

State of New Mexico

TOWN OF VAUGHN

FOR YEAR ENDED JUNE 30, 2017

ANNUAL FINANCIAL REPORT

RICE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO

TOWN OF VAUGHN

AUDIT REPORT

For The Year Ended June 30, 2017

(with Auditor's Report Thereon)

STATE OF NEW MEXICO
TOWN OF VAUGHN
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STATE OF NEW MEXICO
TOWN OF VAUGHN
Official Roster
Year Ended June 30, 2017

TOWN BOARD OF TRUSTEES

<u>Name</u>	<u>Title</u>
Mr. Roman Garcia	Mayor
Mr. Billy Lucero	Trustee
Ms. Janice Ulibarri	Trustee
Mr. Rudy Martinez	Trustee
Mr. A.F. Lalo Padilla	Trustee

Village Administration

Ms. Shaline Lopez	Clerk/Treasurer
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Rice and Associates, C.P.A.

AUDITING
BOOKKEEPING
(505) 292-8275

CERTIFIED PUBLIC ACCOUNTANTS
11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson
New Mexico State Auditor
and
Honorable Mayor and Town Council
Town of Vaughn
Vaughn, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the General, Fire Protection and Streets Funds of the Town of Vaughn, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Town of Vaughn's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Town of Vaughn's non-major governmental funds and non-major enterprise funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2017 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis of Disclaimer of Opinion on Governmental Activities, Business-Type Activities, The General and Joint Utility Funds paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Disclaimer
Business-Type Activities	Disclaimer
General Fund	Disclaimer
Fire Protection Fund	Unmodified
Streets Fund	Unmodified
Landfill Closure Fund	Unmodified
Joint Utility Fund	Disclaimer
Aggregate Remaining Fund Information	Unmodified

Basis for Disclaimer of Opinion on the Joint Utility, General and Government Wide Financial Statements

The financial statements of the Joint Utility Fund could not be separated into Water, Sewer and Solid Waste Funds so they could be audited individually. The Joint Utility Fund was adjusted by \$316,676 of which could not be audited. This material adjustment was not posted to a particular fund but within the Joint Utility financial statements. The beginning balances were also unauditable as the prior years opinion was a disclaimer.

The General Fund financial statements were adjusted by \$600,137 of which could not be audited.

Because of the two circumstances above this also rendered Government Wide Financial Statements unauditable.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Joint Utility, General and Government Wide Financial Statements" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Joint Utility, General and Government Wide Financial Statements of the Town of Vaughn. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Town of Vaughn, as of June 20, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the Schedules I, II and III and the notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Town of Vaughn financial statements, the combining and the individual fund financial statements, and the budgetary comparisons. The schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Prior Period Financial Statements

The financial statements of Town of Vaughn as of June 20, 2016, were audited by other auditors whose report dated December 12, 2016, expressed a Disclaimer Opinion on those statements. As discussed in Note 16, the Town of Vaughn has restated its 2017 financial statements during the current year for certain prior period adjustments. The other auditors reported on the June 30, 2016 financial statements before the restatement. As part of our audit of the June 30, 2017 financial statements, we also audited the adjustments described in Note 16 that were applied to restate the June 30, 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2016 financial statements of the Town of Vaughn other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2016 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 on our consideration of the Town of Vaughn's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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* in considering the Town of Vaughn's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 20, 2018

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Net Position
June 30, 2017

Statement 1
Page 1 of 2

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 999,104	\$ 218,865	\$ 1,217,969
Accounts receivable (net of uncollectible accounts)	48,977	37,340	86,317
Due from other funds	<u>4,082</u>	<u>-</u>	<u>4,082</u>
Total current assets	<u>1,052,163</u>	<u>256,205</u>	<u>1,308,368</u>
Non-current assets			
Restricted assets (cash)	-	6,007	6,007
Customer Meter Deposits	<u>-</u>	<u>19,350</u>	<u>19,350</u>
Total non-current assets	<u>-</u>	<u>25,357</u>	<u>25,357</u>
Land	188,265	135,582	323,847
Land improvements	5,238,214	29,022	5,267,236
Buildings and improvements	2,334,863	34,159	2,369,022
Vehicles	253,081	23,403	276,484
Heavy equipment	974,398	710,153	1,684,551
Equipment	217,171	216,964	434,135
Plant/Infrastructure	<u>959,770</u>	<u>6,329,580</u>	<u>7,289,350</u>
Total capital assets	<u>10,165,762</u>	<u>7,478,863</u>	<u>17,644,625</u>
Less accumulated depreciation	(4,895,711)	(4,387,826)	(9,283,537)
Total capital assets (net of accumulated depreciation)	<u>5,270,051</u>	<u>3,091,037</u>	<u>8,361,088</u>
Deferred outflows of resources related to pension	<u>119,560</u>	<u>-</u>	<u>119,560</u>
Total assets	<u>\$ 6,441,774</u>	<u>\$ 3,372,599</u>	<u>\$ 9,814,373</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Net Position
June 30, 2017

