

State of New Mexico

Village of Reserve

**FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORT THEREON**

For The Fiscal Year Ended June 30, 2010

Village of Reserve
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Village of Reserve
Directory of Officials
June 30, 2010

Elected Officials

Connie Cordell-Wehrheim

Mayor

Wilford Estrada

Council Member

Eddie Varela

Council Member

Edward Romero

Council Member

Keith Riddle

Council Member

Administrative Staff

Kathy Harris

Municipal Clerk

Lori Martinez

Grant Coordinator/Treasurer

Alex Smith

Assistant Clerk

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.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
(575) 538-3795
FAX (575) 388-5040
E-MAIL: stonemcgee@qwestoffice.net

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general and major special revenue funds of the Village of Reserve (Village) as of and for the year ended June 30, 2010, 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 non-major governmental funds, and the budgetary comparisons for the non-major special revenue funds, the capital projects funds, and the enterprise fund presented as other supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Village'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 *Governmental 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 statements 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 the Village of Reserve as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and DWI funds 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 non-major governmental fund of the Village of Reserve as of June 30, 2010, and the respective changes in financial position, where applicable, thereof, and the respective budgetary comparisons for the non-major special revenue funds, the

capital projects funds, and the enterprise fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010, on our consideration of the 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 considered in assessing 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 statements 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. The other supplemental data 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 financial statements taken as a whole.

Stone, McGee & Co CPAs

November 24, 2010

Stone, McGee & Co.
Certified Public Accountants

Village of Reserve
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Current:			
Cash and investments	\$ 378,277	\$ -	\$ 378,277
Receivables, net	61,787	13,154	74,941
Loan costs	5,196		5,196
Interfund balances	14,350		
Total current assets	\$ 459,610	\$ 13,154	\$ 458,414
Noncurrent assets:			
Restricted:			
Cash and investments	\$ -	\$ 14,350	\$ 14,350
Capital assets, net	5,887,055	2,183,628	8,070,683
Total noncurrent assets	\$ 5,887,055	\$ 2,197,978	\$ 8,085,033
Total assets	\$ 6,346,665	\$ 2,211,132	\$ 8,543,447
LIABILITIES			
Current:			
Accounts payable	\$ 22,059	\$ 6,933	\$ 28,992
Interfund balances		14,350	
NMFA payable	429		429
Interest payable	390		390
Deferred revenue	22,729		22,729
Current maturities of long-term debt	22,854		22,854
Total current liabilities	\$ 68,461	\$ 21,283	\$ 75,394
Noncurrent:			
Payable from restricted assets:			
Customer deposits	\$ -	\$ 14,350	\$ 14,350
Notes payable	328,770		328,770
Compensated absences	2,363	4,107	6,470
Total noncurrent liabilities	\$ 331,133	\$ 18,457	\$ 349,590

Village of Reserve
STATEMENT OF NET ASSETS (concluded)
June 30, 2010

	Governmental Activities	Business- Type Activities	Total
Total liabilities	\$ 399,594	\$ 39,740	\$ 424,984
NET ASSETS			
Invested in capital assets, net of related debt	\$ 5,538,253	\$ 2,183,628	\$ 7,721,881
Restricted for:			
Capital projects	177,288		177,288
Debt service	21,106		21,106
Other purposes	8,451		8,451
Unrestricted	201,973	(12,236)	189,737
Total net assets	\$ 5,947,071	\$ 2,171,392	\$ 8,118,463

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

Village of Reserve
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 180,648	\$ 1,620	\$ 35,020
Public safety	326,035	5,690	179,387
Highways and streets	12,870		
Health and welfare	6,826		
Culture-recreation	40,261	2,400	6,612
Unallocated interest expense	2,685		
	<hr/>	<hr/>	<hr/>
Total governmental activities	\$ 569,325	\$ 9,710	\$ 221,019
	<hr/>	<hr/>	<hr/>
Business-type activities:			
Water and Sewer	\$ 241,512	\$ 125,459	\$ -
	<hr/>	<hr/>	<hr/>
Total business-type activities	\$ 241,512	\$ 125,459	\$ -
	<hr/>	<hr/>	<hr/>
Total government	<u>\$ 810,837</u>	<u>\$ 135,169</u>	<u>\$ 221,019</u>

General revenues:
Property taxes
Gross receipts taxes
MVD taxes
Gas taxes
Cigarette taxes
Miscellaneous
Transfers

Total general revenues

Change in net assets

Net assets--beginning, as originally stated

Restatement (Note 17)

Net assets--beginning, as restated

Change in net assets

Net assets--ending

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
\$ -	\$ (144,008)	\$ -	\$ (144,008)
	(140,958)		(140,958)
443,317	430,447		430,447
	(6,826)		(6,826)
	(31,249)		(31,249)
	(2,685)		(2,685)
<u>\$ 443,317</u>	<u>\$ 104,721</u>	<u>\$ -</u>	<u>\$ 104,721</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (116,053)</u>	<u>\$ (116,053)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (116,053)</u>	<u>\$ (116,053)</u>
<u>\$ 443,317</u>	<u>\$ 104,721</u>	<u>\$ (116,053)</u>	<u>\$ (11,332)</u>
	\$ 10,945	\$ -	\$ 10,945
	160,073	3,828	163,901
	13,800		13,800
	8,311		8,311
	1,475		1,475
	15,254	3,726	18,980
	(39,112)	39,112	-
	<u>\$ 170,746</u>	<u>\$ 46,666</u>	<u>\$ 217,412</u>
	<u>\$ 275,467</u>	<u>\$ (69,387)</u>	<u>\$ 206,080</u>
	\$ 5,613,000	\$ 2,240,779	\$ 7,853,779
	58,604		58,604
	\$ 5,671,604	\$ 2,240,779	\$ 7,912,383
	275,467	(69,387)	206,080
	<u>\$ 5,947,071</u>	<u>\$ 2,171,392</u>	<u>\$ 8,118,463</u>

Village of Reserve
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	DWI Grant	State Highway Co-op
Assets			
Cash and investments	\$ 75,425	\$ -	\$ 59,285
Taxes receivable	25,379		
Interfund receivable	99,415		
Due from other governments		12,953	
	<u>\$ 200,219</u>	<u>\$ 12,953</u>	<u>\$ 59,285</u>
Total assets	\$ 200,219	\$ 12,953	\$ 59,285
 Liabilities and Fund Balance			
Accounts payable	\$ 1,079	\$ 1,212	\$ -
Interfund payable			249,767
NMFA payable			
Deferred revenue			
	<u>\$ 1,079</u>	<u>\$ 1,212</u>	<u>\$ 249,767</u>
Total liabilities	\$ 1,079	\$ 1,212	\$ 249,767
Fund balance:			
Reserved for:			
Capital projects	\$ -	\$ -	\$ (190,482)
Debt service			
Unreserved, reported in:			
General fund	199,140		
Special revenue funds		11,741	
	<u>199,140</u>	<u>11,741</u>	
Total fund balance	\$ 199,140	\$ 11,741	\$ (190,482)
Total liabilities and fund balance	\$ 200,219	\$ 12,953	\$ 59,285

