

City of Texico
State of New Mexico

**Audited Financial Statements
and Supplemental Information**

June 30, 2006

**CITY OF TEXICO
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**State of New Mexico
City of Texico**

**Official Roster
June 30, 2006**

City Council

Jerry Cunningham	Mayor
Oran Jay Autrey	Mayor Pro Tem
Doug Scioli	Member
Jerry Bradley	Member
Monnie Cunningham	Member

Administrative Officials

Carolyn Johnson	Clerk/Treasurer
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FINANCIAL SECTION

JW Anderson & Associates, PC

Certified Public Accountants

Coppertree Office Park
4412 74th Street, Suite F-101
PO Box 6785
Lubbock, Texas 79493-6785
Office (806) 771-4000
Fax (806) 771-4005

INDEPENDENT AUDITORS' REPORT

Hector Balderas, State Auditor
State of New Mexico, and
City Council
City of Texico
PO Box 208
Texico, NM 88135

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparisons for the general fund and the major special revenue funds, and the aggregate remaining fund information of the City of Texico (Texico), as of and for the year ended June 30, 2006, which collectively comprise Texico's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements and budgetary comparisons of each of Texico's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of Texico's management. Our responsibility is to express opinions on these financial statements based on our audit.

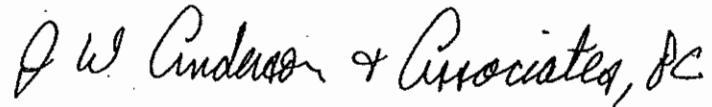
The City of Texico could not provide adequate supporting documentation for all transactions during the fiscal year ended June 30, 2006 which was a result of inadequate internal controls over financial reporting for all governmental and proprietary funds. The City of Texico's records do not permit the application of auditing procedures to all transaction classes.

Since the City of Texico could not provide adequate supporting documentation for all transactions for the year ended June 30, 2006 and we were unable to apply other auditing procedures to satisfy ourselves as to the accuracy of the governmental and proprietary fund financial records, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these financial statements.

The City of Texico has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009 on our consideration of Texico's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the City of Texico' basic financial statements and the combining and individual fund financial statements and budgetary comparisons. The Schedule of Deposits and Temporary Investments and the Schedule of Collateral Pledged by Depository are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "J W Anderson & Associates, PC". The signature is written in a cursive, flowing style.

JW ANDERSON & ASSOCIATES, PC
A Professional Corporation
Lubbock, Texas
March 25, 2009

BASIC FINANCIAL STATEMENTS

CITY OF TEXICO, NEW MEXICO
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		Total 2006
	Governmental Activities	Business-Type Activities	
ASSETS			
ASSETS			
Current Assets			
Pooled Cash and Cash Equivalents	\$ 551,416	\$ 202,661	\$ 754,077
Receivables, Net of Allowance for Uncollectible Accounts	-	38,496	38,496
Other Receivables	21,638	-	21,638
Total Current Assets	573,054	241,157	814,211
Capital Assets:			
Non-Depreciable Land	69,284	-	69,284
Infrastructure, Net	-	251,993	251,993
Buildings and Improvements, Net	875,956	50,731	926,687
Machinery and Equipment, Net	203,131	15,705	218,836
Vehicles, Net	636,977	4,824	641,801
Net Capital Assets	1,785,348	323,253	2,108,601
Total Assets	\$ 2,358,402	\$ 564,410	\$ 2,922,812
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 8,801	\$ 14,316	\$ 23,117
Compensated Absences	3,923	1,172	5,095
Accrued Interest	-	1,176	1,176
Current Portion of Long-Term Debt	63,639	9,000	72,639
Total Current Liabilities	76,363	25,664	102,027
NONCURRENT LIABILITIES			
Customer Deposits	-	21,088	21,088
Long Term Debt Due After One Year	543,185	52,717	595,902
Total Noncurrent Liabilities	543,185	73,805	616,990
Total Liabilities	619,548	99,469	719,017
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,178,524	261,536	1,440,060
Unrestricted	560,330	203,405	763,735
Total Net Assets	1,738,854	464,941	2,203,795
Total Liabilities and Net Assets	\$ 2,358,402	\$ 564,410	\$ 2,922,812

CITY OF TEXICO, NEW MEXICO
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006

Functions and Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities						
General Government	\$ 166,560	\$ 78,391	\$ 153,458	\$ 65,289	\$ -	\$ 65,289
Public Safety	317,257	20,253	197,170	(99,834)	-	(99,834)
Highways and Streets	144,417	-	104,550	(39,867)	-	(39,867)
Health and Welfare	2,364	9,814	-	7,450	-	7,450
Culture and Recreation	23,524	-	12,716	(10,808)	-	(10,808)
Depreciation - Unallocated	134,111	-	-	(134,111)	-	(134,111)
Interest on Long Term Debt	5,152	-	-	(5,152)	-	(5,152)
Total Governmental Activities	793,385	108,458	467,894	(217,033)	-	(217,033)
Business Type Activities						
Water and Sewer	372,067	372,784	-	-	717	717
Interest on Long Term Debt	2,551	-	-	-	(2,551)	(2,551)
	<u>374,618</u>	<u>372,784</u>	<u>-</u>	<u>-</u>	<u>(1,834)</u>	<u>(1,834)</u>
Total Primary Government	\$ 1,168,003	\$ 481,242	\$ 467,894	(217,033)	(1,834)	(218,867)
General Revenues:						
				267,891	-	267,891
				11,437	2,052	13,489
				30,773	-	30,773
				10,326	-	10,326
				(24,279)	24,279	-
				<u>296,148</u>	<u>26,331</u>	<u>322,479</u>
				79,115	24,497	103,612
				<u>1,659,739</u>	<u>440,444</u>	<u>2,100,183</u>
				<u>\$ 1,738,854</u>	<u>\$ 464,941</u>	<u>\$ 2,203,795</u>

CITY OF TEXICO, NEW MEXICO
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2006

	General Fund	Fire Protection	Street Fund	Other Funds	Total Governmental Funds
ASSETS					
ASSETS					
Pooled Cash and Cash Equivalents	\$ 50,168	\$ 26,076	\$ 314,793	\$ 160,379	\$ 551,416
Due from Other Funds	789	-	-	51,134	51,923
Taxes Receivable	<u>15,151</u>	<u>2,606</u>	<u>3,396</u>	<u>485</u>	<u>21,638</u>
	<u>\$ 66,108</u>	<u>\$ 28,682</u>	<u>\$ 318,189</u>	<u>\$ 211,998</u>	<u>\$ 624,977</u>
 LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts Payable	\$ 5,176	\$ 3,625	\$ -	\$ -	\$ 8,801
Due To Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,923</u>	<u>51,923</u>
Total Liabilities	5,176	3,625	-	51,923	60,724
 FUND BALANCES					
Unreserved - Special Revenue	-	-	-	160,075	160,075
Unreserved	<u>60,932</u>	<u>25,057</u>	<u>318,189</u>	<u>-</u>	<u>404,178</u>
Total Fund Balances	<u>60,932</u>	<u>25,057</u>	<u>318,189</u>	<u>160,075</u>	<u>564,253</u>
Total Liabilities and Fund Balances	<u>\$ 66,108</u>	<u>\$ 28,682</u>	<u>\$ 318,189</u>	<u>\$ 211,998</u>	<u>\$ 624,977</u>

CITY OF TEXICO, NEW MEXICO
 RECONCILIATION OF THE BALANCE SHEET OF
 GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2006

Total Fund Balance - Governmental Funds	\$ 564,253
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,785,348
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities include:	
Compensated Absences	(3,923)
Long-Term Debt	<u>(606,824)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,738,854</u></u>

