

STATE OF NEW MEXICO
TOWN OF VAUGHN
FINANCIAL STATEMENTS

June 30, 2005

With Independent Auditor's Reports Thereon



Fogel & Co. LLC
Accountants · Auditors · Consultants
Albuquerque, New Mexico

6182

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TOWN OF VAUGHN
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June 30th, 2005**

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STATE OF NEW MEXICO
TOWN OF VAUGHN
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June 30th, 2005

BASIC FINANCIAL STATEMENTS, continued

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TOWN OF VAUGHN
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TOWN OF VAUGHN
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**STATE OF NEW MEXICO
TOWN OF VAUGHN
OFFICIAL ROSTER
June 30, 2005**

TOWN COUNCIL - OFFICIAL ROSTER

Paul Madrid Jr.
Richard Gallegos
A. F. Padilla
Norbert Archibeque

Mayor
Mayor Pro-Tem
Member
Member

TOWN ADMINISTRATION

Teri Apodaca
Carmen Sisneros

Clerk and Treasurer
Assistant Clerk

FINANCIAL SECTION

FOGEL & CO LLC

Accountants • Auditors • Consultants

3916 Juan Tabo NE
Albuquerque, NM 87111

INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas, State Auditor
Mr. Paul Madrid Jr., Mayor
Members of The Town Council
Town of Vaughn
Vaughn, New Mexico

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the major budgetary comparison statements of the Town of Vaughn (the "Town"), as of and for the year ended June 30, 2005, which collectively comprise the agency's basic financial statements as listed in the table of contents. I also have audited the financial statements of each of the agency's non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and the non-major budgetary comparison statements as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the agency's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Town of Vaughn Housing Authority, the discretely presented component unit. This financial activity was audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Town of Vaughn Housing Authority, is based solely upon the report of other auditors.

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

In my opinion, based upon my audit and the work of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Vaughn as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Town of Vaughn as of June 30, 2005, and the respective changes in financial position where applicable, thereof and the respective budgetary comparison for the debt service fund and all non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, continued
Page 2

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2008, on my consideration of the Town's internal control over financial reporting and my 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 my testing of internal controls 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 my audit. ✓

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

My audit was conducted for the purpose of forming an opinion on the basic financial statements, and the combining and individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Fogel & Co.

Albuquerque, New Mexico
January 25, 2008 ✓

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
ASSETS				
Cash, cash equivalents and investment	\$ 521,202	83,400	604,602	59,633
Cash with paying agent	3,263	1,367	4,630	
Receivables, net	41,993	25,082	67,075	612
Due from grantor	11,950		11,950	10,070
Prepaid expenses	12,393	2,711	15,104	3,375
Bond Issuance Costs		11,115	11,115	
Internal balances	20,857	(20,857)		
Restricted assets:				
Meter deposits		19,012	19,012	
Tenant security deposits			-	1,033
Capital assets:				
Land and construction work in progress	291,343	179,762	471,105	
Other capital assets	1,796,367	4,165,212	5,961,579	666,331
	<u>2,087,710</u>	<u>4,344,974</u>	<u>6,432,684</u>	<u>666,331</u>
Accumulated depreciation	(971,860)	(910,442)	(1,882,302)	(244,674)
Net capital assets	<u>1,115,850</u>	<u>3,434,532</u>	<u>4,550,382</u>	<u>421,657</u>
Total assets	\$ <u>1,727,508</u>	<u>3,556,362</u>	<u>5,283,870</u>	<u>496,380</u>
LIABILITIES				
Accounts payable	\$ 37,953	177,046	214,999	2,825
Accrued and withheld taxes	4,562		4,562	2,597
Accrued interest payable	344	20,988	21,332	
Compensated absences - current	1,725	11,622	13,347	237
Deposits held in trust for others		9,313	9,313	1,033
Long-term liabilities:				
Due within one year	15,964	16,853	32,817	
NMFA notes payable	93,716	565,475	659,191	
Landfill closure costs		17,240	17,240	
Compensated absences	8,627	-	8,627	
Total liabilities	\$ <u>162,891</u>	<u>818,537</u>	<u>981,428</u>	<u>6,692</u>
NET ASSETS				
Invested in capital assets, net or related debt	\$ 1,006,170	2,924,532	3,930,702	421,657
Restricted for:				
Public safety	9,597		9,597	
Public Works	381,353		381,353	
Culture and recreation	25,345		25,345	
Health and welfare	5,873		5,873	
Debt Service	1,194		1,194	
Unrestricted	135,085	(186,707)	(51,622)	68,031
Total net assets	\$ <u>1,564,617</u>	<u>2,737,825</u>	<u>4,302,442</u>	<u>489,688</u>

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT A

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Function/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 144,911	1,404	173,067		29,560		29,560	
Public safety	237,252		106,205		(131,047)		(131,047)	
Health and welfare	730	205			(525)		(525)	
Public works	31,261		7,993	7,673	(15,595)		(15,595)	
Culture and recreation	113,464		72,937	5,820	(34,707)		(34,707)	
Interest on long-term obligation	2,654				(2,654)		(2,654)	
Total Governmental Activities	530,272	1,609	360,202	13,493	(154,968)		(154,968)	
Business-type Activities:								
Solid Waste	48,422	49,948	4,461		5,987		5,987	
Water and Sewer	291,340	169,490	3,028	1,355,435	1,236,613		1,236,613	
Total Business-Type Activities	339,762	219,438	7,489	1,355,435	1,242,600		1,242,600	
Total Primary Government	\$ 870,034	221,047	367,691	1,368,928	(154,968)		1,087,632	
Component Unit:								
Housing Authority	\$ 85,909	21,467	59,685	923				(3,834)
General Revenues:								
Taxes								
Property taxes, levied for general purpose					\$ 49,352		49,352	
Property taxes, levied for debt service purposes								
Gross receipts taxes, levied for general purposes					173,096		173,096	
Gross receipts taxes, levied for debt service purposes								
Other taxes					43,177		43,177	
Interest and investment earnings					355	198	553	41
Total General Revenue					265,980	198	266,178	41
Transfers in (out)					2,236	(2,236)		
Change in net assets					113,248	1,240,562	1,353,810	(3,793)
Net assets - Beginning					62 1,314,715	1,497,263	2,811,978	493,481
Restatement - recognition of fixed assets (Note 14)					136,654		136,654	
Restated net assets - Beginning					1,451,369	1,497,263	2,948,632	493,481
Net assets - Ending					\$ 1,564,617	2,737,825	4,302,442	489,688

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT B

STATE OF NEW MEXICO
TOWN OF VAUGHN
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	Fund 101	Fund 209	Fund 211	Fund 219	Other Governmental Funds	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Assets:						
Cash and investments						
Cash with paying agent	138,124	859	188	9,997	-	521,202
Taxes and accounts receivable	33,725	2,069			1,194	3,263
Due from other governments					8,268	41,993
Due from other funds	44 1,704			11,950	44 22,564	11,950
Prepaid insurance	9,206	2,330			857	24,268
Total assets	182,759	5,258	188	21,947	32,883	615,069
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	32,371	2,621	1,036	1,925	-	37,953
Accrued salaries & benefits	3,147			729	686	4,562
Accrued compensated absences	1,477			248		1,725
Due to other funds	44 1,707				44 1,704	3,411
Deferred revenue	4,714					4,714
Total liabilities	43,416	2,621	1,036	2,902	2,390	52,365
Fund Equity:						
Fund balance:						
Statutory reserve	63,950					63,950
Reserved for subsequent year's expenditures						
Reserved for prepaid insurance	9,206	2,330			381,353	381,353
Reserved for debt service					857	12,393
Unreserved fund equity, reported in:					1,194	1,194
Special revenue funds						
General	66,187	307	(848)	19,045		19,045
Total fund equity	12 139,343	12 2,637	12 (848)	12 19,045	19,123	84,769
Total liabilities and fund equity	182,759	5,258	188	21,947	404,917	615,069

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements
EXHIBIT C

STATE OF NEW MEXICO
TOWN OF VAUGHN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET WITH THE STATEMENT OF NET ASSETS
June 30, 2005

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - Governmental funds	\$ 562,704
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

The cost of capital assets is	\$ 2,087,710	
Accumulated depreciation is	(971,860)	
	<u>1,115,850</u>	1,115,850 ^A

Income that the Town is entitled to at year end but which is received two months after the balance sheet date is deferred and not recognized as income in the fund statements.	<u>4,714</u>	4,714
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Long-term debt, including current maturities, and certain other liabilities are not recorded until due and therefore are not reported as liabilities in the governmental funds: Long-term and other liabilities at year-end consisted of:

Notes payable	(109,680)	
Accrued compensated absences - non current	(8,627)	
Accrued interest payable	<u>(344)</u>	
		<u>(118,651) ^A</u>
		<u>\$ 1,564,617</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT C, Continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2005

	Fund 101	Fund 209	Fund 211	Fund 219	Other Governmental Funds	TOTAL GOVERNMENTAL FUNDS
Revenue:						
Taxes:						
Property	44,638					44,638
Gross Receipts	173,096					173,096
Other	5,111					5,111
Intergovernmental - State	58,432			58,070	38,066	146,568
Intergovernmental - Federal	108,096	53,751	20,000	18,795	5,000	175,253
Charges for services	89					89
Licenses and permits	715					715
Miscellaneous local sources	44,970	315	2,000	1,124	16,000	64,409
Total revenue	435,147	54,066	22,000	77,989	59,066	648,268
Expenditures:						
Current						
General government	140,023					140,023
Public safety	105,620		42,692		24,163	208,863
Health and welfare	(20)					(20)
Culture and recreation	37,430					37,430
Public works	20,340			56,177	3,779	97,386
Noncurrent:						
Debt Service:						
Principal						
Interest and fiscal charges		2,966				2,966
Capital outlay	83,073	37				83,110
Total expenditures	386,466	60,905	19,405	5,819	2,274	474,869
Revenue over (under) expenditures	48,681	(6,839)	(40,097)	15,993	16,132	33,870
Other financing sources (uses):						
Proceeds from loan						
Operating transfers in	3,511	3,041				6,552
Operating transfers out	(22,542)	(14,992)				(37,534)
Net other financing sources (uses)	(19,031)	(11,951)				(30,982)
Net change in fund balances	29,650	(18,790)	(40,097)	15,993	49,350	36,106
Fund balance, beginning of year	109,693	21,427	39,249	3,052	353,177	526,598
Fund balance, end of year	139,343	2,637	(848)	19,045	402,527	562,704
	10	10	10	10	10	10

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT D

STATE OF NEW MEXICO
TOWN OF VAUGHN
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF NET ASSETS
For the year ended June 30, 2005

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

Total net change in fund balances - Governmental funds

Revenue is recorded in the Governmental funds when the amount is "measurable and available" under the modified accrual basis of accounting. The statement of net assets is prepared on the full accrual method of accounting that records revenue when it is earned regardless of when received. The net increase (decrease) in revenue was:

Taxes & other miscellaneous receivables

\$ 10

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those assets are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation and loss disposals.

Depreciation expense
Capital outlays

(58,536)
129,811

71,275

In the Statement of Activities, certain operating expenses are measured by the amounts incurred during the year. However, in the fund financial statements, expenditures are measured by the amount of financial resources used or available for use (essentially the amounts actually paid). The (increase) decrease in the liabilities for the year were:

Compensated absences payable - non current
Accrued interest payable

(2,492)
(341)

(2,833)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

Note principal payments

15,684

15,684

\$ 113,248

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SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT D, continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND - FUND 101
For the year ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original Budget	Revised Budget		Original Budget To Final	Actual to Final Budget
Revenue:					
Intergovernmental - Federal	\$ 71,611	71,611	108,096	-	36,485
Intergovernmental - State			58,432	-	58,432
Taxes	182,782	182,782	222,845	-	40,063
Charges for services	139	139	89	-	(50)
License and fees	670	670	715	-	45
Miscellaneous local sources	79,442	79,442	44,970	-	(34,472)
Total revenue	334,644	334,644	435,147	-	100,503
Expenditures:					
General Government:					
Financial Administration:					
Current:					
Personal services	33,456	33,456	65,298		(31,842)
Operating expenses	21,500	21,500	74,614		(53,114)
Total Financial Administration	54,956	54,956	139,912	-	(84,956)
Planning and Zoning:					
Current:					
Personal services	22,927	22,927	111		22,816
Total Planning and Zoning	22,927	22,927	111	-	22,816
Total General Government	77,883	77,883	140,023	-	(62,140)
Public Safety:					
Police:					
Current:					
Personal services	117,658	117,658	95,728		21,930
Operating expenses	6,213		9,242		(9,242)
Total Police	123,871	117,658	104,970	-	12,688
Ambulance:					
Current:					
Operating expenses	15,859	15,859	650		15,209
Total Ambulance	15,859	15,859	650	-	15,209
Total Public Safety	139,730	133,517	105,620	-	27,897

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT E

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS), continued
GENERAL FUND - FUND 101
For the year ended June 30, 2005

