 6-10-17 NMSA)	\$ 132,730
Pledged securities	
US Treasury Notes #9128275N8	307,107
Total pledged	\$ 307,107
Pledged securities over (under) requirement	\$ 41,647

Pledged securities are held by the Federal Home Loan Bank in Dallas, Texas, with safekeeping receipts held by the Village.

Village of Reserve
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND INVESTMENTS
 June 30, 2006

	<u>Type of Account</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
<u>First State Bank</u>			
General	Checking	\$ 177,328	\$ 145,762
Water/Sewer	Checking	63,618	51,207
Fire fund	Checking	66,142	63,432
Utility deposits	Checking	11,843	11,835
Jovenes	Checking	1,155	1,155
CDBG	Checking	1,583	1,583
Street projects	Checking	<u>43,791</u>	<u>43,791</u>
Total First State Bank		<u>\$ 365,460</u>	<u>\$ 318,765</u>
US Treasury Bond			<u>\$ 10,000</u>
Cash on deposit with paying agent			<u>\$ 743</u>
Cash per balance sheet			<u>\$ 329,508</u>

Village of Reserve
SCHEDULE OF JOINT POWERS AGREEMENTS
 June 30, 2006

Catron County

Participants	Village of Reserve Catron County
Responsible Party	Village of Reserve Catron County
Description	Catron County to provide police services to the Village
Dates of Agreement	Continuing
Amount of Project	Negotiated annual fee
Agency Contribution	Negotiated fee for services
Audit Responsibility	Both parties
Fiscal Agent	N/A
Financial Reporting Responsibility	Both parties

Catron County

Participants	Village of Reserve Catron County
Responsible Party	Village of Reserve Catron County
Description	Road maintenance
Dates of Agreement	July 1, 2004 through June 30, 2005
Amount of project	As needed
Agency Contribution	\$1 per year, plus fire protection within Village limits
Audit Responsibility	Both parties
Fiscal Agent	N/A
Financial Reporting Responsibility	Both parties

Village of Reserve
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Fiscal Year Ended June 30, 2006

Current
Year Status

Findings - Financial Statement Audit

2003-1	Separation of duties	Repeated
2003-2	Financial and general ledger software	Repeated
2003-3	Late audit report	Repeated
2005-1	Expenditures exceeded budget	Repeated

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

Hector H. Balderas, State Auditor
and
Mayor and Town Council
Village of Reserve
Reserve, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Reserve as of and for the year ended June 30, 2006, which collectively comprise the Village of Reserve's basic financial statements and have issued our report thereon dated March 22, 2009. We have also audited the financial statements of each of the Town's non-major governmental funds and the enterprise fund presented as other supplementary information as of and for the year ended June 30, 2006, and have issued our report thereon dated March 22, 2009. 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 of Reserve's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Reserve's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Reserve'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.

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 Village of Reserve'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 Village of Reserve's financial statements that is more than inconsequential will not be prevented or detected by the Village of Reserve's internal control. We consider deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. The findings are identified in the accompanying schedule of findings and responses as findings 2003-1 through 2003-3.

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 Village of Reserve'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 material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Village of Reserve's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraph s 5.14 and 5.16 and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 2005-1.

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

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

Stone, McGee & Co CPAs

March 22, 2009

Village of Reserve
SCHEDULE OF FINDINGS AND RESPONSES
For The Fiscal Year Ended June 30, 2006

Summary of Auditor's Results

1. The Auditors' report expresses an unqualified opinion on the financial statements of the Village of Reserve.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the "Findings – Financial Statement Audit" section of this report. The conditions are not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Village of Reserve, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The Village of Reserve was not subject to the provisions of OMB Circular A-133, since federal expenditures were below the A-133 threshold amount.

Findings – Financial Statement Audit

SIGNIFICANT DEFICIENCIES

2003-2 FINANCIAL REPORTING SYSTEM

Condition – The Village's financial reporting system is based on an Excel recording system, which is not a double entry bookkeeping system, and provides no general ledger recording.