CITY OF TEXICO, NEW MEXICO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General Fund	Fire Protection	Street Fund	Other Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 229,123	\$ -	\$ 9,512	\$ 29,256	\$ 267,891
License, Fees, and Registrations	965	-	-	-	965
Court Fines	72,734	-	-	-	72,734
Intergovernmental Subsidies	103,113	133,058	104,550	124,923	465,644
Grants and Contributions	-	-	-	2,250	2,250
Service Fees	-	-	-	30,067	30,067
Rental	4,692	-	-	-	4,692
Interest Income	7,012	2,752	-	1,673	11,437
Other	7,554	23,219	-	-	30,773
Total Revenues	425,193	159,029	114,062	188,169	886,453
EXPENDITURES					
<i>Current:</i>					
General Government	164,623	-	-	-	164,623
Public Safety	218,187	49,368	-	49,702	317,257
Highways and Streets	144,417	-	-	-	144,417
Health and Welfare	-	-	-	2,364	2,364
Culture and Recreation	5,991	-	-	17,533	23,524
<i>Debt Service:</i>					
Principal	-	-	-	36,196	36,196
Interest and Other Charges	-	-	-	5,152	5,152
<i>Capital Outlay</i>	<u>5,756</u>	<u>108,796</u>	<u>-</u>	<u>54,531</u>	<u>169,083</u>
Total Expenditures	538,974	158,164	-	165,478	862,616
Excess (Deficiency) of Revenues over Expenditures	(113,781)	865	114,062	22,691	23,837
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
Transfers Out	(24,279)	-	-	-	(24,279)
Sale of Assets	10,326	-	-	-	10,326
Total Other Financing Sources (Uses)	(13,953)	-	-	-	(13,953)
Net Change in Fund Balance	(127,734)	865	114,062	22,691	9,884
Fund Balance, Beginning of Year	188,666	24,192	204,127	137,384	554,369
Fund Balance, End of Year	\$ 60,932	\$ 25,057	\$ 318,189	\$ 160,075	\$ 564,253

CITY OF TEXICO, NEW MEXICO
 RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2006

Net Changes in Fund Balance - Governmental Funds **\$ 9,884**

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

Governmental Funds to Statement of Activities Adjustments:

Governmental funds report capital outlays as expenditures. In the
 Statement of Activities, the cost of assets are allocated over their
 estimated useful lives in the form of depreciation 169,083

Debt service is an expenditure for governmental funds consisting
 of both interest expense (\$5,152) and principal (\$36,196) for the
 Notes Payable. The principal portion reduces Notes Payable
 on the Governmental Activities Balance Sheet and is not an
 expense on the Statement of Activities 36,196

Statement of Activities to Governmental Funds Adjustments:

The change in compensated absences liability is reported on the
 Statement of Activities but is not reflected in the Governmental funds (1,937)

Depreciation is recognized on the Statement of Activities as
 allocating the cost of the assets over their estimated useful lives (134,111)

Change in Net Assets of Governmental Activities **\$ 79,115**

CITY OF TEXICO, NEW MEXICO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes	\$ 165,427	\$ 165,427	\$ 229,123	\$ 63,696
License, Fees, and Registrations	3,455	3,455	965	(2,490)
Court Fines	-	-	72,734	72,734
Intergovernmental Subsidies	84,000	84,000	103,113	19,113
Grants and Contributions	-	-	-	-
Rental	-	-	4,692	4,692
Interest Income	-	-	7,012	7,012
Other	8,836	8,836	7,554	(1,282)
Total Revenues	261,718	261,718	425,193	163,475
EXPENDITURES				
<i>Current:</i>				
General Government	127,018	127,018	164,623	(37,605)
Public Safety	192,816	192,816	218,187	(25,371)
Highways and Streets	10,500	10,500	144,417	(133,917)
Culture and Recreation	10,300	10,300	5,991	4,309
<i>Capital Outlay</i>	<u>12,500</u>	<u>12,500</u>	<u>5,756</u>	<u>6,744</u>
Total Operating Expenses	353,134	353,134	538,974	(185,840)
Excess (Deficiency) of Revenues over Expenditures	(91,416)	(91,416)	(113,781)	(22,365)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	(24,279)	(24,279)
Sale of Assets	-	-	10,326	10,326
Total Other Financing Sources (Uses)	-	-	(13,953)	(13,953)
Net Change in Fund Balance	(91,416)	(91,416)	(127,734)	(36,318)
Fund Balance, Beginning of Year	188,666	188,666	188,666	-
Fund Balance, End of Year	\$ 97,250	\$ 97,250	\$ 60,932	\$ (36,318)

CITY OF TEXICO, NEW MEXICO
 FIRE PROTECTION FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
State Fire Allotment	\$ 128,793	\$ 128,793	\$ 133,058	\$ 4,265
Interest Income	-	-	2,752	2,752
Other Revenues	32,300	32,300	23,219	(9,081)
Total Revenues	161,093	161,093	159,029	(2,064)
EXPENDITURES				
Public Safety	64,365	64,365	49,368	14,997
Capital Outlay	50,000	50,000	108,796	(58,796)
Debt Service	-	-	-	-
Total Operating Expenses	114,365	114,365	158,164	(43,799)
Excess (Deficiency) of Revenues over Expenditures	46,728	46,728	865	(45,863)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	46,728	46,728	865	(45,863)
Fund Balance, Beginning of Year	24,192	24,192	24,192	-
Fund Balance, End of Year	\$ 70,920	\$ 70,920	\$ 25,057	\$ (45,863)

CITY OF TEXICO, NEW MEXICO
STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes	\$ 11,211	\$ 11,211	\$ 9,512	\$ (1,699)
Intergovernmental Subsidies	112,280	112,280	104,550	(7,730)
Total Revenues	123,491	123,491	114,062	(9,429)
EXPENDITURES				
Highways and Streets	37,500	37,500	-	37,500
Total Operating Expenses	37,500	37,500	-	37,500
Excess (Deficiency) of Revenues over Expenditures	85,991	85,991	114,062	28,071
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	85,991	85,991	114,062	28,071
Fund Balance, Beginning of Year	204,127	204,127	204,127	-
Fund Balance, End of Year	\$ 290,118	\$ 290,118	\$ 318,189	\$ 28,071

CITY OF TEXICO, NEW MEXICO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

		Water and Sewer
ASSETS		
CURRENT ASSETS		
Current Assets		
Pooled Cash and Cash Equivalents		\$ 202,661
Utilities Receivable		<u>38,496</u>
	Total Current Assets	241,157
NONCURRENT ASSETS		
Capital Assets, Net		<u>323,253</u>
	Total Assets	<u><u>\$ 564,410</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable		\$ 14,316
Accrued Compensated Absences		1,172
Accrued Interest		1,176
Current Portion of Long-Term Debt		<u>9,000</u>
	Total Current Liabilities	25,664
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion		52,717
Customer Deposits		<u>21,088</u>
	Total Noncurrent Liabilities	<u>73,805</u>
	Total Liabilities	99,469
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		261,536
Unrestricted		<u>203,405</u>
	Total Net Assets	<u>464,941</u>
	Total Liabilities and Net Assets	<u><u>\$ 564,410</u></u>

CITY OF TEXICO, NEW MEXICO
 STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS
 PROPRIETARY FUNDS
 Year Ended June 30, 2006

	Water and Sewer
OPERATING REVENUES	
Charges for Services	<u>\$ 372,784</u>
Total Revenues	372,784
OPERATING EXPENDITURES	
Personnel	121,577
Operating	216,788
Depreciation	<u>33,702</u>
Total Operating Expenses	<u>372,067</u>
Operating Income	717
NONOPERATING REVENUES (EXPENSES)	
Interest Income	2,052
Interest Expense	<u>(2,551)</u>
Total Nonoperating Revenues (Expenses)	<u>(499)</u>
Net Income Before Transfers	218
TRANSFERS, NET	<u>24,279</u>
Net Income After Transfers	24,497
Net Assets, Beginning of Year	<u>440,444</u>
Net Assets, End of Year	<u><u>\$ 464,941</u></u>