	Budgeted Amounts		Actual	One	
	Original Budget	Revised Budget	(Budgetary Basis)	Budget To Final	
Expenditures:					
Public Works:					
Highway and Streets:					
Current:					
Operating expenses	19,806	19,806	20,340	-	(534)
Non-Current:					
Capital outlay					
Total Public Works	<u>19,806</u>	<u>19,806</u>	<u>83,073</u>	-	<u>(83,073)</u>
			<u>103,413</u>	-	<u>(83,607)</u>
Culture and Recreation:					
Summer Youth Program:					
Current:					
Personal Services					
Operating expenses			4,969	-	(4,969)
Total Summer Youth Program	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
			<u>4,969</u>	<u>-</u>	<u>(4,969)</u>
Library:					
Current:					
Personnel Services	6,681	6,681	9,132	-	(2,451)
Operating expenses	3,200	3,200	1,567	-	1,633
Total Library	<u>9,881</u>	<u>9,881</u>	<u>10,699</u>	<u>-</u>	<u>(818)</u>
Parks and Recreation:					
Current:					
Personnel					
Operating expenses	1,340	1,340	7,912	-	(7,912)
Total Parks and Recreation	<u>1,340</u>	<u>1,340</u>	<u>(8,358)</u>	<u>-</u>	<u>9,698</u>
			<u>(446)</u>	<u>-</u>	<u>1,786</u>
Seniors:					
Current:					
Personal Services					
Operating expenses			9,253	-	(9,253)
Non-Current			12,955	-	(12,955)
Capital outlay					
Total Seniors	<u>-</u>	<u>-</u>	<u>22,208</u>	<u>-</u>	<u>-</u>
			<u>-</u>	<u>-</u>	<u>(22,208)</u>
Total Culture and Recreation:	<u>11,221</u>	<u>11,221</u>	<u>37,430</u>	<u>-</u>	<u>(26,209)</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements
EXHIBIT E, continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS), continued
GENERAL FUND - FUND 101
For the year ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original Budget	Revised Budget		Original Budget To Final	Actual to Final Budget
Expenditures:					
Health and Welfare:					
Cemetery:					
Current:					
Operating expenses	-	-	-	-	-
Total Cemetery	-	-	-	-	-
Medical Clinic:					
Current:					
Operating expenses	-	-	(20)	-	20
Total Medical Clinic	-	-	(20)	-	20
Total Health and Welfare	-	-	(20)	-	20
 Total Expenditures	<u>248,640</u>	<u>242,427</u>	<u>386,466</u>	<u>-</u>	<u>(144,039)</u>
Revenues over (under) Expenditures	\$ <u>86,004</u>	<u>92,217</u>	<u>48,681</u>	<u>-</u>	<u>(43,536)</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements
EXHIBIT E, continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS)
FIRE PROTECTION - FUND 209
For the year ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original Budget	Revised Budget		Original Budget To Final	Actual to Final Budget
Revenue:					
Intergovernmental - State	\$ 103,751	118,743	53,751	14,992	(64,992)
Miscellaneous local sources			315	-	315
Total revenue	<u>103,751</u>	<u>118,743</u>	<u>54,066</u>	<u>14,992</u>	<u>(64,677)</u>
Expenditures:					
Public Works					
Current:					
Salaries and benefits					-
Operating expenses	48,388	48,388	36,388	-	12,000
Non-Current:					
Principal payments			2,966	-	(2,966)
Interest Payments			37	-	(37)
Capital outlay	32,943	32,943	21,514	-	11,429
Total Expenditures	<u>81,331</u>	<u>81,331</u>	<u>60,905</u>	<u>-</u>	<u>20,426</u>
Revenues over (under) expenditures	<u>22,420</u>	<u>37,412</u>	<u>(6,839)</u>	<u>14,992</u>	<u>(44,251)</u>
Other financing sources (uses):					
Operating transfers in			3,041	-	(3,041)
Operating transfers out		(14,992)	(14,992)	(14,992)	-
Total Other financing sources (uses)	<u>-</u>	<u>(14,992)</u>	<u>(11,951)</u>	<u>(14,992)</u>	<u>(3,041)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 22,420</u>	<u>22,420</u>	<u>(18,790)</u>	<u>-</u>	<u>(47,292)</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT F

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS)
LAW ENFORCEMENT - FUND 211
For the year ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original Budget	Revised Budget		Original Budget To Final	Actual to Final Budget
Revenue:					
Intergovernmental - State	\$ 20,000	20,000	20,000	-	-
Fund balance appropriated - PY	39,249	39,249			39,249
Miscellaneous local sources			2,000	-	(2,000)
Total revenue	<u>59,249</u>	<u>59,249</u>	<u>22,000</u>	<u>-</u>	<u>37,249</u>
Expenditures:					
Public Works					
Current:					
Salaries and benefits					
Operating expenses	39,844	39,844	42,692	-	(2,848)
Non-Current:					
Capital outlay	19,405	19,405	19,405	-	-
Total Expenditures	<u>59,249</u>	<u>59,249</u>	<u>62,097</u>	<u>-</u>	<u>(2,848)</u>
Revenues over (under) expenditures	\$ <u>-</u>	<u>-</u>	<u>(40,097)</u>	<u>-</u>	<u>34,401</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT G

STATE OF NEW MEXICO
TOWN OF VAUGHN
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETED AND ACTUAL (NON-GAAP BASIS)
SENIOR CITIZENS - FUND 219
For the year ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative)	
	Original Budget	Revised Budget		Original Budget To Final	Actual to Final Budget
Revenue:					
Intergovernmental - Federal			18,795		18,795
Intergovernmental - State	74,140	74,140	58,070		(16,070)
Miscellaneous local sources	-	-	1,124		1,124
Total revenue	<u>74,140</u>	<u>74,140</u>	<u>77,989</u>	-	<u>3,849</u>
Expenditures:					
Culture and Recreation:					
Current:					
Personal Services	30,365	30,365	33,580	-	(3,215)
Operating expenses	43,775	43,775	22,597	-	21,178
Non-Current:					
Capital Outlay	-	-	5,819	-	(5,819)
Total Expenditures	<u>74,140</u>	<u>74,140</u>	<u>61,996</u>	-	<u>12,144</u>
Revenues over (under) expenditures	\$ -	\$ -	<u>15,993</u>	-	<u>15,993</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT H

STATE OF NEW MEXICO
TOWN OF VAUGHN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2005

	Business type activities - Enterprise Funds		
	Solid Waste	Water and Sewer	Totals
ASSETS			
Current Assets:			
Current assets, unrestricted:			
Cash and cash equivalents	\$ 62,393	21,007	83,400
Cash with paying agent	1,366	1	1,367
Customer accounts receivable, net of allowance for doubtful accounts	2,731	21,687	24,418
Taxes and receivable	664		664
Internal Balances		(20,857)	(20,857)
Prepaid expenses	255	2,456	2,711
Deferred bond issuance costs		11,115	11,115
Total current unrestricted assets	<u>67,409</u>	<u>35,409</u>	<u>102,818</u>
Current assets, restricted:			
Cash and cash equivalents:			
Meter deposits		19,012	19,012
Total restricted current assets	<u>-</u>	<u>19,012</u>	<u>19,012</u>
Total current assets	<u>67,409</u>	<u>54,421</u>	<u>121,830</u>
Capital assets:			
Land and construction work in progress	3,500	176,262	179,762
Other Capital assets	289,313	3,875,899	4,165,212
Total capital assets	<u>292,813</u>	<u>4,052,161</u>	<u>4,344,974</u>
Accumulated depreciation	(79,892)	(830,550)	(910,442)
Net capital assets	<u>212,921</u>	<u>3,221,611</u>	<u>3,434,532</u>
Total assets	<u>\$ 280,330</u>	<u>3,276,032</u>	<u>3,556,362</u>
LIABILITIES AND EQUITY			
Current Liabilities:			
Current liabilities, payable from unrestricted assets:			
Accounts payable	\$ 1,122	175,924	177,046
Current portion of long-term debt	11,853	5,000	16,853
Compensated absences	1,038	10,584	11,622
Accrued interest payable		20,988	20,988
Total current liabilities, payable from unrestricted assets	<u>14,013</u>	<u>212,496</u>	<u>226,509</u>
Current liabilities, payable from restricted assets:			
Customer deposits		9,313	9,313
Total current liabilities, payable from restricted assets	<u>-</u>	<u>9,313</u>	<u>9,313</u>
Total current liabilities	<u>14,013</u>	<u>221,809</u>	<u>235,822</u>
Long-term liabilities:			
NMFA note payable	60,475	505,000	565,475
Landfill closure costs	17,240	-	17,240
Total long-term liabilities	<u>77,715</u>	<u>505,000</u>	<u>582,715</u>
Total Liabilities	<u>91,728</u>	<u>726,809</u>	<u>818,537</u>
Fund equity:			
Net assets invested in capital assets, net of related debt	212,921	2,711,611	2,924,532
Unrestricted net assets	(24,319)	(162,388)	(186,707)
Total net assets	<u>\$ 188,602</u>	<u>2,549,223</u>	<u>2,737,825</u> ^A

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT I

STATE OF NEW MEXICO
TOWN OF VAUGHN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
For the year ended June 30, 2005

	Business type activities - Enterprise Funds		
	Solid Waste	Water and Sewer	Totals
Operating revenues:			
Sales and service	\$ 49,948	169,490	219,438
Gross receipts tax	4,461		4,461
Other		3,028	3,028
Total operating revenues	<u>54,409</u>	<u>172,518</u>	<u>226,927</u>
Operating expenses:			
Personal services	14,566	97,311	111,877
Operating expenses	10,956	79,400	90,356
Fuel and power / utilities		43,094	43,094
Bad debt			-
Depreciation	22,288	50,547	72,835
Other		-	-
Total operating expenses	<u>47,810</u>	<u>270,352</u>	<u>318,162</u>
Operating income (loss)	<u>6,599</u>	<u>(97,834)</u>	<u>(91,235)</u>
Non-operating income (expenses):			
Interest income	112	86	198
Interest expense	(612)	(20,988)	(21,600)
Capital grants		1,355,435	1,355,435
Net non-operating income (expenses)	<u>(500)</u>	<u>1,334,533</u>	<u>1,334,033</u>
Transfers in			
Transfers out		19,501	19,501
Net Transfers		(21,737)	(21,737)
		<u>(2,236)</u>	<u>(2,236)</u>
Change in net assets	6,099	1,234,463	1,240,562
Net assets, beginning of year	<u>182,503</u>	<u>1,314,760</u>	<u>1,497,263</u>
Net assets	\$ <u>20</u> 188,602	<u>20</u> 2,549,223	<u>20</u> 2,737,825

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT J

STATE OF NEW MEXICO
TOWN OF VAUGHN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the year ended June 30, 2005

	Business type activities - Enterprise Funds		
	Solid Waste	Water and Sewer	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 51,127	189,792	240,919
Cash paid to and on behalf of employees	(13,548)	(74,862)	(88,410)
Cash paid to vendors for goods and services	(5,293)	(85,069)	(90,362)
Operating grants received	4,461		4,461
Net cash flow from operating activities	<u>36,747</u>	<u>29,861</u>	<u>66,608</u>
Cash flows used for noncapital financing activities:			
Operating transfers received (paid)		(2,238)	(2,238)
Net cash flow used for noncapital financing activities	<u>-</u>	<u>(2,238)</u>	<u>(2,238)</u>
Cash flows from capital and related financing activities:			
Interest expense	(612)	(20,988)	(21,600)
Loan repayments	(11,795)		(11,795)
Capital grant received		1,355,435	1,355,435
Proceeds from bonds issued		510,000	510,000
Capitalized bond issuance costs		(11,114)	(11,114)
Purchase of capital assets		(1,924,583)	(1,924,583)
Net cash flows from capital and related financing activities	<u>(12,407)</u>	<u>(91,250)</u>	<u>(103,657)</u>
Cash flows from investing activities:			
Investment income	112	86	198
Net cash flows from investing activities	<u>112</u>	<u>86</u>	<u>198</u>
Net increase (decrease) in cash and cash equivalents	24,452	(63,541)	(39,089)
Cash and cash equivalents, at beginning of year	<u>39,307</u>	<u>103,561</u>	<u>142,868</u>
Cash and cash equivalent, end of year	<u>\$ 63,759</u>	<u>40,020</u>	<u>103,779</u>
Shown on statement of net assets as:			
Unrestricted cash and cash equivalents	\$ 62,393	21,007	83,400
Cash with paying agent	1,366	1	1,367
Restricted cash and cash equivalents	-	19,012	19,012
Total shown on statement of net assets	<u>\$ 63,759</u>	<u>40,020</u>	<u>103,779</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating income	6,599	(97,834)	(91,235)
Adjustments to reconcile net operating income to net cash flows from operating activities:			
Depreciation expense	22,288	50,547	72,835
Collection losses	-	-	-
Changes in assets and liabilities:			
Receivables	1,876	17,274	19,150
Prepaid expenses	(255)	1,816	1,561
Accounts payable	911	35,609	36,520
Compensated absences	1,018	22,449	23,467
Landfill closure costs	4,310		4,310
	<u>\$ 36,747</u>	<u>29,861</u>	<u>66,608</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

EXHIBIT K

**STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005**

INDEX

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 - A. Financial Reporting Entity
 - B. Basis of Presentation
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 - D. Assets, Liabilities and Equity
 - E. Revenues, Expenditures and Expenses
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 - A. Changes in Long-Term Debt
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9. TAXES
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**STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005**

INDEX, continued

10. RETIREMENT PLAN
11. RETIREE HEALTH CARE ACT CONTRIBUTIONS
12. RISK MANAGEMENT
13. BUDGET AUTHORITY EXCEEDED
14. RESTATEMENT OF BEGINNING NET ASSETS
15. GASB 34 RECONCILIATION

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Vaughn (Town) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The Town has implemented the new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*. The effective date of the implementation was July 1, 2003. Under the provisions of GASB 34, significant changes in its financial reporting are evident. A few of the most significant changes include:

1. Addition of management's discussion and analysis
2. Elimination of account groups
3. Government-wide financial statements using full accrual basis of accounting
4. Recognition of depreciation on all depreciable capital assets
5. Changes in the statement requirements that comprise the Town's 1) Basic Financial Statements, 2) Required Supplementary Data, 3) Footnotes.