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

<u>Downtown Revitalization</u>	<u>MAP and Roadways</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$ 153,917	\$ 48,165	\$ 41,485	\$ 378,277
		131	25,510
383,601	202,816	113,869	799,701
23,324			36,277
<u>\$ 560,842</u>	<u>\$ 250,981</u>	<u>\$ 155,485</u>	<u>\$ 1,239,765</u>
\$ 15,797	\$ -	\$ 3,971	\$ 22,059
91,199	310,899	133,486	785,351
		429	429
		22,729	22,729
<u>\$ 106,996</u>	<u>\$ 310,899</u>	<u>\$ 160,615</u>	<u>\$ 830,568</u>
\$ 453,846	\$ (59,918)	\$ (26,158)	\$ 177,288
		24,318	24,318
			199,140
		(3,290)	8,451
<u>\$ 453,846</u>	<u>\$ (59,918)</u>	<u>\$ (5,130)</u>	<u>\$ 409,197</u>
<u>\$ 560,842</u>	<u>\$ 250,981</u>	<u>\$ 155,485</u>	<u>\$ 1,239,765</u>

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

Total governmental fund balances	\$ 409,197
 <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.	5,887,055
Loan issue costs are capitalized and amortized over the life of the loan	5,196
Long-term liabilities, including interest payable are not reported in the funds.	<u>(354,377)</u>
<i>Net assets of governmental activities</i>	<u><u>\$ 5,947,071</u></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, 2010

	<u>General Fund</u>	<u>DWI Grant</u>	<u>State Highway Co-op</u>
Revenues:			
Property taxes	\$ 10,945	\$ -	\$ -
Gross receipts taxes	160,073		
MVD taxes	13,800		
Gas taxes	8,311		
Cigarette taxes	982		
Intergovernmental	41,632	99,538	
Fines, licenses and permits	4,020	5,690	
Miscellaneous	14,487	588	
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 254,250</u>	<u>\$ 105,816</u>	<u>\$ -</u>
Expenditures:			
Current:			
General government	\$ 124,509	\$ -	\$ -
Public safety	35,500	103,029	
Public works	5,638		
Health and welfare	4,700		
Culture recreation	20,368		
Debt service:			
Principal			
Interest			
Capital outlay	7,200		
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 197,915</u>	<u>\$ 103,029</u>	<u>\$ -</u>
Net change in fund balance	\$ 56,335	\$ 2,787	\$ -
Other financing sources (uses):			
Loan proceeds			
Transfer out	(87,359)		
Transfer in		5,244	
	<u> </u>	<u> </u>	<u> </u>
Net change in fund balance after other financing sources (uses)	\$ (31,024)	\$ 8,031	\$ -
Fund balance, July 1, 2009	<u>230,164</u>	<u>3,710</u>	<u>(190,482)</u>
Fund balance, June 30, 2010	<u><u>\$ 199,140</u></u>	<u><u>\$ 11,741</u></u>	<u><u>\$ (190,482)</u></u>

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

<u>Downtown Revitalization</u>	<u>MAP and Roadways</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 10,945
			160,073
			13,800
			8,311
		493	1,475
506,664		97,502	745,336
			9,710
<u>142</u>		<u>37</u>	<u>15,254</u>
<u>\$ 506,806</u>	<u>\$ -</u>	<u>\$ 98,032</u>	<u>\$ 964,904</u>
\$ -	\$ -	\$ -	\$ 124,509
		85,564	224,093
	3,154		8,792
			4,700
		7,305	27,673
		20,171	20,171
		2,199	2,199
<u>302,964</u>		<u>74,743</u>	<u>384,907</u>
<u>\$ 302,964</u>	<u>\$ 3,154</u>	<u>\$ 189,982</u>	<u>\$ 797,044</u>
\$ 203,842	\$ (3,154)	\$ (91,950)	\$ 167,860
			-
			(87,359)
		43,003	48,247
<u>\$ 203,842</u>	<u>\$ (3,154)</u>	<u>\$ (48,947)</u>	<u>\$ 128,748</u>
<u>250,004</u>	<u>(56,764)</u>	<u>43,817</u>	<u>280,449</u>
<u>\$ 453,846</u>	<u>\$ (59,918)</u>	<u>\$ (5,130)</u>	<u>\$ 409,197</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	\$ 128,748
 <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.	207,617
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes subject to the 60 day availability period.	-
Intergovernmental revenue subject to the 60 day availability period	(81,000)
Repayment of debt is an expenditure in the governmental funds, but the payment reduces long term liabilities in the Statement of Net Assets.	20,171
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. This is the net change during the year.	(187)
Bond and loan proceeds are reported as financing sources in the funds, In the Statement of Activities, however, issuing debt increased long term liabilities	-
Loan issue costs are expenditures in the funds but are capitalized and amortized in the Statement of Activities	
Loan issue costs	-
Amortization	(299)
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. This is the net change for the year.	417
 <i>Change in Net Assets of Governmental Activities</i>	 <u>\$ 275,467</u>

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, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 186,677	\$ 186,210	\$ 175,318	\$ (10,892)
Licenses and permits	1,400	1,400	4,020	2,620
Intergovernmental	55,000	55,000	55,456	456
Miscellaneous	500	500	14,487	13,987
Total revenues	\$ 243,577	\$ 243,110	\$ 249,281	\$ 6,171
Expenditures:				
Current:				
General government	\$ 149,306	\$ 149,306	\$ 132,520	\$ 16,786
Public safety	36,200	36,200	43,500	(7,300)
Highways and streets	5,004	5,004	5,638	(634)
Health and welfare	4,000	4,000	4,700	(700)
Culture - recreation	2,400	2,400	20,232	(17,832)
Capital outlay				-
Total expenditures	\$ 196,910	\$ 196,910	\$ 206,590	\$ (9,680)
Net change in fund balance	\$ 46,667	\$ 46,200	\$ 42,691	\$ (3,509)
Other financing sources (uses):				
Transfers out	\$ -	\$ -	\$ (72,061)	\$ (72,061)
Transfers in			10,422	10,422
Total other financing sources (uses)	\$ -	\$ -	\$ (61,639)	\$ (61,639)
Net change in fund balance after other financing sources (uses)	\$ 46,667	\$ 46,200	\$ (18,948)	\$ (65,148)
Fund balance, July 1, 2009			94,373	94,373
Fund balance, June 30, 2010	\$ 46,667	\$ 46,200	\$ 75,425	\$ 29,225

