

STATE OF NEW MEXICO
Town of Vaughn
Independent Auditors' Report and
Annual Financial Statements
June 30, 2007

Calhoon Accounting & Tax Services
PO Box 945
Estancia, New Mexico

State of New Mexico
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, 2007

TOWN COUNCIL

Paul Madrid Jr.
Richard Gallegos
A. F. Padilla
Manny Flores

Mayor
Mayor Pro-Tem
Member
Member

TOWN ADMINISTRATION

Teri Apodaca
Carmen Sisneros
Paula Foote

Clerk and Treasurer
Assistant Clerk
Administrative Assistant

FINANCIAL SECTION

In my opinion, except for the effects of such adjustments, if any, had accounting records for capital assets and related accumulated depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Vaughn as of and June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for each major 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, 2007, and the respective changes in financial position where applicable, thereof, and the respective budgetary comparison for the major capital projects funds, the debt service fund and for all non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 31, 2012, 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 and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Town of Vaughn has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) 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 opinions on the Town of Vaughn's basic financial statements and the combining and individual fund financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. 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 financial statements and, in my opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Calhoon Accounting & Tax Services

Calhoon Accounting & Tax Services

May 31, 2012

BASIC FINANCIAL STATEMENTS

State of New Mexico
TOWN OF VAUGHN
Statement of Net Assets
As of June 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash, cash equivalents and investments	\$ 464,915	\$ 182,505	\$ 647,420
Cash with paying agent	25,116	3,041	28,157
Receivables, net	52,443	20,071	72,514
Due from grantor	137,222	-	137,222
Prepaid expenses	8,335	3,632	11,967
Interfund balances	23,010	(23,010)	-
Bond issuance costs	-	10,559	10,559
Restricted assets:			
Meter deposits	-	20,866	20,866
Capital assets:			
Land and construction work in progress	198,252	19,203	217,455
Other capital assets	6,575,301	4,793,211	11,368,512
	<u>6,773,553</u>	<u>4,812,414</u>	<u>11,585,967</u>
Accumulated depreciation	(1,132,500)	(1,147,664)	(2,280,164)
Net capital assets	<u>5,641,053</u>	<u>3,664,750</u>	<u>9,305,803</u>
Total assets	<u>\$ 6,352,094</u>	<u>\$ 3,882,414</u>	<u>\$ 10,234,508</u>
Liabilities			
Accounts payable and accrued expenses	\$ 59,656	\$ 27,519	\$ 87,175
Accrued and withheld taxes	-	-	-
Compensated absences - current	2,845	9,873	12,718
Deposits held in trust for others	-	11,397	11,397
Long-term liabilities:			
Due within one year	26,767	16,997	43,764
NMFA notes payable	156,822	531,560	688,382
Landfill closure costs	-	25,860	25,860
Compensated absences	9,403	-	9,403
Total liabilities	<u>\$ 255,493</u>	<u>\$ 623,206</u>	<u>\$ 878,699</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 5,457,464	\$ 3,116,193	\$ 8,573,657
Restricted for:			
Public safety	90,928	-	90,928
Public works	6,351	-	6,351
Culture and recreation	5,487	-	5,487
Health and welfare	-	-	-
Capital Outlay	-	-	-
Debt service	3,731	-	3,731
Unrestricted	<u>532,640</u>	<u>143,015</u>	<u>675,655</u>
Total net assets	<u>6,096,601</u>	<u>3,259,208</u>	<u>9,355,809</u>
Total liabilities and net assets	<u>\$ 6,352,094</u>	<u>\$ 3,882,414</u>	<u>\$ 10,234,508</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, 2007

Functions/Programs	Net (Expenses) Revenues and Changes in Net Assets						
	Primary Government						
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Government activities:							
General government	\$ 249,599	\$ 2,678	\$ 105,022	\$ 405,769	\$ 263,870	\$ -	\$ 263,870
Public safety	347,402	122	203,624	30,091	(113,565)	-	(113,565)
Health and welfare	-	-	-	-	-	-	-
Public works	(179,396)	-	496,704	1,609,903	2,286,003	-	2,286,003
Culture and recreation	84,306	-	46,948	-	(37,358)	-	(37,358)
Interest on long-term obligation	5,135	-	-	-	(5,135)	-	(5,135)
Total governmental activities	\$ 507,046	\$ 2,800	\$ 852,298	\$ 2,045,763	\$ 2,393,815	\$ -	\$ 2,393,815
Business-type Activities:							
Solid Waste	65,785	28,200	-	-	-	(37,585)	(37,585)
Water and Sewer	382,435	265,544	-	-	-	(116,891)	(116,891)
Total business-type activities	\$ 448,220	\$ 293,744	\$ -	\$ -	\$ -	\$ (154,476)	\$ (154,476)
Total Primary Government	\$ 955,266	\$ 296,544	\$ 852,298	\$ 2,045,763	\$ 2,393,815	\$ (154,476)	\$ 2,239,339
General Revenues:							
Taxes:							
Property taxes, levied for general purpose					63,303	-	63,303
Gross receipts taxes, levied for general purposes					198,429	-	198,429
Other taxes					37,029	21,670	58,699
Interest and investment earnings					2,600	568	3,168
Total general revenues					301,361	22,238	323,599
Transfers in (out)					-	-	-
Change in net assets					2,693,176	(132,238)	2,562,938
Net assets - Beginning					3,401,425	3,391,446	6,792,871
Net assets - Ending					\$ 6,096,601	\$ 3,259,208	\$ 9,355,809

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
 As of June 30, 2007

	<u>General Fund</u>	<u>Steet Fund</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental</u>
Assets					
Cash and investments	\$ 143,537	\$ 231,855	\$ 60,911	\$ 28,612	\$ 464,915
Cash with paying agent	-	-	-	25,116	25,116
Tax and accounts receivable	30,245	93,039	-	46,448	169,732
Due from other funds	14,765	22,559	-	-	37,324
Prepaid Insurance	4,454	-	-	3,881	8,335
Total assets	<u>\$ 193,001</u>	<u>\$ 347,453</u>	<u>\$ 60,911</u>	<u>\$ 104,057</u>	<u>\$ 705,422</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ 9,483	\$ 1,075	\$ 97	\$ 43,400	\$ 54,055
Accrued salaries & benefits	2,798	-	-	2,803	5,601
Accrued compensated absences	2,228	-	-	617	2,845
Due to other funds	2,151	-	1,704	10,459	14,314
Total liabilities	<u>16,660</u>	<u>1,075</u>	<u>1,801</u>	<u>57,279</u>	<u>76,815</u>
Fund balance:					
Statutory reserve	42,873	-	-	-	42,873
Reserved for subsequent year's expenditures	-	346,378	-	-	346,378
Reserved for prepaid insurance	4,454	-	-	3,881	8,335
Reserved for debt service	-	-	-	25,116	25,116
Unreserved fund equity, reported in:					
Special revenue funds	-	-	-	-	-
General	129,014	-	59,110	17,781	205,905
Total fund balance	<u>176,341</u>	<u>346,378</u>	<u>59,110</u>	<u>46,778</u>	<u>628,607</u>
Total liabilities and fund balance	<u>\$ 193,001</u>	<u>\$ 347,453</u>	<u>\$ 60,911</u>	<u>\$ 104,057</u>	<u>\$ 705,422</u>

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 Balance Sheet - Governmental Funds
 To the Statement of Net Assets
 As of June 30, 2007

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

Total Fund balances - Governmental Funds	\$	628,607
Income that the Town is entitled to at the year end but which is received two months after the balance sheet date is deferred and not recognized as income in the fund statements.		19,933
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:	\$	6,773,553
Accumulated depreciation is		(1,132,500)
		5,641,053
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:		
Accounts payable	-	
Notes payable	(183,589)	
Accrued compensated absences - non current	(9,403)	(192,992)
		(192,992)
Total net assets-governmental activities	\$	6,096,601

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, 2007

	General Fund	Street Fund	Ambulance Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 57,376	\$ -	\$ -	\$ -	\$ 57,376
Gross receipts tax	198,429	-	-	-	198,429
Other taxes	6,489	29,907.00	-	633	37,029
Intergovernmental - State	507,255	496,461.00	-	125,947	1,129,663
Intergovernmental - Federal	-	-	-	1,609,903	1,609,903
Charges for services	-	-	-	-	-
Licenses and permits	3,635	-	-	-	3,635
Miscellaneous local sources	36,191	-	88,824	35,245	160,260
Total revenue	<u>809,375</u>	<u>526,368</u>	<u>88,824</u>	<u>1,771,728</u>	<u>3,196,295</u>
Expenditures:					
Current					
General government	258,587	-	-	-	258,587
Public safety	94,317	8,125	50,293	202,792	355,527
Health and welfare	24,046	-	-	71,305	95,351
Culture and recreation	13,001	-	-	(211,567)	(198,566)
Public works	-	-	-	-	-
Noncurrent					
Debt service-principal	-	-	-	24,956	24,956
Debt service-Interest and fiscal charges	-	-	-	5,135	5,135
Capital outlay	424,809	567,707	-	1,838,149	2,830,665
Total expenditures	<u>814,760</u>	<u>575,832</u>	<u>50,293</u>	<u>1,930,770</u>	<u>3,371,655</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,385)</u>	<u>(49,464)</u>	<u>38,531</u>	<u>(159,042)</u>	<u>(175,360)</u>
Other financing sources (uses):					
Proceeds from loan	-	-	-	-	-
Operating transfers in	-	-	-	3,599	3,599
Operating transfers out	(3,599)	-	-	-	(3,599)
Total other financing sources (uses)	<u>(3,599)</u>	<u>-</u>	<u>-</u>	<u>3,599</u>	<u>-</u>
Net change in fund balances	<u>(8,984)</u>	<u>(49,464)</u>	<u>38,531</u>	<u>(155,443)</u>	<u>(175,360)</u>
Fund balances - beginning of year	<u>185,325</u>	<u>395,842</u>	<u>20,579</u>	<u>202,221</u>	<u>803,967</u>
Fund balances - end of year	<u>\$ 176,341</u>	<u>\$ 346,378</u>	<u>\$ 59,110</u>	<u>\$ 46,778</u>	<u>\$ 628,607</u>

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 Statement of Revenues, Expenditures
 and Changes In Fund Balances - Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2007

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

Total net change in fund balances - Governmental funds \$ (175,360)

Capital outlays to purchase of 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	\$ (109,239)	
Capital outlays	<u>2,830,665</u>	2,721,426

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 assets and liabilities for the year were:

Increase in taxes receivable	5,927	
Decrease in compensated absences payable	<u>(6,773)</u>	(846)

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.

