

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES**

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
TABLE OF CONTENTS
JUNE 30, 2010**

	<u>PAGE</u>
Directory of Officials.....	1
Independent Auditors' Report.....	2-3
Management's Discussion and Analysis	4-14
 <u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities.....	16
 Governmental Funds Financial Statements:	
Balance Sheet.....	17
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis: General Fund	21
 Business-Type Activities Financial Statements:	
<u>Proprietary Funds:</u>	
Statement of Net Assets.....	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	23
Statement of Cash Flows	24
 Notes to the Financial Statements:	
Notes to the Financial Statements.....	25-58
 Combining and Individual Fund Financial Statements:	
<u>Non-Major Governmental Funds:</u>	
Combining Balance Sheet.....	59-61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	62-64

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
TABLE OF CONTENTS
JUNE 30, 2010**

	<u>PAGE</u>
Combining and Individual Fund Financial Statements (continued):	
<u>Special Revenue Funds:</u>	
Schedule of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis:	
Fire Protection Fund.....	65
Recreation Fund.....	66
Corrections Fees Fund.....	67
Law Enforcement Protection Fund	68
Lodger's Tax Fund	69
Municipal Streets Fund.....	70
DWI Grant Fund	71
State Library Fund.....	72
Veteran's Wall Perpetual Care Fund	73
Federal Seizures Share Fund.....	74
Reconciliation of the Budgetary Comparison Schedules to the Statements of Revenues, Expenditures, and Changes in Fund Balances Special Revenue Funds	75-77
<u>Capital Projects Funds:</u>	
Statement of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis:	
Electrical Construction Fund.....	78
Effluent Water Fund	79
Senior Transportation Fund.....	80
Capital Expenditures Fund	81
Morgan Street Flood Control Fund	82
R & R Emergency Fund.....	83
FAA Project Fund.....	84
Veteran's Wall Fund	85
CDBG Fund.....	86
Reconciliation of the Budgetary Comparison Schedules to the Statements of Revenues, Expenditures, and Changes in Fund Balances Capital Project Funds	87-88
<u>Debt Service Fund:</u>	
Statement of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis.....	89
Reconciliation of the Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balances Debt Service Fund.....	90

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
TABLE OF CONTENTS
JUNE 30, 2010**

	<u>PAGE</u>
Combining and Individual Fund Financial Statements (continued):	
<u>Non-Major Proprietary Funds:</u>	
Combining Statement of Net Assets Fund.....	91
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	92
Combining Statement of Cash Flows	93
<u>Enterprise Funds:</u>	
Schedule of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis:	
Joint Utility Fund.....	94
Solid Waste Fund.....	95
Cemetery Fund	96
Golf Course Fund.....	97
Airport Fund	98
Reconciliation of the Budgetary Comparison Schedules to the Statements of Revenues, Expenses, and Changes in Fund Net Assets Enterprise Funds	99-104
<u>Internal Service Fund:</u>	
Schedule of Revenues, Expenditures, and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis	105
Reconciliation of the Budgetary Comparison Schedule to the Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Fund.....	106
Supplemental Financial Information:	
Schedule of Cash Accounts	107-108
Schedule of Pledged Collateral	109
Supplemental Federal Financial Information:	
Schedule of Expenditures of Federal Awards	110
Notes to Schedule of Expenditures of Federal Awards	111
Additional Independent Auditors' Reports	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	112-113

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
TABLE OF CONTENTS
JUNE 30, 2010**

	<u>PAGE</u>
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	114-115
Schedule of Findings and Questioned Costs.....	116-131
Exit Conference and Preparation of Financial Statements	132

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES**

Directory of Officials
June 30, 2010

ELECTED OFFICIALS

Lori S. Montgomery Mayor
Evelyn B. Renfro Mayor Pro-Tem
Steven Green City Councilor
Frances Sanchez City Councilor
Freddie J. Torres City Councilor

DEPARTMENT HEADS

David Weiser City Manager
Mary B. Penner City Clerk
Kerin Salcedo Acting Finance Director
Russ Peterson Chief of Police
Thomas Hawkins Municipal Judge
Jay Rubin City Attorney

HOUSING AUTHORITY

Greg D'Amour Chairman
Susan Morrongiello Commissioner
Doti Coffee Commissioner
LeeAnn Tooley Commissioner
Adrian O'Neil Commissioner
Marie Bradley Executive Director

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.comIndependent Auditors' Report

Hector H. Balderas, State Auditor
and
Mayor and City Councilors
City of Truth or Consequences
Truth or Consequences, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely present component unit, each major fund, and the aggregate remaining fund information, of the City of Truth or Consequences, New Mexico (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental, nonmajor enterprise, internal service funds, presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Truth or Consequences Housing Authority, a component unit of the City, whose statements reflect total assets of \$5,034,523, net assets of \$3,795,310 as of June 30, 2010, and revenues of \$2,130,460 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Truth or Consequences Housing Authority, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Truth or Consequences, New Mexico, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each nonmajor governmental, nonmajor enterprise, and internal service funds of the City of Truth or Consequences, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additionally, in our opinion, the general fund, Morgan Street Flood Control fund, debt service fund, the major enterprise funds, internal service fund, and all the nonmajor governmental and enterprise funds referred to previously present fairly, in all material respects, the budgetary comparisons for each fund of the City of Truth or Consequences for the year ended June 30, 2010, in conformity with the budgetary basis of accounting more fully described in Note 1D, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010 on our consideration of the City of Truth or Consequences' internal control over financial reporting and on 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages four through fourteen are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements and the budgetary comparison statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements, and other opinion units listed above. The additional schedules listed as supplemental financial information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements and other opinion units listed above. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and other opinion units listed above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and other opinion units listed above taken as a whole.



Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

This Management's Discussion and Analysis (MD&A) section offers readers of the City of Truth or Consequences (City) financial statements a narrative overview and analysis of the financial activities of the City of Truth or Consequences for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in this financial statement.

Financial Highlights

- ◆ The City assets exceeded liabilities by \$18,848,106 at June 30, 2010. Approximately 31% of the City's net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Unrestricted cash at June 30, 2010, totaled \$4,281,488. Current liabilities, including the current portion of long-term liabilities at June 30, 2010, amounted to \$1,958,135.
- ◆ Investment in capital assets for the City totaled \$16,730,936, net of accumulated depreciation at June 30, 2010. These capital assets included land, construction in progress, buildings and improvements, infrastructure, utility system, airport infrastructure, equipment, and vehicles.
- ◆ Long-term debt for the City at the end of the fiscal year was \$10,004,919.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the of the City's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increase or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Government-Wide Financial Statements (continued)

The governmental activities of the City's include general government, police, public works, culture and recreation, and health and welfare. The business-type activities of the City include water, solid waste, wastewater, electric, airport, cemetery, and golf course. The government-wide financial statements include not only the City itself (known as the primary government), but also the legally separate Truth or Consequences Public Housing Authority. The Housing Authority is referred to as the *component unit*.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Currently, the City does not have any fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the general fund, the City maintains nineteen other individual governmental funds of which ten are classified as special revenue funds; eight are classified as a capital projects fund; and one is classified as a debt service fund. Information for the general fund, Morgan Street flood control capital project fund, and the debt service fund which are considered major funds, are presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements following the notes to the financial statements.

The City adopts an annual appropriated budget for all of its funds. The budgetary comparison statement for the general fund is located on page twenty-one. Budgetary comparison statements for the non-major special revenue, major and non-major capital projects, and major debt service funds are located on pages sixty-five through ninety. The basic governmental fund financial statements can be found on page seventeen through twenty of this report.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Proprietary Funds

The City maintains two types of proprietary funds: enterprise and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund statements can be found on pages twenty-two through twenty-four of this report.

Enterprise Funds

The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, solid waste, wastewater, and electric services provided to the citizens. Additionally, the City uses enterprise funds to account for an airport, cemetery and golf course.

The enterprise funds financial statements provide separate information for the joint utility, solid waste, and airport funds; all of which are considered major funds. Data from the non-major enterprise funds are combined into a single aggregated presentation. Individual fund data for the non-major enterprise funds is provided in the form of combining statements located on pages ninety-one through ninety-three.

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, or funds of the City on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service funds are consolidated in the governmental column when presented in the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages twenty-five through fifty-eight of this report.

Other Information

The combining statements referred to earlier in connection with non-major are presented immediately following the notes to the financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$18,848,106 at the close of the most recent fiscal year. Thirty-five percent of the City's net assets are composed of investment in capital assets (e.g. land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. The City uses these assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Government-Wide Financial Analysis (continued)

	Condensed Statement of Net Assets					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>
Assets:						
Current and other assets	\$ 7,480,467	\$ 6,328,272	\$ 6,599,757	\$ 5,266,025	\$ 14,080,224	\$ 11,594,297
Capital assets, net of accumulated depreciation	<u>9,108,564</u>	<u>8,842,343</u>	<u>7,622,372</u>	<u>7,727,020</u>	<u>16,730,936</u>	<u>16,569,363</u>
Total assets	<u>16,589,031</u>	<u>15,170,615</u>	<u>14,222,129</u>	<u>12,993,045</u>	<u>30,811,160</u>	<u>28,163,660</u>
Liabilities:						
Current liabilities	874,759	895,599	1,083,376	842,130	1,958,135	1,737,729
Long-term liabilities	<u>5,051,450</u>	<u>4,505,266</u>	<u>4,953,469</u>	<u>4,011,116</u>	<u>10,004,919</u>	<u>8,516,382</u>
Total liabilities	<u>5,926,209</u>	<u>5,400,865</u>	<u>6,036,845</u>	<u>4,853,246</u>	<u>11,963,054</u>	<u>10,254,111</u>
Net Assets:						
Invested in capital assets, net of related debt	3,779,230	4,058,243	2,772,490	3,902,443	6,551,720	7,960,686
Restricted	4,319,348	2,893,096	2,128,898	-	6,448,246	2,893,096
Unrestricted	<u>2,564,244</u>	<u>2,818,411</u>	<u>3,283,896</u>	<u>4,237,356</u>	<u>5,848,140</u>	<u>7,055,767</u>
Total net assets	<u>\$ 10,662,822</u>	<u>\$ 9,769,750</u>	<u>\$ 8,185,284</u>	<u>\$ 8,139,799</u>	<u>\$ 18,848,106</u>	<u>\$ 17,909,549</u>

The remaining balance of unrestricted net assets \$5,848,140 may be used to meet the government's ongoing obligations to citizens and creditors. As a result of operations, the City increased its net assets by \$857,470 during the fiscal year. At the end of the current fiscal year, the City is able to report positive balances in the three categories of net assets.

At June 30, 2009, unrestricted cash totaled \$4,090,956. At June 30, 2010, unrestricted cash totaled \$4,281,488; an increase of \$190,532. There were many funds that reflected increases and decrease in unrestricted cash. The largest increase occurred in the joint utility fund where cash increased by \$792,024.

At June 30, 2009, receivables for the City equaled \$1,894,599. At June 30, 2010, the receivables totaled \$2,350,017. The net increase in the receivables was \$455,418. The majority of the increase is attributed to joint utility accounts and intergovernmental activities.

Current and other assets within the governmental activities increased from \$6,328,272 in 2009 to \$7,480,467 in 2010, an increase of \$1,152,195. Current and other assets within the business-type activities increased from \$5,266,025 in 2009 to \$6,599,757 in 2010, an increase of \$1,333,732.

Government-wide current liabilities consists of accounts payable, accrued salaries, accrued liabilities, accrued interest payable, customer deposits and the current maturities of long-term liabilities at June 30, 2010, equaled \$1,958,135. At June 30, 2009, the City reported an amount equal to \$1,737,729. Current liabilities increased by \$220,406. The largest increase occurred in accounts payable. The increase from 2009 was \$153,899.

A condensed comparative Statement of Activities is as follows:

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

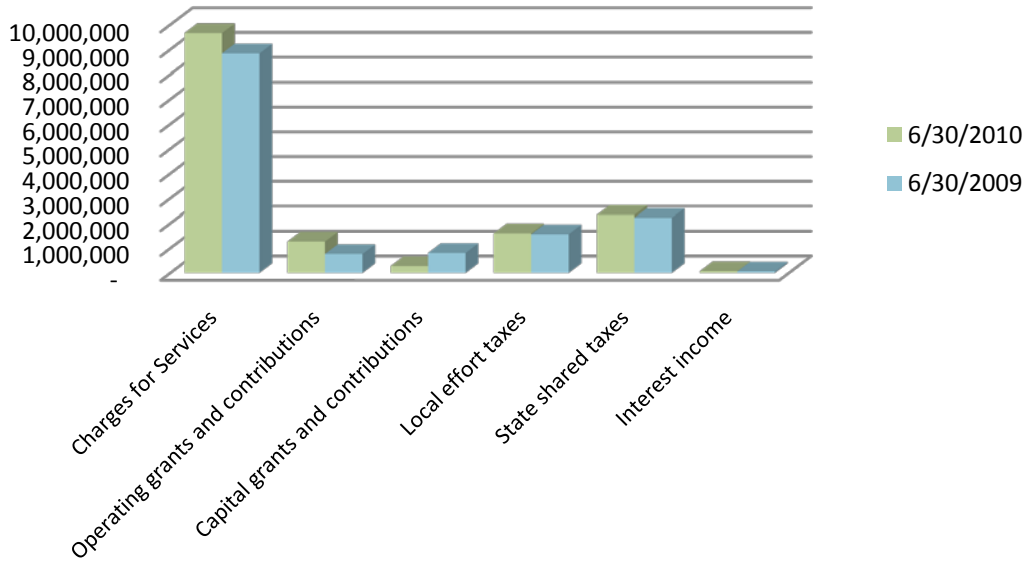
Government-Wide Financial Analysis (continued)

	Condensed Statement of Activities					
	Governmental Activities		Business-Type Activities		Total	
	06/30/10	06/30/09	06/30/10	06/30/09	06/30/10	06/30/09
Revenues:						
Program revenues:						
Charges for services	\$ 174,604	\$ 145,781	\$ 9,483,849	\$ 8,691,697	\$ 9,658,453	\$ 8,837,478
Operating grants and contributions	1,254,682	740,487	15,473	26,817	1,270,155	767,304
Capital grants and contributions	160,728	809,475	116,146	-	276,874	809,475
General revenues:						
Local effort taxes	1,599,852	1,561,980	-	-	1,599,852	1,561,980
State shared taxes	1,757,764	1,691,208	579,698	526,836	2,337,462	2,218,044
Interest income	7,364	34,358	65,239	28,800	72,603	63,158
Total revenues	4,954,994	4,983,289	10,260,405	9,274,150	15,215,399	14,257,439
Expenses:						
General government	1,731,492	1,668,607	-	-	1,731,492	1,668,607
Public safety	1,490,074	1,493,034	-	-	1,490,074	1,493,034
Public works	1,936,269	1,454,588	-	-	1,936,269	1,454,588
Culture and recreation	850,688	580,184	-	-	850,688	580,184
Health and welfare	281,356	355,348	-	-	281,356	355,348
Water	-	-	1,467,790	1,262,966	1,467,790	1,262,966
Solid waste	-	-	878,979	1,043,713	878,979	1,043,713
Waste water	-	-	766,171	928,219	766,171	928,219
Electric	-	-	4,103,565	3,554,522	4,103,565	3,554,522
Airport	-	-	441,812	393,381	441,812	393,381
Cemetery	-	-	11,817	12,678	11,817	12,678
Golf course	-	-	53,686	47,493	53,686	47,493
Interest on long-term debt	162,968	130,077	181,262	143,245	344,230	273,322
Total expenses	6,452,847	5,681,838	7,905,082	7,386,217	14,357,929	5,287,076
Transfers, net	1,055,494	1,832,807	(1,055,494)	(1,832,807)	-	-
Increase (decrease) in net assets	\$ (442,359)	\$ 1,134,258	\$ 1,299,829	\$ 55,126	\$ 857,470	\$ 1,189,384

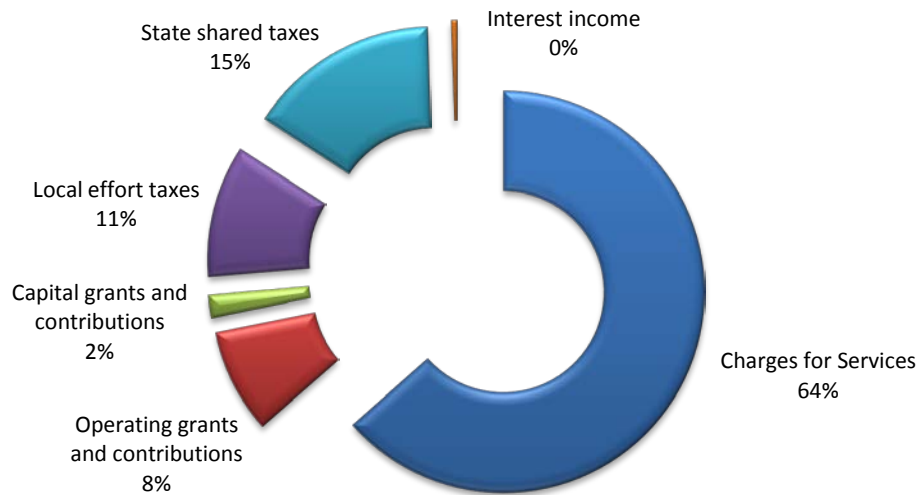
**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Government-Wide Financial Analysis (continued)

**Comparison of Revenues - By Function
All Activities**



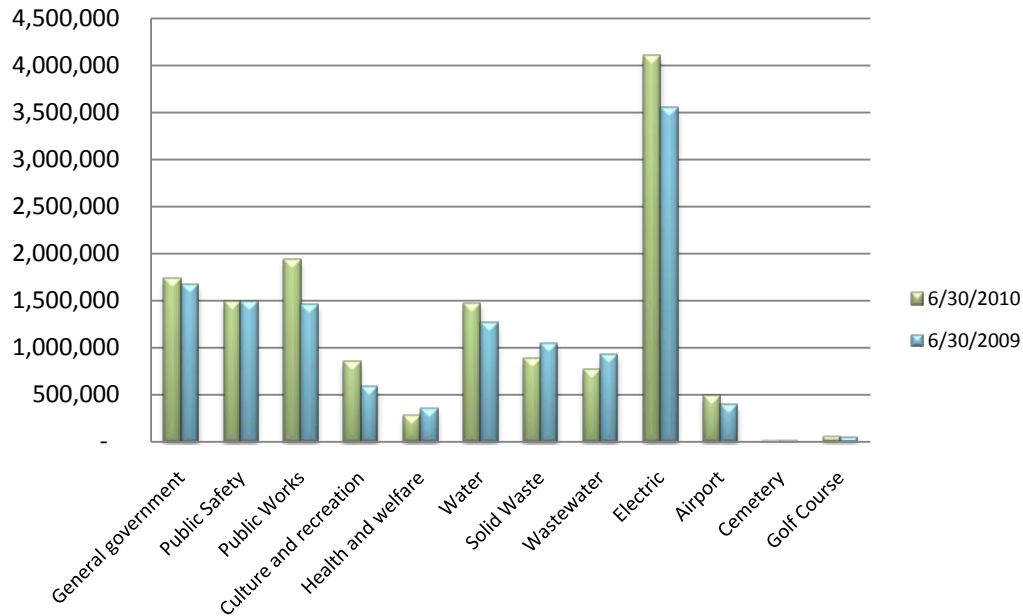
**Total Revenues By Activity
June 30, 2010**



**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Government-Wide Financial Analysis (continued)

**Comparison of Expenses - By Function
All Activities**



The statement of activities from 2010 fiscal year shows a slight decline in revenue (1%) for the government activities and an increase (\$986,255 or 11%) in the business-type activities when compared to the 2009 fiscal year. Specifically, governmental activities programs and general revenues declined by \$28,295. Increases were noted in operating grants and contributions and decreases in the capital grants and contributions.

In the current year, governmental activities expenses totaled \$6,452,847. The previous year, governmental activities expenses were equal to \$5,681,838. The increase in the current year expense amounted to \$771,009. The largest increase in governmental activities expenses occurred within the City's the public works (33.11%) and culture and recreation (46.62%).

The business-type activities reflect an increase in net assets of \$1,299,829. In the previous fiscal year, there was an increase of \$55,126. Business-type revenues for the current year amounted to \$10,260,405. That amount is an increase of \$986,255 when compared to the previous fiscal year.

For June 30, 2009, the business-type activities reported expenses as \$7,386,217. For June 20, 2010, the City reports expenses as \$7,905,082, an increase of \$518,865 or 7%.

During the fiscal year ended June 30, 2010, the government-wide financial statements were restated to correct a note in the amount of \$1,335,431 that was incorrectly reflected as a liability of the governmental activities. The obligation should have been reflected as a liability of the business-type activities. In addition, restatements in the airport fund were also recorded because receivables in the amount of \$57,349 and inventories in the amount of \$23,738 were understated at June 30, 2009.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Financial Analysis of the City's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2010, the City's governmental funds reported combined ending fund balance of \$6,719,404. Approximately twenty-three percent of this total or \$1,555,088 constitutes undesignated, unreserved fund balances, which are available for spending at the City's discretion. Of the remaining fund balance, \$446,971 is reserved for subsequent year's fund spending, \$37,305 for inventory, and \$4,680,040 is for debt service. The reserve for subsequent year's fund balance is not available for new spending because it has already been committed to next year's budget. The general fund balance of \$985,411 represents fifteen percent of the total governmental fund balances. The City's major funds (general, Morgan Street flood control, and debt service) fund balances increased by \$1,595,199 during the current fiscal year. While the non-major funds decreased their fund balances by \$551,030.

General fund revenues totaled \$2,930,031 for the fiscal year, while expenditures were \$4,751,707. Expenditures exceeded revenues by \$1,821,676 prior to transfers in and out of the general fund. During the year, the general fund received \$1,893,871 from other City funds while it transferred out \$342,777. The net transfer in of \$1,551,094 netted with the deficiency of expenditures over revenues resulting in a net decrease of fund balance of \$270,582.

Proprietary Funds

The City's proprietary funds provided the same type of information found in the government-wide financial statements, but in more detail. An analysis of the major proprietary funds is as follows:

The joint utility fund reflects an increase in net assets in the amount of \$1,415,332 for June 30, 2010. Comparing this to the increase in net assets of \$422,107 for June 30, 2009, we see an increase of \$993,255. Total revenues (both operating and non-operating) for 2009 were \$8,945,503 compared to 2010 revenues of \$9,447,503.

The airport fund reflects a change in net assets decrease of \$2,176 for 2010; while in 2009 the net change in assets decrease was \$90,291.

The solid waste fund reflects a negative net change in assets of \$71,453 for 2010; while in 2009 the negative net change in assets amounted to \$290,796.