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, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 96,200	\$ 96,200	\$ 90,537	\$ (5,663)
Miscellaneous	200	200	6,278	6,078
Total revenues	<u>\$ 96,400</u>	<u>\$ 96,400</u>	<u>\$ 96,815</u>	<u>\$ 415</u>
Expenditures:				
Current:				
Public safety	\$ 96,400	\$ 96,400	\$ 102,059	\$ (5,659)
Total expenditures	<u>\$ 96,400</u>	<u>\$ 96,400</u>	<u>\$ 102,059</u>	<u>\$ (5,659)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,244)</u>	<u>\$ (5,244)</u>
Other financing sources (uses):				
Transfers in	-	-	5,244	5,244
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,244</u>	<u>\$ 5,244</u>
Net change in fund balance after other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2010	<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, 2010

	<u>Water and Sewer</u>
Assets	
Current:	
Cash and investments	\$ -
Accounts receivable	12,652
Taxes receivable	502
	13,154
Total current assets	\$ 13,154
Noncurrent assets:	
Restricted cash and investments	\$ 14,350
Capital assets net of accumulated depreciation	2,183,628
	2,197,978
Total noncurrent assets	\$ 2,197,978
Total assets	\$ 2,211,132
Liabilities	
Current:	
Accounts payable	\$ 6,933
Interfund payable	14,350
	21,283
Total current liabilities	\$ 21,283
Noncurrent liabilities:	
Customer deposits, payable from restricted assets	\$ 14,350
Compensated absences	4,107
	39,740
Total liabilities	\$ 39,740
Net Assets	
Invested in capital assets	\$ 2,183,628
Unrestricted	(12,236)
	2,171,392
Total net assets	\$ 2,171,392

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, 2010

	Water and Sewer
Operating revenues:	
Charges for services	\$ 125,459
Operating expenses:	
Personnel	\$ 98,760
Operating	76,287
Depreciation	66,465
Total operating expenses	\$ 241,512
Net operating income	\$ (116,053)
Non-operating revenue (expense):	
Dedicated gross receipts tax	\$ 3,828
Miscellaneous income	3,726
Total non-operating revenue (expense)	\$ 7,554
Income before contributions and operating transfers	\$ (108,499)
Transfers out	
Transfers in	39,112
Change in net assets	\$ (69,387)
Net assets, beginning of year	2,240,779
Net assets, end of year	\$ 2,171,392

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, 2010

	Water and Sewer
Cash flows from operating activities:	
Receipts from customers	\$ 126,713
Payments to suppliers	(74,384)
Payments to employees	(99,085)
	(99,085)
Net cash provided (used) by operating activities	\$ (46,756)
Cash flows from noncapital financing activities:	
Dedicated tax receipts	\$ 3,918
Miscellaneous receipts	3,726
Transfers from other funds	39,112
Interfund activity	1,200
	1,200
Net cash provided (used) by noncapital financing activities	\$ 47,956
Cash flows from capital and related financing activities:	
Principal paid on capital debt	\$ -
Interest paid on capital debt	-
	-
Net cash provided (used) by capital and related financing activities	\$ -
Cash flows from investing activities:	
Earnings on investments	\$ -
	-
Net increase (decrease) in cash and cash equivalents	\$ 1,200
Cash and equivalents, beginning of year	13,150
	13,150
Cash and equivalents, end of year	\$ 14,350
	14,350

Village of Reserve
STATEMENT OF CASH FLOWS (concluded)
PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2010

	<u>Water and Sewer</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (116,053)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	66,465
Changes in assets and liabilities:	
Receivables, net	54
Accounts payable	1,903
Customer deposits	1,200
Compensated absences	(325)
	(46,756)
Net cash provided (used) by operating activities	\$ (46,756)

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

Village of Reserve
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 sue din 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

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 non-exchange 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 used for DWI education and prevention. Authorization is the Village Council. This is a Special Revenue Fund.

Downtown Revitalization – to account for the federal and state grant revenues to complete improvements to the downtown area. This is a Capital Project Fund.

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. This is a Capital Project Fund.

MAP and Roadways – to account for federal and state grant revenue for expenditures for street projects. This is a Capital Project 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 non-current) 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. Debt Service Funds are handled by the New Mexico Finance Authority and are not budgeted.

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 re-appropriated 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 Treasurer’s 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 inter-fund loans are reported as “inter-fund receivables and payables”. Inter-fund receivables and payables between funds within governmental and proprietary activities are eliminated in the Statement of Net Assets. Inter-fund balances are eliminated completely in the total column of 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. Non-exchange 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, and in fiscal year 2004 has capitalized all infrastructure assets.

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 6.9375% 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, 2010 was \$2.066 per \$1,000 for nonresidential 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. Program revenues for governmental activities 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 Non-operating

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. INTER-FUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity are classified as inter-fund transfers. For the purposes of the Statement of Activities, all inter-fund 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, 2010, the Village's bank balance of \$135,385 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized		\$ <u>-0-</u>
	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits by custodial risk		
Category:		
Insured	\$ 135,385	\$ 107,734
Collateral held by the pledging Bank's agent in Village's name	<u>-0-</u>	<u>-0-</u>
	<u>\$ 135,385</u>	<u>\$ 107,734</u>

The cash on deposit with NMFA is, in effect, loan payments made by the Village but not yet disbursed. Such deposits are subject to the collateral requirements of NMFA. Such deposits total \$274,893.

Note 3 Investments

At June 30, 2010, the Village had the following investments:

<u>Investment Type</u>	<u>Amortized 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, 2010.