Notes principal payments		24,956
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Borrowing is revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

		<u>125,000</u>
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Total net assets-governmental activities		<u><u>\$ 2,695,176</u></u>
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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, Expenditures and Changes In Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual - General Fund - 101
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 50,185	\$ 96,185	42,187	\$ (53,998)
Taxes	249,753	249,753	338,108	88,355
License and fees	700	700	390	(310)
Grants	609,394	609,394	405,769	(203,625)
Miscellaneous local sources	31,460	33,613	36,191	2,578
Total Revenues	<u>941,492</u>	<u>989,645</u>	<u>822,645</u>	<u>(167,000)</u>
Expenditures:				
General Government:				
Financial Administration:				
Current:				
Personnel services	159,733	159,733	64,528	95,205
Operating expenses	2,179	4,332	213,348	(209,016)
Non-current				
Capital outlay	130,000	152,680	56,723	95,957
Total Financial Administration	<u>291,912</u>	<u>316,745</u>	<u>334,599</u>	<u>(17,854)</u>
Public Safety:				
Police:				
Current				
Personnel services	148,424	148,424	80,110	68,314
Operating expenses	-	-	4,183	(4,183)
Non-current:				
Capital outlay	-	-	-	-
Total Police	<u>148,424</u>	<u>148,424</u>	<u>84,293</u>	<u>64,131</u>
Fire:				
Current				
Personnel services	-	-	7,311	(7,311)
Operating expenses	3,800	4,200	2,713	1,487
Non-current:				
Capital outlay	-	-	-	-
Total Fire	<u>3,800</u>	<u>4,200</u>	<u>10,024</u>	<u>(5,824)</u>
Total Public Safety	<u>152,224</u>	<u>152,624</u>	<u>94,317</u>	<u>58,307</u>
Public Works:				
Highway and Streets:				
Current:				
Operating expenses	\$ 22,876	\$ 22,876	24,046	\$ (1,170)
Non-current:				
Capital outlay	-	-	-	-
Total Highway and Streets	<u>22,876</u>	<u>22,876</u>	<u>24,046</u>	<u>(1,170)</u>
Total Public Works	<u>22,876</u>	<u>22,876</u>	<u>24,046</u>	<u>(1,170)</u>

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

EXHIBIT B

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Budgetary Basis) and Actual - General Fund - 101
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures:				
Culture and Recreation:				
Library:				
Current:				
Personnel services	11,813	11,813	11,511	302
Operating expenses	-	-	-	-
Total Library	11,813	11,813	11,511	302
Parks and Recreation:				
Current				
Personnel services	-	-	-	-
Operating expenses	3,891	3,891	1,490	2,401
Non-current:				
Capital outlay	35,000	35,000	5,200	29,800
Total Parks and Recreation	38,891	38,891	6,690	32,201
Seniors:				
Current				
Personnel services	-	-	-	-
Operating expenses	-	-	-	-
Non-current:				
Capital outlay	444,394	444,394	362,886	81,508
Total Seniors	444,394	444,394	362,886	81,508
Total Culture and Recreation	495,098	495,098	381,087	114,011
Total Expenditures	962,110	987,343	834,049	153,294
Excess (deficiency) of revenues over (under) expenditures	(20,618)	2,302	(11,404)	(13,706)
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(20,618)	2,302	(11,404)	(13,706)
Cash balances - beginning of year			154,941	
Cash balances - end of year	\$ (20,618)	\$ 2,302	\$ 143,537	\$ (13,706)
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (11,404)	
Adjustment to revenues for accruals and other deferrals			13,270	
Adjustment to expenditures for payables, prepaids and other accruals			(10,850)	
Net change in fund balance (GAAP Basis)			\$ (8,984)	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 5

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenditures and Changes In Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual - Street Fund - 216
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 53,479	\$ 53,479	29,907	\$ (23,572)
CDBG Grant	-	-	406,201	406,201
Miscellaneous local sources	-	-	-	-
Total revenue	<u>53,479</u>	<u>53,479</u>	<u>436,108</u>	<u>382,629</u>
Expenditures:				
Public Safety:				
Current:				
Operating expenses	127,029	127,029	7,085	119,944
Non-current				
Capital outlay	-	-	567,707	(567,707)
Total expenditures	<u>127,029</u>	<u>127,029</u>	<u>574,792</u>	<u>(447,763)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(73,550)</u>	<u>(73,550)</u>	<u>(138,684)</u>	<u>(65,134)</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(73,550)</u>	<u>(73,550)</u>	<u>(138,684)</u>	<u>(65,134)</u>
Cash balances - beginning of year	<u> </u>	<u> </u>	370,539	<u> </u>
Cash balances - end of year	<u>\$ (73,550)</u>	<u>\$ (73,550)</u>	<u>\$ 231,855</u>	<u>\$ (65,134)</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (138,684)	
Adjustment to revenues for accruals and other deferrals			90,260	
Adjustment to expenditures for payables, prepaids and other accruals			<u>(1,040)</u>	
Net change in fund balance (GAAP Basis)			<u>\$ (49,464)</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
Budget and Actual (Non - GAAP Basis) - Ambulance Fund - 509
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Miscellaneous local sources	\$ 42,000	\$ 42,000	88,824	\$ 46,824
Total revenue	<u>42,000</u>	<u>42,000</u>	<u>88,824</u>	<u>46,824</u>
Expenditures:				
Public Safety:				
Current:				
Personnel services	19,575	23,075	50,266	(27,191)
Operating expenses	-	-	-	-
Non-current				
Capital outlay	-	-	-	-
Total expenditures	<u>19,575</u>	<u>23,075</u>	<u>50,266</u>	<u>(27,191)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,425</u>	<u>18,925</u>	<u>38,558</u>	<u>19,633</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>22,425</u>	<u>18,925</u>	<u>38,558</u>	<u>19,633</u>
Cash balances - beginning of year			<u>22,353</u>	
Cash balances - end of year	<u>\$ 22,425</u>	<u>\$ 18,925</u>	<u>\$ 60,911</u>	<u>\$ 19,633</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ 38,558	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			<u>(27)</u>	
Net change in fund balance (GAAP Basis)			<u>\$ 38,531</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 Net Assets - Proprietary Funds
As of June 30, 2007

	Solid Waste	Water and Sewer	Total
Assets			
Current assets, unrestricted:			
Cash, cash equivalents and investments	\$ 76,829	\$ 105,676	\$ 182,505
Cash with paying agent	3,040	1	3,041
Customer accounts receivable, net of allowance for doubtful accounts	2,409	17,662	20,071
Taxes and receivable	-	-	-
Due from other funds	-	1,962	1,962
Prepaid expenses	784	2,848	3,632
Deferred bond issuance costs	-	10,559	10,559
Total current unrestricted assets	83,062	138,708	221,770
Current assets, restricted:			
Cash, cash equivalents and investments			
Meter deposits	-	20,866	20,866
Total restricted assets	-	20,866	20,866
Total current assets	83,062	159,574	242,636
Capital assets:			
Land and construction work in progress	3,500	15,703	19,203
Other capital assets	289,313	4,503,898	4,793,211
Less: accumulated depreciation	(127,158)	(1,020,506)	(1,147,664)
Net capital assets	165,655	3,499,095	3,664,750
Total assets	\$ 248,717	\$ 3,658,669	\$ 3,907,386
Liabilities and Equity			
Current liabilities, payable from unrestricted assets:			
Accrued liabilities	2,180	4,714	6,894
Accrued interest	-	20,625	20,625
Current portion of long-term debt	11,997	5,000	16,997
Compensated absences	1,086	8,787	9,873
Due to other funds	2,602	22,370	24,972
Total current liabilities payable from unrestricted assets	17,865	61,496	79,361
Current liabilities, payable from restricted assets:			
Customer deposits	-	11,397	11,397
Total liabilities payable from restricted assets	-	11,397	11,397
Total current liabilities	17,865	72,893	90,758
Long-term liabilities			
NMFA note payable	36,560	495,000	531,560
Landfill closure costs	25,860	-	25,860
Total long-term liabilities	62,420	495,000	557,420
Total liabilities	80,285	567,893	648,178
Fund equity:			
Net assets invested in capital assets, net of related debt	117,098	2,999,095	3,116,193
Unrestricted net assets	51,334	91,681	143,015
Total net assets	\$ 168,432	\$ 3,090,776	\$ 3,259,208