General Fund Budgetary Highlights

The discussion that follows presents financial data based upon the budgetary basis of accounting. Please refer to the notes of the financial statements for an explanation of the differences of accounting regarding the budget.

For the year ended June 30, 2010, the City budgeted general fund revenues at \$2,968,405. The actual revenues for the fiscal year were \$2,954,352, a deficiency of \$14,053. Local effort taxes were over by \$57,660 and state shared taxes were under budgeted by \$64,486.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

General Fund Budgetary Highlights (continued)

Charges for services were under budget by \$9,758. Licenses and permits were under budget by \$514. Intergovernmental revenues were under budget by \$1,637. Fines and forfeitures were under budget by \$1,434. Miscellaneous revenues were over budget by \$6,876. Interest income was under budget by \$760.

Increases in the original budget were made due to additional expected income during the fiscal year, allowing the City to increase the budgeted expenditures.

For the year ended June 30, 2010, the City anticipated that expenditures would exceed revenues and net transfers in by \$380,202. Actual expenditures of \$4,704,796 exceeded revenues of \$2,954,352 and net transfers in of \$1,549,803, producing a net change in cash balance of \$200,641.

General government expenditures showed to be under budget by \$496,314. The major portion was a result of a favorable variance in operating expenses. General government showed to be under budget by \$170,097 and public works by \$119,670. Health and welfare showed to be over budget by \$8,468. Capital outlay expenditures showed to be under budget by \$91,627.

Capital Assets and Long Term Debt

Capital Assets

At June 30, 2009, the City originally reported gross capital assets as \$34,783,643; \$17,486,124 as governmental activities capital assets and \$17,297,519 as business-type capital assets. Governmental activities capital assets increased by \$581,705 and \$273,089 in the business-type activities. The City's overall gross investment in capital assets as of June 30, 2010 amounts to \$35,638,437. This investment in capital assets includes land, buildings and improvements, infrastructure, utility systems, and machinery and equipment.

Major capital assets events during the current fiscal year included the following:

- Governmental Activities – During the fiscal year, the City expended funds for the acquisition of a new Municipal Court Building and the completion of the construction at the Veterans Memorial Park.
- Business-Type Activities – During the fiscal year, the City expended funds for infrastructure improvements and acquired vehicles in the Electric division and the Senior Services activities.

Additional information on the City's assets can be found in note seven on pages forty-two through forty-four of this report.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Capital Assets and Long Term Debt (continued)

Capital Assets (continued)

	Capital Assets - Net of Accumulated Depreciation					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>
Land	\$ 4,718,680	\$ 4,718,680	\$ 1,755,406	\$ 1,712,406	\$ 6,474,086	\$ 6,431,086
Construction in progress	-	543,925	41,746	-	41,746	543,925
Buildings and improvements	2,035,606	1,204,030	569,696	595,031	2,605,302	1,799,061
Infrastructure	1,408,050	1,445,463	-	-	1,408,050	1,445,463
Equipment	744,078	753,402	535,052	612,064	1,279,130	1,365,466
Utility system	-	-	2,245,158	2,358,342	2,245,158	2,358,342
Airport infrastructure	-	-	2,249,289	2,273,419	2,249,289	2,273,419
Golf course infrastructure	-	-	-	53,205	-	53,205
Vehicles	202,150	176,843	226,025	122,553	428,175	299,396
Total capital assets	<u>\$ 9,108,564</u>	<u>\$ 8,842,343</u>	<u>\$ 7,622,372</u>	<u>\$ 7,727,020</u>	<u>\$ 16,730,936</u>	<u>\$ 16,569,363</u>

Long-Term Debt

At June 30, 2010, the City had total debt outstanding of \$10,723,481, which consists of notes, bonds, leases, compensated absences, and landfill post-closure liability. The bonds payable are secured by pledged special assessments gross receipts tax or operating revenues. The state of New Mexico Constitution provides for a legal limit of four percent (4%) of taxable in 2009 was \$88,428,027. The City may currently issue up to \$3,537,121 in general obligation bonds. At the present time, the City does not have any general obligations bonds.

Major long-term debt events during the current fiscal year included the following:

- **Governmental Activities** – During the fiscal year, the City borrowed additional funds from the New Mexico Finance Authority. The proceeds are being used for city-wide street rehabilitation.
- **Business-Type Activities** – Last fiscal year, the City borrowed funds from the New Mexico Finance Authority for improvements the city's electrical system. The debt was stated in the governmental activities. A restatement to this debt has been made to move the debt to business-type activities. The result is an increase in long-term debt of \$1,040,837 from 2009.

	Long-Term Debt					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>	<u>06/30/10</u>	<u>06/30/09</u>
Notes payable	\$ 5,148,292	\$ 4,582,863	\$ 2,976,093	\$ 1,856,425	\$ 8,124,385	\$ 6,439,288
Bonds payable	-	-	1,597,575	1,627,575	1,597,575	1,627,575
Lease purchases payable	119,419	201,237	276,214	340,577	395,633	541,814
Landfill post-closure	-	-	369,617	369,617	369,617	369,617
Compensated absences	131,843	115,960	104,428	88,896	236,271	204,856
Total long term debt	<u>\$ 5,399,554</u>	<u>\$ 4,900,060</u>	<u>\$ 5,323,927</u>	<u>\$ 4,283,090</u>	<u>\$ 10,723,481</u>	<u>\$ 9,183,150</u>

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Capital Assets and Long Term Debt (continued)

Long-Term Debt (continued)

Additional information on the City's long-term debt can be found in note eight on pages forty-four through fifty-three of this report.

Currently Known Facts, Decision, or Conditions

Gross receipts declined over last fiscal year by approximately \$157,788. Although the City budgeted in a conservative fashion, the City had to take proactive steps to minimize the impact of declining revenues. The declining revenue will negatively affect the budget process for fiscal year 2011-12.

The City has been given notice by the New Mexico Department of Environment/Solid Waste Bureau to close the city landfill by August of 2012. In addition, Sierra County landfill has also been notified to close by December 2010. The city and county have entered into a joint powers agreement to use each other's resources to extend the landfill capacity before closure. The city received a grant from the NMED to begin preliminary planning and designing of a transfer station. The city will be seeking state and federal grant funds for the construction phase.

Component Unit

The financial statements of the City of Truth or Consequences Housing Authority have been included in the City's financial statements as a discretely presented component unit on pages fifteen and sixteen. Separate issued financial statements may be obtained directly from the administrative office of the Housing Authority.

Request for Information

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Manager, 505 Sims Street, Truth or Consequences, New Mexico 87901.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash	\$ 1,787,957	\$ 2,493,531	\$ 4,281,488	\$ 1,152,421
Receivables, net of allowance for doubtful accounts:				
Accounts	27,051	1,078,324	1,105,375	173,822
Taxes	565,660	11,781	577,441	-
Intergovernmental	579,307	76,703	656,010	-
Interest	-	11,191	11,191	-
Prepaid expenses	-	-	-	1,960
Inventory	130,924	799,329	930,253	4,995
Restricted:				
Cash	375,009	1,930,647	2,305,656	265,912
Investments held by fiscal agent	3,944,339	198,251	4,142,590	-
Capital assets:				
Land and construction in progress	4,718,680	1,797,152	6,515,832	637,536
Other capital assets, net of depreciation	4,389,884	5,825,220	10,215,104	2,797,877
Total capital assets	9,108,564	7,622,372	16,730,936	3,435,413
Unamortized loan issuance costs	70,220	-	70,220	-
Total assets	16,589,031	14,222,129	30,811,160	5,034,523
LIABILITIES				
Accounts payable	406,621	455,656	862,277	22,724
Accrued salaries	98,867	53,811	152,678	3,607
Accrued interest payable	21,167	60,599	81,766	974
Accrued resident expenses	-	-	-	14,048
Customer deposits	-	142,852	142,852	-
Tenant deposits	-	-	-	57,952
Long-term liabilities:				
Due within one year	348,104	370,458	718,562	31,757
Due in more than one year	5,051,450	4,953,469	10,004,919	1,108,151
Total liabilities	5,926,209	6,036,845	11,963,054	1,239,213
NET ASSETS				
Invested in capital assets, net of related debt	3,779,230	2,772,490	6,551,720	2,346,530
Restricted for housing assistance payments	-	-	-	32,060
Restricted for debt service	4,319,348	2,128,898	6,448,246	165,433
Unrestricted	2,564,244	3,283,896	5,848,140	1,251,287
Total net assets	\$ 10,662,822	\$ 8,185,284	\$ 18,848,106	\$ 3,795,310

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

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Primary Government Net (Expenses) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 1,731,492	\$ 75,405	\$ 160,006	\$ -	\$ (1,496,081)		\$ (1,496,081)	
Public safety	1,490,074	33,507	347,183	70,245	(1,039,139)		(1,039,139)	
Public works	1,936,269	-	610,998	-	(1,325,271)		(1,325,271)	
Culture and recreation	850,688	65,692	136,495	90,483	(558,018)		(558,018)	
Health and welfare	281,356	-	-	-	(281,356)		(281,356)	
Interest on long-term debt	162,968	-	-	-	(162,968)		(162,968)	
Total government activities	6,452,847	174,604	1,254,682	160,728	(4,862,833)		(4,862,833)	
Business-type activities:								
Water	1,467,790	1,058,892	-	-		\$ (408,898)	(408,898)	
Solid waste	878,979	992,006	15,473	-		128,500	128,500	
Wastewater	766,171	729,800	-	-		(36,371)	(36,371)	
Electric	4,103,565	6,389,802	-	35,421		2,321,658	2,321,658	
Airport	441,812	290,271	-	80,725		(70,816)	(70,816)	
Cemetery	11,817	12,185	-	-		368	368	
Golf course	53,686	10,893	-	-		(42,793)	(42,793)	
Interest on long-term debt	181,262	-	-	-		(181,262)	(181,262)	
Total business-type activities	7,905,082	9,483,849	15,473	116,146	-	1,710,386	1,710,386	
Total primary government	\$ 14,357,929	\$ 9,658,453	\$ 1,270,155	\$ 276,874	(4,862,833)	1,710,386	(3,152,447)	
Component Unit:								
Housing Authority	\$ 1,904,581	\$ 491,247	\$ 1,639,213	\$ -				\$ 225,879
General revenues:								
Local effort taxes					1,599,852	-	1,599,852	-
State shared taxes					1,757,764	579,698	2,337,462	-
Interest incom					7,364	65,239	72,603	-
Gain (loss) on disposal of asse					-	-	-	(11,224)
Total general revenues:					3,364,980	644,937	4,009,917	214,655
Transfers, net					1,055,494	(1,055,494)	-	-
Change in net asset					(442,359)	1,299,829	857,470	214,655
Net assets, beginning of year					9,769,750	8,139,799	17,909,549	3,580,655
Restatements					1,335,431	(1,254,344)	81,087	-
Net assets, beginning of year restated					11,105,181	6,885,455	17,990,636	3,580,655
Net assets, end of year					\$ 10,662,822	\$ 8,185,284	\$ 18,848,106	\$ 3,795,310

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Morgan Street Flood Control Fund	Debt Service Fund	Total Non-Major Funds	Total Governmental Funds
ASSETS					
Cash	\$ 626,577	\$ 3,671	\$ 334,665	\$ 752,485	\$ 1,717,398
Receivables, net of allowance for doubtful accounts:					
Accounts	24,451	-	-	2,600	27,051
Taxes	448,537	-	47,127	69,996	565,660
Intergovernmental	23,800	517,423	-	38,084	579,307
Inventory	37,305	-	-	-	37,305
Restricted:					
Cash	-	-	375,009	-	375,009
Investments	21,072	-	3,923,239	28	3,944,339
	<u>\$ 1,181,742</u>	<u>\$ 521,094</u>	<u>\$ 4,680,040</u>	<u>\$ 863,193</u>	<u>\$ 7,246,069</u>
Total assets					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 76,287	\$ 305,140	\$ -	\$ 25,194	\$ 406,621
Accrued salaries	98,867	-	-	-	98,867
Deferred revenues	21,177	-	-	-	21,177
	<u>196,331</u>	<u>305,140</u>	<u>-</u>	<u>25,194</u>	<u>526,665</u>
Total liabilities					
Fund Balances:					
Reserved:					
Subsequent year's expenditures	60,638	-	-	-	60,638
Subsequent year's expenditures report in nonmajor:					
Special revenue funds	-	-	-	174,050	174,050
Capital projects funds	-	212,283	-	-	212,283
Inventory	37,305	-	-	-	37,305
Debt service	-	-	4,680,040	-	4,680,040
Unreserved	887,468	-	-	-	887,468
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	497,108	497,108
Capital projects funds	-	3,671	-	166,841	170,512
	<u>985,411</u>	<u>215,954</u>	<u>4,680,040</u>	<u>837,999</u>	<u>6,719,404</u>
Total fund balances					
Total liabilities and fund balances	<u>\$ 1,181,742</u>	<u>\$ 521,094</u>	<u>\$ 4,680,040</u>	<u>\$ 863,193</u>	<u>\$ 7,246,069</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

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

Total fund balance governmental funds (page seventeen)	\$ 6,719,404
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,108,564
Recognition of property tax revenue is reflected on full accrual basis within the statement of net assets. Governmental funds recognize property tax on the modified accrual basis.	21,177
Debt issuance costs are reported as expenditures in governmental funds. Within governmental activities such issuance costs are recognized over the life of the related loan.	70,220
Certain accrued interest expense is not due and payable in the current period and, therefore, is not reported in the governmental funds.	(21,167)
Long-term liabilities, including notes payable, that are not due and payable in the current period, and therefore, are not reported in the funds.	(5,399,554)
Residual balances of the internal service funds are included within the governmental activities and are not reported with the governmental funds.	<u>164,178</u>
Total net assets of governmental activities (page fifteen)	<u>\$ 10,662,822</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Morgan Street Flood Control Fund	Debt Service Fund	Total Non-Major Funds	Total Governmental Funds
Revenues:					
Local effort taxes	\$ 1,116,304	\$ -	\$ -	\$ 481,103	\$ 1,597,407
State shared taxes	1,345,339	-	329,594	82,831	1,757,764
Intergovernmental	329,481	505,154	-	563,876	1,398,511
Charges for services	49,327	-	-	37,622	86,949
Licenses and permits	32,486	-	-	-	32,486
Fines and forfeitures	10,366	-	-	-	10,366
Interest	666	-	6,268	430	7,364
Miscellaneous	46,062	-	-	15,640	61,702
Total revenues	2,930,031	505,154	335,862	1,181,502	4,952,549
Expenditures:					
Current:					
General government	1,627,150	-	30,824	49,801	1,707,775
Public safety	1,142,003	-	-	257,660	1,399,663
Public works	1,069,039	513,775	-	284,204	1,867,018
Culture and recreation	529,022	-	-	232,833	761,855
Health and welfare	260,503	-	-	-	260,503
Capital outlay	123,990	-	-	457,715	581,705
Debt service:					
Principal	-	-	132,371	103,935	236,306
Interest	-	-	189,143	6,855	195,998
Total expenditures	4,751,707	513,775	352,338	1,393,003	7,010,823
(Deficiency) of revenues over expenditures	(1,821,676)	(8,621)	(16,476)	(211,501)	(2,058,274)
Other Financing Sources (Uses):					
Loan proceeds	-	-	2,046,949	-	2,046,949
Transfers in	1,893,871	700,000	-	720,157	3,314,028
Transfers (out)	(342,777)	(500,000)	(356,071)	(1,059,686)	(2,258,534)
Total other financing sources (uses)	1,551,094	200,000	1,690,878	(339,529)	3,102,443
Net change in fund balances	(270,582)	191,379	1,674,402	(551,030)	1,044,169
Fund balance, beginning of year	1,255,993	24,575	3,005,638	1,389,029	5,675,235
Fund balance, end of year	<u>\$ 985,411</u>	<u>\$ 215,954</u>	<u>\$ 4,680,040</u>	<u>\$ 837,999</u>	<u>\$ 6,719,404</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

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

Net change in fund balances total governmental funds (page nineteen)	\$ 1,044,169
Net change in net assets of internal service funds (page twenty-three)	11,000
Governmental funds report capital outlay as expenditures in the amount of \$581,705, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the amount of \$315,484. The net adjustment is \$266,221.	266,221
Within the statement of activities, the issuance of long-term debt (bonds, loans, and or leases) does not use current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(2,046,949)
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the governmental funds.	2,445
Accrued interest expense not due within thirty days after year end is not considered in the current period and is not reported in the governmental funds. The decrease of the accrued interest liability from the previous year decreases the interest expense within the statement of activities.	33,030
Repayment of principal of long-term consumes the current financial resources of governmental funds, however, is not recorded as an expense within the statement of activities.	236,306
Governmental funds report the effect of long-term issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	27,302
Increase in the compensated absences liability is reflected as an increase of expenses within the statement of activities while the increase of the expense does not provide a current financial resource and is not recorded in the governmental funds statement.	<u>(15,883)</u>
Net change in net assets - government-wide financial statements (page sixteen)	<u>\$ (442,359)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Local effort taxes	\$ 1,114,224	\$ 1,096,902	\$ 1,154,562	\$ 57,660
State shared taxes	1,351,500	1,411,500	1,347,014	(64,486)
Intergovernmental	295,138	339,975	338,338	(1,637)
Charges for services	58,935	59,085	49,327	(9,758)
Licenses and permits	32,700	33,000	32,486	(514)
Fines and forfeitures	11,300	11,300	9,866	(1,434)
Interest	1,408	1,408	648	(760)
Miscellaneous	4,139	15,235	22,111	6,876
Total revenues	2,869,344	2,968,405	2,954,352	(14,053)
Expenditures:				
Current:				
General government	1,697,470	1,748,413	1,578,316	170,097
Public safety	1,211,806	1,211,582	1,134,507	77,075
Public works	1,164,316	1,185,238	1,065,568	119,670
Culture and recreation	555,642	569,055	522,742	46,313
Health and welfare	240,000	240,000	248,468	(8,468)
Capital outlay	163,978	246,822	155,195	91,627
Total expenditures	5,033,212	5,201,110	4,704,796	496,314
(Deficiency) of revenues over expenditures	(2,163,868)	(2,232,705)	(1,750,444)	482,261
Other Financing Sources (Uses):				
Transfers in	2,205,000	2,343,750	1,892,580	(451,170)
Transfers (out)	(388,497)	(491,247)	(342,777)	148,470
Total other financing sources (uses)	1,816,503	1,852,503	1,549,803	(302,700)
Net change in cash balance	(347,365)	(380,202)	(200,641)	179,561
Cash balance, beginning of year	827,218	827,218	827,218	-
Cash balance, end of year	\$ 479,853	\$ 447,016	\$ 626,577	\$ 179,561