CITY OF TEXICO, NEW MEXICO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 368,735
Payments to Suppliers and Contractors	(213,986)
Payments to and On Behalf of Employees	<u>(121,553)</u>
Net Cash Provided by Operating Activities	33,196
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Interest Paid on Long-Term Debt	(2,751)
Proceeds from Note Payable	14,717
Payments on Note Payable	<u>(8,000)</u>
Net Cash Provided by Capital Financing Activities	3,966
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers, Net	<u>24,279</u>
Net Cash Provided by Non-Capital Financing Activities	24,279
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Capital Assets	(14,717)
Interest Income	<u>2,052</u>
Net Cash Used by Investing Activities	<u>(12,665)</u>
Net Increase in Cash and Cash Equivalents	48,776
Cash and Cash Equivalents at Beginning of Year	<u>153,885</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 202,661</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 717
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities	
Depreciation	33,702
Changes in	
Accounts Receivable	(2,629)
Accounts Payable	2,802
Accrued Compensated Absences	24
Customer Deposits	<u>(1,420)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 33,196</u></u>

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Texico (City) is incorporated under the laws of the State of New Mexico. The City operates under a Council - Mayor form of government, providing services as authorized by its charter: public safety (police and fire), streets, sanitation, health and welfare, culture and recreation, public improvements, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement No. 34 "*Basic Financial Statements and Management Discussion and Analysis for State and Local Government.*" In June 2001, the GASB approved Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*" and Statement No. 38 "*Certain Financial Statement Note Disclosures.*" Statement No. 37 clarifies and modifies Statement No. 34 and should be implemented simultaneously with Statement No. 34. Statement No. 38 modifies establishes and rescinds certain financial statement disclosure requirements. The City implemented the provisions of the above statements effective July 1, 2003.

Reporting Entity – The City Council (the Council) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "*The Financial Reporting Entity.*" There are no component units included within the reporting entity as defined by Statement No. 14.

Government-Wide and Fund Financial Statements – The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "*charges for services*" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include user charges at recreation facilities, municipal court fines, licenses and fees and other administrative related items. The "*operating grants and contributions*" and "*capital grants and contributions*" columns include amounts paid by organizations outside to help meet the operational or capital requirements of a given function. Examples include grants under Housing and Urban Development's Community Development Block Grants or contributions from the State of New Mexico. If a revenue receipt is not considered program revenue, it is considered general revenue used to support all of the City's functions. Taxes are always considered general revenues.

Interfund activities between governmental funds or between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and/or the Proprietary Fund Statement of Net Assets if any pending transfers exist at the end of the fiscal year, and as transfers in/transfers out on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and/or on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental funds major and their financial condition and results of operations are reported in separate columns from the non-major governmental funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expense are recorded when a liability is incurred, regardless of the timing of the related cash flows. 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property, franchise, and gross receipts taxes. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts and property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from gross receipts taxes are recognized when the underlying transaction takes place. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Miscellaneous revenues are recorded as revenue when received because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes may require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. As allowed by GASB Statement 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide and business-type activities fund statements utilize a net asset presentation. Net assets are categorized as follows:

Investment in Capital Assets, Net of Related Debt - This category reflects the portion of net assets that are associated with capital assets less any outstanding capital asset related debt.

Restricted Net Assets - Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments, and imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category reflects net assets of the City, not restricted for any project or other purpose.

Fund Accounting – The City uses funds to report its financial position and results of its operations. Fund accounting segregates funds according to their intended purpose and is designated to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which include assets, liabilities, fund balance/net assets, revenues and expenditures/expenses.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The City records reserves to indicate that a portion of fund balance is legally restricted for a specific future use or is not available for appropriation and/or expenditure.

Governmental Funds are those through which most of the governmental functions of the City of Texico are financed. The City of Texico reports the following major governmental funds:

The General Fund - The general fund is the City of Texico's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for the receipts and expenditures of a special State grant related to rescue operations and for the operation and maintenance of the fire equipment.

Street Fund - The Street Fund accounts for the receipts and expenditures of services related to the improvement and maintenance of City streets.

Enterprise Funds are used for operations: (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports the following enterprise funds:

Water / Sewer Fund - The Water Fund is used to account for the provision of water and sewer services to the residents of the City of Texico. All activities necessary to provide such services are accounted for in this fund including administration, operations billing and maintenance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Additionally, the City of Texico reports the following non-major funds:

Governmental Funds:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than special assessments or major capital outlays) that are restricted to expenditures for specified purposes.

Governmental Funds with Deficit Fund Balance - While the total unreserved fund balance is not in a deficit position, the City has one fund with a deficit fund balances as of June 30, 2006: Recreation fund of \$(46,413). The City has made encumbrances in these funds in anticipation of additional revenues and transfers.

Other Accounting Policies –

Cash Flows - For purposes of the statement of cash flows for proprietary funds, the City's considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories - The City reports inventories of supplies at cost including consumable maintenance and office items. Supplies are recorded as expenditures when they are consumed.

Long Term Debt - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. All sick pay and vacation pay is accrued when incurred in the government-wide or proprietary fund financial statements.

Capital Assets - Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense during construction is capitalized in enterprise funds but not in governmental funds. Library books are not capitalized.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Buildings, furniture and equipment of the City of Texico are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	50
Water System	30-50
Machinery and Equipment	5-15

Customer Deposits - Cash held in the Proprietary fund for customer deposits is restricted.

Use of Restricted Cash - When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

Interfund Activity – In the process of aggregating data for the Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund have either been eliminated or reclassified. Interfund payables and receivables were eliminated to minimize their effect on assets and liabilities within the governmental activities column.

Risk Management - The City is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Insurance coverage through New Mexico Self Insurers Fund (a State of New Mexico governmental agencies risk pool) is purchased for claims arising from such matters. Any settled claims have not exceeded this coverage in any preceding years.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data – The City of Texico adopts an annual approved budget for the General Fund, Special Revenue Funds and the Enterprise Fund. The City of Texico is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. The City of Texico submits a proposed operating budget for the fiscal year commencing July 1, prior to June 30. The operating budget includes proposed expenditures and the means of financing them. A budget is proposed for the General, Special Revenue and Proprietary Funds.
2. Public hearings are conducted to obtain taxpayer comments. The budgets are then submitted to the Department of Finance and Administration for review, adjustment and approval.
3. Prior to June 30, the budget is legally enacted through passage of a resolution and the council is authorized to transfer budgeted amounts between departments with any fund. Any revisions that alter the total expenditures of any fund must be approved by the Department of Finance and Administration, Local Government Division.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - Continued

4. Budgets for budgeted funds are adopted on the cash basis which is not consistent with generally accepted accounting principles. Budgetary comparisons have been presented in this report on the basis of the legally adopted budget.
5. Appropriations lapse at year end with any unspent cash balance being available for expenditures and appropriation in the subsequent year's budget.
6. The level of classification detail in which expenditures may not legally exceed appropriations for each budget is in fund total.

The City exceeded budgetary authority at the fund level by the following: General Fund - \$113,781, EMS/Fire Rescue - \$5,104, Recreation - \$49,810, Senior Citizens - \$4,817.

NOTE C - CASH DEPOSITS AND INVESTMENTS

State statutes authorize the investment of the City of Texico's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All of the City of Texico's invested funds properly follow State deposit and investment requirements as of June 30, 2006.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more financial institution. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City of Texico does not have a formal deposit policy for custodial credit risk other than following the state statutes as put forth in the Public Money Act (Sec. 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2006, the carrying values of the City of Texico's deposits were \$754,077.

In accordance with FDIC, public unit deposits are funds owned by the City of Texico. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution. Of the City of Texico's funds on deposit, \$200,000 was covered by federal depository insurance, with an additional \$533,900 covered by the collateral pledged by the financial institution in the City's name.

Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the City for at least one half of the amount on deposit with the institution. The types of collateral an institution is permitted to use as pledged securities are limited to direct obligations of the United States Government and all bonds issued by any agency or political subdivision of the State of New Mexico.

CITY OF TEXICO, STATE OF NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2006

NOTE C - CASH DEPOSITS AND INVESTMENTS - Continued

	Citizens Bank
Total Amount of Cash Deposits	\$ 733,900
FDIC Coverage	<u>(200,000)</u>
Total Public Funds to be Collateralized	<u>\$ 533,900</u>
50% Collateral Requirement	<u>\$ 266,950</u>
	Citizens Bank
Collateral Requirement	\$ 266,950
Securities Pledged by the Financial Institution in the City of Texico's Name	<u>1,269,255</u>
Under (Over) Collateralized	<u>\$ (1,002,305)</u>

NOTE D - INTERFUND TRANSFERS AND BALANCES

Interfund transfers are made for various purposes throughout the year. Transfers made by the City of Texico during the fiscal year ended June 30, 2006 or pending are listed below:

<u>Transfer Description:</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
Operating Transfers from General Fund	\$ <u>24,279</u>	General Fund	Enterprise Fund
Total Transfers	\$ <u>24,279</u>		

Balances:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
Cemetery Fund	General Fund	\$ 789	Fund Expenditure Reimbursement
Recreation Fund	Senior Citizens	526	Fund Expenditure Reimbursement
Cemetery Fund	Senior Citizens	996	Fund Expenditure Reimbursement
Recreation Fund	Debt Service	<u>49,612</u>	Fund Expenditure Reimbursement
		<u>\$ 51,923</u>	

CITY OF TEXICO, STATE OF NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2006

NOTE E - CAPITAL ASSET ACTIVITY

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

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental Activities:				
Land	\$ 69,284	\$ -	\$ -	\$ 69,284
Buildings & Improvements	1,011,527	25,339	-	1,036,866
Machinery & Equipment	498,692	77,335	-	576,027
Vehicles	<u>689,177</u>	<u>304,770</u>	<u>-</u>	<u>993,947</u>
Totals at Historic Cost	<u>2,268,680</u>	<u>407,444</u>	<u>-</u>	<u>2,676,124</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(138,999)	(21,911)	-	(160,910)
Machinery & Equipment	(339,152)	(33,745)	-	(372,897)
Vehicles	<u>(278,514)</u>	<u>(78,455)</u>	<u>-</u>	<u>(356,969)</u>
Total Accumulated Depreciation	<u>(756,665)</u>	<u>(134,111)</u>	<u>-</u>	<u>(890,776)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 1,512,015</u>	<u>\$ 273,333</u>	<u>\$ -</u>	<u>\$ 1,785,348</u>
	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2006</u>
Business-type Activities:				
Buildings & Improvements	\$ 67,655	\$ -	\$ -	\$ 67,655
Vehicles	32,273	-	-	32,273
Infrastructure	953,187	14,717	-	967,904
Machinery & Equipment	<u>66,844</u>	<u>-</u>	<u>-</u>	<u>66,844</u>
Totals at Historic Cost	<u>1,119,959</u>	<u>14,717</u>	<u>-</u>	<u>1,134,676</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(14,669)	(2,255)	-	(16,924)
Vehicles	(22,625)	(4,824)	-	(27,449)
Infrastructure	(692,828)	(23,083)	-	(715,911)
Machinery & Equipment	<u>(47,599)</u>	<u>(3,540)</u>	<u>-</u>	<u>(51,139)</u>
Total Accumulated Depreciation	<u>(777,721)</u>	<u>(33,702)</u>	<u>-</u>	<u>(811,423)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 342,238</u>	<u>\$ (18,985)</u>	<u>\$ -</u>	<u>\$ 323,253</u>

Depreciation expense for the year ended June 30, 2006 for the Enterprise fund is \$33,702. The City of Texico reported \$134,111 of depreciation in general fixed assets in use by governmental funds on the Government-Wide Statement of Activities. The City of Texico did not allocate the depreciation to the various governmental functions, instead presenting the amount separately from the functions on the statement.

CITY OF TEXICO, STATE OF NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2006

NOTE F - LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
General Debt:				
Fire Truck	\$ 203,248	\$ -	\$ 21,166	\$ 182,082
Fire Tanker	-	220,000	-	220,000
City Hall	201,410	-	15,030	186,380
2006 Crown Victoria	<u>-</u>	<u>18,362</u>	<u>-</u>	<u>18,362</u>
Total General	<u>\$ 404,658</u>	<u>\$ 238,362</u>	<u>\$ 36,196</u>	<u>\$ 606,824</u>
Enterprise Debt:				
Revenue Bonds	\$ 55,000	\$ -	\$ 8,000	\$ 47,000
Phase I Infrastructure	<u>-</u>	<u>14,717</u>	<u>-</u>	<u>14,717</u>
Total Enterprise	<u>\$ 55,000</u>	<u>\$ 14,717</u>	<u>\$ 8,000</u>	<u>\$ 61,717</u>

The fire truck note is payable to the New Mexico Finance Authority in annual principal installments and semi-annual interest installments through May 1, 2013. Interest rates vary from 1.22% to 3.49%. The fire truck is general long-term debt of the City of Texico.

The fire tanker note is payable to the New Mexico Finance Authority in annual principal installments and semi-annual interest installments through May 1, 2016. Interest rates vary from 3.04% to 3.81%. The fire tanker is general long-term debt of the City of Texico.

The city hall note is payable to the New Mexico Finance Authority in annual principal installments and semi-annual interest installments through May 1, 2018. Interest rates vary from 1.23% to 3.86%. The city hall is general long-term debt of the City of Texico.

The Crown Victoria capital lease is payable to the Kansas State Bank of Manhattan in annual principal and interest installments through December 1, 2007. Interest rate is 6.74%. The Crown Victoria is general long-term debt of the City of Texico.

The revenue bonds are payable to the United States Department of Agriculture Rural Development in annual principal installments and semi-annual interest installments through July 1, 2011. Interest rate is 5.00%. The bonds are enterprise fund debt of the City of Texico.

The Phase I Infrastructure note is payable to the New Mexico Environmental Department. This is the initial draw on the funds available under the note agreement. The Phase I note is enterprise fund debt of the City of Texico.

CITY OF TEXICO, STATE OF NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2006

NOTE F - LONG-TERM DEBT - Continued

Following is a schedule of long-term debt maturities for general long-term debt:

	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
Year Ending June 30,			
2007	\$ 63,639	\$ 12,526	\$ 76,165
2008	66,001	10,388	76,389
2009	57,363	8,880	66,243
2010	58,303	7,942	66,245
2011	59,335	6,913	66,248
Thereafter	<u>302,183</u>	<u>17,326</u>	<u>319,509</u>
Totals	<u>\$606,824</u>	<u>\$ 63,975</u>	<u>\$ 670,799</u>

Following is a schedule of long-term debt maturities for the enterprise fund:

	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
Year Ending June 30,			
2007	\$ 9,000	\$ 2,350	\$ 11,350
2008	23,717	1,900	25,617
2009	9,000	1,450	10,450
2010	10,000	1,000	11,000
Thereafter	<u>10,000</u>	<u>500</u>	<u>10,500</u>
Totals	<u>\$ 61,717</u>	<u>\$ 7,200</u>	<u>\$ 68,917</u>

NOTE G - PROPERTY TAXES

The County collects the City of Texico's share of property taxes assessed. Property taxes attach an enforceable lien on property as of January 1. Tax notices are sent by the County Treasurer to property owners by November 1 of each year to be paid in whole or in two installments by November 10 and April 10 of the following year. The County collects such taxes and distributes them to the City on a monthly basis. The City of Texico accounts for its share of property taxes in the General Fund. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