The more significant of the government's accounting policies are described below.

A. FINANCIAL REPORTING ENTITY

The Town of Vaughn is incorporated under provisions of Chapter 3, Article 2, NMSA 1978. The Town operates under Mayor - Council form of government and provides the following services as provided by law: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public works, planning and zoning, economic development and general administrative services. The Town operates the following enterprises: water / sewer, housing and solid waste.

The Town's basic financial statements include all activities and accounts of the Town's "financial reporting entity".

The financial reporting entity consists of (a) the primary government, (b) organization for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. FINANCIAL REPORTING ENTITY, continued

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 government 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.

Some organizations are included as component units because of their fiscal dependency on the primary government if they are unable to adopt a budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The Town of Vaughn Housing Authority has been included in the Town's Government-Wide Financial Statements as a "discretely presented" component unit. The Housing Authority's Board members are appointed by the Town's officials and all Annual Contribution Contracts "ACC's" are signed by the Town.

There were no other component units during the year ended June 30, 2005. Complete financial statements for Town of Vaughn Housing Authority may be obtained from the Town of Vaughn or the Town of Vaughn Housing Authority's administrative offices.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. *Business-type activities* are financed in whole or in part by fees charged to external parties for goods or services. For the most part, the effect of interfund activities have been removed from these statements. The *primary government* is reported separately from certain legally separate *component units* for which the *primary government* is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole. They reduce the net costs of the function to be financed from the government's general revenues. The charges for services reflected on the statement of activities includes miscellaneous reimbursements, licenses and fees and rental charges.

Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes-to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used *either* for operating expenses *or* for capital expenditures of the program at the discretion of the reporting government.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. BASIS OF PRESENTATION, continued

Government-Wide and Fund Financial Statements, continued:

These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government.

During the year ended June 30, 2005 the Town received operating grants and contributions for its General Government (mainly Small Cities assistance from the State of New Mexico); Public Safety (mainly Fire and EMS allotments from the State of New Mexico); Culture and Recreation (mainly Senior Program grants and contributions) as well as an FAA capital grant for airport improvements.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Total assets, liabilities, revenues or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5 percent of the corresponding total for all funds of the Town combined.

The Town reports the following major funds:

Major Governmental Funds:

General Fund - To account for resources associated with governments that are not required legally or by sound financial management to be accounted for in another fund.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. BASIS OF PRESENTATION, continued

Government-Wide and Fund Financial Statements, continued

Special Revenue Funds:

Fire Fund To account for funds used to provide fire fighting services and equipment and facilities used for that purpose. Equipment and facility acquisition and improvement funds are provided through the sale of bonds by the New Mexico Mortgage Finance Authority.

Law Enforcement To account for funds used for the acquisition of specialized equipment and vehicles used for the purpose of law enforcement.

Senior Citizens Fund - To account for funds used to provide services to senior citizens. Financing services include: State funds appropriated by the State under House Bill 2; Federal funds from Title III-B; Title III-C-1; Title III-C-2; Title III-D, cash in lieu of commodities; and local sources.

Proprietary Funds:

Solid Waste - To account for the provision of solid waste services to the residents of the Town.

Water and Sewer - To account for the provision of water and sewer to the residents of the Town and others.

The funds of the financial reporting entity are described below:

Governmental Funds:

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. BASIS OF PRESENTATION, continued

Government-Wide and Fund Financial Statements, continued:

Special Revenue Funds

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

Capital Project Fund

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service Fund

Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town.

Fiduciary Funds (Not included in government-wide statements)

The Town of Vaughn did not have any Fiduciary Funds.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The Town of Vaughn has no internal service funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities and proprietary activities are presented using the *economic resources measurement focus* and the *accrual basis of accounting*.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

Measurement Focus, continued

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery) and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Equity is classified as net assets.

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

- a. All governmental funds utilize a "*current financial resources*" measurement focus and the *modified accrual basis of accounting*. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. 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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures, are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is made.

Taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

- b. Proprietary funds use the economic resources measurement focus as described above.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, continued

Revenue Recognition

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

Derived tax revenues, such as; gross receipts tax, gasoline tax, cigarette tax, and motor vehicle licensing fees, are recognized when the underlying exchange has occurred.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed measurable and available (i.e., collectible within the current year or within two months of year-end and available to pay obligations of the current period). This includes certain locally assessed and state levied locally shared taxes including gross receipts tax, motor vehicle license fees and gasoline taxes. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expense. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short term deposits with maturities of six months or less from the date of acquisition.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include gross receipts taxes, grants and state shared taxes as well as assessed, but unpaid property taxes. For the proprietary funds the primary receivables are amounts due from customers.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as tax and grants and other similar intergovernmental revenues that have met the available criteria for accrual, since they are usually measurable. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. For governmental fund financial statement purposes, interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Interest and investment earnings are recognized when earned, regardless of when received in the government-wide financial and the proprietary fund statements in accordance with the accrual basis of accounting. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Allowance For Doubtful Accounts

A provision for uncollectible accounts was maintained at June 30, 2005 for the proprietary funds. The solid waste allowance was estimated at \$300 and the water and sewer allowance was estimated to be \$1,200. All other receivables were considered to be collectible.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY, continued

Interfund Receivables and Payables

During the course of operations transactions may occur between individual funds that may give rise to amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds."

Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payable between funds within governmental activities and interfund transfers between the respective proprietary funds are eliminated in the Statement of Net Assets.

However between the governmental and proprietary fund categories the interfund receivables have not been eliminated, except in the total column.

At June 30, 2005 there were due to/due from accounts in the fund financial statements which are presented in Note 2.

A schedule of operating transfers during the year ended June 30, 2005 is presented in Note 2.

Prepaid Expenses

Prepaid expenses are reported in the Statement of Net Assets (government-wide statement) and balance sheet (fund financial statement) when expenditures for goods or services are made that benefit future periods. At June 30, 2005 prepaid insurance costs amounted to \$12,393. 8

Inventory of Supplies

There were no material amounts of inventory at June 30, 2005. Purchases for supplies are recorded as expenditures and are not recorded as an asset on the statement of net assets or balance sheet.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY, continued

Restricted Cash - Meter Deposits

The Town maintains a separate bank account for utility customer service deposits. The monies on deposit in this account are not available for purposes other than the repayment of the deposits.

Capital Assets and Depreciation

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital assets with a value or cost greater than \$1,000 are accounted for as capital assets. For assets acquired after June 17, 2005, the capitalization limit is raised to \$5,000. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Almost all of the capital assets have been recorded at cost.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. With the adoption of GASB 34 in this fiscal year, the Town must begin to capitalize infrastructure assets. The Town is not required to capitalize existing infrastructure assets existing on July 1, 2003 but may do so if they wish. The Town has declined to capitalize those assets. No infrastructure assets were purchased or constructed during the current year.

The Town does not develop "internal use" software. Rather, software purchased is depreciated over its expected useful life (generally 5 years) using the straight-line method of depreciation.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY, continued

Capital Assets and Depreciation, continued

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

Infrastructure	20-30 years
Land Improvements	25-65 years
Building and improvements	25-65 years
Vehicles and rolling stock	5-10 years
Machinery, equipment and other	5-20 years

Long Term Debt

The accounting treatment of long-term debt depends on whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and accrued compensated absences. This same treatment applies to the proprietary fund financial statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Compensated Absences

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY, continued

Equity Classifications

Government-wide Statements

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

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

Fund equity was reserved for the following purposes:

Statutory Reserve

A statutory reserve, as required by state regulation, equal to 1/12 of the subsequent year's budgeted expenditures has been provided in the General Fund.

Reserved for Debt Service

Amounts legally restricted for the payment of long-term debt.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. ASSETS, LIABILITIES AND EQUITY, continued

Equity Classifications, (continued)

Reserved for Prepaid Insurance

Segregates a portion to indicate that although prepaid items are an asset, it does not represent an available, spendable resource.

Reserved for Subsequent Years' Expenditures

Represents the amounts, which are required to be reserved for subsequent years' expenditures.

Unreserved, Undesignated

Amounts which have not been reserved or designated for any purpose. These funds are available for unrestricted usage by the Town.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and /or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Revenues and expenses that do not meet this definition are accounted for as non-operating revenues and expenses.

E. REVENUES, EXPENDITURES AND EXPENSES

Gross Receipts Tax

The Town levies a gross receipts tax on sales within the Town. The tax is collected by the Taxation and Revenue Department of the State of New Mexico and remitted to the Town approximately one month after receipt of the tax from vendors doing business in the Town. Vendors remit the tax to the State in the month following the month of sale/collection. Taxes collected by the State in June and July and received by the Town in July and August are included in the caption "Receivables" on the Statement of Net Assets (Government-wide) and Balance Sheet (Fund Financial Statements).

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. REVENUES, EXPENDITURES AND EXPENSES continued

Property Taxes

Under Chapter 7, Article 37-7 B(3), NMSA, 1978 Compilation, Municipalities are limited in their ability to impose property taxes on assessed property within the Municipality to a rate not to exceed \$7.65 for each one thousand dollars (\$1,000) of net taxable value of both residential and non residential property.

In addition, the Municipality can impose, without restriction, property taxes sufficient to pay principal and interest on general obligation bonds that were authorized by the voters within the Municipality as well as taxes sufficient to pay for tort or workman's compensation judgments for which the Municipality is liable.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character: Current (further classified by function)
Debt Service
Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Expenditures of Restricted Sources

It is the Town's policy to expend restricted sources prior to unrestricted sources when both sources are available for expenditure.

Accrued Compensated Absences

Vested compensated absences are accounted for under the full accrual basis of accounting on the Government-wide financial statements and are classified as current and non current liabilities.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

E. **REVENUES, EXPENDITURES AND EXPENSES, continued**

Accrued Compensated Absences, continued

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are not reported in the fund statements. In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability has been recognized for certain sick pay as the Town does provide for payment upon termination of employment.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental and proprietary funds have been eliminated. However, transfers between governmental and proprietary funds have not been eliminated, except in the total column.

See Note 2 for details on transfers between funds.

F. **OTHER POLICIES**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. OTHER POLICIES, continued

Implementation of Accounting Principles -
FASB Pronouncements-Proprietary Fund Accounting

The Town of Vaughn uses enterprise funds to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Per the requirements of GASB 20, "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting", the enterprise funds have elected to apply all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as following all FASB pronouncements issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Governmental Accounting Standards Board (GASB) Statement No. 34

The Town adopted the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the Town records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

The Town has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the full accrual basis of accounting in the statement of activities.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. OTHER POLICIES, continued

GASB Statement 37

The Town adopted the provisions of GASB Statement No. 37, *Basic Financial Statements-Management's Discussion and Analysis-for Local and Government: Omnibus*. This statement amends GASB Statement No. 34 to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the Town considered the effect of this statement when adopting the provisions of GASB Statement No. 34 as previously described.

GASB Statement 38

The Town adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, established, and rescinds certain financial statement disclosure requirements. Accordingly, footnote disclosures have been revised to conform to the provisions of GASB No. 38.

GASB Statement 40

The Town adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The Statement limits required disclosures to deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

2. COMPLIANCE AND ACCOUNTABILITY

A. BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING

All budgets are adopted on the cash basis of accounting, which is inconsistent with Generally Accepted Accounting Principles (GAAP). Budgetary comparison statements present budget and actual amounts on the budgetary basis of accounting (cash basis).

The Town is required to follow the procedures established by the New Mexico Department of Finance and Administration when developing its budgets, as follows:

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

2. COMPLIANCE AND ACCOUNTABILITY, continued

A. BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING, continued

1. The Fiscal Officer submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Town offices to obtain public comment.
3. The budget is tentatively approved by the Town Council, and final approval is ultimately made by the Department of Finance and Administration, Local Government Division.
4. The Fiscal Officer requests authorization from the Town Council to transfer budget amounts within departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Commission and by the Local Government Division of the Department of Finance and Administration, State of New Mexico.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

Amendments to the budget, including operating transfers, which increase or decrease a fund's total budgeted expenditures must be approved by the Town Council and the Local Government Division of the Department of Finance and Administration, State of New Mexico. Amendments made to the original budget are included in the budgetary comparison schedules of this report, which reflect actual to budget. The Town did not amend its original budget during the year.