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

BUSINESS-TYPE ACTIVITIES FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Joint Utility Fund	Airport Fund	Solid Waste Fund	Total Non-Major Funds	Total	Internal Service Funds
Assets:						
Current Assets:						
Cash	\$ 2,061,066	\$ 51,744	\$ 339,505	\$ 41,216	\$ 2,493,531	\$ 70,559
Receivables (net of allowance):						
Accounts	1,018,790	59,534	-	-	1,078,324	-
Taxes	-	-	11,781	-	11,781	-
Intergovernmental	-	76,703	-	-	76,703	-
Interest	11,108	-	83	-	11,191	-
Inventory	768,191	31,138	-	-	799,329	93,619
Non-Current Assets:						
Restricted Assets:						
Cash	1,930,647	-	-	-	1,930,647	-
Investments	198,251	-	-	-	198,251	-
Capital Assets:						
Land	925,042	-	54,783	775,581	1,755,406	-
Construction in progress	41,746	-	-	-	41,746	-
Buildings and improvements	441,196	498,369	492,967	313,844	1,746,376	-
Infrastructure	-	2,440,338	-	-	2,440,338	-
Utility system and facilities	6,286,424	-	-	-	6,286,424	-
Equipment	2,151,802	32,073	1,201,799	159,608	3,545,282	-
Vehicles	914,933	36,740	803,363	-	1,755,036	-
Less accumulated depreciation	(7,123,007)	(516,168)	(1,866,792)	(442,269)	(9,948,236)	-
Total capital assets, net	<u>3,638,136</u>	<u>2,491,352</u>	<u>686,120</u>	<u>806,764</u>	<u>7,622,372</u>	<u>-</u>
Total assets	<u>9,626,189</u>	<u>2,710,471</u>	<u>1,037,489</u>	<u>847,980</u>	<u>14,222,129</u>	<u>164,178</u>
Liabilities:						
Current liabilities:						
Accounts payable	414,418	38,059	-	3,179	455,656	-
Accrued salaries	50,894	2,917	-	-	53,811	-
Accrued interest payable	60,599	-	-	-	60,599	-
Customer deposits	142,852	-	-	-	142,852	-
Current maturities of:						
Bonds payable	33,000	-	-	-	33,000	-
Leases payable	-	-	67,671	-	67,671	-
Notes payable	210,870	-	-	-	210,870	-
Compensated absences	56,994	1,923	-	-	58,917	-
Total current liabilities	<u>969,627</u>	<u>42,899</u>	<u>67,671</u>	<u>3,179</u>	<u>1,083,376</u>	<u>-</u>
Non-Current Liabilities:						
Bond payable	1,564,575	-	-	-	1,564,575	-
Leases payable	-	-	208,543	-	208,543	-
Notes payable	2,765,223	-	-	-	2,765,223	-
Compensated absences	41,613	3,898	-	-	45,511	-
Landfill closure and post-closure	-	-	369,617	-	369,617	-
Total non-current liabilities	<u>4,371,411</u>	<u>3,898</u>	<u>578,160</u>	<u>-</u>	<u>4,953,469</u>	<u>-</u>
Total liabilities	<u>5,341,038</u>	<u>46,797</u>	<u>645,831</u>	<u>3,179</u>	<u>6,036,845</u>	<u>-</u>
Net Assets:						
Invested in capital assets, net of related debt	(935,532)	2,491,352	409,906	806,764	2,772,490	-
Restricted for debt service	2,128,898	-	-	-	2,128,898	-
Unrestricted	5,220,683	172,322	(18,248)	38,037	3,283,896	164,178
Total net assets	<u>\$ 6,414,049</u>	<u>\$ 2,663,674</u>	<u>\$ 391,658</u>	<u>\$ 844,801</u>	<u>\$ 8,185,284</u>	<u>\$ 164,178</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Joint Utility Fund	Airport Fund	Solid Waste Fund	Total Non-Major Funds	Total	Internal Service Funds
Operating Revenues:						
Charges for services	\$ 9,170,500	\$ 290,271	\$ -	\$ 23,078	\$ 9,483,849	\$ 195,290
Operating Expenses:						
Personnel services	1,617,535	91,853	-	-	1,709,388	-
General operating	5,274,406	263,026	43,991	55,272	5,636,695	184,290
Depreciation	184,914	86,933	95,659	10,231	377,737	-
Total operating expenses	<u>7,076,855</u>	<u>441,812</u>	<u>139,650</u>	<u>65,503</u>	<u>7,723,820</u>	<u>184,290</u>
Operating income (loss)	2,093,645	(151,541)	(139,650)	(42,425)	1,760,029	11,000
Non-Operating Revenues (Expenses):						
State shared taxes	509,051	4,060	66,058	529	579,698	-
Intergovernmental	35,421	80,725	15,473	-	131,619	-
Interest income	61,981	33	3,203	22	65,239	-
Interest expense	(164,725)	-	(16,537)	-	(181,262)	-
Total non-operating revenues (expenses)	<u>441,728</u>	<u>84,818</u>	<u>68,197</u>	<u>551</u>	<u>595,294</u>	<u>-</u>
Income (loss) before transfers	2,535,373	(66,723)	(71,453)	(41,874)	2,355,323	11,000
Transfers:						
Transfers in	1,339,559	64,547	-	-	1,404,106	-
Transfers (out)	(2,459,600)	-	-	-	(2,459,600)	-
Total net transfers	<u>(1,120,041)</u>	<u>64,547</u>	<u>-</u>	<u>-</u>	<u>(1,055,494)</u>	<u>-</u>
Change in net assets	1,415,332	(2,176)	(71,453)	(41,874)	1,299,829	11,000
Net assets, beginning of year	4,205,250	2,584,763	463,111	886,675	8,139,799	153,178
Restatements	(1,335,431)	81,087	-	-	(1,254,344)	-
Net assets, beginning of year, restated	<u>2,869,819</u>	<u>2,665,850</u>	<u>463,111</u>	<u>886,675</u>	<u>6,885,455</u>	<u>153,178</u>
Net assets, end of year	<u>\$ 4,285,151</u>	<u>\$ 2,663,674</u>	<u>\$ 391,658</u>	<u>\$ 844,801</u>	<u>\$ 8,185,284</u>	<u>\$ 164,178</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Joint Utility Fund	Airport Fund	Solid Waste Fund	Total Non-Major Fund	Total	Internal Service Funds
Cash Flows From Operating Activities:						
Cash received from customers	\$ 9,072,661	\$ 171,478	\$ -	\$ 23,078	\$ 9,267,217	\$ 195,290
Cash payments to suppliers for goods and services	(5,100,782)	(153,692)	(51,177)	(54,500)	(5,360,151)	(186,338)
Cash payments to employees for services	(1,591,059)	(90,802)	-	-	(1,681,861)	-
Net cash provided (used) by operating activities	2,380,820	(73,016)	(51,177)	(31,422)	2,225,205	8,952
Cash Flows From Non-Capital and Related Financing Activities:						
Cash received from state shared taxes	509,051	4,060	66,201	-	579,312	-
Cash received from intergovernmental sources	35,421	4,022	15,473	529	55,445	-
Net change in customer deposits	16,830	-	-	-	16,830	-
Time deposits	(198,251)	-	-	-	(198,251)	-
Net transfers in (out)	(1,120,041)	64,547	-	-	(1,055,494)	-
Net cash provided (used) by non-capital and related financing activities	(756,990)	72,629	81,674	529	(602,158)	-
Cash Flows From Capital and Related Financing Activities:						
Acquisition of capital assets	(225,934)	(10,239)	-	-	(236,173)	-
Principal payments on capital debt	(237,364)	-	(64,363)	-	(301,727)	-
Interest paid on capital debt	(165,162)	-	(16,537)	-	(181,699)	-
Net cash provided (used) by capital and related financing activities	(628,460)	(10,239)	(80,900)	-	(719,599)	8,952
Cash Flows From Investing Activities:						
Interest income	1,735	33	3,120	22	4,910	-
Net increase (decrease) in cash	997,105	(10,593)	(47,283)	(30,871)	908,358	8,952
Cash and cash equivalents, beginning of year	2,598,106	62,337	386,788	72,087	3,119,318	61,607
Cash and cash equivalents, end of year	\$ 3,595,211	\$ 51,744	\$ 339,505	\$ 41,216	\$ 4,027,676	\$ 70,559
Displayed as:						
Cash	\$ 2,061,066	\$ 51,744	\$ 339,505	\$ 41,216	\$ 2,493,531	\$ 70,559
Restricted cash	1,930,647	-	-	-	1,930,647	-
	\$ 3,991,713	\$ 51,744	\$ 339,505	\$ 41,216	\$ 4,424,178	\$ 70,559
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 2,093,645	\$ (151,541)	\$ (139,650)	\$ (42,425)	\$ 1,760,029	\$ 11,000
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	184,914	86,933	95,659	10,231	377,737	-
Changes in Assets and Liabilities:						
(Increase) in accounts receivable	(97,839)	(2,185)	-	-	(100,024)	-
(Increase) decrease in inventories	96,423	(7,400)	-	-	89,023	(2,048)
Increase (decrease) in accounts payable	77,201	126	(7,186)	772	70,913	-
Increase in accrued salaries	11,307	688	-	-	11,995	-
Increase in compensated absences	15,169	363	-	-	15,532	-
Total adjustments	287,175	78,525	88,473	11,003	465,176	(2,048)
Net cash provided (used) by operating activities	\$ 2,380,820	\$ (73,016)	\$ (51,177)	\$ (31,422)	\$ 2,225,205	\$ 8,952

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

NOTES TO THE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Truth or Consequences (City), established on July 5, 1945, is a political subdivision of the state of New Mexico, which operates under the Commission-Manager form of government. The City provides the following authorized services: public safety (police and fire), public works, water, electricity, sanitation, health and welfare, social services, culture and recreation, airport, public improvements, planning and zoning, and general administrative services. The City's basic financial statements include all activities and accounts of the City's "financial reporting entity."

The City's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The financial reporting entity consists of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The financial statements of the City of Truth or Consequences Housing Authority have been included in the City's financial statements as a "discretely presented" component unit.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The Housing Authority is reported as a proprietary fund type. The City appoints the Housing Authority's board of commissioners, and is able to impose its will on the Housing Authority.

Separately issued financial statements may be obtained directly from their administrative office as follows: Executive Director, Truth or Consequences Housing Authority, 108 South Cedar, Truth or Consequences, New Mexico 87901.

There are no other component units during the fiscal year ended June 30, 2010.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues. The net cost (by function of governmental-type activity) is normally covered by general revenues (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. For the current year, the City does not have any fiduciary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The general fund, Morgan Street flood control fund, and the debt service fund are the major governmental funds.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements (continued)

The joint utility, solid waste and the airport funds are the major enterprise funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Derived tax revenues (i.e., sales taxes) are recognized in the period when the exchange transaction on the tax is imposed or when the resources are received, whichever occurs first.

Governmental fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,

C. and Financial Statement Presentation (continued)

Ad valorem, franchise, and sales tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues.

In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the full accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases (e.g., revenues and expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The City reports the following proprietary fund types:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services, and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements.

Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the City on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Morgan Street flood control fund* accounts for the receipts and disbursements for the construction of a one hundred year dam. Financing is provided by various grants. The fund is authorized by City Council.

The *debt service fund* accounts for the accumulation of resources for, and the repayment of, general long-term principal, interest, and related costs of general obligation bonds. Revenues for this fund are taxes generated by sources designated in bond obligations. The fund is required by bond-obligation requirements.

The City maintains eighteen other individual governmental funds that are considered nonmajor funds; ten are classified as special revenue funds, and eight are classified as capital projects funds. A description of each nonmajor fund is as follows:

Special Revenue Funds

The *fire protection fund* accounts for the operation and acquisition of assets for the volunteer fire department. This fund is financed through the state fire allotment. The fund is authorized by the Fire Protection Act, 59A-53-1, NMSA 1978.

The *recreation fund* accounts for the operations and maintenance of City owned recreation facilities. Financing is provided by a cigarette tax levy to the extent that other revenues are not sufficient to provide such services. The fund is authorized by 7-12-15 and 16, NMSA 1978.

The *corrections fees fund* accounts for the special fees received on citations used to pay for prisoner care. The fund is authorized by Local Government Corrections Fund Act, 33-3-25, NMSA 1978.

The *law enforcement protection fund* accounts for receipts and disbursements of State Funds Chapter 289, Law of 1983. These funds are to enhance the efficiency and effectiveness of the police force. The fund is authorized by Law Enforcement Protection Fund Act, 29-13-4.A, NMSA 1978.

The *lodger's tax fund* accounts for the operations of promotional activities of the City of Truth or Consequences. Financing is provided primarily by specific tax levy on area motels and hotels. The fund is authorized by 14-37-16, NMSA 1969.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

Special Revenue Funds (continued)

The *municipal streets fund* accounts for the receipts and disbursements for City street improvements. Financing is provided from motor vehicle fees and state grants. The fund is authorized by Section 7-1-6.27, NMSA 1978.

The *DWI grant fund* accounts for receipts and disbursements from federal and state grants to assist the City combat driving while intoxicated. The fund is authorized by City Council.

The *state library fund* accounts for receipts and disbursements for operations of the City's public library. Financing is provided from state grants and private donations. The fund is authorized by NMSL Rule 92-1.

The *veteran's wall perpetual care fund* accounts for receipts related to the columbarium of the City's Veteran's Memorial Park. The fund is authorized by City Council.

The *federal seizures share fund* accounts for federal receipts and disbursements for capital asset and other allowable expenses within the police department. The fund is authorized by City Council.

Capital Projects Funds

The *electrical construction fund* accounts for the receipts and disbursements for improvements to the City's electrical system. Receipts are received from grants and loan proceeds. The fund is authorized by City Council.

The *effluent water fund* accounts for the receipts and disbursements for improvements to the City's water and sewer utility systems. Receipts are received from federal and state grants. The fund is authorized by City Council.

The *senior transportation fund* accounts for the upgrades and improvements to the City's senior citizens center. Financing is provided by various grants. The fund is authorized by Section 13-1-59, NMSA 1978.

The *capital expenditures fund* accounts for the receipts and disbursements for the acquisition of capital assets throughout the City. The fund is authorized by City Council.

The *veteran's wall fund* accounts for the receipts and disbursements for the construction of the City's Veteran's Memorial Park. The fund is authorized by City Council.

The *CDBG fund* accounts for federal revenues and expenditures for water system improvements within the City. The fund is authorized by City Council.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting,
C. and Financial Statement Presentation (continued)

Capital Projects Funds (continued)

The *R & R emergency fund* accounts for the accumulation of resources to be used in the event of an emergency with an emphasis on construction expenditures. The fund is authorized by City Council.

The *FAA project fund* accounts for the receipts and disbursements for infrastructure and improvements at the City's airport. Financing is provided from federal and state grants. The fund is authorized by City Council and is required by federal grants for segregating interest earned and for auditing purposes.

The City reports the following major business-type funds:

The *joint utility fund* accounts for the provision of electric, water, sewer and wastewater services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

The *airport fund* accounts for the operations and maintenance of the airport. Financing is provided by fuel sales and fees for services. The fund is authorized by City Council.

The *solid waste fund* accounts for the disposal of solid waste for the residents of the City. The fund is authorized by City Council.

The City maintains two other individual enterprise funds that are considered nonmajor funds. A description of each nonmajor fund is as follows:

The *cemetery fund* accounts for the operation and maintenance of the City cemetery. Financing is provided through lot sales and fees for services. The fund is authorized by 14-41-1, NMSA 1978.

The *golf course fund* accounts for the operations and maintenance of the City's public golf course. Financing is provided by fees for services. The fund is authorized by City Council.

The City maintains one individual internal service fund. A description of the fund is as follows:

The *internal service fund* accounts for the costs of maintaining the City's vehicle and equipment fleet. The fund bills various City departments to cover the cost of maintaining the City's fleet.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets

Budgets for all funds are prepared by management and approved by the City Council and the New Mexico Department of Finance and Administration. The city manager is responsible for preparing the budget from requests submitted by department heads.

The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the City Council for approval by resolution. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval.

DFA certifies a pending budget by July 1st with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year.

The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is presented as a reserved portion of fund balance. Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local Council approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Investments in the City's cash and certificates of deposit are stated at cost, which approximates fair value. State statutes authorize the City to invest in certificates of deposit, obligations of the state and the U.S. government, and the New Mexico State Treasurer's investment pool. Cash and certificates of deposit are reported at book value. Cash and certificates of deposit are reported at book value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund balance. Long term advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Inventory

Inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of operating supplies held for use in operations and are recorded as an expense when consumed rather than when purchased.

4. Restricted Assets

Certain long-term assets in the proprietary funds and the component unit are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as customer deposits.

5. Interfund Activity

Interfund activity is reported as loans, services provided reimbursements or transfers. Loans are reported as internal balance as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

6. Capital Assets

Capital assets include: property, plant, utility systems, equipment, and infrastructure assets. Infrastructure includes streets, sidewalks, bridges, drainage systems, lighting systems, and similar items. Such assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets are capitalized at historical cost or estimated historical cost if purchased, acquired or constructed. It is the policy of the City to capitalize information technology (IT) equipment, including software. Contributed 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 value of the asset or materially extend asset's lives are not capitalized. The City does not capitalize library books as the cost of the library books are generally under the capitalization threshold. Purchased computer software is recorded at historical cost.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

6. Capital Assets (continued)

Infrastructure capital assets consisting of roads, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. The City defines capital assets as assets with an estimated useful life in excess of one year, and costing greater than \$5,000. As allowed by GASB Statement 34, the City has retroactively reported all infrastructure assets owned by the municipality.

Prior to June 17, 2005, the City defined capital assets as assets with an initial individual cost of more than \$100, and an estimated useful life in excess of one year. Effective June 17, 2005, in accordance with state statutes, the City changed its capitalization threshold to include only assets with a cost of \$5,000 or more. All assets capitalized prior to June 17, 2005, which are property of the City, remain on the financial and accounting records of the City.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Loan interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Net revenue bond interest cost incurred during construction is also capitalized, when material. The City did not incur an interest on construction projects during the current fiscal year and, as such, no interest was included as part of the cost of capital assets under construction.

Property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and other improvements	20-45
Utility system	20-40
Public domain infrastructure	40
Machinery and equipment, including vehicles	3-20

7. Compensated Absences

City employees are entitled to certain compensated absences based on their employment classification and length of employment.

Vacation Pay – Each employee of the City may accumulate a total of thirteen to twenty-six days of vacation per year. Employees may accumulate up to thirty days of vacation and carry leave forward from calendar year to calendar year. Upon termination, employees will be paid up to thirty days of accrued vacation pay leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if they have matured.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

7. Compensated Absences (continued)

Sick Leave – Each employee of the City may accumulate a total of thirteen days of sick leave per year. Sick leave can be carried forward from calendar year to calendar year. Upon separation of employment, an employee with five or more continuous years of service will be compensated for one third of the first 480 accrued sick leave hours for a total of 160 hours. Employees with less than five years of continuous service forfeit all accrued sick leave at separation of employment. Employees cannot donate sick leave at time of separation.

8. Deferred Revenues

Within the government-wide financial statements, deferred revenues represent unearned revenues advanced to the City. Such advances are reported as deferred revenue until the earnings process is complete. Deferred revenues may include grant awards reflected as receivable but not recognized as revenues since all criteria have not been met.

Within the governmental funds, revenues must be available in order to be recognized. Revenues such as real estate taxes that are not available are recorded as deferred revenues and reflected as a liability with the balance sheet.

9. Short-Term Obligations

No short-term debt occurred during the current fiscal year.

10. Long-Term Obligations

In the government-wide financial statements, long-term obligations and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities within the 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 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.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

11. Net Assets

The government-wide financial statements utilize a net assets 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 outstanding capital asset related debt.

Restricted net assets – This category reflects the portion of net assets that have third party limitations on their use.

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

12. Fund Equity Reservation and Designations

In the fund financial statements, funds reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted. Additionally, designations represent tentative managerial plans that are subject to change. Fund equity was reserved or designated for:

Reserved for debt service – Represents the amounts that are required to be used for future retirement of long-term debt.

Reserved, designated for subsequent year's expenditures – Represents amounts, other than carryover expenditures, which are required to be designated for subsequent year's expenditures.

Unreserved – Amounts that have not been reserved or designated for any purpose. These funds are available for unrestricted use by the City.

13. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts are presented as a reduction of the face amount of bonds proceeds whereas issuance costs are recorded as expenditures.

14. Presentation

Certain reclassifications of prior year information have been made to conform to current year presentation.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

15. Cash Flows

For the purpose of the statement of cash flows, the City considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH

Cash

New Mexico State statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. 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.

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or 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.

Cash Deposited With Financial Institutions

The City maintains cash in two financial institutions within Truth or Consequences, New Mexico. The City's deposits are carried at cost.

As of June 30, 2010, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. CASH (continued)

Cash Deposited With Financial Institutions (continued)

	<u>Per Institution</u>	<u>Reconciling Items</u>	<u>Per Financial Statements</u>
Cash on hand	\$ -	\$ 1,061	\$ 1,061
Bank of the Southwest	4,110,225	(44,453)	4,065,772
Compass Bank	<u>2,520,302</u>	<u>9</u>	<u>2,520,311</u>
Total cash deposits	<u>\$ 6,630,527</u>	<u>\$ (43,383)</u>	<u>\$ 6,587,144</u>

The amounts reported as cash for the government within the financial statements is displayed as:

Statement of Net Assets:	
Cash	\$ 4,281,488
Restricted cash	<u>2,305,656</u>
	<u>\$ 6,587,144</u>

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the City. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the City carrying value of the deposits (demand and certificates of deposit).

Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

	<u>Bank of the Southwest</u>	<u>Compass Bank</u>
Checking accounts	\$ 3,633,786	\$ 52,953
Saving accounts	476,439	2,467,349
Certificate of deposit	<u>-</u>	<u>-</u>
Total deposits	4,110,225	2,520,302
FDIC coverage	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	<u>\$ 3,860,225</u>	<u>\$ 2,270,302</u>
Pledged securities	\$ 3,788,441	\$ 2,369,008
Collateral requirement (50% of uninsured public funds)	<u>1,930,113</u>	<u>1,108,675</u>
Over (under) collateralization	<u>\$ 1,858,328</u>	<u>\$ 1,260,333</u>

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. CASH (continued)

Cash Deposited With Financial Institutions (continued)

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits are owned by the public unit. Time deposits, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits – 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 does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$6,130,527 of the City’s bank balance of \$6,630,527 was exposed to custodial credit risk as follows:

	Bank of the Southwest	Compass Bank	Total
Uninsured and collateral held by pledging banks' trust dept. or agent not in the City's name.	\$ 3,860,225	\$ 2,270,302	\$ 6,130,527

3. INVESTMENTS

The city has borrowed money from the New Mexico Finance Authority (NMFA). As part of the note agreements, NMFA has retained funds. The funds are placed in the New Mexico Local Government Investment Pool and the Bank of New York Mellon Trust Co., N.A. The amounts and description at June 30, 2010 of the investments are described below:

Agency	Investment	Maturity	Fair Market Value
NM State Treasurer	Investment Pool	N/A	\$ 141,403
Bank of NY Mellon Trust Company	Dreyfus Cash Mgt	N/A	4,001,187
			\$ 4,142,590

The amounts reported as investments for the government within the financial statements are displayed as:

Statement of Net Assets:	
Investments held by	
fiscal agent	\$ 4,142,590

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. INVESTMENTS (continued)

Cash Deposited With the New Mexico State Treasurer

New Mexico state statutes authorize the creation of the local short-term investment fund in the New Mexico State Treasury. The statutes authorize the state treasurer to pool monies received from local public bodies for investment purposes with other public monies under his control. The purpose of the local short-term fund is to provide an investment alternative for local political subdivisions to realize the maximum return consistent with safe and prudent management.

As of June 30, 2010, the combined balance of the City's debt service accounts deposited within the local government investment pool was \$141,403. The cost basis and the fair market basis of the deposit are equal to \$141,403 (amount of investment).

The investments are valued at fair value based on quoted market prices as of the valuation date. The state treasurer's Local Government Investment Pool is not SEC registered. The fund is rated AAA_m by Standards and Poor's. Section 6-10-10.1, NMSA 1978, empowers the state treasurer, with the advice and consent of the state Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments.

Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the state treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the Local Government Investment Pool is voluntary. The 30 day net yield at June 30, 2010, was .180%.

Interest Rate Risk – Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The portfolio's weighted average maturity is 50-day WAM.

The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Bank of New York Mellon Trust Company

As part of note agreements and covenants, the City has cash invested at the Bank of New York Mellon Trust Company. The trust department has invested the funds within the Dreyfus Cash Management Institutional Shares fund. The fund invests in a diversified portfolio of high quality, short-term debt securities, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

3. INVESTMENTS (continued)

Bank of New York Mellon Trust Company (continued)

The investments are valued at fair value based on quoted market prices as of the valuation date. The fund is rated AAA_m by Standards and Poors.

Interest Rate Risk – Interest rate risk is the risk that interest rate variations may adversely affect an investment’s fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio’s weighted average maturity (WAM) is a key determinant of the tolerance of a fund’s investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The portfolio’s weighted average maturity is 32-day WAM.

The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Charges for services	\$ 27,051	\$ 1,162,516
Less allowance for doubtful accounts	-	(84,192)
	<u>\$ 27,051</u>	<u>\$ 1,078,324</u>

The City’s policy is to provide for uncollectible accounts based upon expected defaults.

5. TAXES RECEIVABLE

Amounts due from local effort and state shared taxes at June 30, 2010, consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Property taxes	\$ 24,339	\$ -
Local effort sales taxes	33,071	-
State shared taxes	<u>508,250</u>	<u>11,781</u>
Net taxes receivable	<u>\$ 565,660</u>	<u>\$ 11,781</u>

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

6. INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments at June 30, 2010, consisted of the following:

	Governmental Activities	Business-Type Activities
Federal grants	\$ 536,198	\$ 76,703
State grants	43,109	-
Total	\$ 579,307	\$ 76,703

7. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1st. Property tax rates for the year are set no later than September 1st each year by the New Mexico Secretary of Finance and Administration. The rates of tax are then used by the Sierra County Assessor to develop the property tax schedule by October 1st. The Sierra County Treasurer sends tax notices to property owners by November 1st of each year. Taxes are payable in equal semiannual installments by November 10th and April 10th of the subsequent year. Thirty days later the bill becomes delinquent and the County Treasurer assesses penalties and interest. Taxes are collected on behalf of the City by the County Treasurer, and are remitted to the City in the month following collection. The County Treasurer is statutorily required to collect taxes as an intermediary agency for all forms of government. Distribution of taxes collected is made through the Sierra County Treasurer's office.