NOTE H - LIABILITY FOR COMPENSATED ABSENCES

Vacation leave is earned by employees during the year based on time worked and is non-cumulative. Vacation leave due, if any, is paid on an employee's termination. The accrued value of the vacation leave days due to employees at June 30, 2006 is \$5,095. All compensated absences are considered due within one year. The Enterprise or General Fund, as appropriate, is used to liquidate the liability

CITY OF TEXICO, STATE OF NEW MEXICO
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 2006

NOTE I - COMMITMENTS

The City of Texico has a contract for disposal services provided to the City with a term of 5 years. Payments for the year ended June 30, 2006 totaled 64,954. The following is a schedule by years of future minimum payments under the contract as of June 30, 2006:

Year Ending June 30,	<u>Amount</u>
2007	\$ 70,253
2008	70,853
2009	70,853
2010	<u>70,853</u>
Totals	<u>\$ 282,812</u>

NOTE J - RETIREE HEALTH CARE CONTRIBUTIONS

The Retiree Health Care Act provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico as authorized under Section 9D of Chapter 6, Laws of 1990. The Retiree health Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out of pocket payments of eligible retirees. Funds flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees.

Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School insurance Authority, and State agencies, State courts, magistrate courts, municipalities and counties, which are affiliated under or covered by the Educational Retirement Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act, or the Magistrate Retirement Act.

Eligible retirees are those 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 Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or retirees defined by the Act who retired prior to July 1, 1990 and former legislatures who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each employee contributes to the fund an employee contribution in the amount equal to .65 percent of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars if the participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

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

NOTE J - RETIREE HEALTH CARE CONTRIBUTIONS - Continued

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures, premiums and claims paid, participant contributions, and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, Albuquerque State Government Center, 401 Roma NW, Suite 200, Albuquerque, NM 87102.

For the fiscal year ended June 30, 2006, the City of Texico remitted \$2,248 in contributions to the Retiree Health Care Authority.

NOTE K - PENSION PLAN

Plan Description

Substantially the entire City full time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act. The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

Funding Policy

Non-law enforcement plan members are required to contribute 9.15% of their gross straight time salary. Law enforcement personnel are required to contribute 7% of their straight gross salary. The City is required to contribute 9.15% of the gross covered salary for non-law enforcement personnel and 10% for law enforcement personnel. The contribution requirements of plan members and the City are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The City's contributions to PERA for the year ended June 30, 2006, 2005, and 2004 were \$13,249, \$24,160, and \$31,306, respectively.

COMBINING FUND STATEMENTS AND SCHEDULES

SPECIAL REVENUE FUNDS

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Recreation Fund - Accounts for operations and maintenance of recreation facilities. Financing is provided by a specific tax on cigarette sales (7-12-1 NMSA 1978).

EMS / Fire Rescue Fund - Accounts for operation and maintenance of the EMS / Fire Rescue department. Financing is provided by a portion of the motor vehicle registration fee (24-10A-1 NMSA 1978).

Senior Citizens Fund - Accounts for operation of the senior citizens activities (Section 28-4-1, NMSA 1978/Older Americans Act of 1965, 42 USA 3001 as amended).

Municipal Street / Road Fund - Accounts for the maintenance of roads within the City. Financing is provided by a special tax on gasoline sold within the City boundaries (SP-HM-4648).

Environmental Gross Receipts Tax Fund - Accounts for municipal gross receipts tax revenues received to be used for the acquisition, construction, operation, and maintenance of solid waste facilities, water facilities, sewer systems, and related facilities (City ordinance).

Corrections Fund - Accounts for revenues collected from the assessment of correction fees and court costs (NMSA 35-14-11).

Law Enforcement Protection Fund - Accounts for state revenues received pursuant to the Law Enforcement Correction Act (NMSA 29-13-3).

Cemetery Fund – Accounts for operations and maintenance of the cemetery (City ordinance).

CITY OF TEXICO, NEW MEXICO
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006

ASSETS	EMS / Fire Rescue Fund	Recreation	Environmental Gross Receipts Tax	Corrections
ASSETS				
Pooled Cash and Cash Equivalents	\$ 30,396	\$ 3,725	\$ 27,597	\$ 32,961
Due from Other Funds	-	-	-	-
Taxes Receivable	-	-	485	-
Total Assets	<u>\$ 30,396</u>	<u>\$ 3,725</u>	<u>\$ 28,082</u>	<u>\$ 32,961</u>
 LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	50,138	-	-
Total Liabilities	-	50,138	-	-
 FUND BALANCES				
Unreserved	<u>30,396</u>	<u>(46,413)</u>	<u>28,082</u>	<u>32,961</u>
Total Fund Balances	<u>30,396</u>	<u>(46,413)</u>	<u>28,082</u>	<u>32,961</u>
Total Liabilities and Fund Balances	<u>\$ 30,396</u>	<u>\$ 3,725</u>	<u>\$ 28,082</u>	<u>\$ 32,961</u>

Law Enforcement Protection	Senior Citizens	Cemetery	Debt Service	Total Governmental Funds
\$ 20,598	\$ 8,905	\$ 28,989	\$ 7,208	\$ 160,379
-	1,522	-	49,612	51,134
-	-	-	-	485
<u>\$ 20,598</u>	<u>\$ 10,427</u>	<u>\$ 28,989</u>	<u>\$ 56,820</u>	<u>\$ 211,998</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,785	-	51,923
-	-	1,785	-	51,923
<u>20,598</u>	<u>10,427</u>	<u>27,204</u>	<u>56,820</u>	<u>160,075</u>
<u>20,598</u>	<u>10,427</u>	<u>27,204</u>	<u>56,820</u>	<u>160,075</u>
<u>\$ 20,598</u>	<u>\$ 10,427</u>	<u>\$ 28,989</u>	<u>\$ 56,820</u>	<u>\$ 211,998</u>

CITY OF TEXICO, NEW MEXICO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2006

	EMS / Fire Rescue Fund	Recreation	Environmental Gross Receipts Tax	Corrections
REVENUES				
Taxes	\$ -	\$ 328	\$ 3,383	\$ -
Service Fees	20,253	-	-	-
Intergovernmental Subsidies	9,741	-	-	22,040
Grants and Contributions	-	-	-	-
Interest Income	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	29,994	328	3,383	22,040
EXPENDITURES				
<i>Current:</i>				
Public Safety	35,098	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
<i>Capital Outlay</i>	-	50,138	-	-
<i>Debt Service</i>				
Principal	-	-	-	-
Interest	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	35,098	50,138	-	-
Net Change in Fund Balance	(5,104)	(49,810)	3,383	22,040
Fund Balance, Beginning of Year	<hr/>	<hr/>	<hr/>	<hr/>
	35,500	3,397	24,699	10,921
Fund Balance, End of Year	<u>\$ 30,396</u>	<u>\$ (46,413)</u>	<u>\$ 28,082</u>	<u>\$ 32,961</u>

Law Enforcement Protection	Senior Citizens	Cemetery	Debt Service	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 25,545	\$ 29,256
-	-	9,814	-	30,067
32,331	10,466	-	50,345	124,923
-	2,250	-	-	2,250
-	-	574	1,099	1,673
<u>32,331</u>	<u>12,716</u>	<u>10,388</u>	<u>76,989</u>	<u>188,169</u>
14,604	-	-	-	49,702
-	17,533	-	-	17,533
-	-	2,364	-	2,364
4,393	-	-	-	54,531
-	-	-	36,196	36,196
-	-	-	5,152	5,152
<u>18,997</u>	<u>17,533</u>	<u>2,364</u>	<u>41,348</u>	<u>165,478</u>
13,334	(4,817)	8,024	35,641	22,691
<u>7,264</u>	<u>15,244</u>	<u>19,180</u>	<u>21,179</u>	<u>137,384</u>
<u>\$ 20,598</u>	<u>\$ 10,427</u>	<u>\$ 27,204</u>	<u>\$ 56,820</u>	<u>\$ 160,075</u>