SEE INDEPENDENT AUDITORS' REPORT

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

EXHIBIT H

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Solid Waste	Water and Sewer	Total Governmental Funds
Operating revenues:			
Sales and service	\$ 28,200	\$ 265,544	\$ 293,744
Other	21,670	-	21,670
Total operating revenue	<u>49,870</u>	<u>265,544</u>	<u>315,414</u>
Operating expenses:			
Personnel services	17,114	93,187	110,301
Operating expenses	23,356	119,181	142,537
Fuel and power/utilities	-	48,098	48,098
Depreciation	24,978	99,913	124,891
Other	-	-	-
Total operating expenses	<u>65,448</u>	<u>360,379</u>	<u>425,827</u>
Operating income (loss)	<u>(15,578)</u>	<u>(94,835)</u>	<u>(110,413)</u>
Non-operating income (expenses):			
Interest income	382	186	568
Interest expense	(337)	(22,056)	(22,393)
Capital grants	-	-	-
Net non-operating income (expenses)	<u>45</u>	<u>(21,870)</u>	<u>(21,825)</u>
Transfers in	-	-	-
Transfers out	-	-	-
Net transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(15,533)	(116,705)	(132,238)
Net assets, beginning of year	183,965	3,207,481	3,391,446
Net assets, end of year	<u>\$ 168,432</u>	<u>\$ 3,090,776</u>	<u>\$ 3,259,208</u>

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
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2007

	Solid Waste	Water and Sewer	Total Governmental Funds
Cash flows from operating activities			
Cash received from customers	\$ 50,466	\$ 278,746	\$ 329,212
Cash paid to and on behalf of employees	(17,310)	(95,279)	(112,589)
Cash paid to vendors for goods and services	(14,816)	(165,540)	(180,356)
Operating grants received	-	-	-
Net cash flow from operating activities	<u>18,340</u>	<u>17,927</u>	<u>36,267</u>
Cash flows used for noncapital financing activities			
Operating transfers received (paid)	-	-	-
Net cash flow from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities			
Interest expense	(337)	(22,725)	(23,062)
Loan repayments	(11,919)	(5,000)	(16,919)
Capital grant received	-	-	-
Purchase of capital assets	-	-	-
Net cash flows from capital and related financing activities	<u>(12,256)</u>	<u>(27,725)</u>	<u>(39,981)</u>
Cash flows from investing activities			
Investment income	382	186	568
Net cash flows from investing activities	<u>382</u>	<u>186</u>	<u>568</u>
Net increase (decrease) in cash and cash equivalents	6,466	(9,612)	(3,146)
Cash and cash equivalents, beginning of year	<u>73,403</u>	<u>136,155</u>	<u>209,558</u>
Cash and cash equivalents, end of year	<u>\$ 79,869</u>	<u>\$ 126,543</u>	<u>\$ 206,412</u>
Shown on statement of net assets as:			
Unrestricted cash and cash equivalents	76,829	105,676	\$ 182,505
Cash with paying agent	3,040	1	3,041
Restricted cash and cash equivalents	-	20,866	20,866
Total cash on statement of net assets	<u>\$ 79,869</u>	<u>\$ 126,543</u>	<u>\$ 206,412</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating income	\$ (15,578)	\$ (94,835)	\$ (110,413)
Adjustments to reconcile net operating income to net cash flows from operating activities:			
Depreciation and amortization	24,978	99,913	124,891
Collection losses	-	-	-
Change in assets and liabilities:			
Receivables	544	3,026	3,570
Prepaid expenses	41	148	189
Accounts payable	1,940	1,897	3,837
Compensated absences	(196)	(2,092)	(2,288)
Due to/from other funds	2,301	8,742	11,043
Bond issuance cost	-	278	278
Customer Deposits	-	850	850
Landfill closure costs	4,310	-	4,310
Total reconciliation	<u>\$ 18,340</u>	<u>\$ 17,927</u>	<u>\$ 36,267</u>

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
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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 - B. Basis of Presentation
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 - D. Assets, Liabilities and Equity
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State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

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State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

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 government 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:

- Addition of management’s discussion and analysis
- Elimination of account groups
- Government-wide financial statements using full accrual basis of accounting
- Recognition of depreciation on all depreciable capital assets
- Changes in the statement requirements that comprise the Town’s 1) Basic Financial Statements, 2) Require 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 funds: 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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 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 is a component unit of the Town of Vaughn; however, it is not presented in the Government-Wide Financial Statements. 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, 2007. Complete financial statements for Town of Vaughn Housing Authority are not available.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

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 has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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-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.

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, 2007 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 a FAA Capital grant for airport improvements.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements (continued):

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.

Special Revenue Funds:

Streets Fund - To account for funds used to maintain roads for which the Town has responsibility. Financing sources include gasoline taxes imposed by Chapter 7, Article 13 NMSA 1978 and distributed to the Town pursuant to 7-1-6.9 NMSA 1978 and New Mexico State Highway Department Cooperative Agreement Funds as provided for in 67-3-28 NMSA 1978. Expenditures are restricted for the purpose of constructions, reconstruction, resurfacing or other improvement of public roads, streets, alleys or bridges, including right-of-way and materials acquisition.

Ambulance Fund - 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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements (continued):

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.

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 o 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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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*.

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 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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 shred 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 as 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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, 2007 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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, 2007 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 30,2006 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, 2007 prepaid insurance cost amounted to \$11,967.

Inventory of Supplies

There were no material amounts of inventory at June 30, 2007. Purchases for supplies are recorded as expenditures and are not recorded as an asset on the statement of net assets or balance sheet.

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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND EQUITY (continued)

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 \$5,000 are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. All of the capital assets have been recorded at cost.

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.

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 improvement	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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND EQUITY (continued)

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.

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 FINANCIAL STATEMENTS (continued)
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. **ASSETS, LIABILITIES AND EQUITY (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 July and August 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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.

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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES, EXPENDITURES AND EXPENSES (continued)

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.

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.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

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:

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.

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, 2007.

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

2. COMPLIANCE AND ACCOUNTABILITY (continued)

B. INTERFUND BALANCES

The following schedule details the net interfund due to/due from made by the Town of Vaughn during the year ended June 30, 2007:

General Fund	<u>Due From</u>	<u>Due To</u>
216 Municipal Street		\$ 189
219 Senior Citizens	\$ 79	
409 Airport Project	10,380	
509 Ambulance	1,704	
504 Landfill	2,602	
505 Water Utility		<u>1,962</u>
Total General Fund	<u>14,765</u>	<u>2,151</u>
Special Revenue Funds		
216 Municipal Street		
101 General Fund	189	
505 Water Utility	22,370	
219 Senior Citizens		
101 General Fund		79
409 Airport Project		
101 General Fund		10,380
509 Ambulance		
101 General Fund		<u>1,704</u>
Total Special Revenue Funds	<u>22,559</u>	<u>12,163</u>
Proprietary Funds		
504 Landfill		
101 General Food		2,602
505 Water Utility		
101 General Fund	1,962	
216 Municipal Street		<u>22,370</u>
Total Proprietary Funds	<u>1,962</u>	<u>24,972</u>
Total All Funds	<u>\$ 39,286</u>	<u>\$ 39,286</u>

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

The following schedules detail the interfund operating transfers made during the year ended June 30, 2007.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

3. **DEPOSITS AND INVESTMENTS**

The Town Of Vaughn is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

All money not immediately necessary for the public uses of the Town may be invested in:

- a. bonds or negotiable securities of the United States, the state or any county, municipality or town which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or
- b. securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government; or
- c. in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment.

Pursuant to Section 6-10-10.1 NMSA 1978, if the Town is unable to receive payment on public money at the rate of interest set forth in Section 6-10-3 6 NMSA 1978 (which is no less than one hundred percent of the asked price on the United States treasury bills of the same maturity on the day of the deposit) from financial institutions within the geographic boundaries of the governmental unit, the Town official having money in his custody not required for expenditure within thirty days or less may, with the consent of the local board of finance, if any, remit some or all of such money to the State Treasurer, bank, savings and loan association or credit union for deposit for the purpose of short term investment.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

3. **DEPOSITS AND INVESTMENTS (continued)**

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to section 6-10-10.1 NMSA 1978 Compo the local public body finance official shall notify and make such available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

The local public body finance official shall specify the length of time each deposit shall be in the State Treasurer's short-term investment fund, but in any event the deposit shall not be made for more than one hundred eighty-one days.

The Governmental Accounting Standards Board has issued its Statement #40, which requires deposits and investments to be classified into categories of risk. The categories of risk are discussed below.

--Interest Rate Risk - The risk that modifications in the interest rate will unfavorably impact the fair value of an investment. The Town of Vaughn has a limited exposure to interest rate risk as only a small amount of funds are invested in interest bearing accounts.