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 4 Receivables

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts receivable:		
Services	\$ -0-	\$ 12,652
Intergovernmental grants	\$ 36,408	\$ -0-
Taxes receivables:		
Gasoline taxes	\$ 1,726	\$ 502
Gross receipts tax	21,007	
Franchise taxes		
Property taxes	353	
Motor vehicle taxes	2,033	
Cigarette tax	<u>260</u>	
	<u>\$ 25,379</u>	<u>\$ 502</u>
Total	<u>\$ 61,787</u>	<u>\$ 13,154</u>

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

Note 5 Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance				Balance
	<u>July 1, 2009</u>	<u>Adjustment</u>	<u>Increase</u>	<u>Decreases</u>	<u>June 30, 2010</u>
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 109,616	\$ 58,604	\$ 7,200	\$	\$ 175,420
Construction in progress	<u>889,959</u>	<u>-0-</u>	<u>377,707</u>	<u>858,531</u>	<u>409,135</u>
	<u>\$ 999,575</u>	<u>\$ 58,604</u>	<u>\$ 384,907</u>	<u>\$ 858,531</u>	<u>\$ 584,555</u>
Other capital assets:					
Buildings/improvements	\$ 336,610	\$	\$ 858,531	\$	\$ 1,195,141
Infrastructure	4,524,748				4,524,748
Equipment	<u>765,827</u>	<u></u>	<u></u>	<u></u>	<u>765,827</u>
Total other assets, at historical cost	<u>\$5,627,185</u>	<u>\$</u>	<u>\$ 858,531</u>	<u>\$ -0-</u>	<u>\$ 6,485,716</u>
Less accumulated depreciation for:					
Buildings/improvements	\$ 117,016	\$	\$ 23,861	\$	\$ 140,877
Infrastructure	224,659		128,964		353,623
Equipment	<u>664,251</u>	<u></u>	<u>24,465</u>	<u>-0-</u>	<u>688,716</u>
Total accumulated depreciation	<u>\$1,005,926</u>	<u>\$</u>	<u>\$ 177,290</u>	<u>\$ -0-</u>	<u>\$ 1,183,216</u>
Governmental activities, Capital assets, net	<u>\$5,620,834</u>	<u>\$ 58,604</u>	<u>\$1,066,148</u>	<u>\$ 858,531</u>	<u>\$ 5,887,055</u>
Business Type Activities:					
Capital assets not being depreciated:					
Land	<u>\$ 21,838</u>	<u>\$</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 21,838</u>
Other capital assets:					
Buildings	\$ 80,869	\$	\$	\$	\$ 80,869
Utility plant	3,195,651				3,195,651

Equipment	<u>95,543</u>				<u>95,543</u>
Total other assets at historical cost	<u>\$3,372,063</u>	<u>\$</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,372,063</u>
Less accumulated depreciation for:					
Building	\$ 57,587	\$	\$ 1,617	\$	\$ 59,204
Utility plant	1,024,188		62,259		1,086,447
Equipment	<u>62,033</u>		<u>2,589</u>		<u>64,622</u>
Total accumulated depreciation	<u>\$1,143,808</u>	<u>\$</u>	<u>\$ 66,465</u>	<u>\$ -0-</u>	<u>\$ 1,210,273</u>
Business-type activities capital assets, net	<u>\$2,250,093</u>	<u>\$</u>	<u>\$ 66,465</u>	<u>\$ -0-</u>	<u>\$ 2,183,628</u>

The Village has various construction projects ongoing at various stages of completion. Future commitments total approximately \$500,000.

For explanation of the adjustment, see Note 17.

Depreciation was charged to the Governmental Activities as follows:

General Government	\$ 56,556
Public Safety	101,942
Culture-Recreation	12,588
Public Works	4,078
Health and Welfare	<u>2,126</u>
	<u>\$ 177,290</u>

Note 6 Long-term Debt

Changes in long-term debt were as follows during the year ended June 30, 2010.

	<u>Balance</u>		<u>Retire-</u>	<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2009</u>	<u>Additions</u>	<u>ments</u>	<u>June 30, 2010</u>	<u>One Year</u>
Governmental activities:					
Notes payable	\$ 371,795	\$	\$ 20,171	\$351,624	\$ 22,854
Compensated absences	<u>2,780</u>	<u>5,214</u>	<u>5,631</u>	<u>2,363</u>	<u>-0-</u>
	<u>\$ 374,575</u>	<u>\$ 5,214</u>	<u>\$ 25,802</u>	<u>\$353,987</u>	<u>\$ 22,854</u>
Business Type Activities:					
Compensated absences	<u>\$ 4,432</u>	<u>\$ 4,973</u>	<u>\$ 5,298</u>	<u>\$ 4,107</u>	<u>\$ -0-</u>

Governmental Activities Note Payable

The Village entered into loans and intercept agreements with the New Mexico Finance Authority to acquire a fire pumper, and fund a multi-purpose facility and street improvements. The payments are to be made solely from the distributions of law enforcement protection funds, and gross receipts tax revenues. These payments from the State Treasurer will be made directly to New Mexico Finance Authority pursuant to the intercept agreements for the payment of principal and interest. The terms call for annual payments of \$22,370, including interest at rates between -0% and 1.48%. The notes mature in 2024 and 2028.

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 employees 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, 2010 is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 22,854	\$ 2,337	\$ -0-	\$ -0-
2012	22,910	2,281		
2013	22,978	2,213		
2014	23,065	2,126		
2015	23,174	2,017		
2016-2020	118,017	7,940		
2021-2025	103,204	2,704		
2026-2030	<u>15,422</u>	<u>-0-</u>		
	<u>\$ 351,624</u>	<u>\$ 21,618</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Note 7 Retirement Plan

Plan Description

Substantially all of the Village of Reserve'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 for the plan. That report may be

obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 7% of their gross salary. The Village of Reserve is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the Village of Reserve are established in State Statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Village of Reserve's contributions to PERA for the fiscal years ending June 30, 2010, 2009 and 2008 were \$23,129, \$27,246, and \$23,769, respectively, which equal the amount of the required contribution for each year.

Note 8 Post-Employment Benefits – State Retiree Health Care Plan

Plan Description

The Village of Reserve contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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 Retiree Health Care plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of 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; (3) former legislators who served at least two years; (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle N.E., Suite 104, Albuquerque, New Mexico 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional

participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY2011	1.666%	.833%
FY2012	1.834%	.917%
FY2013	2.000%	1.000%

Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State legislature.

The Village of Reserve's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$3,324, \$3,795 and \$3,165, respectively, which equal the required contributions for each year.

Note 9 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	\$ 11,741
Recreation	(11,104)
Fire	<u>7,814</u>
	<u>\$ 8,451</u>

The Village reports \$206,845 in restricted net assets of which \$198,394 is restricted by enabling legislation.

Note 10 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 11 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 12 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 13 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 for the General Fund for the year ended June 30, 2010 is as follows:

	<u>General</u>	<u>DWI</u>
Revenues and other sources over (under) expenditures and other uses (GAAP Basis)	\$ (31,024)	\$ 8,031
Revenue accruals	(4,969)	(9,001)
Expenditure accruals	(8,675)	970
Transfers net	<u>25,720</u>	<u>-0-</u>
Revenues and other sources over (under) expenditures and other uses (NON-GAAP) budgetary basis	<u>\$ (18,948)</u>	<u>\$ -0-</u>

Note 14 Deficit Fund Balance

The deficit fund balances; Recreation (\$11,104), State Highway Co-op (\$190,482), MAP and Roadways (\$59,918), and Water System (\$46,921) is the result of the application of the modified accrual basis limitation of 60 days on the accrual of revenue, or the timing of transfers to be made from the General Fund. As the revenue is collected and/or the transfers are made, the deficit fund balance will be reduced.

