



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

CITY OF RIO COMMUNITIES

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2015

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
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For the Year Ended June 30, 2015**

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**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Official Roster
For the Year Ended June 30, 2015**

Mayor and Council Members

Mark Gwinn	Mayor
Robert Chavez	Councilor
Margaret Gutjahr	Councilor
Mary Lee Serna	Councilor
Frank Stasi	Councilor

Administrative Officials

Robert Skerry	City Manager
Elizabeth Adair	Municipal Clerk
Marilyn Winters	Treasurer



INDEPENDENT AUDITOR’S REPORT

Mr. Timothy Keller,
New Mexico State Auditor,
Mark Gwinn, Mayor and
the City Council of
City of Rio Communities

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund and major special revenue funds of the City of Rio Communities (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents. We also have audited the budgetary comparison of the major capital project fund, presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended, June 30, 2015 as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Major Funds:	
General Fund	Unmodified
Environmental GRT Fund	Unmodified
Fire Protection Fund	Unmodified
Municipal Street Fund	Unmodified
Intergovernmental Grant Fund	Unmodified
Capital Projects Fund	Unmodified

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 5 to the financial statements, management has not recorded general infrastructure assets in governmental activities that were deeded by Valencia County to the City of Rio Communities on July 1, 2013, which includes 32.7 miles of roads. Also, the City has not recorded depreciation expense on those assets, when applicable. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the government-wide financial statements referred to above do not present fairly the financial position of the governmental activities of the City of Rio Communities, New Mexico, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, except for the matter described in the “Basis for Adverse Opinion on Governmental Activities”, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the City of Rio Communities (the City) as of June 30, 2015, the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance 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 budgetary comparison for the major capital project fund for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis, which is required to supplement the basic financial statements. Such missing information, although not a part of the basic financial

statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the City's financial statements and the budgetary comparisons. The other schedules, listed as 'other supplemental information' in the table of contents, required by 2.2.2. NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules, listed as "other supplemental information (audited)" in the table of contents, required by 2.2.2 NMAC, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules, listed as "other supplemental information (audited)" in the table of contents, required by 2.2.2 NMAC, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of vendor information, listed as "other supplemental information (unaudited)" which is required by the State Auditor Rule, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Hinkle + Landers, PC
Albuquerque, New Mexico
December 7, 2015

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF NET POSITION
As of June 30, 2015**

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,573,646
Receivables (net of allowance for uncollectibles)	57,105
Restricted cash	-
Total current assets	<u>1,630,751</u>
Noncurrent assets	
Capital assets not being depreciated	-
Capital assets being depreciated, net	-
Total noncurrent assets	<u>-</u>
Total assets	<u>\$ 1,630,751</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 960
Accrued payroll liabilities	3,387
Compensated absences	-
Current portion of long-term debt	-
Total current liabilities	<u>4,347</u>
Noncurrent liabilities	
Bonds and notes less current portion	-
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>4,347</u>
Net position	
Net investment in capital assets	-
Restricted for other purposes	13,583
Unrestricted	1,612,821
Total net position	<u>1,626,404</u>
Total liabilities and net position	<u>\$ 1,630,751</u>

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government					
Governmental activities:					
General government	\$ 114,516	-	1,272,333	-	1,157,817
Public safety	34	-	-	-	(34)
Culture and recreation	-	-	-	-	-
Public works	4,847	-	-	-	(4,847)
Total governmental activities	<u>\$ 119,397</u>	<u>-</u>	<u>1,272,333</u>	<u>-</u>	<u>1,152,936</u>
General Revenues and Special Items					
Taxes					
Gross receipts					267,228
Property					-
Franchise					-
State shared					3,925
Lodger's					-
Licenses and permits					10,418
Fines and forfeitures					-
Investment income					-
Gain/(loss) on disposition of assets					-
Miscellaneous					62,691
Total general revenues					<u>344,262</u>
Change in net position					1,497,198
Net position, beginning of year					129,206
Net position, end of year					<u>\$ 1,626,404</u>