Budgets and amendments to the budgets for all funds are adopted in a legally permissible manner. The legal level of budgetary control is the fund level. Expenditures may not legally exceed budgeted appropriations at the fund level. Outstanding encumbrances lapse at year end but may be re-budgeted in the next year's budget. The Town did not use encumbrance accounting during the year ended June 30, 2005.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

2. COMPLIANCE AND ACCOUNTABILITY, continued

B. INTERFUND BALANCES

The following schedule details the net interfund due to/due from's made by the Town of Vaughn during the year ended June 30, 2005:

	<u>Due From</u>	<u>Due To</u>
General Fund		
From: Ambulance Fund (509)	\$ 1,704	
To: Municipal Street Fund (216)		193
Water & Sewer (505)		1,514
Total General Fund	<u>10 1,704</u>	<u>10 1,707</u>
Special Revenue Funds:		
Municipal Street Fund (216)		
From: General Fund	193	
From: Water & Sewer (505)	22,371	
Ambulance Fund (509)		
To: General Fund		1,704
Total Special Revenue Funds	<u>10 22,564</u>	<u>10 1,704</u>
Proprietary Funds:		
Water & Sewer (505)		
From: General Fund (101)	1,514	
To: Street Fund (216)		22,371
Total Proprietary Funds	<u>1,514</u>	<u>22,371</u>
Total All Funds	<u>\$ 25,782</u>	<u>25,782</u>

The due to / due from accounts were generally created to reflect amounts that were received or expended from the wrong fund or account.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

2. COMPLIANCE AND ACCOUNTABILITY, continued

C. OPERATING TRANSFERS

The following schedules detail the interfund operating transfers made during the year ended June 30, 2005

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
From: Water and Sewer (505)	\$ 3,511	
To: Fire Protection (209)		3,041
To: Water and Sewer (505)		19,501
Total General Fund	<u>3,511</u>	<u>22,542</u>
Special Revenue Funds:		
Fire Protection (209)		
From: General Fund (101)	3,041	
Street Fund (216)		
From: Water and Sewer (505)	18,226	
Fire Protection (209)		
To: Debt Service (301)		14,992
Total Special Revenue Funds	<u>21,267</u>	<u>14,992</u>
Debt Service Funds:		
Debt Service Fund (301)		
From: Fire Fund (209)	14,992	
Total Debt Service Funds	<u>14,992</u>	<u>-</u>
Proprietary Funds:		
Water and Sewer (505)		
From: General Fund (101)	19,501	
To: General Fund (101)		3,511
To: Municipal Street Fund (216)		18,226
Total Proprietary Funds	<u>19,501</u>	<u>21,737</u>
Total All Funds	<u>\$ 59,271</u>	<u>59,271</u>

In the fund financial statements, these transfers were treated as residual equity transfers.

The operating transfers were made for the following purposes:

- Transfer from Fire Fund to Debt Service Fund to account for the intercepted State Fire Allotment used to pay the debt owed to New Mexico Finance Authority.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

3. DEPOSITS AND INVESTMENTS

At June 30, 2005, the carrying amount of the Town of Vaughn's deposits (excluding \$4,630 cash with paying agent) was \$684,280 and the bank balances were \$692,771. The deposits are held at Wells Fargo Bank. All accounts are carried at cost.

In accordance with Section 6-10-7, NMSA, 1978 Compilation, deposits of public monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation insurance coverage. The following schedules show the bank balances which are held by the banks which act as depositories.

Wells Fargo Bank:	Carrying Amount	Bank Balance
Demand Deposits	\$ 677,636	\$ 686,127
Certificates of deposit	6,644	6,644
	<u>684,280</u>	<u>692,771</u>
FDIC Coverage		(106,664)
Uninsured balance		<u>\$ 586,107</u>
Collateralization required at 50%		\$ 293,054
Collateral held at Wells Fargo Trust		<u>1,263,949</u>
Over (under) collateralization requirement		<u>\$ 970,895</u>

The pledged securities are held by Wells Fargo Trust Department in San Francisco in favor of the Town of Vaughn. However, the securities are held in the name of Wells Fargo Bank.

Four trust accounts exist with the New Mexico Finance Authority and Bank of Albuquerque. The Town is not required to independently collateralize these accounts. The total amount held at these institutions at June 30, 2005 was \$4,630.

Custodial credit risk is the risk that in the event bank failure, the Town's deposits may not be returned. The Town does not have a policy for custodial credit risk. As of June 20, 2005, \$586,107 of the Town of Vaughn's balances were exposed to custodial credit risk as follows:

Uninsured, collateral held by the pledging Banks, but not in the name of the Town or State of New Mexico	<u>\$ 586,107</u>
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STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

4. ACCOUNTS RECEIVABLE

The accounts receivable of the Town of Vaughn, by fund type, at June 30, 2005 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Taxes:			
Locally assessed	\$	176	
State shared	33,725	8,092	665
Customer utility accounts			25,917
Grants		11,950	
	<u>33,725</u>	<u>20,218</u>	<u>26,582</u>
Less: Allowance for doubtful accounts			1,500
	<u>\$ 33,725</u>	<u>20,218</u>	<u>25,082</u>

Except as noted, all amounts are considered collectable at June 30, 2005. Utility customer receivables are presented net of an allowance for doubtful accounts of \$1,500 as shown above.

**STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005**

5. CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

Governmental activities	Balance 6/30/2004	Beginning Balance Restatement	Additions	Deletions	Balance 6/30/2005
Capital assets not being depreciated:					
Land	\$ 198,252				198,252
Construction in progress	148,666		104,586	160,161	93,091
Total	<u>346,918</u>	<u>-</u>	<u>104,586</u>	<u>160,161</u>	<u>291,343</u>
Capital assets being depreciated:					
Land improvements			141,901		141,901
Buildings	1,089,705		18,260		1,107,965
Machinery & equipment	46,932		5,819		52,751
Vehicles	337,690	136,654	19,406		493,750
Total	<u>1,474,327</u>	<u>136,654</u>	<u>185,386</u>	<u>-</u>	<u>1,796,367</u>
Less accumulated depreciation for:					
Land improvements			2,601		2,601
Buildings	743,530		21,854		765,384
Machinery	16,038		5,168		21,206
Equipment	153,756		28,913		182,669
Total	<u>913,324</u>	<u>-</u>	<u>58,536</u>	<u>-</u>	<u>971,860</u>
Total capital assets being depreciated, net	<u>561,003</u>	<u>136,654</u>	<u>126,850</u>	<u>-</u>	<u>824,507</u>
Governmental activities, capital assets, net	\$ <u>907,921</u>	<u>136,654</u>	<u>231,436</u>	<u>160,161</u>	<u>1,115,850</u>

Construction work in progress was made up of the following:

Fire department building repair and improvement	\$ 62,146
Ambulance bay building renovation	30,945
	<u>\$ 93,091</u>

**STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005**

5. CAPITAL ASSETS, continued

The following is a summary of changes in capital assets during the fiscal year:

Business type activities:	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Capital assets not being depreciated				
Land	\$ 19,203			19,203
Construction in progress	157,444	1,901,179	1,898,064	160,559
Total	<u>176,647</u>	<u>1,901,179</u>	<u>1,898,064</u>	<u>179,762</u>
Capital assets being depreciated				
Buildings	34,159			34,159
Underground Lines	1,821,275	1,898,064		3,719,339
Machinery & equipment	388,310	23,404		411,714
Total	<u>2,243,744</u>	<u>1,921,468</u>	<u>-</u>	<u>4,165,212</u>
Less accumulated depreciation for:				
Buildings	3,002	1,486		4,488
Underground Lines	675,661	42,590		718,251
Equipment	158,944	28,759		187,703
Total	<u>837,607</u>	<u>72,835</u>	<u>-</u>	<u>910,442</u>
Total capital assets being depreciated, net	<u>1,406,137</u>	<u>1,848,633</u>	<u>-</u>	<u>3,254,770</u>
Business-type activities, capital assets, net	\$ <u>1,582,784</u>	<u>3,749,812</u>	<u>1,898,064</u>	<u>3,434,532</u>

Construction work in progress included costs incurred through June 30, 2005 on phase II of the water / waste water system improvement project.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

5. CAPITAL ASSETS, Continued

	<u>Balance</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2005</u>
Business type activities:				
Component Unit:				
Capital assets not being depreciated:				
Construction in progress	122,313		122,313	-
Total	<u>122,313</u>	<u>-</u>	<u>122,313</u>	<u>-</u>
Capital assets being depreciated:				
Buildings	535,076	123,236		658,312
Machinery & equipment	8,019			8,019
Total	<u>543,095</u>	<u>123,236</u>	<u>-</u>	<u>666,331</u>
Less accumulated depreciation for:				
Buildings	220,717	20,208		240,925
Equipment	2,604	1,145		3,749
Total	<u>223,321</u>	<u>21,353</u>	<u>-</u>	<u>244,674</u>
Total capital assets being depreciated, net	<u>319,774</u>	<u>101,883</u>	<u>-</u>	<u>421,657</u>
Business-type activities, capital assets, net	<u>\$ 442,087</u>	<u>101,883</u>	<u>122,313</u>	<u>421,657</u>

There was no construction in progress at June 30, 2005 in the Housing Authority.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

5. CAPITAL ASSETS, continued

Depreciation expense was charged to functional programs of the primary government as follows:

Governmental activities:

General government	\$	6,796
Public Safety		32,467
Health and welfare		750
Public works		3,886
Culture and recreation		14,637
	\$	<u>58,536</u>

Business-type activities:

Solid waste	\$	22,288
Water and sewer		50,547
	\$	<u>72,835</u>

Depreciation was charged to the component unit as follows:

Housing Authority	\$	<u>21,353</u>
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6. PROPRIETARY FUND LONG-TERM DEBT

A. Changes in Long-Term Debt

The following is a schedule of the changes in proprietary fund long-term debt for the year ended June 30, 2005:

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005	Current Portion
Note payable	\$ 84,123	510,000	11,795	582,328	16,853
Landfill closure costs	12,930	4,310		17,240	
Compensated absences	9,353	7,495	5,226	11,622	11,622
	\$ <u>106,406</u>	<u>521,805</u>	<u>17,021</u>	<u>611,190</u>	<u>28,475</u>

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

6. PROPRIETARY FUND LONG-TERM DEBT, continued

B. Long Term Debt

During the year ended June 30, 2003 the Town borrowed \$94,269 from New Mexico Finance Authority (NMFA) for the purchase of a front end loader. The purchase of the equipment was concluded during the year ended June 30, 2004. The loan bears interest from .88% to 3.23% plus an administrative fee of .25%. Payments are due on November 1 and May 1, with final payment due May 1, 2011. The following schedule shows the amounts due by fiscal year.

During the year ended June 30, 2005, the Town of Vaughn issued its 2004 Series Bonds which were purchased by the United States of America for the purpose of improving its water and sewer system. The bonds were purchased at par with an annual interest rate of 4.375%. Payments are due annually with accrued interest. The bonds are to be repaid with proceeds from the water and sewer system and from the general revenue of the Town.

The following schedule represents the minimum payments on debt over the life of these loans:

<u>Due in Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fiscal Charge</u>	<u>Total</u>
2006	\$ 16,853	22,655	39,508
2007	16,919	22,588	39,507
2008	16,997	22,311	39,308
2009	18,085	22,023	40,108
2010	18,183	21,625	39,808
2011 and Future years	495,291	469,317	964,608
	<u>\$ 582,328</u>	<u>580,519</u>	<u>1,162,847</u>

C. Closure and Post Closure Land Fill Costs

State and federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The total liabilities for closure and post closure costs were \$17,240 at June 30, 2005 represent the cumulative amount reported to date based upon approximately 5% of the usable capacity of the landfill. The liability is based upon an estimate performed in March 2003. The estimated current year accrual of the future closure and post-closure care costs amounted to \$4,310.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

6. PROPRIETARY FUND LONG-TERM DEBT, continued

C. Closure and Post Closure Land Fill Costs, continued

The actual cost of closure and post closure care may be higher, of course, due to inflation, changes in technology or changes in:

The proprietary debt, as reflected on the Statement of Net Assets, is being paid from its major funds in the percentage shown below:

	<u>Solid Waste Fund (504)</u>	<u>Water/Sewer Fund (505)</u>	<u>Total Proprietary Debt</u>
NMFA Note payable Landfill closure and post	100%		100%
Closure care costs	100%		100%
Compensated absences	3%	97%	100%

7. GOVERNMENTAL LONG-TERM DEBT

A. Changes in Long-Term Debt

The following is a schedule of changes in governmental fund long-term debt for the year ended June 30, 2005.

	<u>Balance June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Notes Payable	\$ 125,364		15,684	109,680	15,964
Accrued Compensated Absences	7,363	10,619	7,630	10,352	1,725
	<u>\$ 132,727</u>	<u>10,619</u>	<u>23,314</u>	<u>120,032</u>	<u>17,689</u>

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

7. GOVERNMENTAL LONG-TERM DEBT, continued

B. Notes Payable

The Town entered into a note with New Mexico Finance Authority on July 21, 2000 in an amount of \$130,000 for the purchase of a fire truck. The note bears interest at rates ranging from 4.03% to 4.8% and also is subject to an administration fee of 0.25%. Annual payments range from \$14,991 to \$15,080 and are subject to an intercept agreement whereby the annual amount due the fire fund is reduced and submitted to New Mexico Finance Authority. The balance on the note was \$82,646 at June 30, 2005.

The Town entered into another note with New Mexico Finance Authority on February 20, 2004 in an amount of \$30,000 for the repair of the fire station roof. The note does not bear interest but is subject to an administration fee of 0.25%. Annual payments range from \$3,041 to \$3,056 and are subject to an intercept agreement whereby the annual amount due the fire fund is reduced and submitted to New Mexico Finance Authority. The balance on the note was \$27,034 at June 30, 2005.

Annual debt service requirements for the two NMFA notes are as follows:

Year Ended June 30	Principal	Interest	Admin Fees	Total
2006	\$ 15,964	1,795	274	18,033
2007	16,262	1,537	234	18,033
2008	16,578	1,264	194	18,036
2009	16,909	975	152	18,036
2010	17,260	667	110	18,037
2011-2014	26,707	342	113	27,162
Total	\$ 109,680	6,580	1,077	117,337

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

8. ACCRUED COMPENSATED ABSENCES

The Town allows for the accrual and payment of annual leave. Annual leave is awarded at a rate of two weeks per year for all employees who work five eight hour days in a regular workweek. Upon termination or retirement an employee will be paid for unused vacation at his / her final rate of pay.