Note 15 Inter-fund Activity

Inter-fund balances were as follows at June 30, 2010:

	<u>Inter-fund Payable</u>					
	<u>Downtown</u>	<u>MAP and</u>	<u>State</u>	<u>Other</u>	<u>Enterprise</u>	<u>Total</u>
	<u>Revitali-</u>	<u>Roadways</u>	<u>Highway</u>	<u>Funds</u>	<u>Funds</u>	
	<u>zation</u>		<u>Co-op</u>			
<u>Inter-fund Receivable</u>						
General	\$ 37,257	\$ 56,095	\$ 6,063	\$	\$	\$ 99,415
Downtown Revitalization		169,115	81,000	133,486		383,601
Map & Roadways	40,112		162,704			202,816
Other Funds	<u>13,830</u>	<u>85,689</u>	<u> </u>	<u> </u>	<u>14,350</u>	<u>113,869</u>
	<u>\$ 91,199</u>	<u>\$ 310,899</u>	<u>\$249,767</u>	<u>\$133,486</u>	<u>\$ 14,350</u>	<u>\$ 799,701</u>

The purpose of these activities was to fund ongoing activities, and all amounts are expected to be repaid within one year.

Transfers To

Transfer From

	<u>General</u>
DWI Grant	\$ 5,244
Other Fund	43,003
Enterprise Funds	<u>39,112</u>
	<u>\$ 87,359</u>

These transactions were to fund operating activities, and are within the funds intended purposes.

Note 16 Expenditures in Excess of Budgetary Authority

The Village had expenditures in excess of budgetary authority in the following funds:

DWI	\$ 5,659
General	9,680
Recreation	6,805
Fire protection	2,183
Multi-Purpose Facility	149
Enterprise	34,082

The Village intends to monitor future expenditures and make budget adjustments as necessary.

Note 17 Restatement

During the year ended June 30, 2010, the Village discovered that land purchased during the 2008-2009 fiscal year had not been capitalized. The non-capitalized amount was \$58,604.

In order to conform to generally accepted accounting principles, the Village has restated beginning net assets to reflect the error correction.

Note 18 Pooled Cash Overdrafts

The Village had the following pooled cash overdrafts at June 30, 2010:

CDBG Comprehensive plan	\$12,370
Water System Improvements	46,921

The pooled cash overdrafts will be eliminated as grant reimbursements or loan proceeds are received.

SPECIAL REVENUE FUNDS

Fire Fund – to account for the proceeds of the state fire allotment, and the expenditures for public safety there from. 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.

DEBT SERVICE FUNDS

Multipurpose Facility – to account for the funds held by NMFA to pay the principal and interest on the loan for the multipurpose facility.

Street Improvement – to account for the funds held by NMFA to pay the principal and interest on the loan for street improvements.

CAPITAL PROJECTS FUNDS

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

MAP and Roadways - to account for federal and state grant revenue for expenditures for street projects.

Multipurpose Facility – to account for state revenues to be expended to construct a multipurpose facility for Village residents.

Downtown Revitalization – to account for state revenues to be utilized to plan, design and construct improvements for mainstreet projects.

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.

School Bus Route – to account for the state revenues to be utilized to plan and design safe routes to school for Village children.

TPE – to account for the state revenues to be utilized for improvements and/or construction to the Village's roads and streets.

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, 2010

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Fire Protection</u>	<u>Recreation</u>	<u>Multipurpose Facility</u>	<u>Street Improvement</u>
Assets				
Cash and investments	\$ 11,785	\$ -	\$ 1,319	\$ 23,428
Taxes receivable		131		
Interfund receivable				
Due from governments				
Total assets	<u>\$ 11,785</u>	<u>\$ 131</u>	<u>\$ 1,319</u>	<u>\$ 23,428</u>
Liabilities and Fund Balance				
Accounts payable	\$ 3,971	\$ -	\$ -	\$ -
Interfund payable		11,235		
NMFA payable			429	
Deferred revenue				
Total liabilities	<u>\$ 3,971</u>	<u>\$ 11,235</u>	<u>\$ 429</u>	<u>\$ -</u>
Fund balances:				
Reserved for debt service	\$ -	\$ -	\$ 890	\$ 23,428
Reserved for capital projects				
Unreserved	7,814	(11,104)		
Total fund balances	<u>\$ 7,814</u>	<u>\$ (11,104)</u>	<u>\$ 890</u>	<u>\$ 23,428</u>
Total liabilities and fund balances	<u>\$ 11,785</u>	<u>\$ 131</u>	<u>\$ 1,319</u>	<u>\$ 23,428</u>

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

Capital Projects Funds

<u>CDBG Comprehensive</u>	<u>Multipurpose Facility</u>	<u>Water System</u>	<u>TPE</u>	<u>School Bus Route</u>	<u>Total</u>
\$ -	\$ 4,953	\$ -	\$ -	\$ -	\$ 41,485
13,830	14,350		22,729	62,960	113,869
<u>\$ 13,830</u>	<u>\$ 19,303</u>	<u>\$ -</u>	<u>\$ 22,729</u>	<u>\$ 62,960</u>	<u>\$ 155,485</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,971
12,370		46,921		62,960	133,486
			22,729		429
<u>\$ 12,370</u>	<u>\$ -</u>	<u>\$ 46,921</u>	<u>\$ 22,729</u>	<u>\$ 62,960</u>	<u>\$ 160,615</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,318
1,460	19,303	(46,921)			(26,158)
					(3,290)
<u>\$ 1,460</u>	<u>\$ 19,303</u>	<u>\$ (46,921)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,130)</u>
<u>\$ 13,830</u>	<u>\$ 19,303</u>	<u>\$ -</u>	<u>\$ 22,729</u>	<u>\$ 62,960</u>	<u>\$ 155,485</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, 2010