Statement 1
Page 2 of 2

	Governmental Activities	Business Type Activities	Total
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ -	\$ 217,570	\$ 217,570
Current portion of bonds payable	-	8,000	8,000
Customer meter deposits payable	-	19,350	19,350
from restricted assets	-	-	-
Due to other funds	-	4,082	4,082
Total current liabilities	-	249,002	249,002
Non-Current Liabilities			
Compensated absences payable	5,325	1,573	6,898
Bonds payable	-	429,000	429,000
Net pension liability	282,787	-	282,787
Landfill closure	-	64,650	64,650
Total non-current liabilities	288,112	495,223	783,335
Total liabilities	288,112	744,225	1,032,337
Deferred Inflows			
Deferred inflows of resources related to pension	2,807	-	2,807
Total deferred inflows	2,807	-	2,807
Net Position			
Net investment in capital assets	5,270,051	2,654,037	7,924,088
Restricted for:			
State mandated cash balance	53,018	-	53,018
Special revenue fund	743,360	-	743,360
Capital outlay	-	-	-
Debt service	38	-	38
Landfill	-	6,007	6,007
Unrestricted	84,388	(31,670)	52,718
Total net position	6,150,855	2,628,374	8,779,229
Total liabilities and net position	\$ 6,441,774	\$ 3,372,599	\$ 9,814,373

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Activities
Year Ended June 30, 201

Statement 2

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 848,005	\$ 2,676	\$ 370,992	\$ -	\$ (474,337)	\$ -	\$ (474,337)
Highways and streets	-	-	-	-	-	-	-
Public safety	130,475	18,770	277,982	-	166,277	-	166,277
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	61,429	8,440	35,785	-	(17,204)	-	(17,204)
Depreciation - unallocated	391,785	-	-	-	(391,785)	-	(391,785)
Interest	-	-	-	-	-	-	-
Total governmental activities	<u>1,431,694</u>	<u>29,886</u>	<u>684,759</u>	<u>-</u>	<u>(717,049)</u>	<u>-</u>	<u>(717,049)</u>
Business-type activities:							
Joint utilities	533,707	634,025	-	-	-	100,318	100,318
Landfill closure	-	-	-	-	-	-	-
Total business-type activities	<u>533,707</u>	<u>634,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,318</u>	<u>100,318</u>
Total all activities	<u>\$ 1,965,401</u>	<u>\$ 663,911</u>	<u>\$ 684,759</u>	<u>\$ -</u>	<u>(717,049)</u>	<u>100,318</u>	<u>(616,731)</u>
General Revenues:							
Property taxes					142,725	-	142,725
Lodgers tax					62,047	-	62,047
Gross receipts taxes					192,001	-	192,001
Gasoline taxes					52,735	-	52,735
State aid not restricted to special purpose							
General					90,000	-	90,000
Investment earnings					27	7	34
Transfers					-	-	-
Loan proceeds					-	-	-
Total general revenues					<u>539,535</u>	<u>7</u>	<u>539,542</u>
Change in net position					<u>(177,514)</u>	<u>100,325</u>	<u>(77,189)</u>
Net position - beginning of year					<u>6,320,751</u>	<u>2,471,608</u>	<u>8,792,359</u>
Restatement					<u>7,618</u>	<u>56,441</u>	<u>64,059</u>
Net position - beginning of year - restated					<u>6,328,369</u>	<u>2,528,049</u>	<u>8,856,418</u>
Net position - ending					<u>\$ 6,150,855</u>	<u>\$ 2,628,374</u>	<u>\$ 8,779,229</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Balance Sheet
Governmental Funds
June 30, 2017

Statement 3

	General	Fire Protection Fund	Streets Fund	Other Governmental Fund	Total Governmental Funds
ASSETS					
Cash on deposit	\$ 287,546	\$ 207,857	\$ 257,085	\$ 246,616	\$ 999,104
Accounts receivable	34,442	-	4,354	10,181	48,977
Due from other funds	3,852	-	14,955	6,702	25,509
Total assets	\$ 325,840	\$ 207,857	\$ 276,394	\$ 263,499	\$ 1,073,590
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	17,075	-	-	3,852	20,927
Total liabilities	17,075	-	-	3,852	20,927
FUND BALANCE					
Restricted for:					
Fire protection	-	207,857	-	-	207,857
Highways and streets	-	-	275,894	-	275,894
Corrections	-	-	-	7,068	7,068
Recreation services	-	-	-	200,640	200,640
Public safety	-	-	-	51,901	51,901
Solid waste	-	-	-	-	-
Reserves	53,018	-	-	-	53,018
Capital outlay	-	-	-	-	-
Debt service	-	-	-	38	38
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	255,747	-	-	-	255,747
Total fund balance	308,765	207,857	275,894	259,647	1,052,163
Total liabilities and fund balance	\$ 325,840	\$ 207,857	\$ 275,894	\$ 263,499	\$ 1,073,090

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2017

Statement 4

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

Total fund balances - governmental funds		\$ 1,052,163
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	10,165,762	
Accumulated depreciation	<u>(4,895,711)</u>	
		5,270,051
Long-term and certain other liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term and other liabilities at year-end consist of:		
Compensated absences		(5,325)
Some liabilities, including net pension obligations, are not due and payable in the current period and therefore, are not reported in the funds		
Net pension liability		(282,787)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds		
		<u>116,753</u>
Net position of governmental activities		<u><u>\$ 6,150,855</u></u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2017