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2015**

	Major Funds						Total Governmental Funds
	(101) General Fund	(202) Environmental GRT Fund	(209) Fire Protection Fund	(216) Municipal Street Fund	(218) Intergovern- mental Grant Fund	(300) Capital Projects Fund	
Assets							
Cash and investments	\$ 1,561,855	2,815	116	8,595	-	265	1,573,646
Accounts receivable (net of allowance for uncollectibles)	55,313	1,792	-	-	-	-	57,105
Due from other funds	-	-	-	-	-	-	-
Cash - restricted	-	-	-	-	-	-	-
Total assets	<u>\$ 1,617,168</u>	<u>4,607</u>	<u>116</u>	<u>8,595</u>	<u>-</u>	<u>265</u>	<u>1,630,751</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances							
Liabilities							
Accounts payable	960	-	-	-	-	-	960
Accrued liabilities	3,387	-	-	-	-	-	3,387
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>4,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,347</u>
Deferred inflows of resources							
Unavailable revenue-property taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances							
Restricted	-	4,607	116	8,595	-	265	13,583
Unassigned	<u>1,612,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,612,821</u>
Total fund balances	<u>1,612,821</u>	<u>4,607</u>	<u>116</u>	<u>8,595</u>	<u>-</u>	<u>265</u>	<u>1,626,404</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,617,168</u>	<u>4,607</u>	<u>116</u>	<u>8,595</u>	<u>-</u>	<u>265</u>	<u>1,630,751</u>
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position							
Total fund balance governmental funds							\$ 1,626,404
No reconciling items							-
Net position governmental funds							<u>\$ 1,626,404</u>

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015**

	Major Funds						Total Governmental Funds
	(101) General Fund	(202) Environmental GRT Fund	(209) Fire Protection Fund	(216) Municipal Street Fund	(218) Intergovern- mental Grant Fund	(300) Capital Projects Fund	
Revenues							
Taxes:							
Gross receipts	\$ 262,621	4,607	-	-	-	-	267,228
Property	-	-	-	-	-	-	-
Franchise	-	-	-	-	-	-	-
State shared	-	-	-	3,925	-	-	3,925
Lodger's	-	-	-	-	-	-	-
Licenses and permits	2,885	-	-	7,533	-	-	10,418
Intergovernmental:							
Federal grants	-	-	-	-	-	-	-
State grants	1,265,343	-	-	-	6,990	-	1,272,333
Legislative appropriations	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-
Miscellaneous	62,691	-	-	-	-	-	62,691
Total revenues	<u>1,593,540</u>	<u>4,607</u>	<u>-</u>	<u>11,458</u>	<u>6,990</u>	<u>-</u>	<u>1,616,595</u>
Expenditures							
Current:							
General government	83,457	-	-	-	6,990	-	90,447
Public safety	-	-	34	-	-	-	34
Public works	1,984	-	-	2,863	-	-	4,847
Culture and recreation	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	24,069	24,069
Total expenditures	<u>85,441</u>	<u>-</u>	<u>34</u>	<u>2,863</u>	<u>6,990</u>	<u>24,069</u>	<u>119,397</u>
Excess (deficiency) of revenues over (under) expenditures	1,508,099	4,607	(34)	8,595	-	(24,069)	1,497,198
Other financing sources (uses)							
Transfers in	-	-	150	-	-	24,334	24,484
Transfers (out)	<u>(24,484)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,484)</u>
Total other financing sources (uses)	<u>(24,484)</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>24,334</u>	<u>-</u>
Net change in fund balances	1,483,615	4,607	116	8,595	-	265	1,497,198
Fund balance, beginning of year	129,206	-	-	-	-	-	129,206
Fund balances, end of year	<u>\$ 1,612,821</u>	<u>4,607</u>	<u>116</u>	<u>8,595</u>	<u>-</u>	<u>265</u>	<u>1,626,404</u>

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Net change in fund balance - Governmental Funds	\$ 1,497,198
No reconciling items	-
Change in net position - Statement of Activities	<u>\$ 1,497,198</u>