Accrued compensated absences of the governmental funds have been recorded pursuant to GASB 16 and appear on the statement of net assets as follows:

Governmental Funds:	Current Portion	Non-current Portion	Total
General Fund	\$ 1,477	7,386	8,863
Seniors Fund	248	1,241	1,489
	\$ 1,725	8,627	10,352

The governmental debt, as reflected on the Statement of Net Assets, is being paid from the following major and non major funds in the percentages shown below:

	Major		Non-Major Fund Debt	Total
	General Fund (101)	Senior Fund (219)	Service (301)	
NMFA Notes payable			100%	100%
Compensated absences	85%	15%		100%

9. TAXES

A. Property Taxes

The Town receives property taxes from the Guadalupe County Treasurer for operational purposes. Property taxes are assessed on January 1 of each year, except on livestock, and are payable in two equal installments on November 10th of the year in which the tax bill is prepared and April 10th of the following year. Unpaid property taxes are deemed delinquent 30 days after their due date. Taxes on real property are a lien against the property from January 1 of the year for which the taxes are imposed.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

9. TAXES, continued

A. Property Taxes, continued

Tax levies are authorized by statute to service payments due on general obligation bonds which have been authorized pursuant to state law, and for general operating purposes. However, at June 30, 2005 the Town had no general obligation bonds outstanding.

The Mill levy tax rates for the Town for 2005 were as follows:

	Residential	Non-Residential	
General Operating	5.872	.765	These are tax rates applied to each \$1,000 of property value taxable by the Town

Property tax revenues amounted to \$ 49,056 for the Government-Wide financial statements and \$44,638 for the fund financial statements during the fiscal year ended June 30, 2005.

B. Business Licenses

Under Chapter 3, Article 38 NMSA 1978, the Town, by passage of an ordinance, authorized the assessment of a registration fee equal to \$35 per annum for all businesses within the jurisdiction of the Town. During the fiscal year ended June 30, 2005, the Town collected \$715 in business license fees.

C. Motor Vehicle Registration Fees

Under the provisions of Chapter 66, Article 6 NMSA 1978 the State of New Mexico collects various fees for the registration and regulation of motor vehicles in the state. Of the amount collected, a portion is disbursed to the various incorporated municipalities based upon the total assessed valuation a qualified municipality bears to the total assessed valuation of all the qualified municipalities within the county. Under Section 66-6-23, the various qualified cities in the State of New Mexico share 9.4 percent of the total fees collected (10 percent distribution). In addition, an amount equal to 14.1 percent of the total fees collected are allocated between the various counties, towns, and incorporated municipalities within the county in the same proportion that the receipts from general property taxes, other than taxes for state purposes, receipts from general property taxes received by the county treasurer for the year in which such distribution is to be made, are so distributed in such county between said town and said incorporated municipalities within the county. In the counties wherein are located municipalities incorporated, organized and operating under special accounts, the allocation shall be in the proportion that the receipts from general property taxes in said municipalities bear to the total receipts from general property taxes.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

9. TAXES, continued

C. Motor Vehicle Registration Fees, continued

other than taxes for state purposes received by the county treasurers and the collectors of said municipalities in the year in which said allocation is to be made. For the purpose of effecting an equitable allocation in counties wherein are located municipalities incorporated, organized and operating under special act, the local government division shall compute a hypothetical figure representing the municipality's proceeds from the property tax based on the figure arrived at by the county assessor as the evaluation of real property within the municipality, the assessment ratio used in that county and the highest mill levy approved by the local government division for any other municipality in the state (15 percent distribution).

The Town earned \$3,587 in motor vehicle registration fees for the year ended June 30, 2005.

D. Excise Tax on Cigarettes

For the privilege of selling, giving or consuming cigarettes in New Mexico, there is levied an excise tax at the rate of ten and one half cents (\$. 105) for each ten cigarettes or fraction thereof sold, given or consumed in New Mexico. The taxes collected due to the provision of Chapter 7, Article 12, paragraph 3 NMSA 1978 (as paraphrased above) are distributed to the State General Fund and the various counties and municipalities as follows:

State General Fund	.075
County and Municipality Recreation Fund	.010
County and Municipality Cigarette Tax Fund	<u>.020</u>
	<u>.105</u>

Taxes deposited into the County and Municipality Recreation Fund are distributed to the various counties and municipalities and are restricted to usage as follows:

1. To each county in the proportion that the sales of cigarettes made within the county borders, exclusive of sales within any municipality in that county, bears to the total sales of cigarettes in the state during such month; and
2. To each municipality in the proportion that the sales of cigarettes made within the municipality during such month bears to the total sales of cigarettes in the state of such month.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, *continued*
June 30, 2005

9. TAXES, continued

D. Excise Tax on Cigarettes, continued

The funds distributed to the counties and municipalities under this section shall be used for recreational facilities and salaries of instructors and other employees necessary to the operation of such facilities. Such recreational facilities shall be for the use of all persons, and juveniles and elderly persons shall not be excluded.

Each county or municipality shall establish a fund to be known as the "recreational fund" into which all monies received from the County and Municipality Recreational Fund shall be deposited. As used in this section, "juvenile" means every person under the age of majority and "elderly" means every person over the age of sixty years. Taxes deposited into the County and Municipality Cigarette Tax Fund are distributed to the various counties and municipalities in the same manner as the County and Municipality Recreation Fund; however, the taxes so distributed shall be deposited in the general fund of such counties and municipalities, provided the cigarette tax revenues distributed under the provision of this section shall not be earmarked or otherwise obligated under the terms or provision of any prior law, prior local ordinance or prior bond agreement which pledges cigarette tax revenues for the payment of any principal or interest of revenue bonds issued pursuant to such prior law, prior local ordinance or prior bond agreement.

During the year ended June 30, 2005, the Town earned the following distributions of cigarette taxes:

Recreation Fund	\$	41
General Fund		<u>1,525</u>
Total	\$	<u>1,566</u>

E. Gasoline Tax

The State of New Mexico, by authority of Chapter 7, Article 13 NMSA 1978, imposes an excise tax of \$.17 on each gallon of gasoline received in New Mexico. Of the total gasoline taxes received, a portion is distributed to the various municipalities within the state pursuant to Chapter 7, Article 1-6.9 NMSA 1978 and Chapter 7, Article 1-6.27 NMSA 1978. Distributions of gasoline taxes received pursuant to Chapter 7, Article 1-6.9 must be deposited into a separate road fund for expenditures only for construction, reconstruction, resurfacing or other improvements or maintenance of public roads, streets, alleys or bridges, including right-of-way and materials acquisition. The distribution may also be used to provide matching funds for projects subject to cooperative agreements entered into with the State highway and transportation department pursuant to section 67-3-28 1978.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

9. TAXES, continued

E. Gasoline Tax, continued

Any municipality or II class county that has created or that creates a "street improvement fund" to which gasoline tax revenues or distributions are irrevocably pledged under Section 3-34-1 Through 3-34-4 NMSA 1978 or that has pledged all or a portion of gasoline tax revenues or distributions to the payment of bonds shall receive its proportion of the distribution of revenues under this section impressed with and subject to these pledges.

Distributions of gasoline taxes received pursuant to Chapter 7, Article 1-6.27 shall be used for the following purposes:

- (1) Reconstructing, resurfacing, maintaining, repairing, or otherwise improving existing alleys, streets, roads or bridges, or any combination of the foregoing, or laying of, opening, constructing or otherwise acquiring new alleys, streets, roads or bridges, or any combination of the foregoing, provided that any of the foregoing improvements may include but are not limited to, the acquisition of rights of way
- (2) To provide matching funds for projects subject to cooperative agreements with the state highway and transportation department pursuant to Section 67-3-28 NMSA 1978, and
- (3) for expenses of purchasing, maintaining and operating transit operations and facilities for the operation of a transit authority established by the municipal transit law and for the operation of a vehicle emission inspection program. A municipality may engage in the business of the transportation of passengers and property within the political subdivision by whatever means the municipality may decide and may acquire cars, trucks, motor buses and other equipment necessary for operating the business. A municipality may acquire land, erect buildings and equip the buildings with all the necessary machinery and facilities for the operation, maintenance, modification, repair and storage of the cars, trucks, motor buses and other equipment needed. A municipality may do all things necessary for the acquisition and the conduct of the business of public transportation.

During the fiscal year ended June 30, 2005, the Town earned \$37,304 in gasoline tax distributions.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, *continued*
June 30, 2005

9. TAXES, continued

F. Municipal Gross Receipts Tax

Under authority of Chapter 7, Articles 19, 19A and 19D, NMSA 1978, the Town adopted gross receipts taxing through ordinances. Said ordinances provide for the imposition of gross receipts taxes on all non-exempt persons engaging in business in the municipality. The tax is collected by the State of New Mexico and remitted to the Town after deducting certain administrative costs. During the year ended June 30, 2005, the Town earned taxes in the amounts shown below which were imposed under the above stated authorities.

Fund	Amount
General Fund:	
Town gross receipts tax	\$ 87,518
Solid Waste Fund:	
Environmental gross receipts tax	<u>4,461</u>
	<u>\$ 91,979</u>

G. State Gross Receipts Tax

Under authority of Chapter 7, Article 1, NMSA 1978, the State of New Mexico imposes a gross receipts tax on all business within the State. Of the total collected, 1.35 percent of the taxable gross receipts is distributed to the municipality reporting the taxable receipts. During the year ended June 30, 2005, the Town earned \$85,578 from the State under the above stated authority.

10. RETIREMENT PLAN

The employees of the Town have elected not to be covered under the Public Employee's Retirement Association – a New Mexico Public Retirement system available to Town employees.

11. RETIREE HEALTH CARE ACT CONTRIBUTIONS

The employees of the Town have elected not to participate under the Retiree Health Care Act. This plan would have provided health care benefits to Town employees upon retirement.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

12. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The Town participates in the New Mexico Self-Insurers' Fund risk pool. Listed below is a summary of insurance coverage in force for the fiscal year ended June 30, 2005:

Workers' Compensation

a. Name and address of insurance agent:	New Mexico Self-Insurers' Fund
b. Policy number:	1920W
c. Amount of coverage:	Unlimited
d. Expiration date:	06/30/05
e. Premium:	\$5,874

Property

a. Name and address of insurance agent:	St. Paul Insurance
b. Policy number:	GP09309552
c. Amount of coverage:	Replacement cost
d. Expiration date:	11/01/04
e. Premium:	\$ 1,259

Auto Liability

a. Name of insurance agent:	St. Paul Insurance
b. Policy number:	GP09309552
c. Amount of coverage:	Tort limits
d. Expiration date:	11/03/05
e. Premium:	\$19,123

General Liability

a. Name of insurance agent:	St. Paul Insurance
b. Policy number:	GP09309552
c. Amount of coverage:	Tort limits
d. Expiration date:	11/03/05
e. Premium	\$13,468

The premium amount of \$10,000 for the Workers' Compensation policy is subject to an audit that normally increases or decreases the premium according to the actual payroll expense upon which the premium had been estimated.

The Town has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the Town which exceeds the insurance coverage, the Town would be responsible for a loss in excess of the coverage amounts.

At June 30, 2005, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Town.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
June 30, 2005

13. BUDGET AUTHORITY EXCEEDED

The Town overspent its budget authority in the following funds in the amounts indicated. As explained in Note I.E.G., expenditures may not exceed the budget at the fund level.

<u>Name</u>	<u>Number</u>	<u>Overspent Amount</u>
General Fund	101	\$ 144,039 -16
Law Enforcement	211	2,848 -18
Solid Waste	504	12,588 -74
Water and Sewer	505	36,700 -75

Management and the Town Council intends to monitor budgets and budget authority more closely in the future.

14. RESTATEMENT OF BEGINNING NET ASSETS

In preparing its schedule of capital assets as required under GASB 34, the Town made a math error in totaling the capital assets schedule. This error failed to add \$136,654 to the vehicle section of the capital assets. As capital assets are an element of Net Assets on the government wide financial statements, this creates a restatement of beginning Net Assets.

15. GASB 34 RECONCILIATION

Pursuant to New Mexico State Auditor's Rule 2.2.2.10.CC(1) below is the reconciliation between the ending fund equity at June 30, 2004 to the beginning of the year net assets as presented in the Statement of Net Assets (Exhibit 2).

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Total fund equity at June 30, 2004	\$ 526,598	1,497,263
Reconciling items:		
Capital assets, net	907,921	
Deferred Income	12,090	
Notes payable	(125,364)	
Compensated absences	(6,136)	
Interest Payable	(394)	
Net assets, beginning of year - Exhibit B	<u>\$ 9 1,314,715</u>	<u>9 1,497,263</u>

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TOWN OF VAUGHN
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2005

NON-MAJOR SPECIAL REVENUE FUNDS

Corrections - To establish an additional source of funds to municipalities to offset the costs of corrections. The source of funds is a five dollar fee which must be paid by all persons violating laws relating to the operations of a motor vehicle. Funding is authorized by NMSA 33-9-3.

E.M.S. - To account for the acquisition of emergency medical equipment and the operation of the equipment financed through a grant from the State of New Mexico. Funding is authorized by NMSA 24-10A-1.

Fire Protection - To account for the operations and maintenance of the fire department. The operations are financed by an allotment from the annual fire grant from the State of New Mexico. Funding is authorized by NMSA 59A-53-2.