Statement 5

	General	Fire Protection Fund	Streets Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 142,725	\$ -	\$ -	\$ -	\$ 142,725
Lodgers tax	-	-	-	62,047	62,047
Franchise taxes	-	-	-	-	-
Gas tax	-	-	52,735	-	52,735
MVD	-	-	-	-	-
Charges for services	2,676	-	-	27,210	29,886
Fines and forfeitures	12,725	-	-	2,620	15,345
Licenses and permits	926	-	-	-	926
Local sources	366,714	413	-	61,367	428,494
State sources	90,000	175,667	-	52,634	318,301
Federal sources	-	-	-	11,693	11,693
State shared taxes	192,001	-	-	-	192,001
Earnings from investments	-	-	-	27	27
Total revenues	807,767	176,080	52,735	217,598	1,254,180
EXPENDITURES					
Current:					
General government	830,609	-	81	3,452	834,142
Highways and streets	-	-	-	-	-
Public safety	-	41,490	-	88,985	130,475
Culture and recreation	-	-	-	61,429	61,429
Capital outlay	78,231	7,053	47,988	37,054	170,326
NMFA principal	-	-	-	7,319	7,319
NMFA interest	-	-	-	-	-
Total expenditures	908,840	48,543	48,069	198,239	1,203,691
Excess (deficiency) of revenue over expenditures	(101,073)	127,537	4,666	19,359	50,489
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	8,900	8,900
Transfers out	(8,900)	-	-	-	(8,900)
Loan proceeds	-	-	-	-	-
Total other financing sources	(8,900)	-	-	8,900	-
Net change in fund balances	(109,973)	127,537	4,666	28,259	50,489
Fund balance beginning of year	461,596	80,194	311,319	239,990	1,093,099
Restatement Fund balance - beginning	(42,858)	126	(40,091)	(8,602)	(91,425)
Fund balance beginning of year - restated	418,738	80,320	271,228	231,388	1,001,674
Fund balance end of year	\$ 308,765	\$ 207,857	\$ 275,894	\$ 259,647	\$ 1,052,163

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

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, 2017

Net change in fund balances - total governmental funds \$ 50,489

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

Capital outlays to purchase or build capital
assets are reported in governmental funds as
expenditures. However, for governmental
activities those costs 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
depreciation expense exceeds capital outlays in the period.

Depreciation expense	(391,785)	
Capital outlays	<u>170,326</u>	
Excess of capital outlay over depreciation expense		(221,459)

Governmental funds report pension contributions as
expenditures. However, in the Statement of Activities,
the cost of pension benefits earned net of employee
contributions is reported as pension expense.

Pension contributions		14,782
Pension expense		(39,392)

The issuance of long-term debt (e.g. loans) provides
current financial resources to governmental funds
while the repayment of the principal of long-term debt
consumes the current financial resources of governmental
funds.

Loan proceeds	-	
Repayment of long-term debt	<u>7,319</u>	
		7,319

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

Compensated absences payable		<u>10,747</u>
Change in net position of governmental activities		<u>\$ (177,514)</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
General Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 57,391	\$ 57,391	\$ 142,725	\$ 85,334
Franchise taxes	-	-	-	-
Gas taxes	-	-	-	-
MVD	-	-	-	-
Charges for services	2,500	2,500	2,676	176
Fines and forfeitures	20,000	20,000	12,725	(7,275)
Licenses and permits	700	700	926	226
Local sources	2,000	217,988	366,714	148,726
State sources	90,000	90,000	90,000	-
Federal sources	-	-	-	-
State shared taxes	191,652	191,652	191,751	99
Earnings from investments	-	-	-	-
Total revenues	<u>\$ 364,243</u>	<u>\$ 580,231</u>	<u>\$ 807,517</u>	<u>\$ 227,286</u>
EXPENDITURES				
General government	\$ 362,263	\$ 578,251	\$ 937,015	\$ (358,764)
Public safety	50,000	50,000	-	50,000
Highways & Streets	-	-	-	-
Culture and recreation	7,962	7,962	-	7,962
Capital outlay	-	-	-	-
Total expenditures	<u>\$ 420,225</u>	<u>\$ 636,213</u>	<u>\$ 937,015</u>	<u>\$ (300,802)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (8,900)	\$ (8,900)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,900)</u>	<u>\$ (8,900)</u>
BUDGETED CASH BALANCE	<u>\$ 55,982</u>	<u>\$ 55,982</u>		

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Special Revenue - Fire Protection Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local sources	\$ 127	\$ 127	\$ 413	\$ 286
State sources	175,667	175,667	175,667	-
Earnings from investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ 175,794</u>	<u>\$ 175,794</u>	<u>\$ 176,080</u>	<u>\$ 286</u>
EXPENDITURES				
Public safety	<u>\$ 58,500</u>	<u>\$ 58,500</u>	<u>\$ 49,404</u>	<u>\$ 9,096</u>
Total expenditures	<u>\$ 58,500</u>	<u>\$ 58,500</u>	<u>\$ 49,404</u>	<u>\$ 9,096</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ -</u>		

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Special Revenue - Streets Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Gas taxes	\$ 40,000	\$ 40,000	\$ 36,479	\$ (3,521)
Total revenues	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 36,479</u>	<u>\$ (3,521)</u>
EXPENDITURES				
Highways and streets	\$ 40,000	\$ 48,069	\$ 48,069	\$ -
Total expenditures	<u>\$ 40,000</u>	<u>\$ 48,069</u>	<u>\$ 48,069</u>	<u>\$ -</u>
BUDGETED CASH BALANCE	<u>\$ -</u>	<u>\$ 48,069</u>		

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

STATE OF NEW MEXICO
VILLAGE OF MAGDALENA
Proprietary Funds
Statement of Net Position
June 30, 2018