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Fire Protection</u>	<u>Recreation</u>	<u>Multipurpose Facility</u>	<u>Street Improvement</u>
Revenues:				
Cigarette taxes	\$ -	\$ 493	\$ -	\$ -
Intergovernmental	79,849			
Fines, licenses and permits				
Miscellaneous			4	33
	<u>\$ 79,849</u>	<u>\$ 493</u>	<u>\$ 4</u>	<u>\$ 33</u>
Total revenues				
Expenditures:				
Current:				
Public safety	\$ 85,564	\$ -	\$ -	\$ -
Culture and recreation		7,305		
Debt service:				
Principal			5,142	15,029
Interest				2,199
Capital outlay				
	<u>\$ 85,564</u>	<u>\$ 7,305</u>	<u>\$ 5,142</u>	<u>\$ 17,228</u>
Total expenditures				
Net change in fund balance	\$ (5,715)	\$ (6,812)	\$ (5,138)	\$ (17,195)
Other financing sources (uses):				
Loan proceeds				
Transfer out				
Transfer in		6,919	5,148	20,572
		<u>6,919</u>	<u>5,148</u>	<u>20,572</u>
Net change in fund balance after other financing sources (uses)	\$ (5,715)	\$ 107	\$ 10	\$ 3,377
Fund balance, July 1, 2009	<u>13,529</u>	<u>(11,211)</u>	<u>880</u>	<u>20,051</u>
Fund balance, June 30, 2010	<u>\$ 7,814</u>	<u>\$ (11,104)</u>	<u>\$ 890</u>	<u>\$ 23,428</u>

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

Capital Projects Funds

<u>CDBG Comprehensive</u>	<u>Multipurpose Facility</u>	<u>Water System</u>	<u>Total</u>
\$ -	\$ - 17,653	\$ -	\$ 493 97,502 - 37
<u>\$ -</u>	<u>\$ 17,653</u>	<u>\$ -</u>	<u>\$ 98,032</u>
\$ -	\$ -	\$ -	\$ 85,564 7,305 20,171 2,199 74,743
<u>\$ -</u>	<u>\$ 27,822</u>	<u>\$ 46,921</u>	<u>\$ 189,982</u>
\$ -	\$ (10,169)	\$ (46,921)	\$ (91,950)
<u>10,364</u>	<u>-</u>	<u>-</u>	<u>43,003</u>
\$ 10,364	\$ (10,169)	\$ (46,921)	\$ (48,947)
<u>(8,904)</u>	<u>29,472</u>	<u>-</u>	<u>43,817</u>
<u>\$ 1,460</u>	<u>\$ 19,303</u>	<u>\$ (46,921)</u>	<u>\$ (5,130)</u>

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, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 500	\$ 500	\$ 386	\$ (114)
Expenditures:				
Current:				
Culture recreation	<u>500</u>	<u>500</u>	<u>7,305</u>	<u>(6,805)</u>
Net change in fund balance	\$ -	\$ -	\$ (6,919)	\$ (6,919)
Other financing sources (uses):				
Transfers in			<u>6,919</u>	<u>6,919</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>(11,235)</u>	<u>(11,235)</u>
Fund balance, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (11,235)</u></u>	<u><u>\$ (11,235)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ 107
Revenue accruals (net)				(107)
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
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, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 77,451	\$ 77,451	\$ 77,451	\$ -
Miscellaneous				-
	<u>\$ 77,451</u>	<u>\$ 77,451</u>	<u>\$ 77,451</u>	<u>\$ -</u>
Total revenues				
Expenditures:				
Current:				
Public safety	\$ 77,451	\$ 77,451	\$ 79,634	\$ (2,183)
Capital outlay				-
	<u>\$ 77,451</u>	<u>\$ 77,451</u>	<u>\$ 79,634</u>	<u>\$ (2,183)</u>
Total expenditures				
Net change in fund balance	\$ -	\$ -	\$ (2,183)	\$ (2,183)
Other financing sources (uses):				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ (2,183)	\$ (2,183)
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>13,968</u>	<u>13,968</u>
Fund balance, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,785</u>	<u>\$ 11,785</u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (5,715)
Revenue accruals (net)				(2,398)
Expenditure accruals (net)				<u>5,930</u>
Net change in fund balance, NON-GAAP budgetary basis				<u>\$ (2,183)</u>

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

Village of Reserve
SH CO-OP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
 Fund balance, July 1, 2009	 <u>-</u>	 <u>-</u>	 <u>59,285</u>	 <u>59,285</u>
Fund balance, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,285</u></u>	<u><u>\$ 59,285</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
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, 2010

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 490,000	\$ 490,000	\$ -	\$ (490,000)
Miscellaneous	-	-	-	-
Total revenues	\$ 490,000	\$ 490,000	\$ -	\$ (490,000)
Expenditures:				
Capital outlay	\$ 490,000	\$ 490,000	\$ 13,830	\$ 476,170
Total expenditures	\$ 490,000	\$ 490,000	\$ 13,830	\$ 476,170
Net change in fund balance	\$ -	\$ -	\$ (13,830)	\$ (13,830)
Other financing sources (uses):				
Transfers in	-	-	10,364	10,364
Total other financing sources (uses)	\$ -	\$ -	\$ 10,364	\$ 10,364
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ (3,466)	\$ (3,466)
Fund balance, July 1, 2009	-	-	(8,904)	(8,904)
Fund balance, June 30, 2010	\$ -	\$ -	\$ (12,370)	\$ (12,370)
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ 10,364
Revenue accruals (net)				(13,830)
Expenditure accruals (net)				-
Net change in fund balance, NON-GAAP budgetary basis				\$ (3,466)

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

Village of Reserve
MAPS AND ROADWAYS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 400,000	\$ 400,000	\$ 401,702	\$ 1,702
Expenditures:				
Capital outlay	400,000	400,000	241,577	158,423
Net change in fund balance	\$ -	\$ -	\$ 160,125	\$ 160,125
Fund balance, July 1, 2009			(111,960)	(111,960)
Fund balance, June 30, 2010	\$ -	\$ -	\$ 48,165	\$ 48,165
 Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (3,154)
Revehue accruals (net)				401,702
Expenditure accruals (net)				(238,423)
Net change in fund balance, NON-GAAP budgetary basis				\$ 160,125

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

Village of Reserve
MULTIPURPOSE FACILITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 35,771	\$ 35,771	\$ 34,739	\$ (1,032)
Expenditures:				
Capital outlay	<u>35,771</u>	<u>35,771</u>	<u>35,920</u>	<u>(149)</u>
Net change in fund balance	\$ -	\$ -	\$ (1,181)	\$ (1,181)
Other financing sources (uses):				
Transfer in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ (1,181)	\$ (1,181)
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>20,484</u>	<u>20,484</u>
Fund balance, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,303</u></u>	<u><u>\$ 19,303</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (10,169)
Revenue accruals (net)				17,086
Expenditure accruals (net)				(8,098)
Other financing sources (net)				<u>-</u>
Net change in fund balance, NON-GAAP budgetary basis				<u><u>\$ (1,181)</u></u>