CITY OF TEXICO, NEW MEXICO
 EMS / FIRE RESCUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sale of Services	\$ -	\$ -	\$ 20,253	20,253
Intergovernmental Subsidies	<u>11,989</u>	<u>11,989</u>	<u>9,741</u>	<u>(2,248)</u>
Total Revenues	11,989	11,989	29,994	18,005
EXPENDITURES				
Public Safety	<u>31,841</u>	<u>31,841</u>	<u>35,098</u>	<u>(3,257)</u>
Total Operating Expenses	<u>31,841</u>	<u>31,841</u>	<u>35,098</u>	<u>(3,257)</u>
Net Change in Fund Balance	(19,852)	(19,852)	(5,104)	21,262
Fund Balance, Beginning of Year	<u>35,500</u>	<u>35,500</u>	<u>35,500</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 15,648</u>	<u>\$ 15,648</u>	<u>\$ 30,396</u>	<u>\$ 21,262</u>

CITY OF TEXICO, NEW MEXICO
 RECREATION FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 700	\$ 700	\$ 328	\$ (372)
Charges of Services	2,000	2,000	-	(2,000)
Total Revenues	<u>2,700</u>	<u>2,700</u>	<u>328</u>	<u>(372)</u>
EXPENDITURES				
Culture and Recreation	2,000	2,000	-	2,000
Capital Outlay	<u>20,000</u>	<u>20,000</u>	<u>50,138</u>	<u>(30,138)</u>
Total Operating Expenses	<u>22,000</u>	<u>22,000</u>	<u>50,138</u>	<u>(28,138)</u>
Net Change in Fund Balance	(19,300)	(19,300)	(49,810)	(30,510)
Fund Balance, Beginning of Year	<u>3,397</u>	<u>3,397</u>	<u>3,397</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (15,903)</u>	<u>\$ (15,903)</u>	<u>\$ (46,413)</u>	<u>\$ (30,510)</u>

CITY OF TEXICO, NEW MEXICO
 ENVIRONMENTAL GROSS RECEIPTS TAX FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Gross Receipts Tax	<u>\$ 2,811</u>	<u>\$ 2,811</u>	<u>\$ 3,383</u>	<u>\$ 572</u>
Total Revenues	2,811	2,811	3,383	572
EXPENDITURES				
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	2,811	2,811	3,383	572
Fund Balance, Beginning of Year	<u>24,699</u>	<u>24,699</u>	<u>24,699</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 27,510</u></u>	<u><u>\$ 27,510</u></u>	<u><u>\$ 28,082</u></u>	<u><u>\$ 572</u></u>

CITY OF TEXICO, NEW MEXICO
CORRECTIONS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental Subsidies	\$ 52,500	\$ 52,500	\$ 22,040	\$ (30,460)
Total Revenues	52,500	52,500	22,040	(30,460)
EXPENDITURES				
Public Safety	-	-	-	-
Total Operating Expenses	-	-	-	-
Net Change in Fund Balance	52,500	52,500	22,040	(30,460)
Fund Balance, Beginning of Year	10,921	10,921	10,921	-
Fund Balance, End of Year	<u>\$ 63,421</u>	<u>\$ 63,421</u>	<u>\$ 32,961</u>	<u>\$ (30,460)</u>

CITY OF TEXICO, NEW MEXICO
LAW ENFORCEMENT PROTECTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental Subsidies	\$ 22,400	\$ 22,400	\$ 32,331	\$ 9,931
Total Revenues	<u>22,400</u>	<u>22,400</u>	<u>32,331</u>	<u>9,931</u>
EXPENDITURES				
Public Safety	15,400	15,400	14,604	796
Capital Outlay	<u>7,000</u>	<u>7,000</u>	<u>4,393</u>	<u>2,607</u>
Total Operating Expenses	<u>22,400</u>	<u>22,400</u>	<u>18,997</u>	<u>3,403</u>
Net Change in Fund Balance	-	-	13,334	13,334
Fund Balance, Beginning of Year	<u>7,264</u>	<u>7,264</u>	<u>7,264</u>	-
Fund Balance, End of Year	<u>\$ 7,264</u>	<u>\$ 7,264</u>	<u>\$ 20,598</u>	<u>\$ 13,334</u>

CITY OF TEXICO, NEW MEXICO
 SENIOR CITIZENS FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental Subsidies	\$ 10,289	\$ 10,289	\$ 10,466	\$ 177
Grants and Contributions	2,250	2,250	2,250	-
Total Revenues	<u>12,539</u>	<u>12,539</u>	<u>12,716</u>	<u>177</u>
EXPENDITURES				
Culture and Recreation	<u>15,984</u>	<u>15,984</u>	<u>17,533</u>	<u>(1,549)</u>
Total Operating Expenses	<u>15,984</u>	<u>15,984</u>	<u>17,533</u>	<u>(1,549)</u>
Net Change in Fund Balance	<u>(3,445)</u>	<u>(3,445)</u>	<u>(4,817)</u>	<u>(1,372)</u>
Fund Balance, Beginning of Year	<u>15,244</u>	<u>15,244</u>	<u>15,244</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 11,799</u>	<u>\$ 11,799</u>	<u>\$ 10,427</u>	<u>\$ (1,372)</u>

CITY OF TEXICO, NEW MEXICO
CEMETERY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sale of Services	\$ 8,000	\$ 8,000	\$ 9,814	\$ 1,814
Interest Income	175	175	574	399
Total Revenues	8,175	8,175	10,388	2,213
EXPENDITURES				
Health and Welfare	3,700	3,700	2,364	1,336
Capital Outlay	2,000	2,000	-	2,000
Total Operating Expenses	5,700	5,700	2,364	3,336
Net Change in Fund Balance	2,475	2,475	8,024	5,549
Fund Balance, Beginning of Year	19,180	19,180	19,180	-
Fund Balance, End of Year	\$ 21,655	\$ 21,655	\$ 27,204	\$ 5,549

CITY OF TEXICO, NEW MEXICO
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ -	\$ -	\$ 25,545	\$ 25,545
Intergovernmental Subsidies	-	-	50,345	50,345
Interest Income	-	-	1,099	1,099
Total Revenues	<u>-</u>	<u>-</u>	<u>76,989</u>	<u>76,989</u>
EXPENDITURES				
Debt Service - Principal	-	-	36,196	(36,196)
Debt Service - Interest	-	-	5,152	(5,152)
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>41,348</u>	<u>(41,348)</u>
Net Change in Fund Balance	-	-	35,641	35,641
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>21,179</u>	<u>(21,179)</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,820</u>	<u>\$ 14,462</u>

**ENTERPRISE FUNDS
BUDGET VS. ACTUAL**

Water and Sewer Fund – The Water and Sewer Fund is used to account for the City’s water and sewer operations. All activities necessary to provide such services are accounted for in this fund including administration, operations and maintenance, and billing and collection.