Statement 10

	Joint Utilities Fund	Landfill Closure Fund	Total
ASSETS			
Current Assets			
Cash on deposit	\$ 218,865	\$ -	\$ 218,865
Accounts receivable (net)	<u>37,340</u>	<u>-</u>	<u>37,340</u>
Total Current Assets	<u>256,205</u>	<u>-</u>	<u>256,205</u>
Non-Current Assets			
Restricted Assets (Cash)	-	6,007	6,007
Customer meter deposits	<u>19,350</u>	<u>-</u>	<u>19,350</u>
Total Non-Current Assets	<u>19,350</u>	<u>6,007</u>	<u>25,357</u>
Capital Assets			
Land	135,582	-	135,582
Land improvements	29,022	-	29,022
Buildings and Improvements	34,159	-	34,159
Equipment	216,964	-	216,964
Heavy equipment	710,153	-	710,153
Vehicles	23,403	-	23,403
Plant/infrastructure	6,329,580	-	6,329,580
Accumulated depreciation	<u>(4,387,826)</u>	<u>-</u>	<u>(4,387,826)</u>
Total Capital Assets	<u>3,091,037</u>	<u>-</u>	<u>3,091,037</u>
Total Assets	<u>\$ 3,366,592</u>	<u>\$ 6,007</u>	<u>\$ 3,372,599</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 217,570	\$ -	\$ 217,570
Accrued interest	-	-	-
Current portion bonds payable	8,000	-	8,000
Customer meter deposits/utility aid payable from Restricted Assets	19,350	-	19,350
Due to other funds	<u>4,082</u>	<u>-</u>	<u>4,082</u>
Total Current Liabilities	<u>249,002</u>	<u>-</u>	<u>249,002</u>
Long-Term Liabilities			
Compensated absences payable	1,573	-	1,573
Bonds payable	429,000	-	429,000
Landfill closure	<u>64,650</u>	<u>-</u>	<u>64,650</u>
Total Long-Term Liabilities	<u>495,223</u>	<u>-</u>	<u>495,223</u>
Total Liabilities	<u>744,225</u>	<u>-</u>	<u>744,225</u>
NET POSITION			
Net investment in capital assets	2,654,037	-	2,654,037
Restricted for repair and replacement	-	-	-
Restricted for landfill closures	-	6,007	6,007
Restricted for debt service	-	-	-
Unrestricted	<u>(31,670)</u>	<u>-</u>	<u>(31,670)</u>
Total Net Position	<u>2,622,367</u>	<u>6,007</u>	<u>2,628,374</u>
Total Liabilities and Net Position	<u>\$ 3,366,592</u>	<u>\$ 6,007</u>	<u>\$ 3,372,599</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Proprietary Funds
Statement of Revenues,
Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

Statement 11

	<u>Joint Utilities Fund</u>	<u>Landfill Closure Fund</u>	<u>Total</u>
OPERATING REVENUES			
Sales and services	\$ 634,025	\$ -	\$ 634,025
Local source	-	-	-
State sources	-	-	-
State shared taxes	-	-	-
	<hr/>	<hr/>	<hr/>
Total operating revenue	634,025	-	634,025
OPERATING EXPENSES			
Maintenance and operations	222,178	-	222,178
Other operating expenses	-	-	-
Depreciation	291,504	-	291,504
	<hr/>	<hr/>	<hr/>
Total operating expenses	513,682	-	513,682
Operating income (loss)	<u>120,343</u>	<u>-</u>	<u>120,343</u>
NON-OPERATING REVENUE (EXPENSE)			
Investment income	-	7	7
Investment expense	(20,025)	-	(20,025)
Transfers in	-	6,000	6,000
Transfers out	(6,000)	-	(6,000)
State grant	-	-	-
Loan proceeds	-	-	-
Donation	-	-	-
	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenue (Expense)	<u>(26,025)</u>	<u>6,007</u>	<u>(20,018)</u>
Change in Net Position	<u>94,318</u>	<u>6,007</u>	<u>100,325</u>
Total net position, beginning of year	2,471,608	-	2,471,608
Restatement	<u>56,441</u>	<u>-</u>	<u>56,441</u>
Net position, beginning of year - restated	<u>2,528,049</u>	<u>-</u>	<u>2,528,049</u>
Total net position, end of year	<u>\$ 2,622,367</u>	<u>\$ 6,007</u>	<u>\$ 2,628,374</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

Statement 12

	Joint Utilities Fund	Landfill Closure Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 640,479	\$ -	\$ 640,479
Cash received from other sources	-	-	-
Cash payments to employees and to suppliers for goods and services	(224,907)	-	(224,907)
Net cash provided by operating activities	415,572	-	415,572
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Loan proceeds	-	-	-
Principal paid	(8,000)	-	(8,000)
Interest paid	(20,025)	-	(20,025)
Acquisition of capital assets	(387,075)	-	(387,075)
Net cash provided (used) by capital and related financing activities	(415,100)	-	(415,100)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received from state grants	-	-	-
Cash received from federal grants	-	-	-
Operating transfers from other funds	-	6,000	6,000
Operating transfers to other funds	(6,000)	-	(6,000)
Prior year correction of error	(240,319)	-	(240,319)
Net cash provided (used) by noncapital financing activities	(246,319)	6,000	(240,319)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	-	7	7
Net cash provided by investing activities	-	7	7
Net increase (decrease) in cash	(245,847)	6,007	(239,840)
Cash, beginning of year	484,062	-	484,062
Cash, end of year	\$ 238,215	\$ 6,007	\$ 244,222
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 120,343	\$ -	\$ 120,343
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	291,504	-	291,504
Changes in assets and liabilities:			
(Increase) decrease in receivables	-	-	-
Increase (decrease) in accounts payable	-	-	-
Increase (decrease) in meter deposits payable	2,372	-	2,372
Increase (decrease) in compensated absences	(2,729)	-	(2,729)
Increase (decrease) due to other funds	4,082	-	4,082
Net cash provided (used) by operating activities	\$ 415,572	\$ -	\$ 415,572