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

Village of Reserve
DOWNTOWN REVITALIZATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 1,259,409	\$ 1,259,409	\$ 40,750	\$ (1,218,659)
Expenditures:				
Capital outlay	<u>1,259,409</u>	<u>1,259,409</u>	<u>40,750</u>	<u>1,218,659</u>
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, July 1, 2009	<u> </u>	<u> </u>	<u>37,257</u>	<u>37,257</u>
Fund balance, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 37,257</u></u>	<u><u>\$ 37,257</u></u>
 Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ 203,842
Revenue accruals (net)				(466,056)
Expenditure accruals (net)				262,214
Other financing sources (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
SCHOOL BUS ROUTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance, July 1, 2009			(62,960)	(62,960)
Fund balance, June 30, 2010	\$ -	\$ -	\$ (62,960)	\$ (62,960)
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ -
Revenue accruals (net)				-
Expenditure accruals (net)				-
Net change in fund balance, NON-GAAP budgetary basis				\$ -

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

Village of Reserve
WATER SYSTEM IMPROVEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	<u>50,000</u>	<u>50,000</u>	<u>46,921</u>	<u>3,079</u>
Net change in fund balance	\$ (50,000)	\$ (50,000)	\$ (46,921)	\$ 3,079
Other financing sources (uses):				
Loan proceeds	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Net change in fund balance after other financing sources (uses)	\$ -	\$ -	\$ (46,921)	\$ (46,921)
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (46,921)</u></u>	<u><u>\$ (46,921)</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (46,921)
Revenue accruals (net)				-
Expenditure accruals (net)				-
Other financing sources (net)				<u>-</u>
Net change in fund balance, NON-GAAP budgetary basis				<u><u>\$ (46,921)</u></u>

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

Village of Reserve
ENTERPRISE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For The Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 3,000	\$ 3,000	\$ 3,791	\$ 791
Charges for services	136,000	136,000	126,713	(9,287)
Miscellaneous	<u>1,000</u>	<u>1,900</u>	<u>3,726</u>	<u>1,826</u>
Total revenues	<u>\$ 140,000</u>	<u>\$ 140,900</u>	<u>\$ 134,230</u>	<u>\$ (6,670)</u>
Expenses:				
Current:				
Personnel	\$ 96,270	\$ 96,270	\$ 99,085	\$ (2,815)
Operating	<u>42,990</u>	<u>42,990</u>	<u>74,257</u>	<u>(31,267)</u>
Total expenditures	<u>\$ 139,260</u>	<u>\$ 139,260</u>	<u>\$ 173,342</u>	<u>\$ (34,082)</u>
Net change in fund balance	\$ 740	\$ 1,640	\$ (39,112)	\$ (37,472)
Other financing sources (uses):				
Transfers in/(out)	<u>-</u>	<u>-</u>	<u>39,112</u>	<u>39,112</u>
Net change in fund balance after other financing sources (uses)	\$ 740	\$ 1,640	\$ -	\$ 1,640
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2010	<u><u>\$ 740</u></u>	<u><u>\$ 1,640</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,640</u></u>
Budgetary reconciliation:				
Net change in fund balance, GAAP basis				\$ (69,387)
Revenue accruals (net)				1,217
Expenditure accruals (net)				68,170
Other financing uses (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
SCHEDULE OF DEPOSITORY COLLATERAL
 June 30, 2010

	<u>First State Bank</u>
Total deposits	\$ 135,385
FDIC Insurance	(135,385)
Total uninsured public funds	\$ -
50% collateralization requirement (Section 6-10-17 NMSA)	\$ -
Pledged securities: FFCB 31331V2J4 1-1-11	\$ 301,378
Total pledged	\$ 301,378
Pledged securities over (under) requirement	\$ 301,378

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, 2010

	Type of Account	Bank Balance	Reconciled Balance
<u>First State Bank</u>			
General	Checking	\$ 135,385	\$ 107,734
Total First State Bank		\$ 135,385	\$ 107,734
United States Treasury Bills			\$ 10,000
Cash on deposit with paying agent			274,893
Cash per balance sheet			\$ 392,627

Village of Reserve
SCHEDULE OF JOINT POWERS AGREEMENT
 June 30, 2010

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	Continuing
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
SCHEDULE OF LEGISLATIVE GRANTS
 June 30, 2010

	Roads ST-7503 (200)	Multi Purpose Facility 05-LG-260	Multi Purpose Facility 06-LG-1513	Fire Dept Substation 08-LG-3207	Main Street 06-LG-1521
Original appropriation	\$ 250,000	\$ 50,000	\$ 90,000	\$ 100,000	\$ 100,000
Funds reverted	_____	_____	_____	_____	_____
Appropriation remaining	<u>\$ 250,000</u>	<u>\$ 50,000</u>	<u>\$ 90,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Expended through June 30, 2010	250,000	50,000	90,000	-	100,000
Encumbrances	_____	_____	_____	_____	_____
Total committed	<u><u>\$ 250,000</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 90,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,000</u></u>
Project expiration date	06/30/10	06/30/09	06/30/10	06/30/12	06/30/10

Multi Purpose Facility <u>08-LG-3208</u>	Roads <u>SP-GA-7503</u>
\$ 205,000	\$ 100,000
<hr/>	<hr/>
<u>\$ 205,000</u>	<u>\$ 100,000</u>
201,928	100,000
<hr/>	<hr/>
<u>\$ 201,928</u>	<u>\$ 100,000</u>

06/30/12

06/30/11

Village of Reserve
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2010

Findings – Financial Statement Audit

Current Status

09-1 Travel and per diem requests not approved

Repeated

08-1 Expenditures made in excess of budgetary authority

Repeated

Findings – Major Federal Award Programs

None

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.

1311 N. GRANT ST.
P.O. BOX 2828
SILVER CITY, NEW MEXICO 88062
TELEPHONE (575) 388-1777
(575) 538-3795
FAX (575) 388-5040
E-MAIL: stonemcgee@qwestoffice.net

**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**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds of Village of Reserve as of and for the year ended June 30, 2010, which collectively comprise Village of Reserve's basic financial statements and have issued our report thereon dated November 24, 2010. We have also audited the financial statements of each of the Village's non-major governmental funds and related budgetary comparisons presented as other supplementary information as of and for the year ended June 30, 2010 and have issued our report thereon dated November 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 Village of Reserve's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting, identified as item 2010-1. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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 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 pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying Schedule of Findings and Responses as items 09-1, 08-1, 2010-2, 2010-3, and 2010-4.

The Village'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's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor and Village Council, others within the organization, the New Mexico Department of Finance and Administration, the New Mexico State Auditor, the New Mexico Legislature, 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

November 24, 2010

Stone, McGee & Co.
Certified Public Accountants

Village of Reserve
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2010

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Village of Reserve.
2. One significant deficiency relating to the audit of the financial statements is reported in the *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*. The deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Village of Reserve, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. The Village of Reserve expended less than \$500,000 in federal funds during the year ended June 30, 2010.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2010-1 Restatement of Prior Year Financial Statements

Condition – The Village was required to restate its beginning net assets by \$58,604, due to the miscoding of a capital outlay expenditure during the year ended June 30, 2009.