Law Enforcement - To account for the expenditures from the State of New Mexico for training, equipment and capital outlay. Funding is authorized by NMSA 29-13-1 and 29-13-4.

Recreation - To account for the operation and maintenance of recreational facilities in the Town. Funding is provided by a specific annual cigarette tax levy. Funding is authorized by NMSA 7-12-1 & 7-12-15.

Cemetery - To account for revenue from sale of lots and donations to be used for cemetery improvements. Funding is authorized by NMSA 58-17-4.

Ambulance - To account for grant funds received from County and State sources for development of an EMS system within the County. Funding is authorized by NMSA 24-10A-1.

NON-MAJOR DEBT SERVICE FUND

The Debt Service Fund is used to accumulate monies for payment of interest and principal due on general obligation bonds.

NON-MAJOR CAPITAL PROJECTS FUNDS

Capital Improvements - To account for construction costs of capital improvements made by the Town.

C.D.B.G. Sewer Renovation Extension '00 - To account for monies used to design and construct improvements to the sewer system within the Town.

Airport Project - To account for the planning phase to the Vaughn Municipal Airport. Funding is provided by Federal and State grants as well as transfers of local source revenues from other funds. The Federal grant is received from the U.S. Department of Transportation, Federal Aviation Administration, pursuant to Public Law 103-272 as amended by Public Law 103-260 and Public Law 103-305. The State grant is received from the New Mexico State Highway and Transportation Department.

STATE OF NEW MEXICO
TOWN OF VAUGHN
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	SPECIAL REVENUE FUNDS							Total Non-Major Special Revenue Funds
	Fund 201	Fund 206	Municipal Street Fund	Recreation Fund	Fund 299	Fund 509	Ambulance Fund	
ASSETS								
Assets:								
Cash and Investments	\$ 4,128	1,872	351,382	6,125	5,873	2,654	372,034	
Cash with paying agent	-	-	-	-	-	-	-	
Taxes and accounts receivable	-	-	8,093	175	-	-	8,268	
Due from other funds	-	-	22,564	-	-	-	22,564	
Prepaid Insurance	-	857	-	-	-	-	857	
Total Assets	\$ 4,128	2,729	382,039	6,300	5,873	2,654	403,723	
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ -	-	686	-	-	-	686	
Due to other funds	-	-	-	-	-	1,704	1,704	
Total Liabilities	-	-	686	-	-	1,704	2,390	
Fund balances:								
Statutory reserve	-	-	-	-	-	-	-	
Reserved for subsequent years expenditures	-	-	381,353	-	-	-	381,353	
Reserved for prepaid insurance	-	857	-	-	-	-	857	
Reserved for debt service	-	-	-	-	-	-	-	
Unreserved - undesignated	4,128	1,872	-	6,300	5,873	950	19,123	
Total fund balance	4,128	2,729	381,353	6,300	5,873	950	401,333	
Total liabilities and fund balance	4,128	2,729	382,039	6,300	5,873	2,654	403,723	

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements
STATEMENT 1

STATE OF NEW MEXICO
TOWN OF VAUGHN
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, continued
June 30, 2005

	DEBT SERVICE FUND	Total Non-Major Special Revenue Funds	Total Non-major Funds
	F-und 301		
	-		
	1,194	372,034	1,194
	-	8,268	8,268
	-	22,564	22,564
	-	857	857
	1,194	403,723	32,883
	1,194	403,723	32,883

ASSETS

Assets:

Cash and Investments	\$	372,034	1,194
Cash with paying agent		-	8,268
Taxes and accounts receivable		8,268	22,564
Due from other funds		22,564	857
Prepaid insurance		857	-
Total Assets		403,723	32,883

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts payable	686		686
Due to other funds	1,704		1,704
Total Liabilities	2,390		2,390
Fund balances:			
Statutory reserve	-		-
Reserved for subsequent years expenditures	381,353		381,353
Reserved for prepaid insurance	857		857
Reserved for debt service	1,194		1,194
Unreserved - undesignated	19,123		19,123
Total fund balance	401,333		402,527
Total liabilities and fund balai \$	403,723		404,917

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENT 1, continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the year ended June 30, 2005

	SPECIAL REVENUE FUNDS							Total Non-Major Special Revenue Funds
	Fund 201	Fund 206	Fund 216	Fund 217	Fund 299	Fund 509		
Revenues:								
Taxes:								
Gasoline			37,304					37,304
Other				762				762
Intergovernmental - state		5,000						5,000
Miscellaneous local sources	37		7,993		205		7,506	15,741
Total revenues	<u>37</u>	<u>5,000</u>	<u>45,297</u>	<u>762</u>	<u>205</u>	<u>7,506</u>		<u>58,807</u>
Expenditures:								
Current								
Public safety		3,814	7,256				13,093	24,163
Culture and recreation				3,779				3,779
Non-Current:								
Debt Service:								
Principal								
Interest and fiscal charges								
Capital outlay								
Total Expenditures	-	<u>3,814</u>	<u>7,256</u>	<u>3,779</u>	-	<u>13,093</u>		<u>27,942</u>
Revenues over (under) expenditure:	37	<u>1,186</u>	<u>38,041</u>	<u>(3,017)</u>	<u>205</u>	<u>(5,587)</u>		<u>30,865</u>
Other financing sources (uses):								
Proceeds from loan								
Operating transfers in			18,226					18,226
Operating transfers out			<u>18,226</u>					<u>18,226</u>
Total other sources								
Net change in fund balances	37	<u>1,186</u>	<u>56,267</u>	<u>(3,017)</u>	<u>205</u>	<u>(5,587)</u>		<u>49,091</u>
Fund balance, beginning of year	4,091	<u>1,543</u>	<u>325,086</u>	<u>9,317</u>	<u>5,668</u>	<u>6,537</u>		<u>352,242</u>
Fund balance, end of year	<u>4,128</u>	<u>2,729</u>	<u>381,353</u>	<u>6,300</u>	<u>5,873</u>	<u>950</u>		<u>401,333</u>

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements
STATEMENT 2

STATE OF NEW MEXICO
TOWN OF VAUGHN
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE, continued
For the year ended June 30, 2005

	DEBT SERVICE FUND	Total Non-Major Special Revenue Funds	Total Non- Major Funds
	Fund 301		
Revenues:			
Taxes:			
Gasoline		37,304	37,304
Other		762	762
Intergovernmental - state		5,000	5,000
Miscellaneous local sources	259	15,741	16,000
Total revenues	<u>259</u>	<u>58,807</u>	<u>59,066</u>
Expenditures:			
Current			
Public safety		24,163	24,163
Culture and recreation		3,779	3,779
Non-Current:			
Debt Service:			
Principal	12,718	-	12,718
Interest and fiscal charges	2,274	-	2,274
Capital outlay			
Total expenditures	<u>14,992</u>	<u>27,942</u>	<u>42,934</u>
Revenues over (under) expenditures	<u>(14,733)</u>	<u>30,865</u>	<u>16,132</u>
Other financing sources (uses):			
Proceeds from loan		-	-
Operating transfers in	14,992	18,226	33,218
Operating transfers out		-	-
Total other financing sources (uses)	<u>14,992</u>	<u>18,226</u>	<u>33,218</u>
Net change in fund balances	259	49,091	49,350
Fund balance, beginning of year	• 935	352,242	353,177
Fund balance, end of year	<u>1,194</u>	<u>401,333</u>	<u>402,527</u>

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENT 2, continued

STATE OF NEW MEXICO
TOWN OF VAUGHN
SPECIAL REVENUE FUND
EMS FUND
FUND 206
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue					
Intergovernmental - State	\$ 45,000	45,000		-	(45,000)
Miscellaneous local sources			-		-
Total revenue	<u>45,000</u>	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>(45,000)</u>
Expenditures:					
Public Safety:					
Current:					
Operating expenses	5,000	5,000	3,814	-	1,186
Non-Current:					
Capital outlay	40,000	40,000	-	-	40,000
Total expenditures	<u>45,000</u>	<u>45,000</u>	<u>3,814</u>	<u>-</u>	<u>41,186</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(3,814)</u>		<u>(3,814)</u>
Other financing sources (used):					
Operating transfers out			-		-
Total other financing sources (used)					
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>-</u>	<u>(3,814)</u>	<u>-</u>	<u>(3,814)</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
TOWN OF VAUGHN
SPECIAL REVENUE FUND
STREET FUND
FUND 216

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue					
Intergovernmental - State	\$ 55,805	55,805		-	(55,805)
Miscellaneous local sources			7,993		7,993
Total revenue	<u>55,805</u>	<u>55,805</u>	<u>7,993</u>	<u>-</u>	<u>(47,812)</u>
Expenditures:					
Public Safety:					
Current:					
Operating expenses	55,805	55,805	7,256	-	48,549
Non-Current:					
Capital outlay	-	-	-	-	-
Total expenditures	<u>55,805</u>	<u>55,805</u>	<u>7,256</u>	<u>-</u>	<u>48,549</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>737</u>	<u>-</u>	<u>737</u>
Other financing sources (used):					
Loan Proceeds			-	-	-
Operating transfers in			18,226	-	18,226
Operating transfers out			-	-	-
Total other financing sources (used)	<u>-</u>	<u>-</u>	<u>18,226</u>	<u>-</u>	<u>18,226</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>-</u>	<u>18,963</u>	<u>-</u>	<u>18,963</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
 JOHN OF VAUGHN
 SPECIAL REVENUE FUND
 RECREATION FUND
 FUND 217
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP BASIS)
 for the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue					
Intergovernmental - State	\$ 1,093	1,093		-	(1,093)
Miscellaneous local sources	5,000	5,000	-	-	(5,000)
Total revenue	<u>6,093</u>	<u>6,093</u>	<u>-</u>	<u>-</u>	<u>(6,093)</u>
Expenditures:					
Culture and Recreation					
Current:					
Personal services	5,040	5,040	1,818	-	3,222
Operating expenses	2,000	2,000	1,961	-	39
Total expenditures	<u>7,040</u>	<u>7,040</u>	<u>3,779</u>	<u>-</u>	<u>3,261</u>
Revenues over (under) expenditures	\$ <u>(947)</u>	<u>(947)</u>	<u>(3,779)</u>	<u>-</u>	<u>(2,832)</u>
Budgetary notation - Fund Balance appropriated from prior year	\$ <u>9,725</u>	<u>9,725</u>			

SEE INDEPENDENT AUDITOR'S REPORTS
 The Accompanying Notes Are An Integral Part Of These Financial Statements

TATE OF NEW MEXICO
OWN OF VAUGHN
PECIAL REVENUE FUND
EMETERY FUND
UND 299
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
for the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue:					
Miscellaneous local sources	\$ 500	500		-	(500)
Total revenue	<u>500</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>(500)</u>
Expenditures:					
Health and Welfare:					
Current:					
Operating expenses	1,000	1,000	-	-	1,000
Total expenditures	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Revenues over (under) expenditures	\$ <u>(500)</u>	<u>(500)</u>	<u>-</u>	<u>-</u>	<u>500</u>

SEE INDEPENDENT AUDITOR'S REPORTS
 The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
TOWN OF VAUGHN
SPECIAL REVENUE FUND
AMBULANCE FUND
FUND 509
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue:					
Miscellaneous local sources	\$ 14,483	14,483		-	(14,483)
Total revenue	<u>14,483</u>	<u>14,483</u>	<u>-</u>	<u>-</u>	<u>(14,483)</u>
Expenditures:					
Public Safety:					
Current:					
Personnel services	7,947	7,947	4,716	-	3,231
Operating expenses	8,053	8,053	7,722	-	331
Non-Current:					
Capital outlay	-	-	655	-	(655)
Total expenditures	<u>16,000</u>	<u>16,000</u>	<u>13,093</u>	<u>-</u>	<u>2,907</u>
Revenues over (under) expenditures	<u>(1,517)</u>	<u>(1,517)</u>	<u>(13,093)</u>	<u>-</u>	<u>(11,576)</u>
Other financing sources (uses):					
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>(1,517)</u>	<u>(1,517)</u>	<u>(13,093)</u>	<u>-</u>	<u>(5,506)</u>
Budgetary notation - Fund balance appropriated from prior year	\$ <u>7,587</u>	<u>7,587</u>			

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
TOWN OF VAUGHN
SPECIAL REVENUE FUND
DEBT SERVICE FUND
FUND 301
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Actual Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue:					
Miscellaneous local sources	\$ -	-		-	-
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Non-current:					
Debt service:					
Principal payment	12,718	12,718	12,718	-	-
Interest payment	2,035	2,035	2,035	-	-
Agent fees	238	238	239	-	(1)
Total expenditures	<u>14,991</u>	<u>14,991</u>	<u>14,992</u>	<u>-</u>	<u>(1)</u>
Revenues over (under) expenditures	<u>(14,991)</u>	<u>(14,991)</u>	<u>(14,992)</u>	<u>-</u>	<u>(1)</u>
Other financing sources (uses):					
Operating transfer in		14,991	14,992		(1)
Total other financing sources (uses)	<u>-</u>	<u>14,991</u>	<u>14,992</u>	<u>-</u>	<u>(1)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>(14,991)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENT 9