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Fiduciary Assets and Liabilities - Agency Funds
June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 1,143</u>
Total Assets	<u>\$ 1,143</u>
LIABILITIES	
Due to other agencies	<u>\$ 1,143</u>
Total Liabilities	<u>\$ 1,143</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Notes to Financial Statements
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Vaughn is incorporated under Section 3, Article 2, New Mexico State Statutes Annotated 1978 Compilation operating under a Mayor-Council form of government and provides the following services as authorized: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services.

The financial statements of the Town of Vaughn have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

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

Notes to Financial Statements (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which is normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Notes to Financial Statements (continued)

Property taxes, franchise 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. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and susceptible to accrual criteria have been met.

The government reports the following major governmental funds:

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

The *Fire Protection Fund* (Special Revenue Fund) is to account for the operations and maintenance of the Fire Department. It is financed by a specific allotment from the State Fire Marshall's Office. The authority is NMSA 59A-53-1.

The *Streets Fund* (Special Revenue Fund) is to account for the receipt and expenditure of special gasoline taxes which are restricted for use in repairing and maintaining roads and streets within Town limits. The Fund was created by the authority of State Statute 7-1-16.9 and 7-13-1 to 18 NMSA 1978.

The Town reports the following Proprietary Fund types:

Enterprise Fund - Water/Sewer Fund - To account for the provision of water and sewer services to the residents of Magdalena, New Mexico. All activities necessary to provide these services are accounted for in this fund.

Enterprise Fund - Solid Waste Fund - To account for the revenue and expenditures for the maintenance of the solid waste operations. All activities necessary to provide these services are accounted for in this fund.

The Town also reports additional Governmental funds as non-major.

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

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

Notes to Financial Statements (continued)

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the Town's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Town's general revenues. Program revenues include: 1) charges for services to taxpayers or applicants who purchase, use or directly benefit from the goods or services provided by the given function 2) program-specific operating grants and contributions and 3) program specific capital grants and contributions including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund is charged to customers for sales and services. The enterprise fund also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

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

1. Prior to June 1, the Town Clerk-Treasurer 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 based on previous year's history. Public hearings are conducted at the Town Hall to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance.
2. The Town Clerk-Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any funds must be approved by the Town Council and New Mexico State Department of Finance, Division of Local Governments. The original budget that was adopted in July, 1998 was amended during the fiscal year in a legally permissible manner.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Funds.

Notes to Financial Statements (continued)

4. Encumbrances are not reported in the budgets or financial statements.
5. The level of classification detail in which expenditures of expenses may not legally exceed appropriations for each budget is in fund total. Appropriations lapse at year end.
6. Budgets for the General and Special Revenue Funds are adopted on a basis not consistent with generally accepted accounting principals. Throughout the year the accounting records are maintained on the Non-GAAP basis of cash receipts and disbursements. Accordingly, certain revenues and the related assets are recognized when paid rather than when the obligation is incurred. The financial statements are presented on the modified accrual basis of accounting. Budgetary comparisons presented for General and Special Revenue Funds in this report are on the Non-GAAP budgetary basis and actual (cash basis). The budget of the Enterprise Fund is adopted on a Non-GAAP cash basis.

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity of six months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, interest bearing accounts with local financial institutions and the State Treasurer Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owners of such monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Town. The pledged securities remain in the name of the financial institution.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

The cost of inventories are recorded as expenditures when purchased rather than when consumed.

G. Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The Town has two types of items, which arise due to the implementation of GASB 68 and the related net pension liability. Accordingly, the items, net difference between expected and actual earnings and change in assumptions, are reported on the Statement of Net Position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Notes to Financial Statements (continued)

H. Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The Town has two types of items that qualify for reporting in this category. Accordingly, the items, change in proportion and employer contributions subsequent to measurement date, are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources the next period.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. This is an increase from the \$1,000 threshold reported in prior years. This is a change in accounting estimate. All previously reported Capital Assets that do not meet the updated amount will be depreciated currently and in future periods until they are fully depreciated. Donated Capital Assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	20
Building improvements	20
Public domain infrastructure	25
System infrastructure	25
Vehicles	5
Equipment	5
Heavy equipment	10

The Town does not capitalize computer software or software developed for internal use (if applicable) unless it exceeds the \$5,000 threshold.

Notes to Financial Statements (continued)

J. Compensated Absences

It is the policy of the Town of Vaughn to permit certain employees to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon separation from the Town's service. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Sick pay does not vest and is recorded as an expenditure when it is paid.

K. Long-Term Obligations

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

L. Taxes

Franchise Taxes - By authority of Chapter 3, Article 42, NMSA 1978 and various ordinances, the Town imposes a franchise tax on certain public utilities operating within the municipality.