The City is permitted to levy taxes for general operating purposes up to an amount determined by a formula based upon each \$1,000 of taxable value for both residential and nonresidential property, taxable value being defined as one third of the fully assessed value. In addition, the City is allowed to levy taxes for payments of bonds principal and interest in amounts approved by voters of the City. The City's total tax rate to finance general government services for the year 2009, was \$2.225 per \$1,000 for non-residential and \$1.466 for residential property. In the year 2009, there was no tax rate established for payment of bonds principal and interest.

7. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2010, are as follows:

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,718,680	\$ -	\$ -	\$ 4,718,680
Construction in progress	543,925	-	(543,925)	-
Total capital assets, not being depreciated	5,262,605	-	(543,925)	4,718,680

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

7. CAPITAL ASSETS (continued)

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Other capital assets, being depreciated:				
Buildings and building improvement	7,251,461	902,639	-	8,154,100
Infrastructure	1,496,523	-	-	1,496,523
Equipment	2,082,814	125,523	-	2,208,337
Vehicles	1,392,721	97,468	-	1,490,189
Total other capital assets, being depreciated	12,223,519	1,125,630	-	13,349,149
Less accumulated depreciation:				
Buildings and building improvement	(6,047,431)	(71,063)	-	(6,118,494)
Infrastructure	(51,060)	(37,413)	-	(88,473)
Equipment	(1,329,412)	(134,847)	-	(1,464,259)
Vehicles	(1,215,878)	(72,161)	-	(1,288,039)
Total accumulated depreciation	(8,643,781)	(315,484)	-	(8,959,265)
Other capital assets, net	3,579,738	810,146	-	4,389,884
Total capital assets, net	\$ 8,842,343	\$ 810,146	\$ (543,925)	\$ 9,108,564

Depreciation expense was charged to functions (programs) as follows:

General government	\$ 51,619
Public safety	87,469
Public works	63,478
Culture and recreation	92,065
Health and welfare	20,853
	<u>\$ 315,484</u>

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Total Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,712,406	\$ 43,000	\$ -	\$ 1,755,406
Construction in progress	-	41,746	-	41,746
Total capital assets, not being depreciated	1,712,406	84,746	-	1,797,152
Other capital assets, being depreciated:				
Building and building improvements	1,740,802	-	-	1,740,802
Utility plant	6,286,424	-	-	6,286,424
Golf course infrastructure	53,205	-	(53,205)	-
Airport infrastructure	2,393,183	47,155	-	2,440,338
Equipment	3,529,412	21,444	-	3,550,856
Automobiles and trucks	1,582,087	172,949	-	1,755,036
Total other capital assets, being depreciated	15,585,113	241,548	(53,205)	15,773,456

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

7. CAPITAL ASSETS (continued)

	Balance 06/30/09	Increases	Decreases	Balance 06/30/10
Less accumulated depreciation:				
Building & building improvements	(1,145,771)	(25,335)	-	(1,171,106)
Utility plant	(3,928,082)	(113,184)	-	(4,041,266)
Airport infrastructure	(119,764)	(71,285)	-	(191,049)
Equipment	(2,917,348)	(98,456)	-	(3,015,804)
Vehicles	(1,459,534)	(69,477)	-	(1,529,011)
Total accumulated depreciation	<u>(9,570,499)</u>	<u>(377,737)</u>	<u>-</u>	<u>(9,948,236)</u>
Other capital assets, net	<u>6,014,614</u>	<u>(136,189)</u>	<u>(53,205)</u>	<u>5,825,220</u>
Total capital assets, net	<u>\$ 7,727,020</u>	<u>\$ (51,443)</u>	<u>\$ (53,205)</u>	<u>\$ 7,622,372</u>

8. LONG-TERM OBLIGATIONS

Governmental Activities

Changes in governmental activities obligations during the year ended June 30, 2010, were as follows:

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10	Due Within One Year
Governmental Activities:					
Notes payable	\$ 4,582,863	\$ 2,046,949	\$ (1,481,520)	\$ 5,148,292	\$ 217,722
Lease purchase payable	201,237	-	(81,818)	119,419	61,689
Compensated absences	115,960	248,355	(232,472)	131,843	68,693
	<u>\$ 4,900,060</u>	<u>\$ 2,295,304</u>	<u>\$ (1,795,810)</u>	<u>\$ 5,399,554</u>	<u>\$ 348,104</u>

Notes Payable – Governmental Activities

On October 13, 2009, the City borrowed \$2,046,949 from the New Mexico Finance Authority. The note matures on May 1, 2030, and accrues interest at 3.699% per annum. The proceeds of the loan will be used for constructing, repairing and improving various streets, alleys, sidewalks and curbs within the City, including rehabilitation, repaving and drainage improvements. The payments of principal and interest are paid from the first increment of one-quarter of one percent (0.25%) of municipal gross receipts tax, dedicated to the general fund.

The annual requirements to amortize the loan outstanding as of June 30, 2010, including interest payments, are as follows:

Due in year ending June 30:

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Notes Payable – Governmental Activities (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 32,816	\$ 98,569	\$ 131,385
2012	78,650	67,787	146,437
2013	83,891	66,741	150,632
2014	85,241	65,391	150,632
2015	86,878	63,754	150,632
2016-2020	467,485	285,675	753,160
2021-2025	547,174	205,986	753,160
2026-2030	664,814	88,346	753,160
	<u>\$ 2,046,949</u>	<u>\$ 942,249</u>	<u>\$ 2,989,198</u>

On April 14, 2006, the City borrowed \$265,152 from the New Mexico Finance Authority. The note matures on May 1, 2026, and accrues interest at 1.2700% per annum. The proceeds of the loan were used for acquiring a building for use by the City's police department. The payments of principal and interest are paid from pledged gross receipts tax revenues.

The annual requirements to amortize the loan outstanding as of June 30, 2010, including interest payments, are as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 12,483	\$ 2,130	\$ 14,613
2012	12,601	2,044	14,645
2013	12,725	1,953	14,678
2014	12,853	1,855	14,708
2015	12,988	1,753	14,741
2016-2020	67,196	7,010	74,206
2021-2025	71,596	3,481	75,077
2026	14,937	189	15,126
	<u>\$ 217,379</u>	<u>\$ 20,415</u>	<u>\$ 237,794</u>

On December 1, 2006, the City borrowed \$110,000 from the New Mexico Finance Authority. The note matures on May 1, 2012, and accrues interest at 1.396% per annum. The proceeds of the loan were used for the acquisition of fire equipment. The payments of principal and interest are paid from a portion of the City's annual state allotment.

The annual requirement to amortize the loan outstanding as of June 30, 2010, including interest payments, is as follows:

Due in year ending June 30:

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Notes Payable – Governmental Activities (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 22,423	\$ 532	\$ 22,955
2012	22,739	273	23,012
	<u>\$ 45,162</u>	<u>\$ 805</u>	<u>\$ 45,967</u>

On January 23, 2010, the City borrowed \$2,958,802 from the New Mexico Finance Authority. The note matures on May 1, 2029, and accrues interest at 4.342% per annum. The proceeds of the loan were used for the refinancing of the 1996 Improvement Bonds and for improvements at existing municipal buildings and recreation facilities. The payments of principal and interest are paid from pledged state shared gross receipts tax revenues.

The annual requirements to amortize the loan outstanding as of June 30, 2010, including interest payments, are as follows:

Due in year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 150,000	\$ 112,290	\$ 262,290
2012	155,000	108,795	263,795
2013	155,000	104,812	259,812
2014	155,000	100,301	255,301
2015	160,000	95,450	255,450
2016-2020	646,270	402,634	1,048,904
2021-2025	720,795	271,414	992,209
2026-2029	696,737	86,443	783,180
	<u>\$ 2,838,802</u>	<u>\$ 1,282,139</u>	<u>\$ 4,120,941</u>

Lease Purchases Payable – Governmental Activities

The lease purchases payable are composed of the following:

4.715% lease purchase payable for purchase of a front end loader tractor, due in monthly payment os \$1,366, including interest, through December 2012, payable to Key Equipment Finance.	\$ 38,627
0% lease purchase payable for purchase of a tractor with loader, due in monthly payment of \$1,379 through September 2011, payable to John Deere Credit.	21,251
5.75% lease purchase payable for purchase of a tractor with loader, due in monthly payments of \$628, through October 2011, payable to John Deere Credit.	9,064
6.003% lease purchase payable for purchase of twenty golf carts, due in monthly payments of \$1,115, including interest, through March 2012, and a final payment of \$19,000, payable to Government Capital Corporation.	39,305

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. LONG-TERM OBLIGATIONS (continued)

Lease Purchases Payable – Governmental Activities (continued)

0% lease purchase payable for purchase of a dictaphone, due in annual payments of \$11,172, through December 2010, payable to Fleetwood Financial.	11,172
	119,419
Less current portion	(61,689)
	\$ 57,730

The annual requirement to amortize the lease purchase payable as of June 30, 2010, interest payments are as follows:

Due in the year ending June 30th:

	Principal	Interest	Total
2011	\$ 61,689	\$ 3,792	\$ 65,481
2012	49,642	1,922	51,564
2013	8,088	110	8,198
	\$ 119,419	\$ 5,824	\$ 125,243

Compensated Absences

A liability for unused vacation for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered.
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the general fund.

Business-Type Activities

Changes in the business-type activities obligations during the year ended June 30, 2010, were as follows:

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10	Due Within One Year
Business-Type Activities:					
Notes payable	\$ 1,856,425	\$ 1,469,073	\$ (349,405)	\$ 2,976,093	\$ 210,870
Bonds payable	1,627,575	-	(30,000)	1,597,575	33,000
Lease purchase payable	340,577	-	(64,363)	276,214	67,671
Landfill closure and post-closure	369,617	-	-	369,617	-
Compensated absences	88,896	141,669	(126,137)	104,428	58,917
	<u>\$ 4,283,090</u>	<u>\$ 1,610,742</u>	<u>\$ (569,905)</u>	<u>\$ 5,323,927</u>	<u>\$ 370,458</u>

Notes Payable – Business-Type Activities

On August 3, 2001, the City borrowed \$1,841,089 from the New Mexico Finance Authority. The note matures on May 1, 2021, and accrues interest at rates 2.2681% per annum. The proceeds of the loan were used for acquiring and constructing two new storage tanks for the purpose of improving the City's joint water and wastewater utility system. The payments of principal and interest are paid from net revenues from the City's utility system.

The annual requirement to amortize the loan outstanding as of June 30, 2010, including interest payments is as follows:

	Principal	Interest	Total
2011	\$ 91,298	\$ 26,068	\$ 117,366
2012	93,566	24,033	117,599
2013	95,902	21,938	117,840
2014	98,306	19,779	118,085
2015	100,781	17,555	118,336
2016-2020	543,685	52,009	595,694
2021	117,253	2,736	119,989
	<u>\$ 1,140,791</u>	<u>\$ 164,118</u>	<u>\$ 1,304,909</u>

On April 19, 1995, the City borrowed \$407,713 from the New Mexico Environment Department. The note matures on November 21, 2017, and accrues interest at 3.00% per annum. The proceeds of the loan were used for improvements to the City's utility system. The payments of principal and interest are paid from net revenues from the City's utility system.

The annual requirement to amortize the loan outstanding as of June 30, 2010, including interest payments, is as follows:

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Notes Payable – Business-Type Activities (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 26,961	\$ 7,192	\$ 34,153
2012	27,769	6,384	34,153
2013	28,602	5,550	34,152
2014	29,461	4,692	34,153
2015	30,344	3,809	34,153
2016-2018	<u>96,605</u>	<u>5,853</u>	<u>102,458</u>
	<u>\$ 239,742</u>	<u>\$ 33,480</u>	<u>\$ 273,222</u>

On July 26, 1996, the City borrowed \$504,483 from the New Mexico Environment Department. The note matures on January 28, 2022, and accrues interest at 3.00% per annum. The proceeds of the loan were used for improvements to the City's utility system. The payments of principal and interest are paid from net revenues from the City's utility system.

The annual requirement to amortize the loan outstanding as of June 30, 2010, including interest payments, is as follows:

Due in year ending June 30th:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 23,783	\$ 10,126	\$ 33,909
2012	24,497	9,412	33,909
2013	25,232	8,678	33,910
2014	25,988	7,921	33,909
2015	26,768	7,141	33,909
2016-2020	146,380	23,166	169,546
2021-2022	<u>64,884</u>	<u>2,934</u>	<u>67,818</u>
	<u>\$ 337,532</u>	<u>\$ 69,378</u>	<u>\$ 406,910</u>

On September 20, 2004, the City borrowed \$1,625,693 from the New Mexico Finance Authority. The note matures on May 1, 2024, and accrues interest at 3.787% per annum. The proceeds of the loan were used to upgrade to a low voltage feeder line for the City's municipality owned electric utility system. The payments of principal and interest are paid from pledged net revenues from the City's electric utility system.

The annual requirements to amortize the loan outstanding as of June 30, 2010, including interest payments, are as follows:

Due in year ending June 30:

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. LONG-TERM OBLIGATIONS (continued)

Notes Payable – Business-Type Activities (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 68,828	\$ 54,082	\$ 122,910
2012	71,331	51,756	123,087
2013	74,045	49,228	123,273
2014	76,977	46,488	123,465
2015	80,137	43,528	123,665
2016-2020	456,349	165,302	621,651
2021-2024	430,361	53,846	484,207
	<u>\$ 1,258,028</u>	<u>\$ 464,230</u>	<u>\$ 1,722,258</u>

Bonds Payable – Business-Type Activities

On June 18, 1998, the City issued utility revenue bonds through the United States Department of Agriculture, Rural Utilities Services, in the amount of \$290,075 for the purposes of the extension, enlargement, betterment, repair and other improvements to the utility system. The bond bears interest at 4.75% per annum and matures on June 1, 2038. The payment of principal, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from the operation of the utility system.

The annual requirement to amortize the bonds outstanding as of June 30, 2010, including interest payments, is as follows:

Due in year ending June 30th:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,000	\$ 11,831	\$ 16,831
2012	5,000	11,594	16,594
2013	5,000	11,356	16,356
2014	5,000	11,119	16,119
2015	5,000	10,881	15,881
2016-2020	32,000	50,320	82,320
2021-2025	40,000	42,008	82,008
2026-2030	50,000	31,558	81,558
2031-2035	63,000	18,590	81,590
2036-2038	39,075	3,525	42,600
	<u>\$ 249,075</u>	<u>\$ 202,782</u>	<u>\$ 451,857</u>

On February 7, 1996, the City issued utility revenue bonds through the United States Department of Agriculture, Rural Utility Service, in the amount of \$977,000 for the purposes of the extension, enlargement, betterment, repair and other improvements to the utility system. The bond bears at 4.5% per annum and matures on February 7, 2036. The payment, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from the operation of the utility system.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Bonds Payable – Business-Type Activities (continued)

The annual requirement to amortize the bonds outstanding as of June 30, 2010, including interest payments, is as follows:

Due in year ending June 30th:

	Principal	Interest	Total
2011	\$ 17,000	\$ 36,225	\$ 53,225
2012	18,000	35,460	53,460
2013	18,000	34,650	52,650
2014	19,000	33,840	52,840
2015	20,000	32,985	52,985
2016-2020	115,000	150,525	265,525
2021-2025	143,000	122,265	265,265
2026-2030	179,000	86,940	265,940
2031-2035	223,000	42,885	265,885
2036	53,000	2,385	55,385
	<u>\$ 805,000</u>	<u>\$ 578,160</u>	<u>\$ 1,383,160</u>

On August 9, 1996, the City issued utility revenue bonds through the United States Department of Agriculture, Rural Utility Service, in the amount of \$647,500 for the purposes of the extension, enlargement, betterment, repair and other improvements to the utility system. The bond bears interest at 4.5% per annum and matures on August 9, 2036. The payment, premium and interest thereon, whether at maturity or on a redemption date, are paid with income derived from the operation of the utility system.

The annual requirement to amortize the bonds outstanding as of June 30, 2010, including interest payments, is as follows:

Due in year ending June 30th:

	Principal	Interest	Total
2011	\$ 11,000	\$ 24,458	\$ 35,458
2012	11,000	23,963	34,963
2013	12,000	23,468	35,468
2014	12,000	22,928	34,928
2015	13,000	22,387	35,387
2016-2020	73,000	102,758	175,758
2021-2025	91,000	84,757	175,757
2026-2030	115,000	62,212	177,212
2031-2035	142,000	34,042	176,042
2036-2037	63,500	4,275	67,775
	<u>\$ 543,500</u>	<u>\$ 405,248</u>	<u>\$ 948,748</u>

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Lease Purchase Payable – Business-Type Activities

The lease purchase payable is composed of the following:

5.25% lease purchase payable for purchase of a waste handler truck, due in monthly payments of 43,833, including interest, through February 2013, and a final payment of \$77,000, payable to John Deere Credit.	\$ 180,908
6.201% lease purchase payable for purchase of a side loader refuse truck, due in annual payments of \$34,899, including interest, through July 2012, payable to Kansas State Bank.	<u>95,306</u>
	276,214
Less current portion	<u>(67,672)</u>
	<u><u>\$ 208,542</u></u>

The annual requirement to amortize the lease purchases payable as of June 30, 2010, interest payments is as follows:

	Principal	Interest	Total
2011	\$ 67,672	\$ 13,229	\$ 80,901
2012	71,151	9,749	80,900
2013	<u>137,391</u>	<u>5,176</u>	<u>142,567</u>
	<u><u>\$ 276,214</u></u>	<u><u>\$ 28,154</u></u>	<u><u>\$ 304,368</u></u>

Landfill Closure and Post-Closure Costs

State and federal laws and regulations require that upon closing, the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure of the landfill site. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste.

The recognition of landfill closure and post-closure costs is based on the estimated capacity of the landfill used to date compared to the total estimated capacity. During the fiscal year, the City opened an additional pit for trash collections. Thus, the amount of landfill available for collection and storage has increased. It is estimated that ninety percent of the landfill capacity has been used at June 30, 2010. The total estimated liability for landfill closure costs is \$369,617 as of June 30, 2010, which is based on the cumulative capacity to date as a percentage of projected capacity at the time of landfill closure. The landfill closure cost will not be decreased in the current year, due to the opening of an additional pit. It is estimated that an additional \$41,068 of post-closure costs will be recognized over thirty years after the landfill is closed.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. LONG-TERM OBLIGATIONS (continued)

Landfill Closure and Post-Closure Costs (continued)

The estimated total current cost of the landfill closure and post-closure care of \$410,685 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2010. However, the actual cost of post-closure care may be higher due to inflation, changes in technology or changes in state and federal landfill laws and regulations. However, the actual cost of post-closure care may be higher due to inflation, changes in technology, or changes in state and federal landfill laws and regulations. The City is required by the state of New Mexico Environmental Regulation Division to demonstrate financial assurance for the post-closure costs. The City may elect to utilize the Local Government financial test mechanism for closure/post closure financial assurance; and the City is working with NMED Solid Waste Bureau to address this issue.

9. TAXES

Local effort and state shared tax revenues as of June 30, 2010:

	General Fund	Debt Service Fund	Total Non-Major Funds	Total Governmental Funds
Local effort taxes:				
Franchise taxes	\$ 74,109	\$ -	\$ -	\$ 74,109
Gross receipts taxes	891,009	-	305,608	1,196,61
Lodger's taxes	-	-	175,495	175,495
Property taxes	151,186	-	-	151,18
	<u>\$ 1,116,304</u>	<u>\$ -</u>	<u>\$ 481,103</u>	<u>\$ 1,597,40</u>
State shared taxes:				
Cigarette taxes	\$ 15,943	\$ -	\$ 8,001	\$ 23,944
Gasoline taxes	22,821	-	74,830	97,651
Gross receipts taxes	1,306,575	329,594	-	1,636,16
	<u>\$ 1,345,339</u>	<u>\$ 329,594</u>	<u>\$ 82,831</u>	<u>\$ 1,757,76</u>

10. INTERFUND TRANSFERS

	Transfer In					Total
	General Fund	Morgan Street Flood Control Fund	Joint Utility Fund	Airport Fund	Non-Major Funds	
Transfer (out):						
General fund	\$ -	\$ -	\$ -	\$ 40,000	\$ 302,777	\$ 342,777
Morgan Street fund	-	-	500,000	-	-	500,000
Debt Service fund	1,291	-	-	-	354,780	356,071
Joint utility fund	1,700,000	700,000	-	-	59,600	2,459,600
Non-major funds	192,580	-	839,559	24,547	3,000	1,059,686
	<u>\$ 1,893,871</u>	<u>\$ 700,000</u>	<u>\$ 1,339,559</u>	<u>\$ 64,547</u>	<u>\$ 720,157</u>	<u>\$ 4,718,134</u>

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. INTERFUND TRANSFERS (continued)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend. Additionally, transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. RESTATEMENT OF NET ASSETS

During the fiscal year ended June 30, 2010, the City discovered the need to make changes to amounts reported within the financial statements ended June 30, 2009. A description and the effect of the errors are as follows:

	Government-Wide		
	Governmental Activities	Business-Type Activities	Individual Funds
Government-Wide Financial Statements:			
In the previous fiscal year, a note was incorrectly reflected as a liability of governmental activities. The obligation should have been reflected as a liability of the business-type activities.	\$ 1,335,431		
<i>Major Funds</i>			
Joint Utility Fund:			
In the previous year's financial statements, a note was incorrectly reflected as a liability of governmental activities. The obligation should have been reflected as a liability of the joint utility enterprise fund.		\$ (1,335,431)	<u>\$ (1,335,431)</u>
Airport Fund:			
In the previous year's financial statements, inventories were understated.		23,738	\$ 23,738
In the previous year's financial statements receivables were understated.		57,349	<u>57,349</u>
			<u>\$ 81,087</u>
	<u>\$ 1,335,431</u>	<u>\$ (1,254,344)</u>	

12. BUDGET RECONCILIATION

The City prepares its budget utilizing the cash basis of accounting. The City presents the following information that reconciles the general fund budgetary comparison statement with the statement of revenues, expenditures, and changes in fund balances. The reconciliation of the remaining funds follows the budgetary comparison statements of each type of fund.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

12. BUDGET RECONCILIATION (continued)

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriations" for the budgetary comparison schedule.	\$ 2,954,352
Differences - Budget to GAAP:	
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for reporting purposes.	(45,498)
Real estate taxes deferred for the budgetary basis are recognized when the taxes are levied for financial reporting purposes. The real estate taxes are not recognized for budgetary purposes until received.	21,177
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances.	\$ 2,930,031
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 4,704,796
Differences - Budget to GAAP:	
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	25,702
The City budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis but are expenses for financial reporting purposes.	21,209
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances.	\$ 4,751,707
Other Sources (Uses) of Resources:	
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison schedule.	\$ 1,549,803
Differences - Budget to GAAP:	
The City recorded capital expenditures incorrectly in debt service, which have been transferred to the general fund.	1,291
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances.	\$ 1,551,094

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

13. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the City's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost sharing, multiple-employer defined benefit plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

For covered employees other than law enforcement personnel, participants were required to contribute 13.15% of their gross salary to the plan. The City is required to contribute 9.15% of each participant's gross salary. The employee's contribution rate is 7% of gross covered salaries for law enforcement participants. The City's portion of the law enforcement participation is 15% of gross salaries. The contribution requirements of plan members and the City are established in State statute 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 fiscal years ending June 30, 2010, 2009, and 2008 were \$307,348, \$316,527 and \$293,100, respectively, equal to the amount of the required contributions for each year.

14. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTHCARE PLAN

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

14. POST-EMPLOYMENT BENEFITS (continued)

Plan Description (continued)

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

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2011	1.666%	.833%
2012	1.834%	.917%
2013	2.000%	1.000%

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

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

The City's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$39,157, \$40,532 and \$37,951, respectively, which equal the required contributions for each year. Pursuant to GASB 43, a current legal determination has been made whereby the Retiree Healthcare Authority is considered a multiple employer cost sharing trust.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

14. POST-EMPLOYMENT BENEFITS (continued)

Under this determination, the extensive OPEB disclosure concerning the funded status of the plan is made on the Authority's books rather than at the participant or agency level. Accordingly, no accrual has been made for this liability on the City's books.

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other local governments in the state and obtained insurance through the New Mexico Self-Insured Fund, a public entity risk pool currently operates as a common risk management and insurance program for local governments. The City pays an annual premium to New Mexico Self-Insured Fund for its general insurance coverage, and all risk of loss is transferred.

16. CONTINGENT LIABILITIES

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Special Revenue Funds									
	Fire Protection Fund	Recreation Fund	Correction Fees Fund	Law Enforcement Protection Fund	Lodger's Tax Fund	Municipal Streets Fund	DWI Grant Fund	State Library Fund	Veteran's Wall Perpetual Care Fund	Federal Seizures Share Fund
ASSETS										
Cash	\$ 89,273	\$ 34,861	\$ 3,121	\$ 23,562	\$ 114,733	\$ 173,518	\$ 112,874	\$ 16,986	\$ 16,324	\$ 392
Accounts receivable	-	-	-	-	2,600	-	-	-	-	-
Taxes receivable	-	596	-	-	16,305	53,095	-	-	-	-
Intergovernmental receivable	-	-	-	-	13,781	-	19,278	5,025	-	-
Restricted:										
Investments	28	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 89,301</u>	<u>\$ 35,457</u>	<u>\$ 3,121</u>	<u>\$ 23,562</u>	<u>\$ 147,419</u>	<u>\$ 226,613</u>	<u>\$ 132,152</u>	<u>\$ 22,011</u>	<u>\$ 16,324</u>	<u>\$ 392</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 641	\$ -	\$ 740	\$ 350	\$ -	\$ -	\$ 23,463	\$ -	\$ -	\$ -
Fund Balances:										
Reserved:										
Subsequent year's expenditures	88,660	15,415	2,381	23,212	21,072	13,626	506	9,178	-	-
Unreserved	-	20,042	-	-	126,347	212,987	108,183	12,833	16,324	392
Total fund balances	<u>88,660</u>	<u>35,457</u>	<u>2,381</u>	<u>23,212</u>	<u>147,419</u>	<u>226,613</u>	<u>108,689</u>	<u>22,011</u>	<u>16,324</u>	<u>392</u>
Total liabilities and fund balances	<u>\$ 89,301</u>	<u>\$ 35,457</u>	<u>\$ 3,121</u>	<u>\$ 23,562</u>	<u>\$ 147,419</u>	<u>\$ 226,613</u>	<u>\$ 132,152</u>	<u>\$ 22,011</u>	<u>\$ 16,324</u>	<u>\$ 392</u>

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

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Capital Projects Funds								
	Total Special Revenue Funds	Electrical Construction Fund	Effluent Water Fund	Senior Transportation Fund	Capital Expenditures Fund	R & R Emergency Fund	FAA Project Fund	Veteran's Wall Fund	CDBG Fund
ASSETS									
Cash	\$ 585,644	\$ -	\$ -	\$ 88,337	\$ 11,799	\$ 59,007	\$ -	\$ 6,397	\$ 1,301
Accounts receivable	2,600	-	-	-	-	-	-	-	-
Taxes receivable	69,996	-	-	-	-	-	-	-	-
Intergovernmental receivable	38,084	-	-	-	-	-	-	-	-
Restricted:									
Investments	28	-	-	-	-	-	-	-	-
Total assets	<u>\$ 696,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,337</u>	<u>\$ 11,799</u>	<u>\$ 59,007</u>	<u>\$ -</u>	<u>\$ 6,397</u>	<u>\$ 1,301</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 25,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances:									
Reserved:									
Subsequent year's expenditures	174,050	-	-	-	-	-	-	-	-
Unreserved	497,108	-	-	88,337	11,799	59,007	-	6,397	1,301
Total fund balances	<u>671,158</u>	<u>-</u>	<u>-</u>	<u>88,337</u>	<u>11,799</u>	<u>59,007</u>	<u>-</u>	<u>6,397</u>	<u>1,301</u>
Total liabilities and fund balances	<u>\$ 696,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,337</u>	<u>\$ 11,799</u>	<u>\$ 59,007</u>	<u>\$ -</u>	<u>\$ 6,397</u>	<u>\$ 1,301</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Total Capital Project Funds	Total Non-Major Funds
ASSETS		
Cash	\$ 166,841	\$ 752,485
Accounts receivable	-	2,600
Taxes receivable	-	69,996
Intergovernmental receivable	-	38,084
Restricted:		
Investments	-	28
Total assets	\$ 166,841	\$ 863,193
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ 25,194
Fund Balances:		
Reserved:		
Subsequent year's expenditures	-	174,050
Unreserved	166,841	663,949
Total fund balances	166,841	837,999
Total liabilities and fund balances	\$ 166,841	\$ 863,193

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds									
	Fire Protection Fund	Recreation Fund	Correction Fees Fund	Law Enforcement Protection Fund	Lodger's Tax Fund	Municipal Streets Fund	DWI Grant Fund	State Library Fund	Veteran's Wall Perpetual Care Fund	Federal Seizures Share Fund
Revenues:										
Local effort taxes	\$ -	\$ 610	\$ -	\$ -	\$ 175,495	\$ 304,998	\$ -	\$ -	\$ -	\$ -
State shared taxes	-	8,001	-	-	-	74,830	-	-	-	-
Intergovernmental	111,420	-	-	26,000	43,300	64,926	177,483	26,373	-	-
Charges for services	-	13,029	4,558	-	-	-	12,646	1,964	5,425	-
Interest	143	39	-	-	123	112	-	-	-	2
Miscellaneous	-	34	-	-	3,232	-	3,000	2,219	-	-
Total revenues	111,563	21,713	4,558	26,000	222,150	444,866	193,129	30,556	5,425	2
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	-	-
Public safety	56,901	-	10,057	5,041	-	-	185,661	-	-	-
Public works	-	-	-	-	-	284,204	-	-	-	-
Culture and recreation	-	23,858	-	-	159,716	-	-	28,863	155	-
Capital outlay	8,500	-	-	-	-	-	5,814	10,072	-	-
Debt service:										
Principal	22,118	-	-	-	34,560	36,085	-	-	-	11,172
Interest	781	-	-	-	3,355	2,719	-	-	-	-
Total expenditures	88,300	23,858	10,057	5,041	197,631	323,008	191,475	38,935	155	11,172
Excess (deficiency) of revenues over expenditures	23,263	(2,145)	(5,499)	20,959	24,519	121,858	1,654	(8,379)	5,270	(11,170)
Other Financing Sources (Uses):										
Transfers in	-	-	-	-	-	-	3,000	-	-	2,277
Transfers (out)	-	-	-	-	-	-	(3,000)	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	2,277
Net change in fund balances	23,263	(2,145)	(5,499)	20,959	24,519	121,858	1,654	(8,379)	5,270	(8,893)
Fund balances, beginning of year	65,397	37,602	7,880	2,253	122,900	104,755	107,035	30,390	11,054	9,285
Fund balances, end of year	\$ 88,660	\$ 35,457	\$ 2,381	\$ 23,212	\$ 147,419	\$ 226,613	\$ 108,689	\$ 22,011	\$ 16,324	\$ 392

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Capital Project Funds								
	Total Special Revenue Funds	Electrical Construction Fund	Effluent Water Fund	Senior Transportation Fund	Capital Expenditures Fund	R & R Emergency Fund	FAA Project Fund	Veteran's Wall Fund	CDBG Fund
Revenues:									
Local effort taxes	\$ 481,103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State shared taxes	82,831	-	-	-	-	-	-	-	-
Intergovernmental	449,502	-	-	73,456	-	-	40,918	-	-
Charges for services	37,622	-	-	-	-	-	-	-	-
Interest	419	-	-	-	11	-	-	-	-
Miscellaneous	8,485	-	-	6,955	-	-	200	-	-
Total revenues	1,059,962	-	-	80,411	11	-	41,118	-	-
Expenditures:									
Current:									
General government	-	-	-	-	49,801	-	-	-	-
Public safety	257,660	-	-	-	-	-	-	-	-
Public works	284,204	-	-	-	-	-	-	-	-
Culture and recreation	212,592	-	-	9,255	-	-	10,986	-	-
Capital outlay	24,386	-	-	71,628	320,783	-	40,918	-	-
Debt service:									
Principal	103,935	-	-	-	-	-	-	-	-
Interest	6,855	-	-	-	-	-	-	-	-
Total expenditures	889,632	-	-	80,883	370,584	-	51,904	-	-
Excess (deficiency) of revenues over expenditures	170,330	-	-	(472)	(370,573)	-	(10,786)	-	-
Other Financing Sources (Uses):									
Transfers in	5,277	59,600	-	74,000	376,280	-	205,000	-	-
Transfers (out)	(3,000)	(604,835)	(234,724)	-	-	-	(192,580)	-	-
Total other financing sources (uses)	2,277	(545,235)	(234,724)	74,000	376,280	-	(24,547)	12,420	-
Net change in fund balances	172,607	(545,235)	(234,724)	73,528	5,707	-	(24,547)	1,634	-
Fund balances, beginning of year	498,551	545,235	234,724	14,809	6,092	59,007	24,547	4,763	1,301
Fund balances, end of year	\$ 671,158	\$ -	\$ -	\$ 88,337	\$ 11,799	\$ 59,007	\$ -	\$ 6,397	\$ 1,301

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Total Capital Projects Fund	Total Non-Major Funds
Revenues:		
Local effort taxes	\$ -	\$ 481,103
State shared taxes	-	82,831
Intergovernmental	114,374	563,876
Charges for services	-	37,622
Interest	11	430
Miscellaneous	7,155	15,640
Total revenues	121,540	1,181,500
Expenditures:		
Current:		
General government	49,801	49,801
Public safety	-	257,660
Public works	-	284,204
Culture and recreation	20,241	232,833
Capital outlay	433,329	457,715
Debt service:		
Principal	-	103,935
Interest	-	6,855
Total expenditures	503,371	1,393,003
Excess (deficiency) of revenues over expenditures	(381,831)	(211,500)
Other Financing Sources (Uses):		
Transfers in	714,880	720,157
Transfers (out)	(1,056,686)	(1,059,686)
Total other financing sources (uses)	(341,806)	(339,529)
Net change in fund balances	(723,637)	(551,030)
Fund balance, beginning of year	890,478	1,389,029
Fund balances, end of year	\$ 166,841	\$ 837,999

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
FIRE PROTECTION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 84,279	\$ 111,420	\$ 111,420	\$ -
Interest income	200	200	115	(85)
Total revenues	84,479	111,620	111,535	(85)
Expenditures:				
Current:				
Public safety	60,835	61,066	45,736	15,330
Capital outlay	66,500	93,410	19,613	73,797
Debt service:				
Principal	22,118	22,118	22,118	-
Interest	782	782	551	231
Total expenditures	150,235	177,376	88,018	89,358
Net change in cash balance	(65,756)	(65,756)	23,517	89,273
Cash balance, beginning of year	65,756	65,756	65,756	-
Cash balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,273</u>	<u>\$ 89,273</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECREATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Local effort taxes	\$ 425	\$ 425	\$ 610	\$ 185
State shared taxes	5,400	5,400	7,699	2,299
Charges for services	8,500	8,500	13,029	4,529
Miscellaneous	50	50	34	(16)
Interest income	65	65	39	(26)
Total revenues	14,440	14,440	21,411	6,971
Expenditures:				
Current:				
Culture and recreation	13,500	23,695	19,977	3,718
Capital outlay	16,000	6,000	3,881	2,119
Total expenditures	29,500	29,695	23,858	5,837
Net change in cash balance	(15,060)	(15,255)	(2,447)	12,808
Cash balance, beginning of year	37,308	37,308	37,308	-
Cash balance, end of year	<u>\$ 22,248</u>	<u>\$ 22,053</u>	<u>\$ 34,861</u>	<u>\$ 12,808</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
CORRECTIONS FEES SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Charges for services	\$ 10,000	\$ 10,000	\$ 4,558	\$ (5,442)
Expenditures:				
Current:				
Public safety	<u>10,500</u>	<u>10,500</u>	<u>10,500</u>	<u>-</u>
Net change in cash balance	(500)	(500)	(5,942)	(5,442)
Cash balance, beginning of year	<u>9,063</u>	<u>9,063</u>	<u>9,063</u>	<u>-</u>
Cash balance, end of year	<u><u>\$ 8,563</u></u>	<u><u>\$ 8,563</u></u>	<u><u>\$ 3,121</u></u>	<u><u>\$ (5,442)</u></u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
LAW ENFORCEMENT PROTECTION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 26,000	\$ 26,000	\$ 26,000	\$ -
Expenditures:				
Capital outlay	<u>26,271</u>	<u>26,271</u>	<u>4,691</u>	<u>21,580</u>
Net change in cash balance	(271)	(271)	21,309	21,580
Cash balance, beginning of year	<u>2,253</u>	<u>2,253</u>	<u>2,253</u>	<u>-</u>
Cash balance, end of year	<u>\$ 1,982</u>	<u>\$ 1,982</u>	<u>\$ 23,562</u>	<u>\$ 21,580</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
LODGER'S TAX SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Local effort taxes	\$ 158,577	\$ 158,577	\$ 174,549	\$ 15,972
Intergovernmental	36,500	44,248	42,503	(1,745)
Miscellaneous	200	200	632	432
Interest income	250	250	123	(127)
	<u>195,527</u>	<u>203,275</u>	<u>217,807</u>	<u>14,532</u>
Total revenues				
Expenditures:				
Current:				
Culture and recreation	157,658	163,458	159,348	4,110
Capital outlay	5,542	4,807	368	4,439
Debt service:				
Principal	37,180	37,915	34,560	3,355
Interest	-	-	3,355	(3,355)
	<u>200,380</u>	<u>206,180</u>	<u>197,631</u>	<u>8,549</u>
Total expenditures				
Net change in cash balance	(4,853)	(2,905)	20,176	23,081
Cash balance, beginning of year	<u>94,557</u>	<u>94,557</u>	<u>94,557</u>	<u>-</u>
Cash balance, end of year	<u>\$ 89,704</u>	<u>\$ 91,652</u>	<u>\$ 114,733</u>	<u>\$ 23,081</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MUNICIPAL STREETS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Local effort taxes	\$ 26,000	\$ 260,000	\$ 265,033	\$ 5,033
State shared taxes	80,000	80,000	75,890	(4,110)
Intergovernmental	56,000	64,926	64,926	-
Interest income	110	110	112	2
	<u>162,110</u>	<u>405,036</u>	<u>405,961</u>	<u>925</u>
Total revenues				
Expenditures:				
Current:				
Public works	161,658	207,217	154,646	52,571
Capital outlay	185,000	193,926	129,558	64,368
Debt service:				
Principal	36,086	36,086	36,085	1
Interest	2,719	2,719	2,719	-
	<u>385,463</u>	<u>439,948</u>	<u>323,008</u>	<u>116,940</u>
Total expenditures				
Net change in cash balance	(223,353)	(34,912)	82,953	117,865
Cash balance, beginning of year	<u>90,565</u>	<u>90,565</u>	<u>90,565</u>	<u>-</u>
Cash balance, end of year	<u>\$ (132,788)</u>	<u>\$ 55,653</u>	<u>\$ 173,518</u>	<u>\$ 117,865</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
DWI GRANT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 175,690	\$ 178,687	\$ 183,831	\$ 5,144
Charges for services	6,450	14,071	12,646	(1,425)
Miscellaneous	-	-	3,000	3,000
Total revenues	<u>182,140</u>	<u>192,758</u>	<u>199,477</u>	<u>6,719</u>
Expenditures:				
Current:				
Public safety	179,171	185,789	155,740	30,049
Capital outlay	9,000	13,000	12,831	169
Total expenditures	<u>188,171</u>	<u>198,789</u>	<u>168,571</u>	<u>30,218</u>
Excess (deficiency) of revenues over expenditures	(6,031)	(6,031)	30,906	36,937
Other Financing Sources (Uses):				
Transfers in	-	-	3,000	(3,000)
Transfers (out)	-	-	(3,000)	3,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balance	(6,031)	(6,031)	30,906	36,937
Cash balance, beginning of year	<u>81,968</u>	<u>81,968</u>	<u>81,968</u>	<u>-</u>
Cash balance, end of year	<u>\$ 75,937</u>	<u>\$ 75,937</u>	<u>\$ 112,874</u>	<u>\$ 36,937</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
STATE LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 32,966	\$ 37,668	\$ 21,348	\$ (16,320)
Charges for services	6,336	6,336	1,964	(4,372)
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>2,219</u>	<u>(281)</u>
Total revenues	41,802	46,504	25,531	(20,973)
Expenditures:				
Current:				
Culture and recreation	<u>42,344</u>	<u>48,102</u>	<u>38,935</u>	<u>9,167</u>
Net change in cash balance	(542)	(1,598)	(13,404)	(11,806)
Cash balance, beginning of year	<u>30,390</u>	<u>30,390</u>	<u>30,390</u>	<u>-</u>
Cash balance, end of year	<u>\$ 29,848</u>	<u>\$ 28,792</u>	<u>\$ 16,986</u>	<u>\$ (11,806)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
VETERAN'S WALL PERPETUAL CARE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Charges for services	\$ 2,325	\$ 2,325	\$ 5,425	\$ 3,100
Expenditures:				
Current:				
Culture and recreation	<u>2,325</u>	<u>2,325</u>	<u>155</u>	<u>2,170</u>
Net change in cash balance	-	-	5,270	5,270
Cash balance, beginning of year	<u>11,054</u>	<u>11,054</u>	<u>11,054</u>	<u>-</u>
Cash balance, end of year	<u><u>\$ 11,054</u></u>	<u><u>\$ 11,054</u></u>	<u><u>\$ 16,324</u></u>	<u><u>\$ 5,270</u></u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
FEDERAL SEIZURES SHARE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Interest income	\$ 20	\$ 20	\$ 2	\$ (18)
Expenditures:				
Debt service:				
Principal	<u>8,895</u>	<u>8,895</u>	<u>11,172</u>	<u>(2,277)</u>
(Deficiency) of revenues over expenditures	(8,875)	(8,875)	(11,170)	2,259
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>2,277</u>	<u>2,277</u>
Net change in cash balance	(8,875)	(8,875)	(8,893)	4,536
Cash balance, beginning of year	<u>9,285</u>	<u>9,285</u>	<u>9,285</u>	<u>-</u>
Cash balance, end of year	<u>\$ 410</u>	<u>\$ 410</u>	<u>\$ 392</u>	<u>\$ 4,536</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Fire Protection Fund</u>	<u>Recreation Fund</u>	<u>Correction Fees Fund</u>	<u>Law Enforcement Protection Fund</u>
Sources/Inflows of Resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 111,535	\$ 21,411	\$ 4,558	\$ 26,000
Differences - Budget to GAAP:				
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	<u>28</u>	<u>302</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ 111,563</u>	<u>\$ 21,713</u>	<u>\$ 4,558</u>	<u>\$ 26,000</u>
Uses/Outflows of Resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ 88,018	\$ 23,858	\$ 10,500	\$ 4,691
Differences - Budget to GAAP:				
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	<u>282</u>	<u>-</u>	<u>(443)</u>	<u>350</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ 88,300</u>	<u>\$ 23,858</u>	<u>\$ 10,057</u>	<u>\$ 5,041</u>
Other sources (Uses) of Resources:				
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ -	\$ -	\$ -	\$ -
Differences - Budget to GAAP:				
None.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses) as reported of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Lodger's Tax Fund</u>	<u>Municipal Streets Fund</u>	<u>DWI Grant Fund</u>	<u>State Library Fund</u>
Sources/Inflows of Resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 217,807	\$ 405,961	\$ 199,477	\$ 25,531
Differences - Budget to GAAP:				
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	<u>4,343</u>	<u>38,905</u>	<u>(6,348)</u>	<u>5,025</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ 222,150</u>	<u>\$ 444,866</u>	<u>\$ 193,129</u>	<u>\$ 30,556</u>
Uses/Outflows of Resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ 197,631	\$ 323,008	\$ 168,571	\$ 38,935
Differences - Budget to GAAP:				
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	<u>-</u>	<u>-</u>	<u>22,904</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ 197,631</u>	<u>\$ 323,008</u>	<u>\$ 191,475</u>	<u>\$ 38,935</u>
Other Sources (Uses) of Resources:				
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ -	\$ -	\$ -	\$ -
Differences - Budget to GAAP:				
None.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Veteran's Wall Perpetual Care Fund	Federal Seizures Share Fund
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 5,425	\$ 2
Differences - Budget to GAAP:		
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	\$ 5,425	\$ 2
Uses/Outflows of Resources:		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ 155	\$ 11,172
Differences - Budget to GAAP:		
None.	-	-
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - special revenue funds	\$ 155	\$ 11,172
Other Sources (Uses) of Resources:		
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ -	\$ 2,277
Differences - Budget to GAAP:		
None.	-	-
Total other financing sources (uses) as reported of revenues, expenditures and balances - special revenue funds	\$ -	\$ 2,277