STATE OF NEW MEXICO
TOWN OF VAUGHN
PROPRIETARY FUNDS
SOLID WASTE
FUND 504
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Budgetary Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue:					
Operating grants	\$ 2,259	2,259		-	(2,259)
Sales and services	38,687	38,687	49,948	-	11,261
Other Local Sources	-	-	4,573	-	4,573
Total revenue	<u>40,946</u>	<u>40,946</u>	<u>54,521</u>	<u>-</u>	<u>13,575</u>
Expenditures:					
Current					
Personnel services	12,000	12,000	14,566	-	(2,566)
Operating expenses	11,426	11,426	33,244	-	(21,818)
Non-Current:					
Debt Service					-
Interest and fiscal charges			612	-	(612)
Capital outlay	12,408	12,408		-	12,408
Total expenditures	<u>35,834</u>	<u>35,834</u>	<u>48,422</u>	<u>-</u>	<u>(12,588)</u> <i>62</i>
Revenues and other financing sources over (under) expenditures and other financing uses:	\$ <u>5,112</u>	<u>5,112</u>	<u>6,099</u>	<u>-</u>	<u>26,163</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
TOWN OF VAUGHN
PROPRIETARY FUNDS
WATER AND SEWER
FUND 505-705
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BASIS)
For the year ended June 30, 2005

	Original	Revised	Budgetary Basis	Variances	
				Original Budget To Final	Actual to Final Budget
Revenue:					
Sales and service	\$ 170,495	170,495	169,490	-	(1,005)
Other	1,130	1,130	3,114	-	1,984
Total revenue	<u>171,625</u>	<u>171,625</u>	<u>172,604</u>	<u>-</u>	<u>979</u>
Expenditures:					
Current					
Personnel services	103,741	103,741	97,311	-	6,430
Operating expenses	29,951	29,951	108,712	-	(78,761)
Fuel and power / utilities	75,666	75,666	43,094	-	32,572
Insurance	23,625	23,625	10,250	-	13,375
Taxes	-	-	10,368	-	(10,368)
Meter deposits	669	669	617	-	52
Total expenditures	<u>233,652</u>	<u>233,652</u>	<u>270,352</u>	<u>-</u>	<u>(36,700)</u>
Revenues over (under) expenditures	<u>(62,027)</u>	<u>(62,027)</u>	<u>(97,748)</u>	<u>-</u>	<u>(35,721)</u>
Other financing sources (uses):					
Federal Grants			1,355,435		1,355,435
Interest & fiscal charges			(20,988)	-	(20,988)
Operating transfers in			19,501		19,501
Operating transfers out			(21,737)	-	(21,737)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,332,211</u>	<u>-</u>	<u>1,332,211</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>(62,027)</u>	<u>(62,027)</u>	<u>1,234,463</u>	<u>-</u>	<u>1,296,490</u>

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF PLEDGED COLLATERAL
For the Year Ended June 30, 2005

<u>Security Type</u>	<u>CUSIP Number</u>	<u>Fair Market Value</u>	<u>Maturity Date</u>
Wells Fargo			
Federal National Mortgage Association	31368H3SO	9,177	05/01/2009
Federal National Mortgage Association	31373UD53	5,067	08/01/2025
Federal National Mortgage Association	31385XTU1	892,732	11/01/2033
Federal National Mortgage Association	31402DDS6	201,153	06/01/2034
Ginnie Mae Mortgaged Backed Security	36225BG36	11,011	10/15/2029
Ginnie Mae Mortgaged Backed Security	36225BL30	35,067	02/15/2031
Ginnie Mae Mortgaged Backed Security	36225BM39	109,743	04/15/2031
		\$ <u>1,263,949</u>	

Collateral is held at the Wells Fargo Trust Department in San Francisco, California.

SEE INDEPENDENT AUDITORS' REPORT
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENT 12

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF BANK DEPOSITORIES
June 30, 2005

The following schedule is presented to comply with the requirements of New Mexico State Statute 12-6-5 NMSA 1978, as interpreted by the New Mexico State Auditor's Rule 2 NMAC 2.2. The schedule presents information related to each bank account held by the Town as of June 30, 2005 by bank:

Bank Name	Account Name	Acct. Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Wells Fargo Bank							
	General Fund	1	\$ 140,546		2,422		138,124
	Local Government Correctional	3	4,128				4,128
	Health Services Grant	1	3,187		1,315		1,872
	Fire Fund	1	2,995		2,136		859
	Law Enforcement Protection	1	188				188
	Municipal Rd 10% Plate	1	351,382				351,382
	Juvenile Recreation Fund	1	6,163		38		6,125
	Senior Citizens Account	1	9,997				9,997
	Cemetery Fund	1	5,873				5,873
	Water & Sewer Operation / Maint.	1	23,321		2,314		21,007
	Ambulance	1	2,896		242		2,654
	Landfill Account	1	62,393				62,393
	Meter Fund	1	12,392		24		12,368
	Water Department	3	6,644				6,644
	Housing Authority	1	59,633				59,633
	Housing Security Deposits	1	1,033				1,033
	Total Wells Fargo Bank		<u>692,771</u>	<u>-</u>	<u>8,491</u>	<u>-</u>	<u>684,280</u>
Bank of Albuquerque							
	Sewer & Water	4	1,367				1,367
	Fire Department Repairs	4	2,031				2,031
	Total Bank of Albuquerque		<u>3,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,398</u>
New Mexico Finance Authority							
	Paying Agent						
	29th Supp. Vaughn Fire Truck	4	38				38
	50th Supp. Front End Loader	4	1,194				1,194
	Total New Mexico Finance Authority		<u>1,232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,232</u>
Total all Accounts			<u>\$ 697,401</u>	<u>-</u>	<u>8,491</u>	<u>-</u>	<u>687,543</u>
1	Checking account						
2	Savings Account						
3	Certificate of Deposit						
4	Trustee account						

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

**STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF JOINT POWERS AGREEMENTS
For the Year Ended June 30, 2005**

I	<u>Participants -</u>	Town of Vaughn and Vaughn Consolidated School District of Vaughn
	<u>Responsible for operations -</u>	Town of Vaughn
	<u>Description -</u>	The Town of Vaughn will assist the School District with road equipment and operators to undertake various School District improvement Projects.
	<u>Beginning and ending dates -</u>	April 13, 2005 to 03/31/06
	<u>Total estimated cost -</u>	Not determinable
	<u>Town of Vaughn contributions -</u>	Road equipment and operators
	<u>Audit responsibility -</u>	Town of Vaughn
	<u>Fiscal agent -</u>	None
	<u>Agency reporting revenues and Expenditures -</u>	Town of Vaughn
II	<u>Participants -</u>	Town of Vaughn (Vaughn) and Guadalupe County (County).
	<u>Responsible for operations -</u>	Vaughn and County.
	<u>Description -</u>	County is permitted disposal of solid waste at the Town's landfill.
	<u>Beginning and ending dates -</u>	June 22, 2004 until terminated.
	<u>Total estimated cost -</u>	Town will be compensated \$23.00 per ton of solid waste dumped.
	<u>Town of Vaughn contributions -</u>	Cubic yards at landfill
	<u>Audit responsibility -</u>	Town and County.
	<u>Fiscal agent -</u>	Town of Vaughn
	<u>Agency reporting revenues and Expenditures -</u>	Town and County.

SEE INDEPENDENT AUDITOR'S REPORTS
The Accompanying Notes Are An Integral Part Of These Financial Statements

STATEMENT 14

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FEDERAL AWARDS
For the Year Ended June 30, 2005

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<u>Direct:</u>		
Rural Utilities Services = Project Grants for Water Sys	10.854	\$ 2,103,122
<u>Indirect:</u>		
Cash in lieu of commodities	10.550	5,303
		<u>2,108,425</u>
 <u>Department of Health and Human Services</u>		
<u>Indirect:</u>		
Title III - B	93.044	5,529
Title III - C	93.045	7,946
Title III - D	93.043	17
		<u>13,492</u>
 Total		 <u>\$ 2,121,917</u>

Note 1: This accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Vaughn and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: The municipality had the following loan balances outstanding at December 31, 2005. The loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the schedule.

	<u>CFDA Number</u>	<u>Amount Outstanding</u>	<u>Included as Federal Expenditure on this Schedule</u>
USDA RUS Loan Program	10.854	<u>\$ 505,000</u>	<u>\$ 510,000</u>

COMPLIANCE SECTION

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

Mr. Hector H. Balderas, State Auditor
Mr. Paul Madrid, Mayor
Members of the Town Council
Town of Vaughn
Vaughn, New Mexico

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which collectively comprise the Town's basic financial statements and the financial statements of each of the non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and the non-major budgetary comparison statements of the Town of Vaughn (the "Town") as of and for the year ended June 30, 2005, and have issued my report thereon dated January 25, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. I did not audit the financial statements of the Town of Vaughn Housing Authority, the discretely presented component unit. This financial activity was audited by other auditors whose report thereon has been furnished to me, and my findings insofar as they relate to the findings included for the Town of Vaughn Housing Authority, are based solely on the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Vaughn's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but for the purpose of expressing an opinion on the effectiveness of the Town of Vaughn's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Vaughn's internal control over financial reporting.

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, continued

Internal Control Over Financial Reporting, continued

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Vaughn's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Vaughn's financial statements that is more than inconsequential will not be prevented or detected by the Town of Vaughn's internal control. I noted no matters that I considered to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Vaughn's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Vaughn's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 my audit and, accordingly, I do not express such an opinion.

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, continued

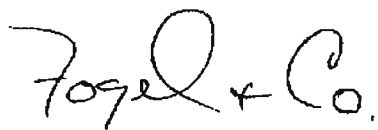
Compliance and Other Matters, continued

The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Audit Standards* which are described in the accompanying schedule of findings and questioned costs as items:

2002-01	Housing Authority – Timeliness of Audit Report
2002-02	Housing Authority – Re-Certification Not Being Done
2002-03	Housing Authority – Rental Payment Amounts
2002-05	Housing Authority – Inspection Unit
2002-12	Timeliness of Audit Report
2002-25	Expenditures in Excess of Budget
2003-02	Funds Omitted From DFA Quarterly Report
2003-09	Late Filing of Proposed Budget for Next Fiscal Year
2005-01	Housing Authority – Inadequate Separation of Duties

The Town of Vaughn's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the Town of Vaughn's response and accordingly, I do not express an opinion on it.

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



FOGEL & CO., LLC
January 25, 200

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Hector H. Balderas, State Auditor
Mr. Paul Madrid Jr., Mayor
Members of the Town Council
Town of Vaughn
Vaughn, New Mexico

USDA-OIG-Audit
Southwest Region
Regional Inspector General
101 South Main, room 324
Temple, Texas 76501

Compliance

I have audited the compliance of the Town of Vaughn. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Town of Vaughn's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Town of Vaughn's management. My responsibility is to express an opinion on The Town of Vaughn's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Town of Vaughn's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Town of Vaughn's compliance with those requirements.

As described in items 2003-08 and 2005-02 in the accompanying schedule of findings and questioned costs, The Town of Vaughn did not comply with requirements regarding related parties and over payment of contract amounts that are applicable to its Department of Agriculture's Rural Utility Service Grant. Compliance with such requirements is necessary, in my opinion, for Town of Vaughn to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, The Town of Vaughn complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, continued**

Internal Control Over Compliance

The management of the Town of Vaughn 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 my audit, I considered the Town of Vaughn's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Entity's internal control over compliance.

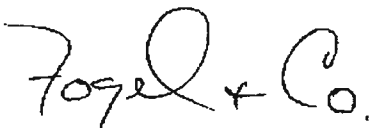
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Town of Vaughn's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Vaughn's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2005-03 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider items 2003-08 and 2005-02 to be material weaknesses.

The Town of Vaughn's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Town of Vaughn's response and, accordingly, I do not express an opinion on it.

This report is intended solely for the information and use of Town of Vaughn Town Council, Mayor, Office of the New Mexico State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance, and federal awarding agencies and pass-through entities and is not to be and should not be used by anyone other than those entities.



Fogel & Co., LLC
Albuquerque, New Mexico
January 25th, 2008

FINDINGS AND QUESTIONED COSTS

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINDINGS

STATUS

Compliance:

2002-04	Errors on Quarterly DFA Reports	Resolved
2002-05	Debt Service Fund	Resolved
2002-12	Timeliness of Audit Report	Repeated
2002-25	Expenditures in Excess of Budget	Repeated
2003-01	Budget Amendments	Resolved
2003-02	Funds Omitted From DFA Quarterly Report	Repeated
2003-09	Late Filing of Proposed Budget for Next Fiscal Year	Repeated

Internal Control:

2002-07	Invoice Paid From Wrong Account/Fund	Resolved
2003-08	Overpayment of Contract Amount	Repeated

FEDERAL PROGRAM FINDINGS - COMPONENT UNIT

Program:

HUD - Public Housing, CFDA #14.850

Compliance:

2002-01	Timeliness of Audit Report	Updated
2002-02	Re-Certification Not Being Done	Re-written
2002-03	Rental Payment Amounts	Updated
2002-05	Unit Inspections	Updated
2004-01	Payroll Tax Reports/Payments	Resolved

Internal Control:

2002-13	Bank Reconciliations	Resolved
2004-02	Rent Roll Maintenance	Resolved
2004-03	Coordination With Fee Accountant	Resolved

CURRENT YEAR FINDINGS

Compliance:

2002-12	Timeliness of Audit Report
2002-25	Expenditures in Excess of Budget
2003-02	Funds Omitted From DFA Quarterly Report
2003-09	Late Filing of Proposed Budget for Next Fiscal Year

Internal Control:

None

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

FEDERAL PROGRAM FINDINGS - COMPONENT UNIT

Program:

HUD - Public Housing, CFDA #14.850

Compliance:

2002-01 Timeliness of Audit Report
2002-02 Re-Certification Not Being Done in a Timely Manner
2002-03 Rental Payment Amounts
2002-05 Unit Inspections

Internal Control:

2005-01 Inadequate separation of duties

FEDERAL PROGRAM FINDINGS - TOWN OF VAUGHN

Program:

USDA - Rural Utility Services Grants, CFDA #10.854

Compliance:

2005-03 Timeliness of Filing Federal Audit Clearinghouse

Internal Control:

2003-08 Overpayment of Contract Amount
2005-02 Nepotism on Federal Contract

**STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

The name of the program is US Dept of Agriculture
Rural Utility Services Grant CFDA # 10.854

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Town of Vaughn does not qualify as a low risk auditee.