CITY OF TEXICO, NEW MEXICO
WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Charges for Services	\$ 318,700	\$ 318,700	\$ 372,784	\$ 54,084
Loan Proceeds	-	-	14,717	14,717
Total Revenues	<u>318,700</u>	<u>318,700</u>	<u>387,501</u>	<u>68,801</u>
OPERATING EXPENDITURES				
Personnel	118,945	118,945	121,577	(2,632)
Operating Expenses	152,915	152,915	216,788	(63,873)
Capital Outlay	50,000	50,000	-	50,000
Debt Service	8,000	8,000	8,000	-
Total Operating Expenses	<u>329,860</u>	<u>329,860</u>	<u>346,365</u>	<u>(16,505)</u>
Operating Income	(11,160)	(11,160)	41,136	52,296
NONOPERATING REVENUE (EXPENSES)				
Interest Income	-	-	2,052	2,052
Interest Expense	(3,150)	(3,150)	(2,551)	599
Total Nonoperating Revenues (Expenses)	<u>(3,150)</u>	<u>(3,150)</u>	<u>(499)</u>	<u>2,651</u>
Net Income (Loss) Before Transfers	(14,310)	(14,310)	40,637	54,947
Transfers, Net	-	-	24,279	24,279
Net Income (Loss) After Transfers	(14,310)	(14,310)	64,916	79,226
Fund Balance, Beginning of Year	440,444	440,444	440,444	-
Fund Balance, End of Year	<u>\$ 426,134</u>	<u>\$ 426,134</u>	<u>\$ 505,360</u>	<u>\$ 79,226</u>

**Reconciliation of Net Loss for Budgetary Basis to
Statement of Activities for Proprietary Funds**

Net Income After Transfers - Budgetary Basis	\$ 64,916
Amounts reported in the Statement of Activities differ because:	
Debt Proceeds increase Utility liabilities and are not reported in Proprietary Funds Statement of Activities	(14,717)
Debt Service Expenditures reduce Utility liabilities and are not reported in Proprietary Funds Statement of Activities	8,000
Depreciation is reported in the Proprietary Funds Statement of Activities but is not a budget expenditure item	<u>(33,702)</u>
Net Income After Transfers - Financial Statement Basis	<u>\$ 24,497</u>

SUPPLEMENTAL INFORMATION

CITY OF TEXICO, NEW MEXICO
SCHEDULE OF DEPOSITS AND TEMPORARY INVESTMENTS
BY DEPOSITORY FOR PUBLIC FUNDS
ALL FUNDS
Year Ended June 30, 2006

Account Description	Account Number	Account Type	Fund Type	Bank Balance June 30, 2006	Net Reconciling Items	Reconciled Balance June 30, 2006
Citizens Bank of Clovis						
Meter Fund	03-716-64-2-06	Checking	Business-type	\$ 4,502	\$ 3,500	\$ 8,002
General Fund	03-716-65-0-06	Checking	Governmental	100,910	(2,953)	97,957
General Fund	03-716-65-0-11	Checking	Governmental	337,956	-	337,956
Fire Fund	03-716-83-9-06	Checking	Governmental	9,087	207	9,294
Fire Fund	03-716-83-9-11	Checking	Governmental	52,803	-	52,803
Public Works	03-716-86-3-06	Checking	Business-type	40,064	12,070	52,134
Public Works	03-716-86-3-11	Checking	Business-type	125,235	-	125,235
Recreation	03-716-93-6-06	Checking	Governmental	3,658	67	3,725
Cemetery Fund	03-717-13-4-11	Checking	Governmental	26,791	43	26,834
Senior Citizens Fund	03-791-45-8-06	Checking	Governmental	13,449	(4,544)	8,905
Headstone Account	03-717-15-0-06	Checking	Governmental	2,180	(65)	2,115
			Total Checking	<u>716,635</u>	<u>8,325</u>	<u>724,960</u>
Meter Fund	03-716-64-2-20	Savings	Business-type	3,932	13,258	17,190
			Total Savings	<u>3,932</u>	<u>13,258</u>	<u>17,190</u>
			Total Deposits	<u>\$ 720,567</u>	<u>\$ 21,583</u>	<u>\$ 742,150</u>
New Mexico Finance Authority						
City of Texico	Texico2	Savings	Governmental	1,625	-	1,625
City of Texico	Texico3	Savings	Governmental	10,202	-	10,202
			Total Deposits	<u>\$ 11,827</u>	<u>\$ -</u>	<u>\$ 11,827</u>
			Total	<u>\$ 732,394</u>	<u>\$ 21,583</u>	<u>\$ 753,977</u>

Reconciliation of Accounts to Government-wide Balance Sheet

	Governmental Activities	Business-Type Activities	Total 2006
Cash and Cash Equivalents on Deposit	\$ 551,416	\$ 202,561	\$ 753,977
Petty Cash	-	100	100
Pooled Cash and Cash Equivalents	<u>\$ 551,416</u>	<u>\$ 202,661</u>	<u>\$ 754,077</u>

CITY OF TEXICO, NEW MEXICO
 SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
 FOR PUBLIC FUNDS
 Year Ended June 30, 2006

Name of Depository	Pledged Collateral	CUSIP	Name and Location of Custodian	Fair Market Value June 30, 2006
Citizens Bank Clovis	GNMA Pool #80750 Matures 10/20/2033	36225CZQ2	Texas Independent Bankers Dallas, TX	\$ 281,789
Citizens Bank Clovis	GNR 2004-1 TC Matures 4/20/2030	38374E5X1	Texas Independent Bankers Dallas, TX	949,440
Citizens Bank Clovis	SBAP 1997-10B 1 Matures 3/1/2007	83162CHJ5	Texas Independent Bankers Dallas, TX	<u>38,026</u>
				<u>\$ 1,269,255</u>

COMPLIANCE

JW Anderson & Associates, PC

Certified Public Accountants

Coppertree Office Park
4412 74th Street, Suite F-101
PO Box 6785
Lubbock, Texas 79493-6785
Office (806) 771-4000
Fax (806) 771-4005

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

Hector Balderas, State Auditor
State of New Mexico, and
City Council
City of Texico
PO Box 208
Texico, NM 88135

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparisons for the general fund and the major special revenue funds, and the aggregate remaining fund information of the City of Texico (Texico), as of and for the year ended June 30, 2006, which collectively comprise Texico's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements and budgetary comparisons of each of Texico's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2006 as listed in the table of contents, and have issued our report thereon dated March 25, 2009.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Texico'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 City of Texico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Texico's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Texico's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Texico's financial statements that is more than inconsequential will not be prevented or detected by the City of Texico's internal control. Significant deficiencies are described in the Schedule of Audit Findings and Responses as items 2004-1, 2004-2, 2004-4, 2004-6, 2006-1, 2006-2 and 2006-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Texico's internal control. Of the significant deficiencies above, items 2004-1, 2004-2, 2004-4, 2004-6, and 2006-1 are considered to be material weaknesses.

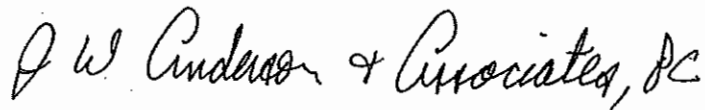
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the following deficiencies constitute material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Texico'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*.

The City of Texico's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council and management, the Office of the State Auditor, the New Mexico Legislature, New Mexico Department of Finance and Administration – Local Government Division and applicable state and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "JW Anderson & Associates, PC". The signature is written in a cursive, flowing style.

JW Anderson & Associates, PC
Certified Public Accountants
Lubbock, Texas
March 25, 2009

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Prior Year

<u>Finding</u>	<u>Description</u>	<u>Status</u>
2004-01	Segregation of Accounting Duties	Repeated
2004-02	Late Audit Report	Repeated
2004-03	Unrecorded Transactions / Budgetary Approval	Resolved
2004-04	Budget Compliance	Repeated
2004-06	General Ledger Preparation and Controls	Repeated

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2004-1 Segregation of Accounting Duties

CONDITION - The City of Texico has only two administrative staff and therefore these employees are involved in all aspects of the financial transactions of the City, collecting and depositing funds, ordering and receiving goods, preparing payment vouchers and distributing checks to vendors, preparing and reviewing payroll, and reviewing financial information.

CRITERIA - Internal control is best achieved when there is a segregation of duties between personnel that receive goods, record transactions and report financial information.

CAUSE - The City has limited staff which makes segregation of duties impossible.

EFFECT - Because of the lack of segregation of duties, transactions and reporting could be circumvented and errors or irregularities may occur and go undetected.