-- Concentration of Credit Risk - The exposure which comes from having all funds located in one financial institution or all funds invested in similar investments with similar-economic characteristics that would be similarly affected by changes in economic or other conditions. The Town of Vaughn is exposed to concentration of credit risk in that the majority of funds are held in one financial institution.

-- Custodial Credit Risk - The risk that in the event of failure of a depository institution, a government will not be able to recover its deposits or collateral securities that are in the possession of an outside party. Once again, the Town of Vaughn is exposed to custodial credit risk because almost all cash is held in one financial institution which also holds the securities which collateralize the accounts.

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

3. **DEPOSITS AND INVESTMENTS (continued)**

At June 30, 2007, the carrying amount of the Town Of Vaughn's deposits (excluding \$28,156 cash with paying agent) was \$668,288 and the bank balances were \$691,070. 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.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Wells Fargo Bank:		
Demand Deposits	\$661,325	\$684,107
Certificates of deposit	<u>6,963</u>	<u>6,963</u>
	<u>\$668,288</u>	<u>691,070</u>
FDIC Coverage		<u>100,000</u>
Uninsured balance		591,070
Collateralization required at 50%		295,535
Collateral held at Wells Fargo Trust		<u>97,331</u>
Over (under)" collateralization requirement		<u>(\$198,204)</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. The Town of Vaughn is currently under collateralized by \$198,204.

Five 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, 2007 was \$28,156.

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

4. **ACCOUNTS RECEIVABLE**

The accounts receivable of the Town of Vaughn, by fund type, at June 30, 2007 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Taxes:			
Locally assessed	\$11,337		
State shared	30,804		
Customer utility accounts			\$ 21,571
Grants		\$137,222	
Other	<u>8,037</u>	<u>2,265</u>	<u>-</u>
	50,178	139,487	25,141
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>1,500</u>
Total	<u>\$50,178</u>	<u>\$139,487</u>	<u>\$ 20,071</u>

Except as noted, all amounts are considered collectable at June 30, 2007. 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

5. **CAPITAL ASSETS**

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

Governmental activities	Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
Capital assets not being depreciated:				
Land	\$ 198,252	\$ -	\$ -	\$ 198,252
Construction in progress	125,000	-	125,000	-
Total	323,252	-	125,000	198,252
Capital assets being depreciated:				
Land improvements	1,761,869	2,389,177	-	4,151,046
Buildings	1,283,332	525,469	-	1,808,801
Machinery and equipment	80,685	-	-	80,685
Vehicles	493,750	41,019	-	534,769
Total	3,619,636	2,955,665	-	6,575,301
Less accumulated depreciation for:				
Land improvements	(5,202)	(32,055)	-	(37,257)
Buildings	(782,274)	(29,890)	-	(812,164)
Machinery and equipment	(26,011)	(10,392)	-	(36,403)
Vehicles	(209,774)	(36,902)	-	(246,676)
Total	(1,023,261)	(109,239)	-	(1,132,500)
Total capital assets being depreciated, net	<u>2,596,375</u>	<u>2,846,426</u>	<u>-</u>	<u>5,442,801</u>
Total Governmental activities, capital assets, net	<u>\$ 2,919,627</u>	<u>\$ 2,846,426</u>	<u>\$ 125,000</u>	<u>\$ 5,641,053</u>

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

5. **CAPITAL ASSETS (continued)**

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

Business type activities	<u>Balance 6/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2007</u>
Capital assets not being depreciated:				
Land	\$ 19,203	\$ -	\$ -	\$ 19,203
Construction in progress	-	-	-	-
Total	19,203	-	-	19,203
Capital assets being depreciated:				
Buildings	34,159	-	-	34,159
Underground lines	4,347,338	-	-	4,347,338
Machinery and equipment	411,714	-	-	411,714
Total	4,793,211	-	-	4,793,211
Less accumulated depreciation for:				
Buildings	(5,974)	(1,486)	-	(7,460)
Underground lines	(798,802)	(93,111)	-	(891,913)
Machinery and equipment	(217,997)	(30,294)	-	(248,291)
Total	(1,022,773)	(124,891)	-	(1,147,664)
Total capital assets being depreciated, net	<u>3,770,438</u>	<u>(124,891)</u>	<u>-</u>	<u>3,645,547</u>
Total Business type activities, capital assets, net	<u>\$ 3,789,641</u>	<u>\$ (124,891)</u>	<u>\$ -</u>	<u>\$ 3,664,750</u>

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

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, 2007:

	Balance 06/30/2006	Additions	Deletions	Balance 06/30/2007	Current Portion
Note payable	\$ 565,476		\$ 16,619	\$ 548,557	\$16,997
Landfill closure costs	21,550	\$ 4,310		25,860	
Compensated absences	12,161	4,057	6,345	9,873	
Total	<u>\$ 599,187</u>	<u>\$ 8,367</u>	<u>\$ 23,264</u>	<u>\$ 584,290</u>	<u>\$16,997</u>

The following is a schedule of long-term debt principal, interest and charges on proprietary fund long-term debt.

Year Ended 06/30	Principal	Interest	Admin Fees	Total
2008	\$ 16,997	\$22,189	\$ 122	\$ 39,308
2009	18,085	21,931	92	40,108
2010	18,183	21,564	62	39,809
2011	18,292	21,286	30	39,608
2012	6,000	20,900	-	26,900
2013-2029	471,000	427,100	-	898,100
 Total	 <u>\$548,557</u>	 <u>\$534,970</u>	 <u>\$ 306</u>	 <u>\$1,083,833</u>

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

6. **PROPRIETARY FUND LONG-TERM DEBT (continued)**

B. **CLOSURE AND POST CLOSURE LANDFILL 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 of \$25,860 at June 30, 2007 represent the cumulative amount reported to date based upon approximately 13% 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.

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

The NMFA Note payable for the proprietary debt, as reflected on the Statement of Net Assets, is being paid from its major funds in the percentage of 12% from Solid Waste Fund and 88% from the Water/Sewer Fund.

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, 2007.

	<u>Balance</u> <u>06/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/2007</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ 208,545		\$ 24,956	\$ 183,589	\$26,767
Accrued compensated absences	<u>8,852</u>	<u>7,317</u>	<u>3,921</u>	<u>12,248</u>	<u>2,845</u>
Total	<u>\$ 217,397</u>	<u>\$ 7,317</u>	<u>\$ 28,877</u>	<u>\$ 195,837</u>	<u>\$29,612</u>

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

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 the 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 \$56,375 at June 30, 2007.

The Town entered into a note with the New Mexico Finance Authority on March 8, 2006 in the amount of \$138,889 for the purchase of a fire truck to enhance the ability of the Town to fight brush fires. The note bears interest at rates ranging from 3.140% to 3.630% and is also subject to an administration fee of 0.25%. Annual payments range from \$11,675 to \$15,205 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 \$127,214 at June 30, 2007.

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

<u>Year Ended 06/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Admin Fees</u>	<u>Total</u>
2008	\$ 26,767	\$ 3,280	\$ 459	\$ 30,506
2009	27,306	2,809	392	30,507
2010	28,873	2,311	324	30,508
2011	28,466	1,789	254	30,509
2012	14,093	1,238	183	15,514
2013-2029	59,084	2,605	373	62,062
Total	<u>\$183,589</u>	<u>\$14,032</u>	<u>\$ 1,985</u>	<u>\$ 199,606</u>

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

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 I 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:	<u>Current Portion</u>	<u>Non-current Portion</u>	<u>Total</u>
General Fund	\$ 6,130	\$ 2,627	\$ 8,757
Seniors Fund	<u>2,444</u>	<u>1,047</u>	<u>3,491</u>
Total	<u>\$ 8,574</u>	<u>\$ 3,674</u>	<u>\$12,248</u>

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.

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, 2007, the Town had no general obligation bonds outstanding.

The Mill levy tax rates for the Town for 2007 were 5.872 for residential and .765 for non-residential. These are tax rates applied to each \$1,000 of property value taxable by the Town.

Property tax revenues amounted to \$ 57,376 for the fiscal year ended June 30, 2007.

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, 2007, the Town collected \$390 in business license fees.

State of New Mexico
TOWN OF VAUGHN
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2007

9. **TAXES (continued)**

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 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 \$3,245 in motor vehicle registration fees for the year ended June 30, 2007.

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>

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

9. **TAXES (continued)**

D. **EXCISE TAX ON CIGARETTES (continued)**

Taxes deposited into the County and Municipality Recreation Fund is distributed to the various counties and municipalities and is 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.

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, 2007, the Town received distributions of cigarette taxes in the amount of \$1,262 in the general fund and \$633 in the recreation fund for a total of \$1,895 in cigarette taxes.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

9. **TAXES (continued)**

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.

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, 2007, the Town earned \$29,747 in gasoline tax distributions.

State of New Mexico
TOWN OF VAUGHN
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2007

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, 2007, the Town earned taxes in the amounts shown below which were imposed under the above stated authorities.