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
ELECTRICAL CONSTRUCTION CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 490,000	\$ 490,000	\$ 35,421	\$ (454,579)
Interest income	23	23	116	93
Total revenues	490,023	490,023	35,537	(454,486)
Expenditures:				
Current:				
Public works	850,635	850,635	221,659	628,976
Debt service:				
Principal	69,334	69,334	69,333	1
Interest	46,289	46,289	46,288	1
Total expenditures	966,258	966,258	337,280	628,978
Excess (deficiency) of revenues over expenditures	(476,235)	(476,235)	(301,743)	174,492
Other Financing Sources (Uses):				
Loan proceeds	357,346	357,346	365,500	8,154
Transfers in	118,912	118,912	59,600	(59,312)
Total other financing sources (uses)	476,258	476,258	425,100	(51,158)
Net change in cash balance	23	23	123,357	123,334
Cash balance, beginning of year	10,150	10,150	10,150	-
Transfer to joint utility fund	-	-	(133,507)	(133,507)
Cash balance, end of year	\$ 10,173	\$ 10,173	\$ -	\$ (10,173)

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
EFFLUENT WATER CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Charges for services	\$ 30,162	\$ 5,700	\$ 15,150	\$ 9,450
Expenditures:				
Current:				
Public works	30,162	-	-	-
Capital outlay	<u>227,050</u>	<u>227,050</u>	<u>2,400</u>	<u>224,650</u>
Total expenditures	<u>257,212</u>	<u>227,050</u>	<u>2,400</u>	<u>224,650</u>
Net change in cash balance	<u>(227,050)</u>	<u>(221,350)</u>	<u>12,750</u>	<u>234,100</u>
Cash balance, beginning of year	234,724	234,724	234,724	-
Transfer to joint utility fund	<u>-</u>	<u>-</u>	<u>(247,474)</u>	<u>(247,474)</u>
Cash balance, end of year	<u>\$ 7,674</u>	<u>\$ 13,374</u>	<u>\$ -</u>	<u>\$ (13,374)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
 SENIOR TRANSPORTATION CAPITAL PROJECT FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 14,638	\$ 117,516	\$ 75,830	\$ (41,686)
Expenditures:				
Capital outlay	<u>12,192</u>	<u>115,142</u>	<u>73,928</u>	<u>41,214</u>
Excess (deficiency) of revenues over expenditures	2,446	2,374	1,902	(472)
Other Financing Sources (Uses):				
Transfers in	-	102,750	74,000	(28,750)
Transfers (out)	<u>-</u>	<u>(102,750)</u>	<u>-</u>	<u>102,750</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>74,000</u>	<u>74,000</u>
Net change in cash balance	2,446	2,374	75,902	73,528
Cash balance, beginning of year	<u>12,435</u>	<u>12,435</u>	<u>12,435</u>	<u>-</u>
Cash balance, end of year	<u>\$ 14,881</u>	<u>\$ 14,809</u>	<u>\$ 88,337</u>	<u>\$ 73,528</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
 CAPITAL EXPENDITURES CAPITAL PROJECT FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest income	\$ 15	\$ 15	\$ 11	\$ (4)
Expenditures:				
Current:				
General government	9,900	9,900	15,426	(5,526)
Capital outlay	<u>11,600</u>	<u>11,600</u>	<u>378</u>	<u>11,222</u>
Total expenditures	<u>21,500</u>	<u>21,500</u>	<u>15,804</u>	<u>5,696</u>
Excess (deficiency) of revenues over expenditures	(21,485)	(21,485)	(15,793)	5,692
Other Financing Sources (Uses):				
Transfers in	<u>21,500</u>	<u>21,500</u>	<u>21,500</u>	<u>-</u>
Net change in cash balance	15	15	5,707	5,692
Cash balance, beginning of year	<u>6,092</u>	<u>6,092</u>	<u>6,092</u>	<u>-</u>
Cash balance, end of year	<u>\$ 6,107</u>	<u>\$ 6,107</u>	<u>\$ 11,799</u>	<u>\$ 5,692</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
MORGAN STREET FLOOD CONTROL CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 712,269	\$ 712,269	\$ -	\$ (712,269)
Expenditures:				
Current:				
Public works	48,817	48,817	-	48,817
Capital outlay	<u>652,643</u>	<u>652,643</u>	<u>208,635</u>	<u>444,008</u>
Total expenditures	<u>701,460</u>	<u>701,460</u>	<u>208,635</u>	<u>492,825</u>
Excess (deficiency) of revenues over expenditures	10,809	10,809	(208,635)	(219,444)
Other Financing Sources (Uses):				
Transfers in	-	-	700,000	700,000
Transfers (out)	<u>-</u>	<u>-</u>	<u>(500,000)</u>	<u>(500,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Net change in cash balance	10,809	10,809	(8,635)	(19,444)
Cash balance, beginning of year	<u>12,306</u>	<u>12,306</u>	<u>12,306</u>	<u>-</u>
Cash balance, end of year	<u>\$ 23,115</u>	<u>\$ 23,115</u>	<u>\$ 3,671</u>	<u>\$ (19,444)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
R & R EMERGENCY CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Public works	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers in	1	1	-	1
Net change in cash balance	1	1	-	1
Cash balance, beginning of year	59,007	59,007	59,007	-
Cash balance, end of year	<u>\$ 59,008</u>	<u>\$ 59,008</u>	<u>\$ 59,007</u>	<u>\$ 1</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
FAA PROJECT CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 158,994	\$ 235,697	\$ 7,186	\$ (228,511)
Expenditures:				
Current:				
Public works	172,321	172,321	10,239	162,082
Capital outlay	<u>-</u>	<u>76,703</u>	<u>-</u>	<u>76,703</u>
Total expenditures	<u>172,321</u>	<u>249,024</u>	<u>10,239</u>	<u>238,785</u>
Excess (deficiency) of revenues over expenditures	(13,327)	(13,327)	(3,053)	10,274
Other Financing Sources (Uses):				
Transfers in	<u>13,327</u>	<u>13,327</u>	<u>-</u>	<u>13,327</u>
Net change in cash balance	-	-	(3,053)	(3,053)
Cash balance, beginning of year	21,383	21,383	21,383	-
Transfer to airport fund	<u>-</u>	<u>-</u>	<u>(18,330)</u>	<u>(18,330)</u>
Cash balance, end of year	<u>\$ 21,383</u>	<u>\$ 21,383</u>	<u>\$ -</u>	<u>\$ (21,383)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
VETERAN'S WALL CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Revenues:				
Intergovernmental	\$ 350,001	\$ 350,001	\$ 350,001	\$ -
Miscellaneous	-	-	200	200
Total revenues	350,001	350,001	350,201	200
Expenditures:				
Current:				
Culture and recreation	2,420	3,120	2,066	1,054
Capital outlay	350,568	359,868	356,516	3,352
Total expenditures	352,988	362,988	358,582	4,406
Excess (deficiency) of revenues over expenditures	(2,987)	(12,987)	(8,381)	4,606
Other Financing Sources (Uses):				
Transfers in	207,420	207,420	205,000	2,420
Transfers (out)	(205,000)	(195,000)	(192,580)	(2,420)
Total other financing sources (uses)	2,420	12,420	12,420	-
Net change in cash balance	(567)	(567)	4,039	4,606
Cash balance, beginning of year	2,358	2,358	2,358	-
Cash balance, end of year	<u>\$ 1,791</u>	<u>\$ 1,791</u>	<u>\$ 6,397</u>	<u>\$ 4,606</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
CDBG CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$ 100,000	\$ -	\$ -	\$ -
Expenditures:				
Current:				
General government	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balance				
Cash balance, beginning of year	<u>1,301</u>	<u>1,301</u>	<u>1,301</u>	<u>-</u>
Cash balance, end of year	<u>\$ 1,301</u>	<u>\$ 1,301</u>	<u>\$ 1,301</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Electrical Construction Fund</u>	<u>Effluent Water Fund</u>	<u>Senior Transportation Fund</u>	<u>Capital Expenditures Fund</u>
Sources/Inflows of Resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 35,537	\$ 15,150	\$ 75,830	\$ 11
Differences - Budget to GAAP:				
The City has budgeted capital projects activity related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	(35,537)	(15,150)	-	-
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	-	-	4,581	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - capital projects funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,411</u>	<u>\$ 11</u>
Uses/Outflows of Resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ 337,280	\$ 2,400	\$ 73,928	\$ 15,804
Differences - Budget to GAAP:				
The City has budgeted capital projects activity related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	(337,280)	(2,400)	-	-
The City recorded capital expenditures in the debt service fund which were transferred for financial reporting purposes.	-	-	-	354,780
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	-	-	6,955	-
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - capital projects funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,883</u>	<u>\$ 370,584</u>
Other Sources (Uses) of Resources:				
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ 59,600	\$ -	\$ 74,000	\$ 21,500
Actual amount (budgetary basis) loan proceeds	365,500	-	-	-
Differences - Budget to GAAP:				
The City recorded capital expenditures in the debt service fund which were transferred for financial reporting purposes.	-	-	-	354,780
For financial reporting purposes, all financial activity related to the capital projects for utility improvements or expansion have been reported within the enterprise fund. As such, adjustments are made within the budgetary basis to tie the net transfers as reflected in financial reporting.	(970,335)	(234,724)	-	-
Total other financing sources (uses) as reported of revenues, expenditures and changes in fund balances - capital projects funds	<u>\$ (545,235)</u>	<u>\$ (234,724)</u>	<u>\$ 74,000</u>	<u>\$ 376,280</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	R & R Emergency Fund	FAA Project Fund	Veteran's Wall Fund	CDBG Fund	Morgan Street Construction Fund
Sources/Inflows of Resources:					
Actual amounts (budgetary basis) "available to appropriation" from the budgetary comparison statement.	\$ -	\$ 7,186	\$ 350,201	\$ -	\$ -
Differences - Budget to GAAP:					
The City has budgeted capital projects activity related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	-	(7,186)	-	-	505,154
Accrual of revenues and associated receivables that are not considered an inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	-	-	(309,083)	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - capital project funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,118</u>	<u>\$ -</u>	<u>\$ 505,154</u>
Uses/Outflows of Resources:					
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ -	\$ 10,239	\$ 358,582	\$ -	\$ 208,635
Differences - Budget to GAAP:					
The City has budgeted capital projects activity related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	-	(10,239)	-	-	-
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	-	-	(306,678)	-	305,140
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - capital project funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,904</u>	<u>\$ -</u>	<u>\$ 513,775</u>
Other Sources (Uses) of Resources:					
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ -	\$ -	\$ 12,420	\$ -	\$ 200,000
For financial reporting purposes, all financial activity related to the capital projects for utility improvements or expansion have been reported within the enterprise fund. As such, adjustments are made within the budgetary basis to tie the net transfers as reflected in financial reporting.	-	(24,547)	-	-	-
Total other financing sources (uses) as reported of revenues, expenditures and changes in fund balances - capital project funds.	<u>\$ -</u>	<u>\$ (24,547)</u>	<u>\$ 12,420</u>	<u>\$ -</u>	<u>\$ 200,000</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Revenues:				
State shared taxes	\$ 252,000	\$ 301,272	\$ 265,033	\$ (36,239)
Intergovernmental	100,000	100,000	-	(100,000)
Interest income	500	531	434	(97)
	<u>352,500</u>	<u>401,803</u>	<u>265,467</u>	<u>(136,336)</u>
Expenditures:				
Current:				
General government	130,613	130,615	572	130,043
Capital outlay	1,845,494	1,845,494	256,276	1,589,218
Debt service:				
Principal	123,104	134,407	120,000	14,407
Interest	124,438	162,405	173,876	(11,471)
	<u>2,223,649</u>	<u>2,272,921</u>	<u>550,724</u>	<u>1,722,197</u>
Excess (deficiency) of revenues over expenditures	(1,871,149)	(1,871,118)	(285,257)	1,585,861
Other Financing Sources (Uses):				
Loan proceeds	<u>1,625,537</u>	<u>1,625,537</u>	<u>-</u>	<u>(1,625,537)</u>
Net change in cash balance	(245,612)	(245,581)	(285,257)	(39,676)
Cash balance, beginning of year	<u>619,922</u>	<u>619,922</u>	<u>619,922</u>	<u>-</u>
Cash balance, end of year	<u>\$ 374,310</u>	<u>\$ 374,341</u>	<u>\$ 334,665</u>	<u>\$ (39,676)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION OF THE BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Debt Service Fund
Sources/Inflows of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement.	\$ 265,467
Differences - Budget to GAAP:	
Accrual of revenues and associated receivables that are not considered and inflow or revenues for the budgetary basis but are considered revenues for financial reporting purposes.	70,395
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - debt service funds	\$ 335,862
Uses/Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement.	\$ 550,724
Differences - Budget to GAAP:	
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenditures for financial reporting purposes.	(198,386)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - debt service funds	\$ 352,338
Other Sources (Uses) of Resources:	
Actual amounts (budgetary basis) transfers in and (out) from the budgetary comparison statement.	\$ -
Differences - Budget to GAAP:	
The City received loan proceeds which were not recorded for budgetary purposes, but were recorded for financial reporting.	2,046,949
The City recorded capital expenditures incorrectly in debt service which have been transferred to other funds.	(356,071)
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances - debt service funds	\$ 1,690,878

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2010

	<u>Cemetery Fund</u>	<u>Golf Course Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 35,976	\$ 5,240	\$ 41,216
Non-Current Assets:			
Land	107,580	668,001	775,581
Buildings and improvements	10,074	303,770	313,844
Equipment	-	159,608	159,608
Less accumulated depreciation	<u>(4,186)</u>	<u>(438,083)</u>	<u>(442,269)</u>
Total capital assets, net	<u>113,468</u>	<u>693,296</u>	<u>806,764</u>
Total assets	<u>149,444</u>	<u>698,536</u>	<u>847,980</u>
Liabilities			
Current Liabilities:			
Accounts payable	1,245	1,934	3,179
Net Assets:			
Invested in capital assets	113,468	693,296	806,764
Unrestricted	<u>34,731</u>	<u>3,306</u>	<u>38,037</u>
Total net assets	<u>\$ 148,199</u>	<u>\$ 696,602</u>	<u>\$ 844,801</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Cemetery Fund	Golf Course Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Operating Revenues:			
Charges for services	\$ 12,185	\$ 10,893	\$ 23,078
Operating Expenses:			
General operating	10,766	44,506	55,272
Depreciation	<u>1,051</u>	<u>9,180</u>	<u>10,231</u>
Total operating expenses	<u>11,817</u>	<u>53,686</u>	<u>65,503</u>
Operating income (loss)	368	(42,793)	(42,425)
Non-Operating Revenues (Expenses):			
State shared taxes	-	529	529
Interest income	<u>-</u>	<u>22</u>	<u>22</u>
Total non-operating revenues (expenses)	<u>-</u>	<u>551</u>	<u>551</u>
Change in net assets	368	(42,242)	(41,874)
Net assets, beginning of year	<u>147,831</u>	<u>738,844</u>	<u>886,675</u>
Net assets, end of year	<u>\$ 148,199</u>	<u>\$ 696,602</u>	<u>\$ 844,801</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Cemetery Fund	Golf Course Fund	Total
Cash Flows From Operating Activities:			
Cash received from customers	\$ 12,185	\$ 10,893	\$ 23,078
Cash payments to suppliers for goods and services	<u>(9,893)</u>	<u>(44,607)</u>	<u>(54,500)</u>
Net cash provided (used) by operating activities	2,292	(33,714)	(31,422)
Cash Flows by Non-Capital Financing Activities:			
Cash received from intergovernmental sources	-	529	529
Cash Flows From Investing Activities:			
Interest income	<u>-</u>	<u>22</u>	<u>22</u>
Net increase (decrease) in cash	2,292	(33,163)	(30,871)
Cash and cash equivalents, beginning of year	<u>33,684</u>	<u>38,403</u>	<u>72,087</u>
Cash and cash equivalents, end of year	<u>\$ 35,976</u>	<u>\$ 5,240</u>	<u>\$ 41,216</u>
Displayed as:			
Cash	<u>\$ 35,976</u>	<u>\$ 5,240</u>	<u>\$ 41,216</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 368	\$ (42,793)	\$ (42,425)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	1,051	9,180	10,231
Change in Assets and Liabilities:			
Increase (decrease) in accounts payable	<u>873</u>	<u>(101)</u>	<u>772</u>
Total adjustments	<u>1,924</u>	<u>9,079</u>	<u>11,003</u>
Net cash provided (used) by operating activities	<u>\$ 2,292</u>	<u>\$ (33,714)</u>	<u>\$ (31,422)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
JOINT UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ 8,352,874	\$ 9,320,974	\$ 9,074,342	\$ (246,632)
Operating Expenses:				
Personnel services	1,732,723	1,755,154	1,591,059	164,095
General operating	4,898,580	5,585,552	5,102,328	483,224
Total operating expenses	6,631,303	7,340,706	6,693,387	647,319
Operating income	1,721,571	1,980,268	2,380,955	400,687
Non-Operating Revenues (Expenses):				
State shared taxes	448,825	448,825	509,051	60,226
Intergovernmental	200,000	-	-	-
Miscellaneous	28,095	28,095	-	(28,095)
Interest income	4,097	4,097	4,325	228
Retirement of debt	(168,728)	(168,728)	(168,727)	1
Interest expense	(123,187)	(123,187)	(120,383)	2,804
Total non-operating revenues (expenses)	389,102	189,102	224,266	35,164
Income before other financing sources (uses)	2,110,673	2,169,370	2,605,221	435,851
Other Financing Sources (Uses):				
Transfers in	528,578	528,578	500,000	(28,578)
Transfers (out)	(2,647,491)	(2,693,491)	(2,459,600)	(233,891)
Total other financing sources (uses)	(2,118,913)	(2,164,913)	(1,959,600)	205,313
Net change in cash balance	(8,240)	4,457	645,621	641,164
Cash balance, beginning of year	1,269,042	1,269,042	1,269,042	-
Cash converted to restricted cash	-	-	(234,578)	(234,578)
Transfer from capital projects funds	-	-	380,981	380,981
Cash balance, end of year	\$ 1,260,802	\$ 1,273,499	\$ 2,061,066	\$ 787,567

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SOLID WASTE ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Operating Expenses:				
General operating	<u>51,510</u>	<u>51,510</u>	<u>51,177</u>	<u>333</u>
Operating (loss)	(51,510)	(51,510)	(51,177)	333
Non-Operating Revenues (Expenses):				
State shared taxes	64,000	64,000	66,201	2,201
Intergovernmental	15,500	15,500	15,473	(27)
Interest income	200	200	3,120	2,920
Retirement of debt	(64,363)	(64,363)	(64,363)	-
Interest expense	<u>(16,538)</u>	<u>(16,538)</u>	<u>(16,537)</u>	<u>1</u>
Total non-operating revenues (expenses)	<u>(1,201)</u>	<u>(1,201)</u>	<u>3,894</u>	<u>5,095</u>
Net change in cash balance	(52,711)	(52,711)	(47,283)	5,428
Cash balance, beginning of year	<u>386,788</u>	<u>386,788</u>	<u>386,788</u>	<u>-</u>
Cash balance, end of year	<u>\$ 334,077</u>	<u>\$ 334,077</u>	<u>\$ 339,505</u>	<u>\$ 5,428</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
CEMETERY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
Operating Revenues:				
Charges for services	\$ 12,000	\$ 12,000	\$ 12,185	\$ 185
Operating Expenses:				
General operating	<u>23,644</u>	<u>23,714</u>	<u>9,893</u>	<u>13,821</u>
Net change in cash balance	(11,644)	(11,714)	2,292	14,006
Cash balance, beginning of year	<u>33,684</u>	<u>33,684</u>	<u>33,684</u>	<u>-</u>
Cash balance, end of year	<u>\$ 22,040</u>	<u>\$ 21,970</u>	<u>\$ 35,976</u>	<u>\$ 14,006</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
GOLF COURSE ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ 10,725	\$ 10,725	\$ 10,893	\$ 168
Operating Expenses:				
General operating	45,317	45,312	44,607	705
Operating (loss)	(34,592)	(34,587)	(33,714)	873
Non-Operating Revenues (Expenses):				
State shared taxes	537	537	529	(8)
Interest income	100	100	22	(78)
Total non-operating revenues (expenses)	637	637	551	(86)
(Loss) before other financing sources (uses)	(33,955)	(33,950)	(33,163)	787
Other Financing Sources (Uses):				
Transfers in	66,250	66,250	-	(66,250)
Net change in cash balance	32,295	32,300	(33,163)	(65,463)
Cash balance, beginning of year	38,403	38,403	38,403	-
Cash balance, end of year	<u>\$ 70,698</u>	<u>\$ 70,703</u>	<u>\$ 5,240</u>	<u>\$ (65,463)</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
AIRPORT ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance With Final Budget Over (Under)
Operating Revenues:				
Charges for services	\$ 260,145	\$ 260,145	\$ 171,478	\$ (88,667)
Operating Expenses:				
Personnel services	92,014	97,858	90,802	7,056
General operating	287,577	290,040	153,692	136,348
Total operating expenses	379,591	387,898	244,494	143,404
Operating (loss)	(119,446)	(127,753)	(73,016)	54,737
Non-Operating Revenues (Expenses):				
State shared taxes	11,450	11,450	4,060	(7,390)
Interest income	100	100	33	(67)
Total non-operating revenues (expenses)	11,550	11,550	4,093	(7,457)
Income (loss) before other financing sources (uses)	(107,896)	(116,203)	(68,923)	47,280
Other Financing Sources (Uses):				
Transfers in	80,000	80,000	40,000	(40,000)
Net change in cash balance	(27,896)	(36,203)	(28,923)	7,280
Cash balance, beginning of year	62,337	62,337	62,337	-
Transfer from FAA capital project fund	-	-	18,330	18,330
Cash balance, end of year	<u>\$ 34,441</u>	<u>\$ 26,134</u>	<u>\$ 51,744</u>	<u>\$ 25,610</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Joint Utility Fund</u>	<u>Solid Waste Fund</u>	<u>Cemetery Fund</u>
Sources/Inflows of Operating Resources:			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 9,074,342	\$ -	\$ 12,825
Differences - Budget to GAAP:			
The City has budgeted utility service revenues related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	15,150	-	-
Accrual of revenues and associated receivables that are not considered an inflow or revenue for budgetary basis but are considered revenue for financial purposes.	<u>81,008</u>	<u>-</u>	<u>-</u>
Total operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets	<u>\$ 9,170,500</u>	<u>\$ -</u>	<u>\$ 12,825</u>
Uses/Outflows of Operating Resources:			
Actual amounts (budgetary basis) "operating expenses" from the budgetary comparison schedule.	\$ 6,693,387	\$ 51,177	\$ 9,893
Differences - Budget to GAAP:			
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenses for financial reporting purposes.	73,526	(7,186)	873
Adjustments for ending inventories are not included in the budgetary basis but are expense for financial reporting purposes.	96,423	-	-
The City has budgeted capital projects activity related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	13,368	-	-
The City budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis but are expenses for financial reporting purposes.	26,476	-	-
The City budgets for capital assets purchased. Capital additions are not reflected as an operating expense for financial reporting purposes.	(11,239)	-	-
Depreciation expense is not considered an outflow of operating resources for budgetary basis but is considered an expense for financial reporting purposes.	<u>184,914</u>	<u>95,659</u>	<u>1,051</u>
Total operating expenses as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 7,076,855</u>	<u>\$ 139,650</u>	<u>\$ 11,817</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Joint Utility Fund</u>	<u>Solid Waste Fund</u>	<u>Cemetery Fund</u>
Sources/Inflows of Non-Operating Resources:			
Actual amounts (budgetary basis) "non-operating revenues" from the budgetary comparison schedule.	\$ 513,376	\$ 84,794	\$ -
Differences - Budget to GAAP:			
The City has budgeted grant revenue related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	35,421	-	-
Accrual of revenues and associated receivables that are not considered an inflow or revenues for budgetary basis but are considered revenue for financial reporting purposes.	-	(60)	-
The City does not budget for interest income earned on investments and reserves held for debt service but the interest earned is considered revenue for financial reporting purposes.	<u>57,656</u>	<u>-</u>	<u>-</u>
Total non-operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 606,453</u>	<u>\$ 84,734</u>	<u>\$ -</u>
Uses/Outflows of Operating Resources:			
Actual amounts (budgetary basis) "non-operating expenses" from the budgetary comparison schedule.	\$ (289,110)	\$ (80,900)	\$ -
Differences - Budget to GAAP:			
For budgetary purposes, the City accounts for the principal payment as a debt expenditure. For financial reporting purposes the payment of debt is reflected as a reduction of a liability.	168,727	64,363	-
The City has budgeted payments for interest on debt related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	(46,266)	-	-
The City budgets for interest on long-term debt paid for during the accounting period. Accrual of interest payable is not included in the budgetary basis but are considered expenses for financial reporting purposes.	<u>1,924</u>	<u>-</u>	<u>-</u>
Total non-operating expenses as reported on the statement of revenues, expenses, and changes in fund net assets	<u>\$ (164,725)</u>	<u>\$ (16,537)</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Joint Utility Fund</u>	<u>Solid Waste Fund</u>	<u>Cemetery Fund</u>
Other Sources of Resources:			
Actual amounts (budgetary basis) "transfers in" from the budgetary comparison schedule.	\$ 500,000	\$ -	\$ -
Differences - Budget to GAAP:			
For financial reporting purposes, all financial activity related to the capital projects for utility improvements or expansion have been reported within the enterprise fund. As such, adjustments are made within the budgetary basis to tie the net transfers as reflected in financial reporting.	<u>839,559</u>	<u>-</u>	<u>-</u>
Total other sources of resources as reported on the statement of revenues, expenses and changes in fund net assets.	<u>\$ 1,339,559</u>	<u>\$ -</u>	<u>\$ -</u>
Other Uses of Resources:			
Actual amounts (budgetary basis) "transfers (out)" from the budgetary comparison schedule.	\$ 2,459,600	\$ -	\$ -
Differences - Budget to GAAP:			
None.	<u>-</u>	<u>-</u>	<u>-</u>
Total other (uses) of resources as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 2,459,600</u>	<u>\$ -</u>	<u>\$ -</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Golf Course Fund</u>	<u>Airport Fund</u>
Sources/Inflows of Operating Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 10,893	\$ 171,478
Differences - Budget to GAAP:		
Accrual of revenues and associated receivables that are not considered an inflow or revenue for budgetary basis but are considered revenue for financial purposes.	<u>-</u>	<u>118,793</u>
Total operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 10,893</u>	<u>\$ 290,271</u>
Uses/Outflows of Operating Resources:		
Actual amounts (budgetary basis) "operating expenses" from the budgetary comparison schedule.	\$ 44,607	\$ 244,494
Differences - Budget to GAAP:		
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis but are expenses for financial reporting purposes.	(101)	116,734
The City budgets for salaries paid for during the current accounting period. Accrual of salaries are not included in the budgetary basis but are expenses for financial reporting purposes.	-	1,051
Adjustments for ending inventories are not included in the budgetary basis but are expense for financial reporting purposes.	-	(7,400)
Depreciation expense is not considered an outflow of operating resources for budgetary basis but is considered an expense for financial reporting purposes.	<u>9,180</u>	<u>86,933</u>
Total operating expenditures as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 53,686</u>	<u>\$ 441,812</u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Golf Course Fund	Airport Fund
Sources/Inflows of Non-Operating Resources:		
Actual amounts (budgetary basis) "non-operating revenues" from the budgetary comparison schedule.	\$ 551	\$ 4,093
Differences - Budget to GAAP:		
The City has budgeted grant revenue related to enterprise activity as governmental activities within the capital projects fund. For financial reporting purposes, the activity has been reflected within the enterprise funds in which the capital projects are capitalized.	-	80,725
Total non-operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets.	\$ 551	\$ 84,818