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes				
Gross receipts	\$ 190,000	196,000	262,621	66,621
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	6,000	6,000	-	(6,000)
Licenses and permits	6,000	6,000	2,885	(3,115)
State grants	120,000	1,265,343	1,265,343	-
Legislative appropriations	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	6,000	6,000	-	(6,000)
Interest on investments	100	100	-	(100)
Miscellaneous	20,350	20,350	62,691	42,341
Total revenues	\$ 348,450	1,499,793	1,593,540	93,747
Expenditures				
Current				
General government	282,700	282,700	83,457	199,243
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	2,000	2,000	1,984	16
Capital outlay	-	-	-	-
Total expenditures	284,700	284,700	85,441	199,259
Revenues over/(under) expenditures before other financing sources/(uses)	63,750	1,215,093	1,508,099	293,006
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	(29,000)	-	(24,484)	(24,484)
Total other financing sources (uses)	(29,000)	-	(24,484)	(24,484)
Net change in fund balance	\$ 34,750	1,215,093	1,483,615	
Prior year cash balance	\$ 95,370	95,370	95,370	
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 1,483,615	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			-	
Change in fund balance (GAAP basis)			\$ 1,483,615	

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ENVIRONMENTAL GROSS RECEIPTS TAX FUND
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	(Negative)
Revenues				
Taxes				
Gross receipts	\$ -	-	4,607	4,607
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	-	-	-	-
Licenses and permits	-	-	-	-
State grants	-	-	-	-
Legislative appropriations	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	\$ -	-	4,607	4,607
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Revenues over/(under) expenditures before other financing sources/(uses)	-	-	4,607	4,607
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ -	-	4,607	-
Prior year cash balance	\$ -	-	-	-
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 4,607	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			-	
Change in fund balance (GAAP basis)			\$ 4,607	

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FIRE PROTECTION FUND
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues				
Taxes				
Gross receipts	\$ -	-	-	-
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	-	-	-	-
Licenses and permits	-	-	-	-
State grants	-	-	-	-
Legislative appropriations	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	\$ -	-	-	-
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	34	(34)
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	34	(34)
Revenues over/(under) expenditures before other financing sources/(uses)	-	-	(34)	(34)
Other financing sources (uses)				
Transfers in	-	-	150	150
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	150	150
Net change in fund balance	\$ -	-	116	
Prior year cash balance	\$ -	-	-	
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 116	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			-	
Change in fund balance (GAAP basis)			\$ 116	

The accompanying notes are integral to these financial statements.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL STREET FUND
For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Gross receipts	\$ -	-	-	-
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	-	-	3,925	3,925
Licenses and permits	-	-	7,534	7,534
State grants	-	-	-	-
Legislative appropriations	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	\$ -	-	11,459	11,459
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	6,400	6,400	2,864	3,536
Capital outlay	-	-	-	-
Total expenditures	6,400	6,400	2,864	3,536
Revenues over/(under) expenditures before other financing sources/(uses)	(6,400)	(6,400)	8,595	14,995
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ (6,400)	(6,400)	8,595	
Prior year cash balance	\$ -	-	-	

RECONCILIATION FROM BUDGET/ACTUAL TO GAAP

Change in fund balance (Budget Basis)	\$ 8,595
To adjust applicable revenue accruals and deferrals	-
To adjust applicable expenditure accruals	-
Change in fund balance (GAAP basis)	\$ <u>8,595</u>

The accompanying notes are integral to these financial statements.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
INTERGOVERNMENTAL GRANT FUND
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes				
Gross receipts	\$ -	-	-	-
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	-	-	-	-
Licenses and permits	-	-	-	-
State grants	6,990	6,990	6,990	-
Legislative appropriations	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	\$ 6,990	6,990	6,990	-
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	6,990	6,990	6,990	-
Capital outlay	-	-	-	-
Total expenditures	6,990	6,990	6,990	-
Revenues over/(under) expenditures before other financing sources/(uses)	-	-	-	-
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ -	-	-	-
Prior year cash balance	\$ -	-	-	-
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ -	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			-	
Change in fund balance (GAAP basis)			\$ -	

The accompanying notes are integral to these financial statements.

STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015

1) Summary of Significant Accounting Policies

Reporting Entity

The City of Rio Communities (City) was incorporated in 2013 under the provisions of the Municipal Code of the State of New Mexico (Sec. 14-2-1 et-Seq. 1971 Comp). The City operates under a mayor-council form of government. There are four council members plus the mayor, all of whom are elected at large.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP.