General Fund: Town gross receipts tax	\$104,244
Solid Waste Fund: Environmental gross receipts tax	<u>21,670</u>
Total	<u>\$125,914</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, 1.25 percent of the taxable gross receipts is distributed to the municipality reporting the taxable receipts. During the year ended June 30, 2007, the Town earned \$103,919 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 Employees 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 FINANCIAL STATEMENTS (continued)
June 30, 2007

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, 2007:

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:	06/30/2007
e. Premium:	\$14,396

Property

a. Name and address of insurance agent:	Insurance Services of New Mexico
b. Policy number:	Town V-1
c. Amount of coverage:	Replacement cost
d. Expiration date:	11/03/2007
e. Premium:	\$2,749

Auto Liability

a. Name and address of insurance agent:	Insurance Services of New Mexico
b. Policy number:	Town V-1
c. Amount of coverage:	Tort limits
d. Expiration date:	11/03/2007
e. Premium:	\$20,819

General Liability

a. Name and address of insurance agent:	Insurance Services of New Mexico
b. Policy number:	Town V-1
c. Amount of coverage:	Tort limits
d. Expiration date:	11/03/2007
e. Premium:	\$7,584

The standard premium amount of \$14,396 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, 2007, 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 FINANCIAL STATEMENTS (continued)
 June 30, 2007

13. BUDGET AUTHORITY EXCEEDED

The Town overspent its budget authority in the following funds in the amounts indicated. As explained in Note 1, expenditures may not exceed the budget at the fund level.

	<u>Overspent Amount</u>
206 EMS Fund	\$ 1,563
209 Fire Fund	119,821
211 Law Enforcement Fund	17,464
216 Street Fund	447,763
509 Ambulance Fund	27,191
504 Solid Waste Fund	78
505 Water & Sewer Fund	76,727

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

14. 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, 2006 to the beginning of the year net assets as presented in the Statement of Net Assets (Exhibit A).

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Total fund equity at June 30, 2006	\$ 803,968	\$3,391,446
Reconciling Items:		
Capital assets, net	2,919,627	
Deferred income	14,006	
Accounts payable	(125,000)	
Notes payable	(208,545)	
Compensated absences	(2,630)	
Net assets, beginning of year – Exhibit B	<u>\$3,401,426</u>	<u>\$3,391,446</u>

SUPPLEMENTARY INFORMATION

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State of New Mexico
TOWN OF VAUGHN
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2007

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 24-10-A-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.

Senior Citizens - 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 II-C-1; Title III-C-2; Title III-D, cash in lieu of commodities; and local sources.

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.

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

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
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

	SPECIAL REVENUE FUNDS						
	Fund 201	Fund 206	Fund 209	Fund 211	Fund 217	Fund 219	Fund 299
	Corrections Fund	EMS Fund	Fire Fund	Law Enforcement Fund	Recreation Fund	Senior Citizens Fund	Cemetery Fund
Assets							
Cash and investments	\$ 4,268	\$ 19	\$ -	\$ -	\$ 5,487	\$ 3,499	\$ 6,351
Cash with paying agent	-	-	21,385	-	-	-	-
Taxes and accounts receivable	-	-	2,265	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Prepaid insurance	-	1,266	2,615	-	-	-	-
Total assets	\$ 4,268	\$ 1,285	\$ 26,265	\$ -	\$ 5,487	\$ 3,499	\$ 6,351
Liabilities and Fund Balance							
Liabilities							
Accounts payable	\$ -	\$ -	609	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-	-	2,803	-
Accrued compensated absences	-	-	-	-	-	617	-
Due to other funds	-	-	-	-	-	79	-
Total liabilities	-	-	609	-	-	3,499	-
Fund Balances							
Statutory reserve	-	-	-	-	-	-	-
Reserved for subsequent years expenditures	-	-	-	-	-	-	-
Reserved for prepaid insurance	-	1,266	2,615	-	-	-	-
Reserved for debt service	-	-	21,385	-	-	-	-
Reserved for capital projects	-	-	-	-	-	-	-
Unreserved - undesignated	4,268	19	1,656	-	5,487	-	6,351
Total fund balance	4,268	1,285	25,656	-	5,487	-	6,351
Total liabilities and fund balance	\$ 4,268	\$ 1,285	\$ 26,265	\$ -	\$ 5,487	\$ 3,499	\$ 6,351

SEE INDEPENDENT AUDITORS' REPORT
 The accompanying notes are an integral part of these financial statements.
 STATEMENT 1

State of New Mexico
TOWN OF VAUGHN
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

	Fund 301 Debt Service Fund	Fund 409 Capital Projects Fund	Total Non-major Funds
Assets			
Cash and investments	\$ -	\$ 8,988	\$ 28,612
Cash with paying agent	3,731	-	25,116
Taxes and accounts receivable	-	44,183	46,448
Due from other funds	-	-	-
Prepaid insurance	-	-	3,881
Total assets	\$ 3,731	\$ 53,171	\$ 104,057

Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ -	\$ 42,791	\$ 43,400
Accrued salaries and benefits	-	-	2,803
Accrued compensated absences	-	-	617
Due to other funds	-	10,380	10,459
Total liabilities	-	53,171	57,279

Fund Balances			
Statutory reserve	-	-	-
Reserved for subsequent years expenditures	-	-	-
Reserved for prepaid insurance	-	-	3,881
Reserved for debt service	3,731	-	25,116
Reserved for capital projects	-	-	-
Unreserved - undesignated	-	-	17,781
Total fund balance	3,731	-	46,778
Total liabilities and fund balance	\$ 3,731	\$ 53,171	\$ 104,057

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
 Combining Statement of Revenues, Expenditures
 And Changes in Fund Balance Nonmajor Governmental Funds
 For the Year Ended June 30, 2007

	Corrections Fund	EMS Fund	Fire Fund	Law Enforcement Fund	Recreation Fund	Senior Citizens Fund	Cemetery Fund
Revenues:							
Taxes - other	\$ -	\$ -	\$ -	\$ -	\$ 633	\$ -	\$ -
Intergovernmental - state	-	5,000	55,403	20,785	-	44,759	-
Federal grants	-	-	-	-	-	-	-
Miscellaneous local sources	76	122	434	-	-	2,189	243
Total revenues	76	5,122	55,837	20,785	633	46,948	243
Expenditures:							
Current							
Public safety	-	8,885	173,122	20,785	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	3,280	68,025	-
Public works	-	-	-	-	-	-	-
Non-Current							
Debt service principal	-	-	-	-	-	-	-
Debt service interest and fiscal charges	-	-	-	-	-	-	-
Capital outlay	-	-	-	16,679	-	-	-
Total expenditures	-	8,885	173,122	37,464	3,280	68,025	-
Excess (deficiency) of revenues over (under) expenditures	76	(3,763)	(117,285)	(16,679)	(2,647)	(21,077)	243
Other financing sources (uses):							
Proceeds from loan	-	-	-	-	-	-	-
Operating transfers in	-	3,599	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Total other financing sources	-	3,599	-	-	-	-	-
Net changes in fund balances	76	(164)	(117,285)	(16,679)	(2,647)	(21,077)	243
Fund balance, beginning of year	4,192	1,449	142,941	16,679	8,134	21,077	6,108
Fund balance, end of year	\$ 4,268	\$ 1,285	\$ 25,656	\$ -	\$ 5,487	\$ -	\$ 6,351

SEE INDEPENDENT AUDITORS' REPORT
 The accompanying notes are an integral part of these financial statements.
 STATEMENT 2

State of New Mexico
TOWN OF VAUGHN
 Combining Statement of Revenues, Expenditures
 And Changes In Fund Balance Nonmajor Governmental Funds
 For the Year Ended June 30, 2007

	Debt Service Fund	Capital Improvement Fund	Total Non-Major Funds
Revenues:			
Taxes - other	\$ -	-	\$ 633
Intergovernmental - state	-	-	125,947
Federal grants	-	1,609,903	1,609,903
Miscellaneous local sources	32,181	-	35,245
Total revenues	<u>32,181</u>	<u>1,609,903</u>	<u>\$ 1,771,728</u>
Expenditures:			
Current			
Public safety	-	-	202,792
Health and welfare	-	-	-
Culture and recreation	-	-	71,305
Public works	-	(211,567)	(211,567)
Non-Current			
Debt service principal	24,956	-	24,956
Debt service interest and fiscal charges	5,135	-	5,135
Capital outlay	-	1,821,470	1,838,149
Total expenditures	<u>30,091</u>	<u>1,609,903</u>	<u>1,930,770</u>
Excess (deficiency) of revenues over (under) expenditures	2,090	-	(159,042)
Other financing sources (uses):			
Proceeds from loan	-	-	-
Operating transfers in	-	-	3,599
Operating transfers out	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,599</u>
Net changes in fund balances	2,090	-	(155,443)
Fund balance, beginning of year	1,641	-	202,221
Fund balance, end of year	<u>\$ 3,731</u>	<u>\$ -</u>	<u>\$ 46,778</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
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Corrections Fund - 201
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ -	\$ -	\$ -	\$ -
Miscellaneous local sources	-	-	76	76
Total revenue	<u>-</u>	<u>-</u>	<u>76</u>	<u>76</u>
Expenditures:				
Public Safety:				
Current:				
Operating expenses	-	-	-	-
Non-current				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>76</u>	<u>76</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>76</u>	<u>76</u>
Cash balances - beginning of year			<u>4,192</u>	
Cash balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,268</u>	<u>\$ 76</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ 76	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			<u>-</u>	
Net change in fund balance (GAAP Basis)			<u>\$ 76</u>	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 3