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY COMPARISON SCHEDULES
TO THE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Golf Course Fund	Airport Fund
Other Sources of Resource:		
Actual amounts (budgetary basis) "transfers in" from the budgetary comparison schedule.	\$ -	\$ 40,000
Differences - Budget to GAAP:		
For financial reporting purposes, all financial activity related to the capital projects for utility improvements or expansion have been reported within the enterprise fund. As such, adjustments are made within the budgetary basis to tie the net transfers as reflected in financial reporting.	-	24,547
Total other sources of resources as reported on the statement of revenues, expenses and changes in fund net assets.	\$ -	\$ 64,547

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
INTERNAL SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
Operating Revenues:				
Charges for services	\$ 230,500	\$ 230,500	\$ 195,290	\$ (35,210)
Operating Expenses:				
General operating	<u>230,500</u>	<u>230,500</u>	<u>186,338</u>	<u>44,162</u>
Net change in cash balance	-	-	8,952	8,952
Cash balance, beginning of year	<u>61,607</u>	<u>61,607</u>	<u>61,607</u>	<u>-</u>
Cash balance, end of year	<u><u>\$ 61,607</u></u>	<u><u>\$ 61,607</u></u>	<u><u>\$ 70,559</u></u>	<u><u>\$ 8,952</u></u>

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

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
RECONCILIATION BUDGETARY BASIS COMPARISON SCHEDULES AND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Internal Service Fund</u>
Sources/Inflows of Operating Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 195,290
Differences - Budget to GAAP:	
None.	<u>-</u>
Total operating revenues as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 195,290</u>
Uses/Outflows of Operating Resources:	
Actual amounts (budgetary basis) "operating expenses" from the budgetary comparison schedule.	\$ 186,338
Differences - Budget to GAAP:	
The City budgets for claims and expenses paid for during the current accounting period. Accrual of liabilities are not included in the budgetary basis, but are expenses for financial reporting purposes.	<u>(2,048)</u>
Total operating expenses as reported on the statement of revenues, expenses, and changes in fund net assets.	<u>\$ 184,290</u>

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

SUPPLEMENTAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2010

<u>Financial Institution/Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
Bank of the Southwest 509 Broadway Street Truth or Consequences, NM 87901				
Airport Hangar	Checking	\$ 32,966	\$ 148	\$ 33,114
FAA Project/Municipal Airport	Checking	21,199	(2,869)	18,330
C I General	Checking	11,799	-	11,799
C I Joint Utility	Checking	9,247	-	9,247
CDBG Comprehensive	Checking	1,301	-	1,301
Court Cost	Checking	2,991	130	3,121
DWI HB108	Checking	40,545	-	40,545
DWI Fund	Checking	65,453	(336)	65,117
DWI-UA Screening Program	Checking	7,212	-	7,212
Special Appropriations Effluent Water	Checking	247,474	-	247,474
Electrical Construction	Checking	133,507	-	133,507
Federal Grant Trust	Checking	24,841	-	24,841
General Fund	Checking	601,303	(17,115)	584,188
Golf Course	Checking	5,157	83	5,240
Internal Services	Checking	70,559	-	70,559
Joint Utility Income	Checking	1,316,482	12,719	1,329,201
JT Utility Emergency Repair Fund	Checking	59,007	-	59,007
Law Enforcement	Checking	23,562	-	23,562
Federal Seizure Share	Checking	392	-	392
Lodgers' Tax	Checking	114,733	-	114,733
Morgan Street Dam Project	Checking	3,671	-	3,671
Municipal Recreation	Checking	34,766	45	34,811
PD Bond Account	Checking	1,500	-	1,500
PD Confidential Fund	Savings	1,232	-	1,232
Police Department Donation	Checking	8,869	-	8,869
Pledge State Tax	Checking	334,665	-	334,665
Payroll Revolving Fund	Checking	43,094	(37,258)	5,836
R & R Water Fund	Checking	16,644	-	16,644
Senior Transportation	Checking	88,337	-	88,337
Solid Waste Disposal	Checking	26,998	-	26,998
State Fire Fund	Checking	89,273	-	89,273
Street Renovation	Checking	173,518	-	173,518
Veteran's Wall	Checking	6,397	-	6,397
Veteran's Wall Prep	Checking	16,324	-	16,324
Capital Improvement Reserves	Savings	401,744	-	401,744
Emergency Repair Reserves	Savings	25,227	-	25,227
Wastewater Repair Reserves	Savings	28,046	-	28,046
Electrical Construction Reserves	Savings	20,190	-	20,190
		<u>\$ 4,110,225</u>	<u>\$ (44,453)</u>	<u>\$ 4,065,772</u>

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2010

<u>Financial Institution/Account Description</u>	<u>Type of Account</u>	<u>Financial Institution Balance</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
Compass Bank 210 Main Street Truth or Consequences, NM 87901				
Cemetery Fund	Checking	\$ 35,976	\$ -	\$ 35,976
Library Fund	Checking	16,977	9	16,986
Required Reserve 1995 Bond	Time Deposit	55,331	-	55,331
Bond Fund 1995	Time Deposit	53,989	-	53,989
Required Reserve 1996 Bond	Time Deposit	36,320	-	36,320
Bond Fund 1996	Time Deposit	36,346	-	36,346
Bond Pmt Reserve 1998	Time Deposit	17,066	-	17,066
Required Reserve 1998	Time Deposit	15,367	-	15,367
Pledged State	Time Deposit	375,009	-	375,009
Solid Waste	Time Deposit	312,507	-	312,507
R & R Sewer	Time Deposit	250,006	-	250,006
R & R Water	Time Deposit	74,387	-	74,387
Emergency Repair Reserves	Time Deposit	78,615	-	78,615
Wastewater Reserve	Time Deposit	98,423	-	98,423
Electrical Construction Reserve	Time Deposit	79,750	-	79,750
Capital Improvement Reserve	Time Deposit	984,233	-	984,233
		<u>\$ 2,520,302</u>	<u>\$ 9</u>	<u>\$ 2,520,311</u>

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2010**

Bank of the Southwest
P.O. Box 1638
Roswell, NM 88202-1638

<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Market Value</u>
FNMA ARM Pool #86794	31363ENK7	03/01/18	\$ 57,144
FNMA ARM Pool #91962	31363LFB0	05/01/19	17,115
GNMA II Pool #008466	36202KMP7	07/20/24	45,685
GNMA II Pool #080484	36225CRE8	01/20/31	18,497
Letter of credit	LOC270400054	09/17/10	100,000
Letter of credit	LOC270400051	01/05/11	3,550,000
Total:			<u>\$ 3,788,441</u>

The holder of the security pledged Bank of the Southwest is Wells Fargo Bank, N.A., Public Funds Administration, 420 Montgomery St., 11th Floor, San Francisco, CA 94104.

Compass Bank
Public Funds Administration
P.O. Box 10566
Birmingham, Alabama 35296

<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Market Value</u>
Columbus Texas G/O	199579CW1	08/15/20	\$ 100,487
Harris Cnty TX Impt G/O BQ	414181BS5	09/01/21	60,157
Danbury TX Higher Ed Auth Rev	236035AL5	02/15/22	64,008
Danbury TX Higher Ed Auth Rev	236035AL5	02/15/22	28,004
FNMA #889339	31410KBG8	12/01/08	467,836
FNMA Arm #695982	31400SFX2	03/01/33	418,099
FHMLC Arm #780996	31349SC92	10/01/33	169,750
FNMA #888346	31410F5F8	09/01/34	59,790
FNMA Arm #886344	31410DWD8	07/01/36	803,822
FNR 2006-81 FA	31396KM33	09/25/36	197,055
Total:			<u>\$ 2,369,008</u>

The holder of the security pledged by Compass Bank is the Federal Home Loan Bank of Atlanta, P.O. Box 105565, Atlanta, Georgia 30348-5565.

SUPPLEMENTAL FEDERAL FINANCIAL INFORMATION

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Program or Grant Number	Award Amount	Expenditures
U.S. Department of Transportation/Passed through New Mexico Department of Transportation				
American Recovery and Reinvestment Act of 2009 Cooperative Project Agreement	20.205	ECO-1174(15)	\$ 604,305	\$ 505,154
Federal Aviation Administration Airport Improvement Program	20.106	3-35-0042-012-2010	76,703	36,916
Airport Improvement Program	20.106	3-35-0042-011-2008	60,000	<u>7,002</u>
Total U.S. Department of Transportation				549,072
U.S. Department of Justice/Office of Justice Programs/Bureau of Justice Assistance				
BJA FY09 Recovery Act Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-SB-B9-3051	24,837	-
Passed through Children, Youth & Family Department Title V - Community Prevention Grant Program Juvenile Justice and Delinquency Prevention	16.548	09-690-9446-1	71,750	<u>71,750</u>
Total U.S. Department of Justice				71,750
Department of Health and Human Services/Passed through Children, Youth & Family Department				
Temporary Assistance for Needy Families Capital Improvements Projects in Facilities of Domestic Violence Providers	93.558	09-690-9695-0	58,899	17,975
U.S. Department of Housing and Urban Development/ Passed through New Mexico Department of Finance and Administration				
Community Development Block Grant (CDBG) Electrical System Improvements	14.228	08-C-NR-1-01-A-14	490,000	<u>35,421</u>
Total Expenditures of Federal Awards				<u>\$ 674,218</u>

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City of Truth or Consequences (City). The City is defined in Note 1 of the City's financial statements. All federal awards received are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using both modified accrual basis of accounting, which is described in Note 1, to the city's financial statements, and the full accrual of accounting. All governmental expenditures of the City of Truth or Consequences are presented in accordance with the modified accrual basis of accounting. All proprietary fund expenses of the City are presented in accordance with accrual basis of accounting.

3. NON-CASH ASSISTANCE

During the current fiscal year, the City did not expend any federal non-cash assistance. The City did not receive any federal assistance related to insurance nor did they have any loans or loan guarantees outstanding at year end.

4. RECONCILIATION OF FINANCIAL STATEMENTS TO FEDERAL AWARDS

Federal expenditures on the schedule of expenditures of federal awards amount to \$674,218. The amounts of expenditures within the funds are reflected within the financial statements as follows:

<u>General Fund</u>	
Culture and recreation	\$ 71,750
Capital outlay	17,975
	<hr/>
	89,725
<u>Capital Project Funds</u>	
Morgan Street Flood Control Fund	
Public works	505,154
<u>Joint Utility Fund</u>	
Construction in progress	35,421
<u>Airport Fund</u>	
Airport improvements	43,918
	<hr/>
Total primary government	<u>\$ 674,218</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

Ed Fierro, CPA • Rose Fierro, CPA527 Brown Road • Las Cruces, NM 88005
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Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards*

Hector H. Balderas, State Auditor
and
Mayor and City Councilors
City of Truth or Consequences
Truth or Consequences, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparison statement for the general fund of the City of Truth or Consequences, New Mexico, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. We have also audited the financial statements of the City of Truth or Consequences nonmajor governmental, nonmajor enterprise funds, and the related budgetary comparison statements for the major Morgan Street Flood Control and debt service governmental funds, major joint utility, solid waste, and airport enterprise funds, nonmajor governmental, nonmajor enterprise, and internal service funds presented as supplementary information in the combining and individual fund financial statements as of and for the year ended June 30, 2010. Our report was modified to include a reference to other auditors. Other auditors audited the City of Truth or Consequences Housing Authority, as described in our report on the City of Truth or Consequences financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and a other deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-03 to be a material weakness.

A *significant deficiency* is a deficiency, or combination or deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency described in the accompany schedule of findings and questioned costs as item 2010-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Truth or Consequences 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*.

In regards to the City of Truth or Consequences, we noted other instances of noncompliance that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraph 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 2009-01, 2009-02, 2009-03, and 2010-02 through 2010-08.

In regards to the City of Truth or Consequences Housing Authority, the other auditors noted a other instance of noncompliance matter that is required to be reported under *Government Auditing Standards January 2007 Revision*, paragraph 5.14 and 5.16, and Section 12-6-5, NMSA 1978 that is described in the accompanying schedule of findings and questioned costs as item 2010-01.

The City of Truth or Consequences' responses to the findings in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Truth or Consequences' responses and, accordingly, we express no opinion on it.

The City of Truth or Consequences Housing Authority's response to the finding in their audit is described in the accompanying schedule of findings and responses. The other auditors did not audit the City of Truth or Consequences Housing Authority's response and, accordingly, expressed no opinion on it.

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



Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 12, 2010

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Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133

Hector H. Balderas, State Auditor
and
Mayor and City Councilors
City of Truth or Consequences
Truth or Consequences, New Mexico

Compliance

We have audited the City of Truth or Consequences' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Truth or Consequences' major federal program for the year ended June 30, 2010. The City of Truth or Consequences' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Truth or Consequences' management. Our responsibility is to express an opinion on the City of Truth or Consequences' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Truth or Consequences' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Truth or Consequences' compliance with those requirements.

In our opinion, the City of Truth or Consequences complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-09.

Internal Control over Compliance

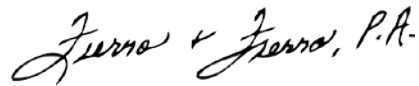
Management of the City of Truth or Consequences is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Truth or Consequences' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Truth or Consequences' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

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



Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 12, 2010

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS

Primary Government

Item 2007-03 – Accounting Activity

Statement of Condition – The City requires the independent auditors gather necessary information (receivables, capital assets, accounts payable, and compensated absences) in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP.

Furthermore, the following deficiencies regarding the City’s accounting activity were noted:

- The City failed to record financial activity related to debt of the City held by outside parties. In particular, the City failed to record activity at the New Mexico Finance Authority for the issuance of a new loan, earning of interest income, the transfer of funds between accounts, and the beginning and ending cash balances for all accounts. Further, the City failed to record financial activity at the Bank of Albuquerque and the Bank of New York related to debt.
- The City failed to record the liabilities related to capital leases with various lenders for equipment.
- The City failed to adjust its accounting records for year end inventory balances.
- For the fiscal year ended June 30, 2007, the City's capital asset subsidiary records were overstated in relationship to the final capital asset audited balances presented in the audit report by the prior year auditor. Since that time, City has not reconciled or determined the difference between their records and the audit report. Furthermore, the City failed to record all its additions to the capital assets subsidiary records with a cost of greater than \$5,000, including improvements to the airport.
- The City recorded the activity of capital improvement projects related to enterprise funds in governmental capital projects funds.
- The City paid bonuses for employees through accounts payable, which means they were not treated as wages.
- The City made a certain payment totaling \$9,551 on an estimated invoice. Actual costs were not provided to the City.

Criteria – Auditing standards adopted in the United States of America in particular Statement on Auditing Standards (SAS) 109, paragraph 41 states the following: *“Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives.”*

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2007-03 – Accounting Activity (continued)

Criteria (continued) – SAS 112 paragraph 11 provides examples of factors that may affect the likelihood that a control, or combination of controls could fail to prevent or detect a misstatement. One such example is “*The nature of the financial statements accounts, disclosures, and assertions involved.*”

SAS 112 paragraph 19 provides a list of indicators of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Two such examples are (1) “*Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance*”, and (2) “*Restatement of previously issued financial statements to reflect the correction of a material misstatement*”. Appropriate internal control procedures over financial reporting include the ability to prepare financial statements in accordance with GAAP. Financial statements prepared in accordance with GAAP include all required statements of financial position, statements of changes in financial position, changes in cash flow, and notes.

Effect – Since the City personnel did not prepare the financial statements, and City personnel failed to prepare or record key components of the financial statements, there is an increased risk that a misstatement of the City’s financial statements, that is more than inconsequential, will not be prevented or detected. The City’s accounting staff lacks the proper knowledge or training regarding some aspects of the conditions noted, such as the reconciliation of capital assets and the recording of debt obligations. Besides the increased risk of a material misstatement, the auditor may lose independence and be unable to express an opinion on the financial statements since they prepared the key components of and the preparation of the financial statements.

Cause – The City’s staff has not received the proper training, therefore they are unable to perform the additional accounting. Additionally, due to their other accounting duties, the staff does not have sufficient work hours needed to prepare the key components of the financial statements that are prepared on the economic resources measurement focus (which includes the accrual basis of accounting), and the current financial resources measurement focus (which includes the modified accrual basis of accounting). When audit services are sought, there is a requirement that the auditor will prepare the financial statements. In the past this may have been sufficient, however, the accounting profession (American Institute of Certified Public Accountants) by issuance of SAS 112, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

Recommendation – We recommend the City employ an accountant who has the ability to prepare the financial statements in accordance with GAAP. Further, the City should implement accounting procedures that would convert their year-end cash basis accounting information into the accrual basis of accounting.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2007-03 – Accounting Activity (continued)

Recommendation (continued) - Alternately, the City could choose to consult with a certified public accounting firm, not performing the audit prior to and during the audit process that would assist the City in conversion of its cash basis records to full accrual basis in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions – The City is making efforts to achieve this goal. For the year ended June 30, 2010, City staff made a good faith effort to prepare some of the schedules needed for the conversion of its cash basis records to full accrual basis. The City will continue to provide key employees with appropriate training to implement and apply GAAP principles.

Item 2010-01 – Financial Statements and Disclosures

Statement of Condition – The City relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). At the present time the accounting staff is unable to prepare such statements, as well as, the ability to detect accuracy and completeness of all required notes that explain financial activity contained in the financial statements. During the fiscal year ended June 30, 2010, the City staff assisted the auditing firm in gathering some of the necessary information in order to convert their cash basis accounting information into financial statements prepared in accordance with GAAP. While the preparation of some of the schedules is a step in the right direction the City must display a level of expertise regarding financial reporting in accordance with GAAP in order to reduce the deficiency noted in internal controls regarding financial reporting.