Criteria – Generally accepted accounting principles require that all assets owned by the Village be included in the capital asset presentation in the Statement of Net Assets.

Effect – The prior year financial statements did not include the value of the land purchased, and operating expenditures were overstated. While not a material misstatement, the amount was significant, and required a restatement of the 2010 financial statements.

Cause – The land purchase was not recorded as a capital outlay expenditure in the general ledger, and therefore was not capitalized in the Village's records at June 30, 2009.

Recommendation – We recommend that Village personnel review expenditure classifications as a part of the disbursement approval process.

Agency response – The recommended policy is already in place. This was an unusual circumstance that required disbursement at or near year-end, and was a one-time occurrence. We will carefully review expenditure classification in the future.

OTHER INSTANCES OF NONCOMPLIANCE

09-1 Travel and Per Diem

Condition – In a test of 23 travel reimbursements, we noted four instances where the reimbursement requests were not approved by the appropriate supervisor, and three instances where the reimbursement amounts were incorrect.

Criteria – Sound internal controls and Sections 10-8-1 to 10-8-8 NMSA 1978 require, in part, that travel reimbursement requests be properly approved by supervisory personnel prior to disbursement, and that reimbursement amounts be in accordance with the Village's approved payment schedule.

Effect – There is an increased likelihood that reimbursements will be made that are not correct, or are not due the employee.

Cause – The Village underwent a supervisory position change during the year, and new personnel were unaware of the required supervisory approval on travel reimbursements. In addition, personnel were not adequately trained in the calculation of travel reimbursements.

Recommendation – We recommend that the Village require supervisory review and approval of all travel reimbursement requests prior to disbursement, and that the calculation of the reimbursement be in accordance with the Village's approved policy.

Agency Response – The recommendation will be adopted. Future travel reimbursement requests will be approved by supervisory personnel, and calculated in accordance with Village policy.

08-1 Expenditures in Excess of Budgetary Authority

Condition – The Village had expenditures in excess of budgetary authority of \$9,680 in the General Fund, \$5,659 in the DWI Fund, \$6,805 in the Recreation Fund, \$2,183 in the Fire Protection Fund, \$149 in the Multi-Purpose Facility Fund, and \$34,082 in the Enterprise Fund

Criteria – Section 6-6-6 NMSA 1978 requires, in part, that actual expenditures not exceed budgetary authority at the legal level of control. For municipalities, the fund is the legal level of control.

Effect – The internal controls established by the use of budgetary control has been circumvented, and state statutes have been violated.

Cause – The Village did not make the appropriate budgetary adjustments to account for the additional expenditures during the fiscal year.

Recommendation – We recommend that the Village establish procedures that provide periodic review and adjustment of budgets to insure that actual expenditures do not exceed budgetary authorization.

Agency Response – These procedures are already in place, but the person charged with this task was ill and other personnel were not appropriately trained to make the budgetary

adjustments. The Village will continue to monitor budgetary compliance as part of its internal control process.

2010-2 Regulatory Reporting

Condition – The Village has filed its payroll and gross receipts tax reports late in a number of instances.

Criteria – Internal Revenue Service regulations and New Mexico Taxation and Revenue Department regulations establish specific reporting dates for payroll reports and gross receipts tax reports, which must be met in order to avoid penalties for late-filed reports.

Effect – The Village has incurred penalties and interest on reports which were not timely filed.

Cause – Village personnel assigned the task of filing these reports was ill, and no other personnel were available or experienced enough to file the appropriate reports.

Recommendation – We recommend that Village personnel be cross-trained in the preparation and filing of these reports so that, in the event of personnel absence, the reports can be timely filed.

Agency Response – The recommendation has already been adopted, and cross-training is currently taking place.

2010-3 Pooled Cash Overdrafts

Condition – The Village had pooled cash overdrafts of \$12,370 in the CDBG Comprehensive Plan Fund, and \$46,921 in the Water System Improvements Fund.

Criteria – The New Mexico Department of Finance and Administration regulations require that cash expenditures not exceed cash revenues and the available cash balance on a by fund basis.

Effect – There is an increased risk that expenditures will be made that are in excess of available resources, and DFA regulations have been violated.

Cause – These capital projects funds are on a cash reimbursement basis, so expenditures must be made prior to requesting the reimbursement. This necessarily creates, for a short period of time, a cash overdraft, until the grant reimbursement is received.

Recommendation – We recommend that the Village make the appropriate cash transfers at year-end to insure that there are no pooled cash overdrafts. As soon as the grant reimbursements are received, the transfers can be reversed, and the original transferring fund can be made whole.

Agency Response – These were first year long-term capital projects, and there was a pooled cash overdraft for only a short period of time. We were unaware that these overdrafts were a violation of DFA regulations, since DFA never informed us of their policy. In the future, we will strive to eliminate these cash overdrafts by making the appropriate temporary transfers.

2010-4 Late Audit Report

Condition – The audit report was originally submitted to the New Mexico State Auditor by common carrier on November 30, 2010, in advance of the mandated deadline of December 1, 2010. However, The Office of the State Auditor rejected the report on December 14, 2010. Since the rejection date was subsequent to the mandated December 1, 2010, deadline, the report was not considered timely filed.

Criteria – Section 2.2.2.9 A. NMAC, commonly called the Audit Rule, requires submission of the audit report to The New Mexico State Auditor by December 1, 2010.

Effect – The report is not available to legislative and regulatory bodies in a timely manner, and 2.2.2 NMAC has been violated.

Cause – The Office of the State Auditor required corrections to the report which caused rejection of the report. Under the Office of the State Auditor’s policy, a rejected report is not considered timely filed.

Recommendation – We recommend that the Village comply with the mandated deadline in the issuance of future audits.

Agency response – We believe we did everything possible to comply with the mandated deadline. We contracted, scheduled, and submitted our audit in accordance with 2.2.2 NMAC. We will, in the future, attempt to schedule the submission of our audit earlier in the year, so if corrections are required, they can be made within the submission period.

OTHER – FINANCIAL STATEMENT PREPARATION

The financial statements were prepared by Stone, McGee & Co., C.P.A.’s.

EXIT CONFERENCE

The contents of this report were discussed November 20, 2010. Present at this exit conference were:

<u>Name</u>	<u>Title</u>	<u>Affiliation</u>
Connie Cordell-Wehrheim	Mayor	Village of Reserve
Lori Martinez	Treasurer	Village of Reserve
Kathy Harris	Clerk	Village of Reserve
Mike Stone	Shareholder	Stone, McGee & Co., CPA’s