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, certain specified amounts are distributed to various governmental agencies with the State, including; the Motor Vehicle Division, State Road fund, municipalities, and counties. After certain priority payments, as detailed in 66-6-23 NMSA 1978 have been made, a portion of the remaining fees held in the motor vehicle suspense fund are distributed as required in 66-6-23 B (4) and 66-6-23 B (5). These distributions are commonly referred to as the 10% and 15% motor vehicle tax distributions.

Gasoline Tax - The State of New Mexico, by authority of Chapter 7, Article 13 NMSA 1978, imposed an excise tax on \$0.17 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.

Municipal Gross Receipts Tax - Under authority of Chapter 7, Articles 19 and 19D, NMSA 1978, the Town adopted gross receipts taxing through ordinance. 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.

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 businesses within the State. Of the total collected, 1.225% of the taxable gross receipts are distributed to the municipality reporting the taxable receipts.

Notes to Financial Statements (continued)

M. Restricted Assets

Certain long-term assets in the proprietary funds are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purpose such as "deposits held in trust for others".

N. Net Position

The governmental activities and business-type activities financial statements utilize a net position presentation. Net Position are categorized as follows:

Net investment in capital assets - This category reflects the portion of net assets that are associates with capital assets less outstanding capital asset related debt.

Restricted net position - This category reflects the portion of net assets that have third party limitation on their use.

Unrestricted net position - This category reflects net assets of the Town not restricted for any project or other purposes.

O. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Town ordinances).

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Town can be compelled by an external party - such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposed specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Town Council. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance

Notes to Financial Statements (continued)

classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable.

Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a Town official delegated that authority by the Town Council or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

P. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for these risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the current fiscal year.

R. Surety Coverage

The officials and certain employees of the Town are covered by a surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule NMAC 2.2.

Notes to Financial Statements (continued)

S. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. DEPOSITORY COLLATERAL

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Town's Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

The following is the Cash on Deposit at each financial institution.

Everyone's Credit Union	Cemetary	Checking	\$	5,573
Everyone's Credit Union	Recreation	Checking		1,973
Everyone's Credit Union	LEPF	Checking		25
Everyone's Credit Union	EMS	Checking		198
Everyone's Credit Union	Seniors	Checking		15,007
Everyone's Credit Union	Fire/Wildland	Checking		11,201
Everyone's Credit Union	Lodgers Tax	Checking		174,762
Everyone's Credit Union	Landfill	Checking		6,007
Everyone's Credit Union	Fire Fund	Checking		207,954
First National Bank	CDBG	Checking		2,176
Wells Fargo	Streets Fund	Checking		257,085
Wells Fargo	Corrections	Checking		4,446
Everyone's Credit Union	Ambulance	Checking		25,905
Wells Fargo	General	Checking		302,309
Everyone's Credit Union	Joint Utility	Checking		151,315
Wells Fargo	Water	Checking		7,352
Everyone's Credit Union	Joint Utility	Checking		32,928
Wells Fargo	Water/Sewer Imp.	Checking		27,295
Everyone's Credit Union	Meter Fund	Checking		19,350

\$1,252,861

New Mexico Finance Authority

\$ 38

Total amount on deposit	\$1,252,899
Deposit in transit	5,616
Outstanding checks	<u>(14,046)</u>

Total per financial statements **\$1,244,469**

Notes to Financial Statements (continued)

The following schedule details the public money held by Wells Fargo and the pledged collateral provided for the Town follows:

	<u>Wells Fargo</u>
Cash on deposit at June 30	\$ 598,487
Less <u>FDIC</u>	<u>(250,000)</u>
Uninsured funds	348,488
Funds needing collateralization at 50% (required by State Law)	174,244
Pledged collateral at June 30	<u>205,471</u>
Excess of Pledged Collateral	<u><u>\$ 31,227</u></u>

The following schedule details the public money held by First National Bank and the pledged collateral provided for the Town follows:

	<u>First National Bank</u>
Cash on deposit at June 30	\$ 2,176
Less <u>FDIC</u>	<u>(2,176)</u>
Uninsured funds	-
Funds needing collateralization at 50% (required by State Law)	-
Pledged collateral at June 30	<u>-</u>
Excess of Pledged Collateral	<u><u>\$ -</u></u>

The following schedule details the public money held by Everyone's Credit Union and the pledged collateral provided for the Town follows:

	<u>Everyone's Credit Union</u>
Cash on deposit at June 30	\$ 651,786
Less <u>FDIC</u>	<u>(250,000)</u>
Uninsured funds	401,786
Funds needing collateralization at 50% (required by State Law)	200,893
Pledged collateral at June 30	<u>600,000</u>
Excess of Pledged Collateral	<u><u>\$ 399,107</u></u>

Notes to Financial Statements (continued)

Custodial Credit Risk - Deposits - Custodial Credit Risk is the risk that in the event of bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, \$750,274 of the Town's bank balance \$1,252,861 was exposed to custodial credit risk as follows:

A.	Uninsured and Uncollateralized	\$ 143,017
B.	Uninsured and collateralized with securities held by the pledging banks trust department, but not in the Town's name	<u>607,257</u>
	Total	<u>\$ 750,274</u>

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the cooperative for at least one half of the amount on deposit with the institution.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. The collateral pledged is shown as follows:

Wells Fargo

<u>Bank of New York Mellon</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
FNMA #31417CB79	6-01-42	<u>\$ 205,471</u>

**Everyone's Credit Union-
Tucumcari**

	<u>Maturity Date</u>	<u>Fair Market Value</u>
Fed Home Loan #3134GAT61	1-27-22	\$ 150,000
FNMA #3136G4LP6	8-28-20	300,000
FHLMC #3134GA7H1	3-29-22	<u>150,000</u>
		<u>\$ 600,000</u>

The amount held at the New Mexico Finance authority totaling \$38 is collateralized within the NMFA guidelines. This information is not available by the individual Agency but the financial statements for the NMFA are available by writing to New Mexico Finance Authority, 207 Shelby Street, Santa Fe, New Mexico 87501.