The basis (but not the only) criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

The financial transactions of the City are reported in individual funds in the fund financial

STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015

statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Sales, franchise, lodgers, gas, cigarette and other similar taxes are recognized when the underlying exchange transaction takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues, expenses, gains, losses, assets, deferred outflows, liabilities, deferred inflows, resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The City has no business-type activities and has three major governmental funds. The City reports the following major governmental funds:

- *General Fund*—This is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *Environmental Gross Receipts Tax Fund (Special Revenue Fund) (NMSA, 7-19D-1 to 7-19D-11)*—This fund accounts 0.25% gross receipts tax funding used for the acquisition, construction, operation and maintenance of solid waste facilities, water facilities, wastewater facilities, sewer systems and related facilities.

STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015

- *Fire Protection Fund (Special Revenue Fund) (NMSA, 59-15-1 to 59-15-17)*—This fund accounts state fire marshal funds used for the operation of the fire department.
- *Municipal Street Fund (Special Revenue Fund) (NMSA, 7-24A-1 to 7-24A-21)*—This fund accounts for gas tax and road cut ordinance funds used for repairing and maintaining the City’s streets..
- *Intergovernmental Grants Fund (Special Revenue Fund) (State Grant)*—This fund accounts for state grants used for cleaning up a trash dump site.
- *Capital Projects Fund (Capital Projects Fund)*—This fund accounts for state capital outlay funds used to purchase and repair City buildings.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in this order as needed.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, certificates of deposit and investments with a maturity date within three months of the date acquired by the City.

Capital Assets

Capital assets, which include property, plant, equipment, and improvements, are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure, consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are recorded at historical cost.

For depreciation purposes, the City has identified the following classes of assets and estimated useful lives. The straight-line method is used for depreciation.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

<u>Categories</u>	<u>Estimated Useful Lives</u>
Buildings and building improvements	40 years
Utility systems	33 years
Infrastructure	30 years
Machinery and equipment	5-10 years
Computer (hardware and software)	15 years
Furniture and fixtures	15 years
Vehicles	5-10 years
Library books	5 years

Receivables

Accounts receivable at consist of receivables from grantors and various taxes and other receivables.

Compensated Absences

Compensated absences are accrued in the statement of net position. As of June 30, 2015, there was no liability recorded by the City because none of the employees were eligible at that time.

The maximum number of accrued annual paid time off hours, which may be carried forward to any new calendar year is 100 – 160 hours depending on the employee’s years of service.

Upon termination, separation or dismissal, the employee shall be paid all paid time off at the pay rate last held.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with U.S. GAAP, an accrual for compensated absences is reflected in the accompanying financial statements. Accumulation of vacation leave has been recorded as a liability in the basic financial statements.

Long-term Obligations

The long-term obligations are reported in the government-wide financial statements as long-term debt if it is due in more than one year. In the fund level financial statements, long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form such as prepaid items or inventories; or (b) are legally or contractually required to be maintained intact.

The spendable portion of fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned:

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

- **Restricted Fund Balance**

This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed Fund Balance**

These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use restriction by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

- **Assigned Fund Balance**

This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

- **Unassigned Fund Balance**

This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors or regulations of other governments. When both restricted and unrestricted net position is available for expenses, unrestricted funds are applied first.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has no deferred outflows of resources during fiscal year.

STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The City has no deferred inflows of resources during the fiscal year.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Governing Body adopts a proposed operating budget for the fiscal year commencing July 1. The operating budgets include proposed expenditures and the means of financing them based on previous years history. The budget is legally enacted through passage of an ordinance.
- 2) The City Finance Officer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the City Council and New Mexico Department of Finance, Division of Local Governments. The original budget that was adopted in July was amended during the fiscal year in a legally permissible manner.
- 3) Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
- 4) Encumbrances are not reported in the budgets or financial statements.
- 5) The level of classifications detail in which expenditures or expenses may not legally exceed appropriations for each budget in fund total, which may include budgeted cash, and investments as reserves. Appropriations usually lapse at year-end unless intended for multi-year use.
- 6) The City adopts budgets for each individual fund.
- 7) DFA render their final budget approval no later than September 1 of the budget year in question.
- 8) During the course of the fiscal year, the City prepares monthly budget reports. Under New Mexico State law, each year's budget appropriation legally lapses at year-end.
- 9) *Budgetary Compliance* – Budgetary control is required to be maintained at the individual fund level.
- 10) Actual fund revenues may be either over or under the budgeted amounts; however, the variance is required to be reasonable, particularly in the case of over-budgeted revenues. Major over-budgeted revenues require a budget amendment as soon as the extent of the shortage is reasonably ascertainable.
- 11) *Budget Amendments* – Budget increases and decreases can only be accomplished by Council resolution, followed by DFA approval. Similarly, budget transfers must follow the same procedure.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

- 12) *Budgetary Basis* – State law prescribes that the City’s budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparisons shown in exhibits are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget as amended.
- 13) The accompanying Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.
- 14) Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

2) Evaluation of Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position date but before the financial statements are issued. The City recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The City’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position date and before financial statements are available to be issued. The City has evaluated subsequent events through December 7, 2015, which is the date the financial statements were available to be issued.

3) Cash and Cash Equivalents and Investments

The City invests its funds in accordance with state statutes which require that financial institutions pledge collateral consisting of approved federal or state securities whose market value is equal to at least 50% of the deposits in excess of FDIC insurance coverage. In accordance with state statutes, the City may have deposits only in financial institutions, federal direct obligations, or the New Mexico State Treasurer’s Local Government Investment Pool.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

Wells Fargo Bank	Type	Per Bank 6/30/2014	Deposits In Transit	Outstanding Checks	Per Books 6/30/2014
General	Checking	\$ 1,548,627	-	(3,425)	1,545,202
Reserve	Checking	28,326	-	-	28,326
Fire Department	Checking	116	-	-	116
Total cash in banks		<u>\$ 1,577,069</u>	<u>-</u>	<u>(3,425)</u>	<u>1,573,644</u>

Plus:

Petty cash	<u>2</u>
Total cash and cash equivalents per books	<u>\$ 1,573,646</u>

As reported in the financial statements:

Cash	\$ 1,573,646
Restricted cash	-
Agency fund	-
Total cash and investments	<u>\$ 1,573,646</u>

Pledged Collateral at Banks

	My Bank
Deposits	\$ 1,577,069
Less FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	1,327,069

Collateral pledged:

My Bank

CARLSBAD SD BLDG NM, 4.13% 08/01/17 CUSIP, 142735CZ0	880,906
Pledged collateral held by the pledging bank's trust department or agent, not in the Village's name	880,906
Collateral requirement (50% of uninsured funds)	663,535
Pledged collateral	880,906
Over (under) collateralized	<u>\$ 217,371</u>

Investments

As of June 30, 2015, the City had no investments.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

4) Receivables

Receivables as of June 30, 2015 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Environ- mental Gross			Muni- cipal		Inter- govern- mental Capital		Total
	General	Receipts	Fire	Streets	Grant	Projects		
Receivables:								
Gross receipts taxes	\$ 55,313	1,792	-	-	-	-	-	57,105
Property taxes	-	-	-	-	-	-	-	-
Franchise taxes	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-
Fines and fees	-	-	-	-	-	-	-	-
Gross receivables	55,313	1,792	-	-	-	-	-	57,105
Less: Allowance for uncollectibles	-	-	-	-	-	-	-	-
Total receivables, net	\$ 55,313	1,792	-	-	-	-	-	57,105

The receivables of the general, non-major, debt service, and capital project funds are composed primarily of earned taxes and federal and state revenues or reimbursements. These receivables are primarily from governmental agencies and an allowance for doubtful accounts is maintained only for those receivables deemed to be uncollectible.

5) Capital Assets

The City has not recorded any capital assets. During the year the City made capital outlay payments for rent and repairs to the building it currently occupies. The City anticipates purchasing the building in fiscal year 2016 with legislative appropriations from the State of New Mexico. Those funds were not available for the year ended June 30, 2015.