Criteria – Sound financial controls require that a financial accounting system be adequately designed and operated to comply with New Mexico Statutes and accepted accounting practices.

Cause – The Village has not budgeted for the purchase of adequate accounting software due to the lack of available funds.

Effect – There is an increased likelihood that misstatements material to the financial statements could occur and not be detected within a timely period.

Recommendation – We recommend that the Village attempt to budget for the purchase of an accounting system which provides general ledger capabilities.

Agency Response – The software has been purchased and is being used in the 2006-2007 fiscal year.

2003-1 Separation of Duties

Condition – The Village is unable to adequately segregate authorization, custodial and recording functions in the accounting department.

Criteria – Sound accounting practices required the separation of duties within the accounting department so that the duties of authorization and recording are distributed between two or more employees.

Cause – The Village has not had funds available to hire the required additional employees.

Effect – There is an increased likelihood that assets could be misappropriated without the necessity of collusion.

Recommendation – The Town Council should continue active monitoring of the Village's financial reports, account reconciliations, and processing routines which mitigate the lack of internal control over financial reporting due to inadequate segregation of duties.

Agency Response - The Village Council actively monitors financial reporting, and additional employees will be hired, as soon as funds become available.

2003-3 Late Audit Report

Condition – The Village's audit report was submitted to the New Mexico State Auditor by common carrier on March 27, 2009.

Criteria – Section 2.2.2.9 of the New Mexico State Auditor's 2005 Rule requires submission of the report by December 1, 2006.

Cause – The Village was unable to contract an independent auditor in sufficient time to comply with the mandated deadline in 2005, and this delay effected the completion of the 2006 report.

Effect – The late submission is a violation of the New Mexico State Auditor's Rule 2.2.2.9 NMAC, and prevents the Village from obtaining outside assurances on financial reporting for planning and budgeting purposes. In addition, it prevents the Village from responding promptly to any findings and recommendations which might occur as the result of the audit.

Recommendation – We recommend compliance with the New Mexico State Auditor's imposed deadlines in future audits.

Agency Response – The Village's remote location makes contracting an auditor difficult. We have contracted with an auditing firm for the 2007 and 2008 fiscal years, and believe that we will be able to contract our future audits in a timely manner.

OTHER INSTANCES OF NON-COMPLIANCE

2005-1 Budgetary Controls-Actual Expenditures Exceeded Budget

Condition – The Village’s actual expenditure exceeded budgetary authority in the Water/Sewer/Sanitation fund by \$28,483, The General fund by \$65,499, and the Recreation fund by \$3,838. In addition the Recreation fund was budgeted with expenditures exceeding revenue by \$8,047.

Criteria – Sections 6-3-1 through 6-3-25 NMSA 1978 require, in part, that actual expenditures no exceed budgetary authority. For municipalities, the fund is the legal level of budgetary control.

Cause – The Village did not make the necessary budget adjustments to account for the additional expenditures made during the fiscal year, and did not budget the required transfers to balance the Recreation fund budget.

Effect – The internal controls established by the budget management process have been compromised, and there is an increased likelihood that non-priority expenditures could be made. In addition, New Mexico Statutes have been violated.

Recommendation - We recommend that a policy be adopted which requires periodic budgetary review to insure that actual expenditures do not exceed budgetary authority, and that budgets not be adopted with expenditures in excess of available resources.

Agency Response – The policy recommended is already in place. There were unusual circumstances related to employee absence which caused these occurrences, and we believe the situation had been rectified.

Other - Financial Statement Preparation

The financial statements were prepared by Stone, McGee & Co., C.P.A.’s, with substantial assistance from Village personnel.

Exit Conference

The contents of this report were discussed on July 26, 2007. Attendance at this exit conference was as follows:

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Robert Garrison	Mayor	Village of Reserve
Lori Martinez	Clerk/Treasurer	Village of Reserve
Kay Stone	Principal	Stone, McGee & Co., C.P.A.’s