Notes to Financial Statements (continued)

3. ACCOUNTS RECEIVABLES

Receivables as of June 30, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Receivables from customers	\$ -	\$ 37,340
Less allowance for uncollectible accounts	<u>-</u>	<u>-</u>
Subtotal	-	37,340
Gross receipts taxes receivable	32,386	-
Property taxes receivable	1,807	-
Lodger's tax	4,786	-
Gas tax	4,354	-
Intergovernmental	5,394	-
Miscellaneous	<u>250</u>	<u>-</u>
Total	<u>\$ 48,977</u>	<u>\$ 37,340</u>

4. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Property tax rates for the year are set no later than September 1 each year by the Secretary of Finance and Administration. The rates of tax are then used by County Assessors to develop the property tax schedule by October 1. Taxes are payable in equal semi-annual installments by November 10 and April 10 of the subsequent year. Taxes are collected on behalf of the Town by the County Treasurer, and are remitted to the Town in the month following collection. Because the Treasurer for the county in which the Town is located is statutorily required to collect taxes as an intermediary agency for all forms of government, distribution of taxes are made through the applicable County to the Town.

The Town is permitted to levy taxes for general operating purposes based on taxable value for both residential and nonresidential property, taxable value being defined as one-third of the fully assessed value. In addition, the Town is allowed to levy taxes for payments of bond principal and interest in amounts approved by voters of the Town.

The Town accounts for its share of property taxes in the General Fund. Only those collections received are recorded as revenues. The Town has no means of determining the amount of delinquent taxes, and no delinquent taxes are recorded on the Towns financial records.

Notes to Financial Statements (continued)

5. LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Governmental Funds

During the year ended June 30, the following changes occurred in the liabilities reported in the Governmental Funds:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences payable	\$ 16,072	\$ -	\$ 10,747	\$ 5,325	\$ -
NMFA loan payable	7,319	-	7,319	-	-
	<u>\$ 23,391</u>	<u>\$ -</u>	<u>\$ 18,066</u>	<u>\$ 5,325</u>	<u>\$ -</u>

The compensated absences payable will be liquidated by the General Fund.

Enterprise Fund

During the year ended June 30, the following changes occurred in certain long-term liabilities reported in the Enterprise Fund:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated absences payable	\$ 4,302	\$ -	\$ 2,729	\$ 1,573	\$ -
Revenue bonds payable	445,000	-	8,000	437,000	8,000
	<u>\$ 449,302</u>	<u>\$ -</u>	<u>\$ 10,729</u>	<u>\$ 438,573</u>	<u>\$ 8,000</u>

The Town issued revenue bonds for the purpose of improving the waste water treatment systems. The bonds are to be retired from the income from operations of the utility system. The original issue was for \$510,000, dated July 23, 2004. The interest rate is 4.5%. The maturity date is July 23, 2044.

The debt service requirement to maturity, including interest is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 8,000	\$ 19,310	\$ 27,310
2019	9,000	27,950	36,950
2020	9,000	27,540	36,540
2021	10,000	28,140	38,140
2022	10,000	27,690	37,690
2023-2027	56,000	81,380	137,380
2028-2032	72,000	67,420	139,420
2033-2037	89,000	49,740	138,740
2038-2042	110,000	27,910	137,910
2043-2044	56,000	3,920	59,920
	<u>\$ 429,000</u>	<u>\$ 361,000</u>	<u>\$ 790,000</u>

Notes to Financial Statements (continued)

6. CAPITAL ASSETS

The amount of property, plant and equipment in the Business-Type Activities consists of the following:

	Balance July 1, 2016	Additions	Deletions	Adjustments	Balance June 30, 2017
Business type activities:					
Land	\$ 19,203	\$ -	\$ -	\$ 116,379	\$ 135,582
Total not being depreciated	<u>19,203</u>	<u>-</u>	<u>-</u>	<u>116,379</u>	<u>135,582</u>
Land Improvements	-	-	-	29,022	29,022
Buildings and improvements	34,159	-	-	-	34,159
Heavy equipment	-	197,853	-	512,300	710,153
Machinery and equipment	490,916	8,068	-	(282,020)	216,964
Vehicles	-	-	-	23,403	23,403
Infrastructure	<u>4,347,338</u>	<u>181,154</u>	<u>-</u>	<u>1,801,088</u>	<u>6,329,580</u>
Total	<u>4,872,413</u>	<u>387,075</u>	<u>-</u>	<u>2,083,793</u>	<u>7,343,281</u>
Less accumulated depreciation for:					
Land improvements	-	(1,161)	-	(8,126)	(9,287)
Buildings and improvements	(19,754)	(1,366)	-	1,991	(19,129)
Heavy equipment	-	(19,785)	-	(512,300)	(532,085)
Machinery and equipment	(364,502)	(16,009)	-	197,357	(183,154)
Vehicles	-	-	-	(23,403)	(23,403)
Infrastructure	<u>(1,759,046)</u>	<u>(253,183)</u>	<u>-</u>	<u>(1,608,539)</u>	<u>(3,620,768)</u>
Total accumulated depreciation	<u>(2,143,302)</u>	<u>(291,504)</u>	<u>-</u>	<u>(1,953,020)</u>	<u>(4,387,826)</u>
Total capital assets being depreciated	<u>2,729,111</u>	<u>95,571</u>	<u>-</u>	<u>130,773</u>	<u>2,955,455</u>
Net capital assets	<u>\$ 2,748,314</u>	<u>\$ 95,571</u>	<u>\$ -</u>	<u>\$ 247,152</u>	<u>\$ 3,091,037</u>