RECOMMENDATION - We recommend the City council members review financial transactions on a regular basis and seek methods to segregate duties to ensure financial reporting accuracy.

MANAGEMENT'S RESPONSE – Due to the limited amount of staff available, we will try to involve the council members more in a supervisory capacity when necessary to maintain adequate safeguards.

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2004-2 Late Audit Report

CONDITION - The audit report was delivered to the Office of the State Auditor after the December 1, 2006 deadline.

CRITERIA - New Mexico State Auditor Rule 2.2.2.9A (1) requires audit reports for municipalities to be submitted by December 1st following the end of the fiscal year.

CAUSE - The 2005 fiscal year audit was released to the public late, causing the 2006 fiscal year audit to be late. This was compounded by the Independent Public Accountant incurring an involuntary reduction in audit personnel, which caused additional delays in submission.

EFFECT - The City's financial status and other information is not available to the public and various state agencies in a timely manner.

RECOMMENDATION - We recommend the City provide information to complete the audit in a timely manner.

MANAGEMENT'S RESPONSE - The City will proactively work with the Independent Public Accountants to expedite the preparation of current and future financial statement audits.

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2004-4 Budget Compliance

CONDITION - The Office of the State Auditor notified the City on June 7, 2006 that the City did not have an approved operating budget for the 06-07 fiscal year as required by Section 6-6-2A NMSA 1978.

CRITERIA - The City is required to furnish and file with the Department of Finance and Administration – Local Government Division, on or before June 1 each year, a proposed budget for the next fiscal year.

CAUSE - The City failed to submit the required budget by June 1, 2006.

EFFECT - The City was not compliant with Section 6-6-2A NMSA 1978.

RECOMMENDATION - We recommend the City furnish and file with the division, on or before June 1 each year, a proposed budget for the next fiscal year.

MANAGEMENT'S RESPONSE – We will work more proactively in the future with DFA-LGD to ensure a timely filing of our proposed operating budget.

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2004-6 General Ledger Preparation and Controls

CONDITION - The City of Texico prepares its general ledger and subsequent financial reports using Quickbooks software. The system is not properly organized which makes it difficult to track various funds in order to prepare various financial reports required by management and the New Mexico Department of Finance and Administration – Local Government Division.

The auditors noted multiple transactions which were not in accordance with accounting policies and procedures. The auditors were not able to quantify the dollar amount of transactions which were not properly supported.

CRITERIA - The City is required to develop an adequate accounting and internal control system in order to meet the financial and reporting needs of the City.

CAUSE - The accounting software utilized by the City is not properly organized to meet the needs of the City and the reporting requirements of the State of New Mexico.

EFFECT - The City did not have an adequate accounting and internal control system in place to meet the needs of the City.

RECOMMENDATION - We recommend the City utilize a general ledger that has been designed to meet the needs of a governmental entity.

MANAGEMENT'S RESPONSE – We will work with the IPA to develop and strengthen the City's accounting records to increase accounting and financial reliability.

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2006-1 EMS Receivables and Revenue

CONDITION - The City of Texico maintains an ambulance service and bills various insurance companies for the EMS service. The receivables are not properly tracked to ensure timely collection. In addition, the EMS receivables are not recorded in the City's general ledger.

CRITERIA - The City is required to record all transactions that affect the City's financial statements.

CAUSE – The City did not record or track the EMS receivables and revenue for the fiscal year.

EFFECT - The City's financial statements did not include the EMS receivables or revenue for the fiscal year.

RECOMMENDATION - We recommend the City track the EMS receivables and record all of the EMS activity in the City general ledger.

MANAGEMENT'S RESPONSE – The EMS department is developing a form and report which will track EMS activity and receivables.

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2006-2 Exceeded Budgetary Authority

CONDITION - The City exceeded budgetary authority at the fund level by the following: General Fund - \$185,840, Fire Protection Fund - \$43,799, EMS/Fire Rescue - \$3,257, Recreation - \$28,138, Senior Citizens - \$1,549, and Debt Service Fund - \$41,348.

CRITERIA - Section 6-6-6 NMSA 1978 restricts local governmental entities from expending above the approved budget..

CAUSE – The condition of the records does not allow an accurate comparison of the budget to actual during the year.

EFFECT - Without periodic budget to actual expenditure review, expenses may be exceeding the amount authorized by the City Council or significant expense misclassifications may be overlooked.

RECOMMENDATION - We recommend the final review of the budget for the fiscal year be performed so as to accommodate any potential year end adjustments which might cause the budget to be exceeded.

MANAGEMENT'S RESPONSE - We will work with the IPA to develop and strengthen the City's accounting records to increase accounting and financial reliability

CITY OF TEXICO, STATE OF NEW MEXICO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended June 30, 2006

Current Year

2006-3 Budgeted Fund Balance

CONDITION - The City budgeted for a deficit fund balance in the Recreation fund of \$(15,903).

CRITERIA – State budgeting requirements are governed under Section 6-3-1 to 6-3-25 NMSA 1978, which restricts local governmental entities from budgeting a deficit fund balance.

CAUSE – The approved budget did not account for any transfers from other funds or from external sources to cover the budgeted capital outlays.

EFFECT – The city is out of compliance with State statutes and the State Audit Rule 2.2.2.10P regarding budgeting a deficit fund balance, and could potentially jeopardize the City’s ability to fund the deficit fund balance in the next fiscal year.

RECOMMENDATION - We recommend the submitted and approved budget for the fiscal year be prepared so as to accommodate any potential expenditures with adequate cash resources, either from other funds, or external sources. .

MANAGEMENT’S RESPONSE - We will work with the IPA to develop and strengthen the City’s accounting records to increase accounting and financial reliability in regards to the budgeting process.

CITY OF TEXICO, STATE OF NEW MEXICO
EXIT CONFERENCE
For the Year Ended June 30, 2006

The contents of this report were discussed with the City of Texico on July 27, 2007. The following individuals were available for the conference:

City of Texico

Jerry Cunningham, Mayor
Carolyn Johnson, Clerk / Treasurer

J.W. Anderson & Associates, PC

Larry Anderson, President
Scott Northam, Audit Manager

The financial statements of the City of Texico were prepared from original books and records provided by and with assistance from the management of the City and J.W. Anderson & Associates, PC.

Although Statement of Auditing Standards No. 112 - *Communicating Internal Control Related Matters Identified in an Audit* strongly emphasizes that the City of Texico prepare its own financial statements, the consensus between the City management and the auditors was that it would be more time and cost efficient for the auditors to prepare the financial statements and the related notes. Accordingly, the City has designated a competent management-level individual to oversee the auditors' services and have made all management decisions and performed all management functions. The City has reviewed, approved, and accepted responsibility for the accompanying financial statements and related notes, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with generally accepted accounting principles and that the records are current and in balance.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Hector Balderas, State Auditor
State of New Mexico, and
City Council
City of Texico
PO Box 208
Texico, NM 88135

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparisons for the general fund and the major special revenue funds, and the aggregate remaining fund information of the City of Texico (Texico), as of and for the year ended June 30, 2006, which collectively comprise Texico's basic financial statements as listed in the table of contents and have issued our report thereon dated March 25, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 23, 2007 our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As such, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management regarding the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2006. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of the allowances for doubtful accounts, which is based on a historical average of bad debt write-offs, and depreciation, based on the useful lives and cost of capital assets. We evaluated the key factors and assumptions used to develop the allowances for doubtful accounts depreciation and in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: prior audit adjustments, interfund transactions, utility receivables and revenue, and long-term debt.

Professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by management, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the information and use of the City Council and management, the Office of the State Auditor, the New Mexico Legislature, New Mexico Department of Finance and Administration – Local Government Division and applicable state and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

J W Anderson & Associates, PC

JW Anderson & Associates, PC
Certified Public Accountants
Lubbock, Texas
March 25, 2009