Internal Control over major programs:

Material weakness identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Any audit findings disclosed that are required to be reported in accordance with OMB circular A-133, section 510(a)? yes no
See 2003-08, 2005-02 and 2005-03

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

HUD - Public Housing, CFDA #14.850, Vaughn Housing Authority

2002-01 HOUSING AUTHORITY – TIMELINESS OF AUDIT REPORT

Statement of Condition:

The New Mexico State Auditor required the audit to be completed and submitted to his office by December 1, 2006. The report was delivered to the state auditor on May 20, 2008.

Criteria:

Governmental entities, agencies, and committees review the reports and prefer to do so in a timely manner. The SAO Rule, NMAC 2.2.2.9 A (1)(d) establishes a due date of December 1 for the audit reports of municipalities and their component units.

Effect:

The report has not been submitted as required by the State Auditor. As such, the users of the financial statements such as legislators, creditors, and state and federal grantors do not have timely information for their review.

Cause:

The Independent Auditor has been unable to hire sufficient staff due to a lack of qualified accountants in the state and was unable to complete the fieldwork and assign staff to write the report in a manner that would allow compliance with the State Auditor's delivery date.

Recommendation:

The audit delivery date should be complied with.

Auditors' Response:

The Independent Auditor should comply with the State Auditor's delivery due date.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

HUD - Public Housing, CFDA #14.850, Vaughn Housing Authority

2002-02 HOUSING AUTHORITY – RE-CERTIFICATION NOT BEING DONE

Statement of Condition:

Four tenant files were randomly selected for examination on January 1, 2005. All four files selected for examination did not contain the required re-certifications. The latest re-certification in the tenant files were as follows:

File #1	11-01-2003
File #2	11-01-2003
File #3	08-12-2003
File #4	12-01-2002

The housing authority's policy of re-certifying tenants on the tenant's anniversary date is not being followed.

Criteria:

HUD regulations for the housing program require that public housing authorities re-certify housing tenants when circumstances change (family size, family members, family income, etc.) and / or annually.

Effect:

The Housing Authority is not performing re-certifications of tenants in a timely manner.

Cause:

Management is not following the board's adopted policy that requires an annual re-certification and specifically states that changes in income were required to be reported at re-certification.

Recommendation:

Ensure that re-certifications are done properly and timely.

Response:

The Vaughn Housing Authority will follow recommendation.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

HUD - Public Housing, CFDA #14.850, Vaughn Housing Authority

2002-03 HOUSING AUTHORITY – RENTAL PAYMENT AMOUNTS

Statement of Condition:

Tenants at the Housing Authority are, in all instances required to pay a portion of their income in rent to the Local Authority, as the housing authority has a required \$50 minimum rent provision in its policies. During the limited examination of the three tenant files, I noted that one of the tenant's rent obligations had been incorrectly calculated (based upon the information in the file). In a second of the three files examined, income had not been independently verified as required by HUD regulations.

Criteria:

Housing and Urban Development (HUD) have developed regulations that set forth the amount of rent a tenant is required to pay. (24 CFR part 5 subpart F), (24 CFR 5.601 et seq.), 960.253, 960.255, and 960.259.

Effect:

The tenant rental amount is not calculated in accordance with HUD regulations.

Cause:

The regulations are not being followed.

Recommendation:

Management at the Local Housing Authority should come to an understanding on how to implement the applicable regulations (obtain training if necessary) and charge the tenants the proper amount of rent.

Response:

All tenant files are being reviewed and rents recalculated to ensure that the rent calculations are correct. In addition income verification documentation will be attached to the Rent Calculation Worksheet prior to being placed in the tenant file. Executive Director will seek training in the EIV system for income verification.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

HUD - Public Housing, CFDA #14.850, Vaughn Housing Authority

2002-05 HOUSING AUTHORITY – UNIT INSPECTIONS

Statement of Condition:

Annual inspections of rental units should be performed by the Management of the Local Housing Authority. These inspections are not being documented on appropriate forms designed by the U.S. Housing and Urban Development (HUD) as required. Annual inspections have not been done on all units. During the limited review of four tenant files, it was noted that only one file contained any housing inspection forms. The latest inspection document in the file was dated April 15, 2001.

Criteria:

HUD handbook 4350.5 "Subsidy Contract Administration and Field Monitoring" Chapter 15-6 requires inspections to be performed at least annually of the housing units and these inspections to be documented on the appropriate forms to identify deficiencies in the units which might affect the health and safety of occupants.

Effect:

The inspections, if indeed they are being done, are not being properly documented and may not be as extensive as they should be.

Cause:

Staff is not familiar with inspection requirements.

Recommendation:

Annual inspections of the housing units be made and properly documented.

Response:

The Vaughn Housing Authority will follow recommendation.

**STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005**

2002-12 TIMELINESS OF AUDIT REPORT

Statement of Condition:

The New Mexico State Auditor required the audit to be completed and submitted to his office by December 1, 2006. The report was delivered to the state auditor on May 20, 2008.

Criteria:

Governmental entities, agencies, and committees review the reports and prefer to do so in a timely manner. The SAO Rule, NMAC 2.2.2.9 A (1)(d) establishes a due date of December 1 for the audit reports of municipalities and their component units.

Effect:

The report has not been submitted as required by the State Auditor. As such, the users of the financial statements such as legislators, creditors, and state and federal grantors do not have timely information for their review.

Cause:

So many adjustments were required that a replacement auditor was required due to impairment of independence. The replacement auditor was not contacted until after the due date of the report.

Recommendation:

The audit delivery date should be complied with.

Auditors' Response:

The Independent Auditor should comply with the State Auditor's delivery due date.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

2002-25 EXPENDITURES IN EXCESS OF BUDGETS

Statement of Condition:

The Town of Vaughn's actual expenditures exceeded the budgeted authority in the following funds:

	<u>Revised Budget</u>	<u>Expenditures</u>	<u>Over Spent</u>
General Fund (101)	242,427	386,466	144,039
Law Enforcement Fund (211)	59,249	62,097	2,848
Solid Waste (504)	35,834	48,422	12,588
Water and Sewer (505)	233,652	270,352	36,700

Criteria:

State Statute, 6-6-6, NMSA 1978 requires the expenditures of public bodies not to exceed budget authority.

Effect:

Violation of State Statute and insufficient expenditure control.

Cause:

Necessary budget adjustments were not requested timely.

Recommendation:

Continue monitoring budgets and request needed budget adjustments in a timely manner.

Response:

Budget adjustment requests will be made in a timely manner and budget will be monitored more closely.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

2003-02 FUNDS OMITTED FROM DFA QUARTERLY REPORT

Statement of Condition:

Quarterly reports to DFA did not include all Town funds required for the report. Activity for the Debt Service Fund 301 was not included in the Town's reports.

Criteria:

Chapter 6, Article 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of the New Mexico Department of Finance and Administration (DFA) to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. Likewise, the local governments are required to keep all books, make all reports, and conform to all rules and regulations adopted by the LGD. Quarterly reports to DFA must include all funds which the Town has ownership and control. The required funds include general funds, special revenue funds, debt service funds, capital project funds and proprietary funds.

Effect:

The reports to DFA are misstated to the extent of funds not reported and as such, state budgetary controls reporting do not provide the necessary information to report users..

Cause:

The funds excluded from the DFA report were overlooked and because administrative staff did not know the reporting requirements.

Recommendation:

The Town administration should prepare a checklist of funds to be included in the quarterly report to the DFA to prevent the omission of any funds from the report.

Response:

All funds will be included in Quarterly Reports to DFA. A checklist of all funds will be used to ensure this.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

USDA - Rural Utility Services Grants, CFDA #10.854

2003-08 OVERPAYMENT OF CONTRACT AMOUNT

Statement of Condition:

The engineer on the RUS sewer contract charged the city at higher rates for mileage and hourly fees for inspection then included in the contract amount. The engineer also charged New Mexico gross receipts tax on his services, although the contract did not include these amounts. The total questioned costs due to overbillings were \$42,061. These amounts have been paid to the engineer but have not been repaid to the Town.

Criteria:

Engineers and contractors are bound by the contract they sign to bill up to the contracted amount plus or minus any approved change orders. The Town is limited by the contract amount plus or minus any change orders.

Effect:

The Town made payments to the engineer in excess of the approved contract plus or minus change orders.

Cause:

The Town made all payments invoiced by the contract engineer for the construction project. Town officials did not review the payments against the engineering contract.

Recommendations:

The Town should include in their project files a budget and expenditure section for each contractor. The section should include the original contract amount plus or minus any change orders, a place for each payment made to the contractor and a place to show the remaining budget to be spent.

Response:

Closer attention to contracts will be made to insure that overpayment does not occur.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

2003-09 LATE FILING OF PROPOSED BUDGET FOR NEXT FISCAL YEAR

Statement of Condition:

A proposed budget for fiscal year ending June 30, 2005 was not submitted in a timely manner to the Local Government Division of the Department of Finance and Administration.

Criteria:

All local public bodies are required by the Local Government Division of the Department of Finance and Administration to submit a proposed budget for the next fiscal year on or before June 1 of each year (State Statutes 6-6-2, NMSA 1978 Compilation).

Cause:

Unknown.

Effect:

The Town will not be authorized to make expenditures of public money without an approved budget.

Recommendation:

The proposed budget should be prepared and submitted to the Local Government Division of the Department of Finance and Administration for their approval on a timely basis. The approved proposed budget can be used by the Town pending approval of the final budget.

Response:

The best attempt to get this filed in a timely manner will be taken.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

HUD - Public Housing, CFDA #14.850 Vaughn Housing Authority

2005-01 INADEQUATE SEPARATION OF DUTIES

Statement of Condition:

The PHA has a small staff and is unable to properly separate accounting duties in a manner which would maximize internal controls.

Criteria:

Internal controls should be in effect that would maximize internal control by adequately separating accounting duties.

Cause:

There are inadequate resources to pay personnel costs. There is a limited number of housing units generating subsidies. Adequate separation of duties is not cost effective.

Effect:

Because of lack of adequate separation of accounting duties errors in the accounting records could occur without being detected.

Recommendation:

The Board should continue its review of the financial activities of the Housing Authority and should consult with the fee accountant when questions arise.

Response:

This condition is present in most housing authorities due to the small size of their administrative staffs. Funding is not available to correct this weakness. Correction of this deficiency would not be cost effective. The Board will continue to monitor the financial activities of the Housing Authority to the best of its ability.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

USDA - Rural Utility Services Grants, CFDA #10.854

2005-02 NEPOTISM ON FEDERAL CONTRACT

Statement of Condition:

The Mayor overrode the contract administrator in hiring his brother to perform inspection services on the RUS Sewer line project. An inspector had previously been hired for the project and both that inspector and the Mayor's brother submitted time sheets and requests for payment on the contract. Only one inspector was required for the project. Questioned costs paid to Mayor's brother were \$13,323.

Criteria:

Internal controls should be in effect that limit the ability of management to override internal controls.

Cause:

The Mayor abused his power in overriding internal controls and exerting influence to limit actions by the grant administrator.

Effect:

The Town paid \$13,323 for duplicate services on the contract.

Recommendation:

The Town Council should review the actions of the Mayor with greater scrutiny and oversight.

Response:

The Town Council will work more closely with the Mayor to provide oversight on contracts. The Mayor will use legal council to review contracts to ensure contract provisions are met.

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005

USDA - Rural Utility Services Grants, CFDA #10.854

2005-03 TIMELINESS OF FILING FEDERAL AUDIT CLEARINGHOUSE

Statement of Condition:

The Town of Vaughn has not filed the required reports with the Federal Audit Clearinghouse on a timely basis.

Criteria:

Section .320 of OMB Circular A-133 requires submission of the financial statements, schedule of expenditures of federal awards and other related documents within nine months of the fiscal year end.

Cause:

So many adjustments were required to the books that a replacement auditor had to be selected based on impairment of independence of the first auditor who did a substantial amount of bookkeeping. The second auditor was not retained until shortly before the deadline and was not able to complete the report by the due date.

Effect:

Timely information regarding program expenditures is not available to financial statement users.

Recommendation:

The Town of Vaughn should improve its financial reporting so that financial statements can be prepared on a timely basis and proper reports submitted.

Response:

The Town of Vaughn agrees with this finding and is attempting to bring its reporting cycle into compliance with all reporting deadlines.

**STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For The Year Ended June 30, 2005**

The accompanying financial statements have been prepared by Fogel & Co., LLC.

**STATE OF NEW MEXICO
TOWN OF VAUGHN
EXIT CONFERENCE
For The Year Ended June 30, 2005**

An exit conference was held on February 11, 2008 at the offices of the Town of Vaughn. In attendance were the following:

Representing the Town of Vaughn

Paul Madrid Jr.
Teri Apadoca
Manny Florez

Mayor
Clerk and Treasurer
Councilor

Representing Fogel & Co., LLC

J. Christopher Fogel, CPA

Auditor-In-Charge