The City was also deeded 32.7 miles of roads in July 2013 by Valencia County when the City was incorporated. At this time the value of these roads has not been determined.

6) Interfund Receivables, Payables and Transfers

The outstanding balances between funds results mainly from the time lags between the dates the (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There were no Interfund receivables and payables at June 30, 2015.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Notes to Financial Statements
For the Year Ended June 30, 2015**

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions. All transfers made during the year were considered routine and were consistent with the general characteristics of the City's transfers. The following schedule details the net interfund transfers made by the City during the year ended:

	Transfers In	Transfers Out
General Fund	\$ -	24,484
Environmental GRT Fund	-	-
Fire Fund	150	-
Municipal Street Fund	-	-
Intergovernmental Grant Fund	-	-
Capital Projects Fund	24,334	-
Total	\$ 24,484	24,484

7) Long-term Debt

For the year ended June 30, 2015, the City had no outstanding long-term debt.

8) Operating Leases

In March 2015 the City entered into a six month operating lease agreement for a building for the City's offices. The City intends to purchase the building contingent on legislative appropriations that were not received in fiscal year 2015. Future minimum lease payments are:

Fiscal Year Ending June 30,	Amount
2016	\$ 10,000
2017	-
2018	-
2019	-
2020	-
Total	\$ 10,000

9) Retirement Plans

No PERA or other benefits are offered the City's employees at this time. The City's employees are encouraged to manage their own private retirement accounts.

10) Risk Management

The City of Rio Communities is insured through the New Mexico Self Insurer's Fund. Coverage provided includes all-peril on buildings and contents; crime coverage; general liability; civil rights and personal injury; motor vehicle and fleet property damage and liability; and statutory workman's compensation coverage.

11) Commitments and Contingencies

At June 30, 2015, the City was committed to the purchase of a building for \$200,000 for the City's offices. In October 2015, the purchase was completed using a state legislative appropriation of \$200,000. The City had no other significant commitments outstanding as of June 30, 2015.

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes				
Gross receipts	\$ -	-	-	-
Property	-	-	-	-
Franchise	-	-	-	-
State-shared	-	-	-	-
Licenses and permits	-	-	-	-
State grants	-	-	-	-
Legislative appropriations	200,000	200,000	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	\$ 200,000	200,000	-	-
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	200,000	200,000	24,069	175,931
Total expenditures	200,000	200,000	24,069	175,931
Revenues over/(under) expenditures				
before other financing sources/(uses)	-	-	(24,069)	(24,069)
Other financing sources (uses)				
Transfers in	-	-	24,334	24,334
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	24,334	24,334
Net change in fund balance	\$ -	-	265	-
Prior year cash balance	\$ -	-	-	-
RECONCILIATION FROM BUDGET/ACTUAL TO GAAP				
Change in fund balance (Budget Basis)			\$ 265	
To adjust applicable revenue accruals and deferrals			-	
To adjust applicable expenditure accruals			-	
Change in fund balance (GAAP basis)			\$ 265	

The accompanying notes are integral to these financial statements.

City of Rio Communities
Schedule of Joint Powers Agreements and Memorandums of Understanding
For the year ending June 30, 2015

Joint Powers Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total estimated project amount and amount applicable to Agency	Amount contributed by City during current fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
1 Animal Control Services	City of Rio Communities City of Belen	City of Rio Communities City of Belen	Animal Control Services	11/3/2014 through Indefinite	\$ 900.00	\$ 65.00	City of Rio Communities City of Belen	City of Rio Communities City of Belen
2 Continuation of Services	City of Rio Communities Valencia County	City of Rio Communities Valencia County	Law enforcement services, animal control, Del Rio Community Center,, E-911, Dispatch services, fire services	3/18/2015 through 6/30/16	\$ 70,000.00	\$ -	City of Rio Communities Valencia County	City of Rio Communities Valencia County
3 Detention and confinement of adult persons	City of Rio Communities Valencia County	City of Rio Communities Valencia County	Housing and care of adult persons arrested in Rio Communities	7/22/2014 through Indefinite	\$ 20,000.00	\$ -	City of Rio Communities Valencia County	City of Rio Communities Valencia County
4 Dispatch Services	City of Rio Communities VRECC	City of Rio Communities VRECC	Provide enhanced 911 and dispatch services	7/1/2015 through 6/30/2016	\$ 36,000.00	\$ -	City of Rio Communities VRECC	City of Rio Communities VRECC