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - EMS Fund - 206
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Miscellaneous local sources	-	-	122	122
Total revenue	<u>5,000</u>	<u>5,000</u>	<u>5,122</u>	<u>122</u>
Expenditures:				
Public Safety:				
Current:				
Operating expenses	7,300	7,300	8,863	(1,563)
Non-current				
Capital outlay	-	-	-	-
Total expenditures	<u>7,300</u>	<u>7,300</u>	<u>8,863</u>	<u>(1,563)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,300)</u>	<u>(2,300)</u>	<u>(3,741)</u>	<u>(1,441)</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(2,300)</u>	<u>(2,300)</u>	<u>(3,741)</u>	<u>(1,441)</u>
Cash balances - beginning of year			<u>3,760</u>	
Cash balances - end of year	<u>\$ (2,300)</u>	<u>\$ (2,300)</u>	<u>\$ 19</u>	<u>\$ (1,441)</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (3,741)	
Adjustment to revenues for accruals and other deferrals			3,599	
Adjustment to expenditures for payables, prepaids and other accruals			(22)	
Net change in fund balance (GAAP Basis)			<u>\$ (164)</u>	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 4

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Budgetary Basis) and Actual - Fire Protection Fund - 209
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 58,584	\$ 74,584	52,646	\$ (21,938)
Miscellaneous local sources	5,000	5,000	434	(4,566)
Total revenue	63,584	79,584	53,080	(26,504)
Expenditures:				
Public Works:				
Current:				
Salaries and benefits	-	-	-	-
Operating expenses	36,065	52,065	52,874	(809)
Non-current				
Capital outlay	-	-	119,012	(119,012)
Total expenditures	36,065	52,065	171,886	(119,821)
Excess (deficiency) of revenues over (under) expenditures	27,519	27,519	(118,806)	(146,325)
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	27,519	27,519	(118,806)	(146,325)
Cash balances - beginning of year			140,191	
Cash balances - end of year	\$ 27,519	\$ 27,519	\$ 21,385	\$ (146,325)
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (118,806)	
Adjustment to revenues for accruals and other deferrals			2,757	
Adjustment to expenditures for payables, prepaids and other accruals			(1,236)	
Net change in fund balance (GAAP Basis)			\$ (117,285)	

SEE INDEPENDENT AUDITOR'S REPORTS
The accompanying notes are an integral part of these Financial Statements.
STATEMENT 5

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Law Enforcement Fund - 211
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 20,000	\$ 20,000	20,785	\$ 785
Miscellaneous local sources	-	-	-	-
Total revenue	<u>20,000</u>	<u>20,000</u>	<u>20,785</u>	<u>785</u>
Expenditures:				
Public Safety:				
Current:				
Operating expenses	20,000	20,000	20,785	(785)
Non-current				
Capital outlay	-	-	16,679	(16,679)
Total expenditures	<u>20,000</u>	<u>20,000</u>	<u>37,464</u>	<u>(17,464)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(16,679)</u>	<u>(16,679)</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(16,679)</u>	<u>(16,679)</u>
Cash balances - beginning of year	<u>-</u>	<u>-</u>	<u>16,679</u>	<u>-</u>
Cash balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,679)</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (16,679)	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			-	
Net change in fund balance (GAAP Basis)			<u>\$ (16,679)</u>	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 6

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Recreation Fund - 217
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 1,205	\$ 1,205	633	\$ (572)
Miscellaneous local sources	-	-	-	-
Total revenue	<u>1,205</u>	<u>1,205</u>	<u>633</u>	<u>(572)</u>
Expenditures:				
Culture and recreation				
Current:				
Personnel services	4,536	4,536	3,299	1,237
Operating expenses	-	-	-	-
Non-current				
Capital outlay	-	-	-	-
Total expenditures	<u>4,536</u>	<u>4,536</u>	<u>3,299</u>	<u>1,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,331)</u>	<u>(3,331)</u>	<u>(2,666)</u>	<u>665</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(3,331)</u>	<u>(3,331)</u>	<u>(2,666)</u>	<u>665</u>
Cash balances - beginning of year			<u>8,153</u>	
Cash balances - end of year	<u>\$ (3,331)</u>	<u>\$ (3,331)</u>	<u>\$ 5,487</u>	<u>\$ 665</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (2,666)	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			<u>19</u>	
Net change in fund balance (GAAP Basis)			<u>\$ (2,647)</u>	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 7

State of New Mexico
TOWN OF VAUGHN
 Statement of Revenues and Expenditures
 Budget and Actual (Non - GAAP Basis) - Senior Citizens Fund - 219
 For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental - State	\$ 72,684	\$ 72,684	49,446	\$ (23,238)
Miscellaneous local sources	-	-	2,189	2,189
Total revenue	72,684	72,684	51,635	(21,049)
Expenditures:				
Culture and recreation:				
Current:				
Personal services	-	-	-	-
Operating expenses	72,684	72,684	70,568	2,116
Non-current				
Capital outlay	-	-	-	-
Total expenditures	72,684	72,684	70,568	2,116
Excess (deficiency) of revenues over (under) expenditures	-	-	(18,933)	(18,933)
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	(18,933)	(18,933)
Cash balances - beginning of year			22,432	
Cash balances - end of year	\$ -	\$ -	\$ 3,499	\$ (18,933)
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (18,933)	
Adjustment to revenues for accruals and other deferrals			(4,687)	
Adjustment to expenditures for payables, prepaids and other accruals			2,543	
Net change in fund balance (GAAP Basis)			\$ (21,077)	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 8

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Cemetary Fund - 299
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Miscellaneous local sources	\$ 500	\$ 500	243	\$ (257)
Total revenue	<u>500</u>	<u>500</u>	<u>243</u>	<u>(257)</u>
Expenditures:				
Health and welfare:				
Current:				
Operating expenses	738	738	-	738
Total expenditures	<u>738</u>	<u>738</u>	<u>-</u>	<u>738</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(238)</u>	<u>(238)</u>	<u>243</u>	<u>481</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(238)</u>	<u>(238)</u>	<u>243</u>	<u>481</u>
Cash balances - beginning of year			6,108	
Cash balances - end of year	<u>\$ (238)</u>	<u>\$ (238)</u>	<u>\$ 6,351</u>	<u>\$ 481</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ 243	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			-	
Net change in fund balance (GAAP Basis)			<u>\$ 243</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
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Debt Service Fund - 301
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Miscellaneous local sources	-	-	32,181	32,181
Total revenue	-	-	32,181	32,181
Expenditures:				
Non-current:				
Debt service:				
Principal payment	-	-	30,091	(30,091)
Interest payment	-	-	-	-
Agent fees	-	-	-	-
Total expenditures	-	-	30,091	(30,091)
Excess (deficiency) of revenues over (under) expenditures	-	-	2,090	2,090
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	2,090	2,090
Cash balances - beginning of year			1,641	
Cash balances - end of year	\$ -	\$ -	\$ 3,731	\$ 2,090
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ 2,090	
Adjustment to revenues for accruals and other deferrals			-	
Adjustment to expenditures for payables, prepaids and other accruals			-	
Net change in fund balance (GAAP Basis)			\$ 2,090	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 10

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues and Expenditures
Budget and Actual (Non - GAAP Basis) - Capital Improvement Fund - 409
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Other Financing Sources				
Federal grants	\$ -	\$ -	1,813,637	\$ 1,813,637
State capital outlay grant	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,813,637</u>	<u>1,813,637</u>
Expenditures:				
Public works:				
Non-current				
Capital outlay	-	-	1,821,470	(1,821,470)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,821,470</u>	<u>(1,821,470)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(7,833)</u>	<u>(7,833)</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(7,833)</u>	<u>(7,833)</u>
Cash balances - beginning of year			-	
Cash balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,833)</u>	<u>\$ (7,833)</u>
Net change in fund balance (Non-GAAP Budgetary Basis)			\$ (7,833)	
Adjustment to revenues for accruals and other deferrals			(203,734)	
Adjustment to expenditures for payables, prepaids and other accruals			211,567	
Net change in fund balance (GAAP Basis)			<u>\$ -</u>	

SEE INDEPENDENT AUDITOR'S REPORTS
The accompanying notes are an integral part of these Financial Statements.
STATEMENT 11

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenditures - Budget (Non-GAAP Budgetary
Basis) and Actual (GAAP Basis) - Solid Waste Fund - 504
For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Operating grants	\$ -	\$ -	\$ -	\$ -
Sales and services	46,003	46,003	50,848	4,845
State enviromental GRT	-	-	-	-
Other local sources	-	-	-	-
Total revenues	<u>46,003</u>	<u>46,003</u>	<u>50,848</u>	<u>4,845</u>
Expenses				
Current				
Personnel services	-	-	17,310	(17,310)
Operating expenses	44,304	44,304	14,665	29,639
Non-current				
Debt service	-	-	11,919	(11,919)
Interest and fiscal charges	-	-	488	(488)
Capital outlay	-	-	-	-
Total expenses	<u>44,304</u>	<u>44,304</u>	<u>44,382</u>	<u>(78)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,699</u>	<u>1,699</u>	<u>44,382</u> <u>6,466</u>	<u>4,767</u>
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>1,699</u>	<u>1,699</u>	<u>6,466</u>	<u>4,767</u>
Cash balances - beginning of year			<u>73,403</u>	
Cash balances - end of year	<u>\$ 1,699</u>	<u>\$ 1,699</u>	<u>\$ 79,869</u>	<u>\$ 4,767</u>
Net change in fund blanace (Non-GAAP Budgetary Basis)			\$ 6,466	
Adjustment to revenues for accruals and other deferrals			(596)	
Adjustment to expenditures for payables, prepaids and other accruals			(21,403)	
Net change in fund balance (GAAP Basis)			<u>\$ (15,533)</u>	