Criteria – Auditing standards adopted in the United States of America in particular Statement on Auditing Standards (SAS) 115, paragraph 3 states the following: *“Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity’s objective of reliable financial reporting.”*

Appropriate internal control procedures over financial reporting include the ability to prepare financial statements in accordance with GAAP or at a minimum; management should have the ability to comprehend the requirements for financial reporting. Financial statements prepared in accordance with GAAP include all required statements of financial position, statements of changes in financial position, changes in cash flow, as applicable, and notes. SAS 112 paragraph 11 provides examples of factors that may affect the likelihood that a control, or combination of controls could fail to prevent or detect a misstatement. One such example is *“The nature of the financial statements accounts, disclosures, and assertions involved.”*

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-01 – Financial Statements and Disclosures (continued)

Criteria - SAS 115 paragraph 5 provides an explanation of a deficiency in internal control as either a deficiency in design or in operation. Paragraph 6 states “A *material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected or corrected on a timely basis.*” SAS 115 paragraph 15 provides a list of indicators of a material weakness in internal control. One such example is “*Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.*”

Effect – Since the City personnel lack the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the City’s financial statements, that is more than inconsequential, will not be prevented or detected. Further, since the City accounting staff lacks the proper knowledge or training regarding the requirements of GAAP financial reporting, there is more than a remote possibility that a material misstatement of the financial statements will not be prevented or detected.

Cause –The employees maintain the City’s accounting records on the cash basis of accounting which is required by the state of New Mexico. The employees have not received accounting training which would provide knowledge regarding the differences between the cash basis of accounting and the accrual basis of accounting and how to convert accounting records from one basis to another. Further, the staff has not received training or continuing education regarding the Government Accounting Standard Board (GASB) pronouncements. Such training would include the regular attendance of courses that update the accounting profession as to changes in the guidance issued by GASB. City employees lack the proper abilities and training to prepare financial statements in accordance with generally accepted accounting principles. The City continues the tradition of the past, by requiring the independent auditor prepare the financial statements and the notes to the statements as they perform the annual audit. In the past this may have been sufficient, however, the accounting profession (American Institute of Certified Public Accountants) by issuance of risk assessment statements on auditing standards, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

Recommendation – We understand the City Council has to be mindful of the economic conditions facing the state of New Mexico and the City when considering budget appropriations and charges to such appropriations; however, the Council should place proper financial resources in training the accounting staff. Such training at the minimum would include accounting courses that would instruct the staff of GAAP considerations in regards to government financial reporting. With that in mind, we recommend the City staff receive the proper training in regards to financial reporting in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. The City will continue to provide key employees with appropriate training in the preparation of financial statements in accordance with generally accepted accounting principles.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2009-01 – Public Money Deposits

Statement of Condition – The City maintains cash in interest bearing accounts in two separate financial institutions and it could not be determined whether deposits were invested in a ratio based upon the financial institution’s total deposits.

Criteria – Section 6-10-36 NMSA 1978 states in part, “*Public money placed in interest-bearing deposits in banks and savings and loan associations shall be equitably distributed among all banks and savings and loan associations having their main or staffed branch offices within the geographical boundaries of the governmental unit that have qualified as public depositories. The deposits shall be in the proportion that each bank’s or savings and loan association’s deposits bears to the total deposits of all banks and savings and loan associations.*”

Effect – Noncompliance with the New Mexico state statutes could subject elected officials and employees to penalties.

Cause – The City has not established a procedure to ensure compliance with Section 6-10-36 NMSA 1978 concerning public money deposits.

Recommendation – We recommend the City review Section 6-10-36 of the New Mexico state statutes and enact a policy and procedure that would ensure compliance with State laws.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. After reviewing Section 6-10-36 NMSA 1978, we expect to be able to implement a policy and procedure that will comply with State law.

Item 2009-02 – Capital Assets – Inventory Control Numbers

Statement of Condition – The City is not in the practice of placing identification tags on its capital assets. In addition, the descriptions on the subsidiary records do not provide enough detail to identify the assets.

Criteria – The County’s accounting personnel have the responsibility to tag all newly received capital assets at the time they are received and to record newly acquired assets as per part 2.20.1.15 NMAC, *Accounting and Control of Fixed Assets of State Government*.

Effect – Without tagging the capital assets, the City has not established physical accountability for their custody and use. Furthermore, difficulties arise when identifying assets on the subsidiary records due to lack of specific identification on both the actual asset and on the records. Incorrectly identified assets could be removed from the records in error and may not be detected in a timely manner.

Cause – Tagging the assets as City property has not been given priority.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2009-02 – Capital Assets – Inventory Control Numbers (continued)

Recommendation – We recommend the City expedite the establishment and maintenance of appropriate internal controls over its fixed assets for the primary purposes of safeguarding them and establishing accountability for their custody and use.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding and will begin formulating the establishment and maintenance of internal controls over fixed assets and establish accountability for custody and use of our capital assets.

Item 2009-03 – Procurement Code – Municipal Court Building

Statement of Condition – During our testing of the City's adherence to the New Mexico procurement code in fiscal year 2009, we discovered the following violations:

- The City did not seek competitive sealed bids for additional services totaling approximately \$44,075 related to the Municipal Court Building.
- The original bid omitted certain key requirements such as the foundation and the heating and cooling units.
- The City management discussed the specifications with an outside vendor prior to commencement of the bidding process. The bid specifications were actually provided to the City by the vendor.
- The City Council approved a price adjustment that was not a fixed-price. They did this by awarding the vendor a contract not to exceed \$250,000, when the original bid was \$213,433.

Upon further examination of this procurement during the fiscal year 2010, the vendor was paid a total of \$258,345. The total cost of the municipal court building exceeded \$264,000.

Criteria – Section 13-1-102 NMSA 1978 states that all procurement shall be by competitive sealed bid except for procurements via competitive sealed proposals; small purchases; sole source; emergency procurements; existing procurements; and antipoverty program businesses. Section 13-1-125 NMSA 1978 states that procurement requirements shall not be artificially divided so as to constitute a small purchase. Section 13-1-116 NMSA 1978 states that the contents of any proposal shall not be disclosed so as to be available to competing offerors during the negotiation process. Section 13-1-171 NMSA 1978 addresses how price adjustments are computed. It can be done by agreement on a fixed-price.

Effect – Any person, firm, or corporation that knowingly violates any provision of the Procurement Code is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement violation of any provision of the Procurement Code [13-1-28 to 13-1-117 and 13-1-118 to 13-1-199].

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2009-03 – Procurement Code – Municipal Court Building (continued)

Cause – There is a lack of understanding on the part of management as to its responsibilities for following the New Mexico procurement code.

Recommendation – We recommend the City expedite the establishment of procedures that will provide a complete understanding and total assurance of compliance with the Procurement Code. The General Services Department of the state of New Mexico would be a good resource to answer questions concerning its role in the procurement process. Because of the limitations of staffing in the manager's office, the City officials should consider the formation of a task force or committee specially dedicated to oversight of purchases requiring sealed bids.

Views of Responsible Officials and Planned Corrective Actions – The procurement of the municipal court building was handled by former City officials. Current management is reviewing policies and procedures that will ensure compliance with the NM State Procurement Code.

Item 2010-02 – Pre-Tax Deductions

Statement of Condition – The City did not properly apply pre-tax deductions from gross compensation prior to applying social security (FICA) and Medicare taxes and federal and state income tax withholdings.

Criteria – A cafeteria plan is a separate plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and employee in which the employee agrees to contribute to his or her salary on a pre-tax basis for the qualified benefits. Salary reduction contributions are not actually or constructively received by the participant. Therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to FICA, FUTA, Medicare tax, or income tax withholding per sections 3121(2)(5)(G) and 3306(b)(5)(G) of the Internal Revenue Code.

Effect – Both the employee and employer (City) paid excess FICA and Medicare taxes.

Cause – The City did not have clear understanding of how to properly handle certain tax codes within its computer software program for payroll. Further, the City did not perform periodic reconciliations to verify that tax codes were properly established.

Recommendation – We recommend the City expedite the establishment and maintenance of the appropriate internal controls to provide reasonable assurance of compliance with laws and regulations. Where necessary, payroll reports should be amended to account for the errors.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-02 – Pre-Tax Deductions (continued)

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. We will review our current procedures to ensure compliance with federal and state payroll laws and regulations.

Item 2010-03 – Employee vs. Independent Contractor

Statement of Condition – The City paid certain individuals for services conducted on state grants as independent contractors. In addition, certain other individuals were paid as independent contractors where their job functions classify them as City employees.

Criteria – The Internal Revenue Service (IRS) uses Revenue Ruling 87-41 to note that employee status exists when the person for whom the services are performed has the right to control and direct the worker. It's not necessary that the employer actually direct or control the work, only that the employer has the right to do so.

Effect – Misclassifications subjects the City to payroll taxes, interest and penalties. Since some of these payments are designated as withholding taxes, the IRS can make personal claims against the responsible parties.

Cause – The City did not believe these individuals served as employees of the City.

Recommendation – We recommend that the City re-evaluate its view and definition of contract labor to ensure compliance with applicable Internal Revenue Service employment rules and regulations. We recommend that the City review IRS form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding. This process will afford the City the opportunity to review the facts, apply the law and render its decision.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. We will be re-evaluating existing independent contractor arrangements to ensure compliance with Internal Revenue Service employment rules and regulations.

Item 2010-04 – Collateral of Public Monies

Statement of Condition – The City maintains cash accounts at Compass Bank located in Truth or Consequences, New Mexico. During the year the bank included state of Texas obligations within the securities pledged to secure the cash deposits of the City. The Texas securities pledged do not meet the eligibility requirements of New Mexico State Statutes.

Criteria – New Mexico State Statutes Section 6-10-16 NMSA 1978 states that public deposits shall be secured with one of the following:

1. "securities of the United States, its agencies or instrumentalities;

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-04 – Collateral of Public Monies (continued)

Criteria (continued) –

2. *“securities of the United States, its agencies or instrumentalities;*
3. *securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions;*
4. *securities, including student loans, that are guaranteed by the United States or the state of New Mexico;*
5. *revenue bonds that are underwritten by a member of the national association of securities dealers, known as "N.A.S.D.", and are rated "BAA" or above by a nationally recognized bond rating service; or*
6. *letters of credit issued by a federal home loan bank.”*

Effect – Non-compliance with New Mexico State Statutes subjects the City’s officials and personnel to punishment as defined by state statutes.

Cause – Management relied on the bank to pledge securities that meet the definitions of state statutes. City employees failed to notify the bank that the collateral pledged did not meet the requirements of New Mexico State Statutes.

Recommendation – We recommend that the City’s finance department contact the bank and ask them to pledge securities to secure the deposits of the City that meet the requirement of state statutes.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. After reviewing Section 6-10-16 NMSA1978, management has contacted bank officials and requested proper collateral that meets NM state statutes be pledged. Management will also implement a policy and procedure to ensure compliance.

Item 2010-05 – Legal Compliance with Adopted Budget

Statement of Condition – The City’s authorized budget within the Federal Seizures Fund was \$8,895. During the fiscal year, the City expended \$11,172 within the fund. The City exceeded its approved budget by \$2,277. The City did not authorize budget transfers in and out of the Morgan Street Flood Control fund. During the fiscal year, the City transferred in \$700,000 and transferred out \$500,000 within the fund. The City’s net transfers exceeded its approved budget by \$200,000. The City did not authorize budget transfers in and out of the DWI grant fund. During the fiscal year, the City transferred in \$3,000 and transferred out \$3,000 within the fund.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-05 – Legal Compliance with Adopted Budget (continued)

Criteria – Sections 6-6-6 through 6-6-11 NMSA 1978 Compilation prohibit local governments from making expenditures in excess of the approved budget and make public officials liable for such expenditures. City officials and governing authorities have the obligation to follow applicable state statutes.

Effect – Noncompliance with New Mexico State Statutes could subject officials and employees to penalties and fines required by state statutes.

Cause – The City personnel did not monitor the expenditures to ensure that they did not exceed the authorized budget authority.

Recommendation – We recommend that the City establish procedures that include a comprehensive mid-year review of its budget. The review will allow the governing body to examine fiscal performance and make budget adjustments, if needed. It should include a comparison of revenues and expenditures to date to the approved budget. A review of planned activity for the last half of the fiscal year should be made and compared to the approved budget. Based on the mid-year review, a resolution requesting budget adjustments should be submitted to the Department of Finance & Administration (DFA) Local Government Division, if necessary.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. We will review current procedures to ensure compliance with New Mexico State Statutes.

Item 2010-06 – Travel and Per Diem

Statement of Condition – During the course of the audit, we performed tests of travel and per diem expenditures. Our sample size was twenty-five transactions, which were haphazardly selected throughout the fiscal year, and contained the following discrepancies:

- There were seven instances which required mileage (actual or per diem) reimbursement. Of those seven instances, all seven instances had the mileage reimbursement rate calculated incorrectly, due to changes to the Travel and Per Diem Act, instituted by the New Mexico Department of Finance and Administration via a memorandum issued to all governmental entities throughout New Mexico. For all seven instances, the employee was overpaid ten cents per mile.

Criteria – The New Mexico Department of Finance and Administration have issued regulations in the form of Title 2, Chapter 42, Part 2, *Travel and Per Diem Regulations Governing the Per Diem and Mileage Act* of the New Mexico Administrative Code. The rule was issued in accordance with Section 10-8-1 to 10-8-8 NMSA 1978.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-06 – Travel and Per Diem (continued)

Criteria (continued) – On June 19, 2009, the New Mexico Department of Finance and Administration (DFA) issued a memorandum to all governmental entities, including municipalities, concerning an immediate increase in the mileage reimbursement rate for all employees. The emergency amendment states, “*HB 336 amended Section 10-8-4 D NMSA 1078 of the Per Diem and Mileage Act to increase the current statutory mileage reimbursement rate of \$0.32 per mile up to a new maximum statutory mileage reimbursement rate – the Internal Revenue Service (“IRS”) standard mileage rate “set January 1st of the previous year.” The IRS rate on January 1, 2008 (“the previous year”) was \$.505 per mile. Therefore, this emergency amendment to the Rule states your local government shall, effective immediately, reimburse your local public bodies’ public officers and employees for mileage accrued in the use of a privately owned vehicle in the discharge of official duties at a rate of eighty percent of \$0.505 per mile.*”

Effect – Non-compliance with the state of New Mexico Travel and Per Diem Act subjects officials and employees to penalties as required by state statutes.

Cause – There was a lack of understanding on the part of management as to the changes outlined on the DFA memorandum dated June 19, 2009.

Recommendation – We recommend review the memorandum issued by the New Mexico Department of Finance and Administration concerning the increase in mileage reimbursement rates. We recommend the City review the Travel and Per Diem Act. We recommend City staff reevaluate their internal control procedures over the calculation and reimbursement amounts for employee travel and per diem. Furthermore, we recommend the City amend their travel and per diem policy to reflect the correct allowable mileage reimbursement rates.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. We have amended the policy and will review the procedures to ensure compliance with the Per Diem and Mileage Act.

Item 2010-07 – Disposal of City Property

Statement of Condition – During the fiscal year, the City sold obsolete equipment, vehicles and office furniture. In addition, in a separate auction, the police department sold numerous seized weapons. For both auctions, prior to the sale, management did not show the governing body that the property did not exceed the value of \$2,500.

Criteria – Section 3-54-1 through 3-54-3 NMSA 1978; govern the sale, lease or exchange of real or personal property. A municipality may sell personal property for cash at a public or private sale without notice where it is shown to the governing body that such property does not exceed the value of \$2,500.

STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-07 – Disposal of City Property (continued)

Criteria (continued) – If the value of the property is greater than \$2,500, a private sale may be held only after notice is published at least twice, pursuant to the provisions of Subsection J or Section 3-1-2 NMSA 1978, not less than seven days apart, with the last publication not less than fourteen days prior to the sale.

Effect – Non-compliance with New Mexico Statutes could subject officials and employees to penalties and fines required by state statutes.

Cause – Management was unaware of the requirements regarding the disposal of the equipment and property of the City.

Recommendation – We recommend management and employees become familiar with state statutes, the Procurement Code, and the Administrative Code regarding the disposal of equipment and property owned by the City. We suggest that the Commission adopt policies regarding the disposal of assets and establish procedures that employees must adhere to.

Views of Responsible Officials and Planned Corrective Actions – We concur with this finding. We will review our policies and procedures related to disposition of City property and establish procedures to ensure compliance with New Mexico State Statutes.

Item 2010-08 – Remittance of Fees – Municipal Court

Statement of Condition – During the testing of fees collected and distributed by the City's municipal court, it was discovered that the certain monies received during February 2010 were not remitted to the State of New Mexico Administrative Office of the Courts and the University of New Mexico's Judicial Education Center. The total amounts not remitted were \$37 and \$19 respectively.

Criteria – As per the New Mexico State Statutes Section 31-12-7 and 31-12-8, relating to the collection and subsequent transmittal of fines assessed on convictions relating to intoxicating liquor and controlled substances, the City, acting as the fiscal agent for the Court, must remit the fees collected to the NM Administrative Office of the Courts and the UNM Judicial Education Center. Such responsibilities, as the fiscal agent, the City must ensure that the court is maintaining records and transmitting the fees to the appropriate governmental entities.

Effect – The City is not in compliance with the NM State Statutes. Non-compliance with the state of New Mexico subjects officials and employees to penalties as required by state statutes. Furthermore, as its agent, the City could incur liabilities for money not properly reimbursed.

Cause – The employees of the City failed to remit the fees. This appears to be a one-time incident.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION II – FINDINGS – FINANCIAL STATEMENTS (continued)

Primary Government (continued)

Item 2010-08 – Remittance of Fees – Municipal Court (continued)

Recommendation – We recommend that the City review the applicable State Statutes to ensure that they are following all of the requirements set forth in those sections. Furthermore, the City should remit the delinquent fees to the respective governmental as soon as possible.

Views of Responsible Officials and Planned Corrective Actions – The City concurs with this finding. We will review current procedures to ensure compliance with New Mexico State Statutes.

Component Unit

Item 2010-01 – Travel Reimbursements

Statement of Condition – In eight travel reimbursements requests reviewed, there were three instances where the documentation did not adequately support the reimbursement requested.

Criteria – Section 10-8-1 through 10-8-8 NMSA 1978, commonly called the Per Diem and Mileage Act, requires that reimbursements for travel be made only after review and approval of the appropriate underlying documentation.

Effect – There is an increased likelihood that reimbursements could be made for unapproved or no-existent travel, and state statutes have been violated.

Cause – Authority personnel have not sufficiently reviewed the underlying documentation before approving reimbursement requests.

Recommendation – We recommend that the Authority's personnel review and consider the sufficiency of the underlying documentation prior to approving and disbursing travel reimbursements.

Views of Responsible Officials and Planned Corrective Actions – Authority personnel will emphasize review of underlying travel documentation prior to approving and disbursing reimbursements.

**SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS –
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) 14.228**

Primary Government

Item 2010-09 – Separate Financial Institution for CDBG Grant Draw Downs and Expenditures

Statement of Condition – The City did not deposit its drawdowns or pay its grant expenditures related to the CDBG grant out of a separate non-interest bearing bank account.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

**SECTION III – FEDERAL AWARDS AND QUESTIONED COSTS –
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) 14.228 (continued)**

Primary Government (continued)

**Item 2010-09 – Separate Financial Institution for CDBG Grant Draw Downs and Expenditures
(continued)**

Criteria – Per the CDBG Administrative Manual, once the grantee has received its executed financial award, arrangements must be made to establish a separate non-interest bearing bank account with adequate Federal Deposit Insurance Corporation (FDIC) insurance coverage to receive and expend CDBG funds. The bank should be aware that the CDBG funds will be transferred directly to the bank in the form of an automated clearing house (ACH) transfer.

Effect – Non-compliance with federal requirements could jeopardize future funding from the federal government.

Cause – The City staff erred in not recording the CDBG grant activity in a separate bank account.

Recommendation – We suggest that the City make the necessary changes to financial management so that full compliance with federal grant requirements can be achieved.

Views of Responsible Officials and Planned Corrective Actions – We concur with this finding. As soon as it is possible, any further draw downs and expenditures related to the CDBG grant will be deposited in and disbursed from the CDBG bank account that has been established by the City.

Component Unit

None.

SECTION IV – PRIOR YEARS' AUDIT FINDINGS

Primary Government

Item 2007-03 – Preparation of Financial Statements and Disclosures – In the previous year's audit report, it was noted the financial statements and related note disclosures are not being prepared by the City. The auditing firm prepared the financial statements. The finding has not been resolved and is updated and repeated as item 2007-03.

Item 2009-01 –Public Money Deposits - The City maintains cash in interest bearing accounts in two separate financial institutions and it could not be determined whether deposits were invested in a ratio based upon the financial institution's total deposits. The finding has not been resolved and is repeated as item 2009-01.

Item 2009-02 –Capital Assets – Inventory Control Numbers – The City is not in the practice of placing identification tags on its capital assets. In addition, the descriptions on the subsidiary records do not provide enough detail to identify the assets. The finding has not been resolved and is repeated as item 2009-02.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

SECTION IV – PRIOR YEARS’ AUDIT FINDINGS (continued)

Primary Government (continued)

Item 2009-03 – Procurement Code – Municipal Court Building – In the audit year ending June 30, 2009, the City incurred numerous violations of the procurement of the Municipal Court building. The building was completed in the current fiscal year. The finding is repeated in the current audit report with additional information as item 2009-03.

Item 2009-04 – Exit Conference – A member of the governing board was not physically present at the exit conference held on November 30, 2010. The finding was a fiscal year 2009 event and as such is not repeated in the current year audit.

Component Unit

Item 07-02 – Preparation of Financial Statements – In the previous year’s audit report, it was noted the financial statements and related note disclosures are not being prepared by the Authority. The auditing firm prepared the financial statements. The finding has been resolved and as such is not repeated in the current year audit.

**STATE OF NEW MEXICO
CITY OF TRUTH OR CONSEQUENCES
EXIT CONFERENCE AND
PREPARATION OF FINANCIAL STATEMENTS
JUNE 30, 2010**

**CITY OF TRUTH OR CONSEQUENCES
EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2010, was discussed during the exit conference held on November 30, 2010. Present for the City were Lori Montgomery, mayor; David Weiser, city manager; Juan A. Fuentes, finance director; and Kerin Salcedo, accountant tech. Present for the auditing firm were Rose Fierro, CPA.

**PUBLIC HOUSING AUTHORITY
EXIT CONFERENCE**

The audit report for the fiscal year ended June 30, 2010 was discussed during the exit conference held on October 27, 2010. Present for the Public Housing Authority was LeeAnn Tooley, vice chairman; Marie Bradley, executive director; and Suzi Slater, chief finance officer. Present for the auditing firm was Mike Stone, CPA.

FINANCIAL STATEMENT PREPARATION

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the financial statements of the City of Truth or Consequences as of June 30, 2010. The City's upper management have reviewed and approved the financial statements and related notes, and they believe that the City's books and records adequately support them.

FINANCIAL STATEMENT PREPARATION

The auditing firm of Stone, McGee & Co., Certified Public Accountants prepared the financial statements of the Housing Authority as of June 30, 2010 in conjunction with the Housing Authority's personnel.