**INDEPENDENT AUDITOR'S 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***

Mr. Timothy Keller,
New Mexico State Auditor
Mark Gwinn, Mayor,
City Council of
City of Rio Communities

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, the budgetary comparison of the general fund and major special revenue funds of the City of Rio Communities (City) as of and for the year ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and budgetary comparison of the major capital projects fund of the City presented as supplementary information and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be material weakness: 2015-001 and 2015-04.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be significant deficiencies: 2015-002 and 2015-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-004.

The City Response to the Findings

The City's response to the finding identified in our audit is described in the accompanying *schedule of findings and responses*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
December 7, 2015

**STATE OF NEW MEXICO
CITY OF RIO COMMUNITIES
Schedule of Findings and Responses
For the Year Ended June 30, 2015**

Reference #	Finding	Status of Prior / Current Year Findings	Type of Finding*
CURRENT YEAR			
2015-001	Lack of Controls over Financial Reporting	Current	A
2015-002	Cash Controls and Reconciliations - Lack of Segregation of Duties	Current	B
2015-003	Review of Payroll Register	Current	B
2015-004	Property and Equipment Inventory	Current	A,G

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Non-compliance with State Audit Rule, NM State Statutes Annotated 1978 and other NM Administrative Code or other entity compliance

2015-001—Lack of Controls Over Financial Reporting

Type of Finding A

Statement of Condition

During the year ended June 30, 2015, the audit resulted in an adjustment to receivables of \$57,105.

Criteria

According to Statement of Auditing Standards (SAS) 115, identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity's internal control is considered a material weakness. Some of the key underlying concepts of SAS 115 include:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger – it includes controls over the presentation of the financial statements.

Recording adjustments is considered a significant process of internal control and should be performed by City staff. The City's system of internal control should include controls over financial statement preparation, including footnote disclosure.

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Effect

An internal control weakness in maintaining the general ledger exists because material adjustments were identified by the auditor and not by City staff. As a result, periodic financial statements reviewed by management and the governing body may be materially inaccurate. Insufficient controls over the preparation of financial statements and related disclosures limits the City's ability to prevent or detect a misstatement in its financial statements.

Cause

Internal control procedures were not effective in identifying and correcting material errors. The City does not have the personnel or time to prepare the financial statements and related disclosures.

Recommendation

We recommend that the City make adjustments to their general ledger in a timely manner including receivables, inventory, payables, accrued liabilities and depreciation expense.

Management Response

- Adjustments to the general ledger including receivables, inventory, payables, accrued liabilities and depreciation expense to be on a timely basis and reviewed by Treasurer and Manager.
- All POs, invoices and requisitions shall be reviewed and signed by Mayor, Manager and Treasurer.
- Financials shall be generated monthly and approved by Manager, Mayor, Treasurer and Council.
- All mail shall be opened and initialed by Manager and forwarded to finance staff.
- W-9s and new vendors shall be approved by Manager and entered by Treasurer.
- Vendor List shall be reviewed by Manager, Mayor, Treasurer, Clerk quarterly.

All of these corrective action plan tasks are currently being done.

**2015-002-CASH CONTROLS AND RECONCILIATIONS,
LACK OF SEGREGATION OF DUTIES**

Type of Finding B

Statement of Condition

Because of the full time equivalent staff (FTE) size of the City's accounting department, adequate segregation of duties has not been possible. Furthermore, the following controls related to cash appear to need significant improvement as follows:

- The bank reconciliations are not formally reviewed by anyone beyond the person performing the bank reconciliations, which is the Treasurer.

Criteria

When adequate segregation of duties is not available, cash assets vulnerable due to their

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availability and liquidity. Therefore, adequate internal controls involve measures to prevent theft or other misuses of cash and investments. A review of bank reconciliations by upper management and/or the governing body is an important control to identify errors or misappropriations in a timely manner and act as an effective compensating control when segregation of duties related to cash and the general ledger are not practical.