SEE INDEPENDENT AUDITOR'S REPORTS
The accompanying notes are an integral part of these Financial Statements.
STATEMENT 12

State of New Mexico
TOWN OF VAUGHN
Statement of Revenues, Expenditures - Budget (Non-GAAP Budgetary
Basis) and Actual (GAAP Basis) - Water & Sewer Fund - 505
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
State enviromental GRT	\$ -	\$ -	\$ -	\$ -
Sales and services	375,944	375,944	278,746	(97,198)
Other	-	-	186	186
Total revenues	375,944	375,944	278,932	(97,012)
Expenses				
Current				
Personnel services	-	-	95,279	(95,279)
Operating expenses	219,087	219,087	116,610	102,477
Fuel and power utilities	-	-	48,098	(48,098)
Meter deposits	-	-	832	(832)
Non-current				
Debt service	-	-	5,000	(5,000)
Interest and fiscal charges	-	-	22,725	(22,725)
Capital outlay	-	-	-	-
Total expenses	219,087	219,087	288,544	(76,655)
Excess (deficiency) of revenues over (under) expenditures	156,857	156,857	(9,612)	(173,667)
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	156,857	156,857	(9,612)	(173,667)
Cash balances - beginning of year			136,155	
Cash balances - end of year	\$ 156,857	\$ 156,857	\$ 126,543	\$ (173,667)
Net change in fund blance (Non-GAAP Budgetary Basis)			\$ (9,612)	
Adjustment to revenues for accruals and other deferrals			(13,202)	
Adjustment to expenditures for payables, prepaids and other accruals			(93,891)	
Net change in fund balance (GAAP Basis)			\$ (116,705)	

SEE INDEPENDENT AUDITOR'S REPORTS

The accompanying notes are an integral part of these Financial Statements.

STATEMENT 13

OTHER SUPPLEMENTARY INFORMATION

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2007

SCHEDULE OF PLEDGED COLLATERAL

For the year ended June 30, 2007.

Wells Fargo

Cusip	Security Description	Rate	Maturity Date	Original Face	Market Value
3128MS7G9	FH H00895	5.50	06/01/2037	105,000	\$97,331

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying Notes are an integral part of these Financial Statements
STATEMENT 14

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF BANK DEPOSITORIES
June 30, 2007

Bank Name	Account Name	Account Type	Bank Balance	Outstanding Checks	Deposits in Transit	Book Balance
Wells Fargo Bank						
Governmental Activities:						
	Airport Improvement Fund	1	\$ 8,988	\$ -	\$ -	\$ 8,988
	Local Government Correctional	3	4,268	-		4,268
	Fire Fund	1	8,454	8,454		-
	Ambulance	1	62,023	1,111		60,911
	Senior Citizens Account	1	4,095	596		3,499
	Juvenile Recreation Fund	1	5,637	150		5,487
	Health Services Grant Fund	1	19	-		19
	Municipal Rd 10% Plate Fund	1	231,928	72		231,855
	General Fund	1	149,766	6,229	-	143,537
	Cemetery Fund	1	6,351	-		6,351
	Law Enforcement Protection Fund	1	1,878	1,878		-
	Total		<u>483,406</u>	<u>18,491</u>	<u>-</u>	<u>464,915</u>
Business-type Activities						
	Operation and Maintenance	1	69,718	2,398	-	67,319
	Landfill Account	1	78,698	1,869		76,829
	Water & Sewer Improvement	1	1	-		1
	Water & Sewer Improvement	1	38,357	-		38,357
	Meter Fund	1	13,927	24		13,903
	Water Department	3	6,963	-		6,963
	Total		<u>207,664</u>	<u>4,292</u>	<u>-</u>	<u>203,372</u>
	Total Wells Fargo Bank		<u>\$ 691,070</u>	<u>\$ 22,782</u>	<u>\$ -</u>	<u>\$ 668,288</u>
Bank of Albuquerque						
	Trust Service/Debt Service	4	\$ 14,007	\$ -	\$ -	\$ 14,007
	Trust Service/Truck Payment	4	7,378	-		7,378
	Total		<u>\$ 21,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,385</u>
New Mexico Finance Authority						
	State Treasurer D/S	4	\$ 3,040	\$ -	\$ -	\$ 3,040
	State Treasurer D/S	4	1,338	-		1,338
	State Treasurer D/S	4	2,393	-		2,393
	Total		<u>\$ 6,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,771</u>
Total all accounts			<u>\$ 719,226</u>	<u>\$ 22,782</u>	<u>\$ -</u>	<u>\$ 696,444</u>

1 Checking account 2 Savings account
3 Certificate of Deposit 4 Trustee account

SEE INDEPENDENT AUDITORS' REPORT

The accompanying Notes are an integral part of these Financial Statements
STATEMENT 15

State of New Mexico
TOWN OF VAUGHN
 SCHEDULE OF JOINT POWERS AGREEMENTS
 For the Year Ended June 30, 2007

I	Participants - Responsible for operations - Description - Beginning and ending dates - Total estimated cost - Town of Vaughn contributions - Audit responsibility - Fiscal agent - Agency reporting revenues and expenditures -	Town of Vaughn and Consolidated School District of Vaughn Town of Vaughn The Town of Vaughn will assist the School District with road equipment and operators to undertake various School District improvement projects. August 15, 2006 to June 30, 2007 Not Known Road equipment and operators Town of Vaughn Town of Vaughn Town of Vaughn
II	Participants - Responsible for operations - Description - Beginning and ending dates - Total estimated cost - Town of Vaughn contributions - Audit responsibility - Fiscal agent - Agency reporting revenues and expenditures -	Town of Vaughn (Vaughn) and Guadalupe County (County) Vaughn and County County is permitted disposal of solid waste at the Town's landfill. June 22, 2004 until terminated. Town will be compensated \$23.00 per ton of solid waste dumped. Cubic yards at landfill. Vaughn and County Vaughn Vaughn and County
III	Participants - Responsible for operations - Description - Beginning and ending dates - Total estimated cost - Town of Vaughn contributions - Audit responsibility - Fiscal agent - Agency reporting revenues and expenditures -	Town of Vaughn (Vaughn) and Guadalupe County (County) Vaughn and County Vaughn will provide EMS and dispatch personnel. July 1, 2006 to June 30, 2007 Vaughn will be compensated 17% of the County's EMS GRT. Driver \$50, Basic Service \$75, and Intermediate Service \$100. Equipment, EMS personnel, drivers and dispatch services. Vaughn and County Vaughn Vaughn and County

SEE INDEPENDENT AUDITORS' REPORT

The accompanying Notes are an integral part of these Financial Statements

STATEMENT 16

State of New Mexico
TOWN OF VAUGHN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2007

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture		
Indirect:		
Cash in lieu of commodities	10.550	\$ 4,888
Department of Health and Human Services		
Indirect:		
Title III-B	93.044	\$ 5,089
Title III-C	93.045	\$ 6,000
Department of Transportation		
Direct:		
FAA Grant #3-35-0509-004-2006		
Vaughn Municipal Airport	20.106	<u>\$ 1,609,903</u>
Total		<u>\$ 1,625,880</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, 2007. 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>\$500,000</u>	<u>\$ -</u>

SEE INDEPENDENT AUDITOR'S REPORT
 The accompanying Notes are an integral part of these Financial Statements
 STATEMENT 17

COMPLIANCE SECTION

CALHOON ACCOUNTING & TAX SERVICES
PO BOX 945
ESTANCIA, NEW MEXICO 87016

**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 financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue funds, 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, 2007, and have issued our report thereon dated May 31, 2012. I conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing 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 opinions on the financial statements, but not 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.

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

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 consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as finding 2007-01 and 2007-02.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider findings 2007-01 and 2007-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Vaughn's financial Statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items 2002-05, 2002-12, 2002-25, 2003-02, 2003-09, 2006-03, 2007-01, 2007-03 and 2007-04.

The town's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit the agency's responses and, accordingly, I express no opinion on them.

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

Calhoon Accounting & Tax Services

Calhoon Accounting & Tax Services

May 31, 2012

CALHOON ACCOUNTING & TAX SERVICES
PO BOX 945
ESTANCIA, NEW MEXICO 87016

**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, 2007. 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.

In my opinion, 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. The results of my auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

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 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 of the effectiveness of the Town's internal control over compliance.

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 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 finding 2007-05 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.

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

The Town of Vaughn's response to the finding 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 express no opinion on it.

This report is intended solely for the information and use of the Town of Vaughn 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.