Effect

Cash assets are at risk when there is not an independent, timely review of the bank reconciliations.

Cause

The City has not yet implemented these controls.

Recommendation

The City should establish a process where the preparer of the bank statement reconciliations signs and dates the reconciliations when they are completed. Also, a timely independent review by someone who does not perform the reconciliations and who does not have access to cash or the check stock should sign and date the reconciliations once they have been reviewed should take place.

Management Response

- Deposit slips from bank teller must be matched to actual cash and check deposit and signed by Treasurer and Manager.
- Deposits made the same day as cash or checks are received.
- Bank statements shall be opened in the presence of the Treasurer.
- Reconciliations shall be reviewed by Treasurer, Manager and Mayor no later than 5 days after they are received.
- Handwritten checks shall be prohibited.
- Segregation of duties achieved by having multiple reviews and initialed by at least three persons.
- Encourage a sense of transparency within the office.
- Complaints by customers/vendor concerning invoices shall go directly to the manager before finance dept.

All of these corrective action plan tasks are currently being done.

2015-003—REVIEW OF PAYROLL REGISTER

Type of Finding B

Statement of Condition

During our testing of controls of the payroll function, we determined that there does appear to be a review of payroll transactions that monitors the accuracy of pay rates, proper deductions, timely payroll tax deposits and payroll reporting to the state and federal tax authorities, but we did not see a formal documentation of the review of the payroll register for each payroll cycle.

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For the Year Ended June 30, 2015**

Criteria

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its Exhibit B require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board.

Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

Effect

Without a formal review, it is not possible to determine if the reviews are taking place and the risk of errors or misappropriation related to payroll is increased and may go undetected.

Cause

The documentation of the payroll review may not have been considered necessary.

Recommendation

We recommend a formal documentation of the review of the payroll register for each payroll cycle be documented.

Management Response

- Time card reports shall be signed by employee and Manager and Manager's time card reviewed by the Clerk.
- Payroll register reviewed by Manager, Treasurer and Clerk and presented to Council for approval.
- Treasurer and Manager to review payroll withholding reports filed with IRS.
- Review of W-2 information.

All of these corrective action plan tasks are currently being done.

2015-004—PROPERTY AND EQUIPMENT INVENTORY

Type of Finding A, G

Statement of Condition

The City has not recorded any capital assets or depreciation. Although there are currently no equipment or facilities that meet the City's capitalization criteria, the City does have infrastructure assets that should be recorded.

Criteria

According to NMAC 2.20.1.8 municipalities should implement systematic and well-documented methods of accounting for fixed assets. A computerized system is recommended, with controls on access and authorization of transactions.

Effect

The City may not be complying with state regulations and the audit includes a disclaimer because there is not enough information to properly account for the amount of capital assets owned by the City.

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CITY OF RIO COMMUNITIES
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Cause

The City has not implemented a system to document its fixed assets and corresponding depreciation.

Recommendation

We recommend that the City implement a system to document and track its fixed assets and record depreciation.

Management's Response

- A list of all roads and mileages has been compiled and values are being assigned
- Recently, FY16 the City received 27.55 acres of donated property from Habitat for Humanity Valencia County and appraised value will be added to list.
- The City recently FY2016 acquired the Municipal Complex.
- Two used police cars were donated to the City.
- The City will add Rio Grande Fire Dept real and personal property.
- Also, the City will add street lights on Hwy 47, Hwy 304 and Gold Course Road.

All of these corrective plan tasks are currently being completed by the Treasurer.

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CITY OF RIO COMMUNITIES
Exit Conference
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PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the City as of June 30, 2015, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.

EXIT CONFERENCE

The contents of the report for City of Rio Communities were discussed on December 7, 2015. The following individuals were in attendance.

City of Rio Communities Officials

Mark Gwinn
Bob Skerry
Marilyn Winters

Mayor
City Manager
Treasurer

Hinkle + Landers, PC

Farley Vener, CPA, CFE, CGMA
Steve Nolan, CPA

President
Audit Manager