Calhoon Accounting & Tax Services

Calhoon Accounting & Tax Services
Estancia, New Mexico
May 31, 2012

FINDINGS AND QUESTIONED COSTS

State of New Mexico
TOWN OF VAUGHN
SUMMARY OF AUDITOR'S RESULTS
For the Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness identified: yes no

Significant deficiencies identified that are not considered to be material weaknesses: yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

The names of the major programs audited are:

FAA Grant #3-35-0509-004-206 Vaughn Municipal Airport CFDA 20.106

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

Significant deficiencies identified that are not considered to be material weaknesses: yes no

Any audit findings disclosed that are required to be reported in Accordance with OMB circular A-133, section 510(a)? yes no

Type of auditor's report issued on compliance for major Programs: Unqualified

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS
For the Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS

<u>Prior Year Findings</u>	<u>Status</u>
2002-05 Debt Service Fund	Repeated
2002-12 Timeliness of Audit Report	Repeated
2002-25 Expenditures in Excess of Budget	Repeated
2003-02 Funds Omitted From DFA Quarterly Report	Repeated
2003-09 Late Filing of Proposed Budget for Next Fiscal Year	Repeated
2006-01 Debt Payoff Not Recorded	Resolved
2006-02 Cash Receipts Missing	Resolved
2006-03 Management's Discussion and Analysis Not Included	Repeated

Current Year Findings

2007-01 Capital Assets
2007-02 Trial Balance
2007-03 Pledged Collateral
2007-04 Omission of Component Unit

FEDERAL PROGRAM FINDINGS

Program:

US Department of Transportation – FAA Grant #3-35-0509-004-2006 Vaughn Municipal Airport CFDA 20.106.

Compliance:

2007-05 Timeliness of Filing Federal Audit Clearinghouse

Internal Control:

None Noted

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2007

2002-05 Debt Service Fund

Criteria: The payments the Town is making on a fire truck and station improvements should be accounted for in a separate fund, a Debt Service Fund.

Condition: The Town is not including in its reporting to the State of New Mexico Department of Finance and administration payments made to reduce debt and pay finance costs within its debt service fund.

Cause: The staff of the Town were unaware of how to properly account for the retirement of the debt.

Effect: All the financial activities of the Town are not being properly reported on their periodic quarterly reports.

Recommendation: The Town should properly account for the payments for the fire truck in a Debt Service Fund.

Management's response: All intercept agreements will be reported in a Debt Service Fund on all Quarterly Reports to DFA.

2002-12 Timeliness of Audit Report

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.

Condition: The New Mexico State Auditor requires the audit to be completed and submitted to his office by December 1, 2007, the report is past due.

Cause: The Independent Auditor was contracted years after the audit due date.

Effect: The audit was filed late.

Recommendation: The Town and its auditor will work together to get the town's audits caught up so that future audits can be completed timely in accordance with state requirements.

Management's response: The Town is working with the auditor to get the audits caught up and filed in a timely manner.

State of New Mexico
TOWN OF VAUGHN
 SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
 For the Year Ended June 30, 2007

2002-25 Expenditures In Excess of Budgets

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

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

<u>Name</u>	<u>Number</u>	<u>Revised Budget</u>	<u>Actual Expenditures</u>	<u>Overspent Amount</u>
EMS Fund	206	7,300	8,863	1,563
Fire Fund	209	52,065	171,886	119,821
Law Enforcement Fund	211	20,000	37,464	17,464
Street Fund	216	127,029	574,792	447,763
Ambulance Fund	509	23,075	50,266	27,191
Solid Waste Fund	504	44,304	44,382	78
Water & Sewer Fund	505	219,087	288,616	76,727

Cause: The Town policies and procedures do not prevent over expenditure of funds and do not require budget adjustments when necessary.

Effect: The Town is in violation of applicable laws, regulations and policies established by the Town, State and Department of Finance and Administration.

Recommendation: Management implement procedures to prevent budget over expenditures.

Management's response: Budget adjustment request will be made in a timely manner and the budget will be monitored more closely.

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2007

2003-02 Funds Omitted From DFA Quarterly Report

Criteria: 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.

Condition: Quarterly reports to DFA did not include all Town funds required for the report. Activity for the Debt Service Fund, Street Fund and Airport Capital Project Fund was not completely included in the Town's reports.

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

Effect: The reports to DFA are misstated to the extent of funds not reported.

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 an funds from the report. When monies are received or expended it should be checked against the budget and recorded appropriately.

Management's response: All funds will be included in the Quarterly Reports to DFA. A checklist of all funds will be used to ensure all funds are included.

2003-09 Late Filing of Proposed Budget for Next Fiscal Year

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).

Condition: A proposed budget for fiscal year ending June 30, 2007 was not submitted in a timely manner to the Local Government Division of the Department of Finance and Administration.

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.

Management's response: The best attempt to get this filed in a timely manner will be taken.

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2007

2006-03 Management's Discussion and Analysis (MD&A) Not Included

Criteria: GASB 34 requires that MD&A be included in the financial statements.

Condition: MD&A is a required element of the Financial Statements is not included.

Cause: There is a lack of understanding of the requirements of GASB 34 in financial reporting.

Effect: The Town is unable to produce all the required elements of complete financial reporting.

Recommendation: The Town should consider hiring an accounting firm or knowledgeable personnel to prepare the required information and financial statements.

Management's response: The Town will attempt to complete its MD&A in the future.

2007-01 Capital Assets

Criteria: Per state statute 12-6-10, NMSA 1978 and regulation 2.20.1.15 NMAC, the town should establish controls over its fixed assets for the primary purpose of safeguarding them and establishing accountability for their custody and use. Assets must be properly capitalized, classified, valued and depreciated.

Condition: The Town does not have a complete listing of capital assets and has not calculated and recorded depreciation expense on those assets.

Cause: The Town has not kept a complete inventory of their capital assets.

Effect: The failure to maintain adequate capital asset records results in the inability of the Town to maintain control over the capital assets and also results in the Town being noncompliant with state requirements.

Recommendation: I recommend that the Town complete an inventory of all their capital assets, including infrastructure and update it annually for any additions or dispositions of assets. Also, those capital assets must be depreciated according to state requirements.

Management's response: The Town previously had a list but submitted it to a previous auditor and is unable to retrieve this listing. The Town will work on recreating the previous asset list and maintain it on an ongoing basis.

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2007

2007-02 Trial Balance

Criteria: Good accounting practices indicate that the Town's books should be maintained in such a way that a general ledger which balances out by fund be available.

Condition: The Town does not maintain a general ledger which balances by fund.

Cause: The Town's books are maintained in multiple files which must be pieced together and divided into funds to prepare a general ledger. Records are kept in multiple locations and not filed in a systematic manner.

Effect: The result is that the Town doesn't have an accurate day to day general ledger with which to make decisions. The general ledger is difficult to piece together and requires additional time for the auditor to complete the audit.

Recommendation: I recommend the Town maintain accounting software so that all transactions are recorded in one file by fund to ensure funds balance to zero. Accounting records should be maintained in one location and made available to the auditor in a more timely manner.

Management's response: The Town is now maintaining records in Quickbooks software which should help maintain accurate and timely records that balance by fund. Accounting records are being accumulated and brought to one location and filed in the correct fiscal year.

2007-03 Pledged Collateral

Criteria: NMAC 2.2.2.10 N (5)(b) requires entities to obtain pledged collateral from depository institutions for at least 50% of its uninsured balances.

Condition: The Town is under collateralized at Wells Fargo Bank.

Cause: Although the Town acted appropriately by obtaining a pledged collateral certificate, the total of the 17 checking accounts at Wells Fargo Bank exceeded FDIC limits and pledged collateral was not secured for the Town.

Effect: The Town is at risk for a loss of funds and in violation of NMAC 2.2.2.10 N (5)(b).

Recommendation: the Town should continue to monitor its depository accounts as it relates to uninsured balances.

Management's response: The Town will monitor its depository accounts with Wells Fargo Bank in the future to insure the Town is fully collateralized as required.

State of New Mexico
TOWN OF VAUGHN
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2007

2007-04 Omission of Component Unit

Criteria: The Housing Authority is a component unit of the Town of Vaughn and has not completed an audit for the June 30, 2007 fiscal year.

Condition: Omission of financial information of the Housing Authority.

Cause: No audit has been completed for the Housing Authority due to the unavailability of accounting records. In 2010 the Housing Authority is no longer a component unit of the Town of Vaughn

Effect: The Town is omitting financial information of the Housing Authority.

Recommendation: Accounting records be kept in a more secure area and performing audits on a timely basis.

Management's response: The Town is working with the current auditor to get the audits current.

FAA Grant #3-35-0509-004-206 Vaughn Municipal Airport CFDA 20.106

2007-05 Timeliness Of Filing Federal Audit Clearinghouse

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: An auditor was not procured in a timely manner.

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

Recommendation: The Town of Vaughn should procure an auditor on a timely basis.

Management's response: The Town of Vaughn is working with the current auditor to get the audits up to date and completed more timely in the future.

State of New Mexico
TOWN OF VAUGHN
EXIT CONFERENCE
For the Year Ended June 30, 2007

EXIT CONFERENCE

An exit conference was held in the offices of the Town of Vaughn in Vaughn, New Mexico on May 31, 2012. Those attending were Paul Madrid Jr., Mayor, Carmen Sisneros, Clerk/Treasurer, Paula Foote, Assistant Clerk and Renea L. Calhoon, CPA. The financial statements and audit report were discussed.

The financial statements presented in this report were prepared by the auditor, Calhoon Accounting and Tax Services.