Notes to Financial Statements (continued)

The amount of the property, plant and equipment in the Governmental-Type Activities consists of the following:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>June 30, 2017</u>
Governmental activities:					
Land	\$ 188,265	\$ -	\$ -	\$ -	\$ 188,265
Total not being depreciated	<u>188,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,265</u>
Land Improvements	5,424,365	54,915	-	(241,066)	5,238,214
Buildings and improvements	2,053,347	49,943	-	231,573	2,334,863
Heavy equipment	-	-	-	974,398	974,398
Machinery and equipment	267,871	34,055	-	(84,755)	217,171
Vehicles	807,173	31,413	-	(585,505)	253,081
Infrastructure	-	-	-	959,770	959,770
Total	<u>8,552,756</u>	<u>170,326</u>	<u>-</u>	<u>1,254,415</u>	<u>9,977,497</u>
Less accumulated depreciation for:					
Land improvements	(880,900)	(209,529)	-	(1,123,737)	(2,214,166)
Buildings and improvements	(1,521,822)	(92,093)	-	503,889	(1,110,026)
Heavy equipment	-	(18,912)	-	(857,000)	(875,912)
Machinery and equipment	(262,882)	(10,121)	-	83,672	(189,331)
Vehicles	(646,922)	(22,739)	-	498,847	(170,814)
Infrastructure	-	(38,391)	-	(297,071)	(335,462)
Total accumulated depreciation	<u>(3,312,526)</u>	<u>(391,785)</u>	<u>-</u>	<u>(1,191,400)</u>	<u>(4,895,711)</u>
Total capital assets being depreciated	<u>5,240,230</u>	<u>(221,459)</u>	<u>-</u>	<u>63,015</u>	<u>5,081,786</u>
Net capital assets	<u>\$ 5,428,495</u>	<u>\$ (221,459)</u>	<u>\$ -</u>	<u>\$ 63,015</u>	<u>\$ 5,270,051</u>

7. TRANSFERS

The composition of interfund transfers for Governmental and Business-Type Activities during the year are as follows:

	<u>Transfers In</u>		
<u>Transfers Out</u>	<u>Seniors Fund</u>	<u>Proprietary Funds</u>	<u>Total</u>
General Fund	<u>\$ 8,900</u>	<u>\$ -</u>	<u>\$ 8,900</u>

Balance of Transfers

Transfer to Seniors Fund	<u>\$ 8,900</u>	From General Fund
Total Interfund Transfers Between Governmental Funds	<u>\$ 8,900</u>	

Notes to Financial Statements (continued)

8. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

<u>Revenues</u>	<u>General Fund</u>	<u>Fire Protection Fund</u>	<u>Streets Fund</u>
Accrual basis	\$ 807,767	\$ 176,080	\$ 52,735
Budget basis	<u>807,517</u>	<u>176,080</u>	<u>36,479</u>
Increase (decrease) in receivables/ due from other funds	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 16,256</u>
 <u>Expenditures</u>			
Accrual basis	\$ 908,840	\$ 48,543	\$ 48,069
Budget basis	937,015	49,904	48,069
Depreciation	-	-	-
Principal paid	-	-	-
Interest paid	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in compensated absences/payables	<u>\$ (28,175)</u>	<u>\$ (861)</u>	<u>\$ -</u>

9. RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA' fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. The Public Employees Retirement Fund (PERA Fund) is a **cost-sharing, multiple employer defined benefit pension plan**. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/> using the Audit Report Search function for agency 366.

Benefits provided. For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at:

http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Contributions. The contribution requirements of defined benefit plan members and the Town of Vaughn are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY16 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures of the PERA FY16 annual audit report at:

http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2016.pdf.

The PERA coverage options that apply to the Town of Vaughn are: Municipal General Division. Statutorily required contributions to the pension plan from the Town of Vaughn were \$14,694 and there were NO employer paid member benefits that were "picked up" by the employer for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Town of Vaughn's proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity's percentage of that membership group's total employer contributions for the fiscal year ended June 30, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2016 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the un-remitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

Notes to Financial Statements (continued)

For PERA Fund Municipal General Division, at June 30, 2017, the Town of Vaughn reported a liability of \$282,787 for its proportionate share of the net pension liability. At June 30, 2016, the Town of Vaughn's proportion was 0.0177%, which was an increase from its proportion measured as of June 30, 2015, an increase of .0028%.

For the year ended June 30, 2017, the Town of Vaughn recognized PERA Fund Municipal General Division pension expense of \$39,392. At June 30, 2017, the Town of Vaughn reported PERA Fund Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 16,582	\$ 47
Experience versus actual	14,129	2,760
Net difference between projected and actual earnings on pension plan investments	52,032	-
Change in proportion	22,123	-
Town of Vaughn's contributions subsequent to the measurement date	<u>14,694</u>	<u>-</u>
Total	<u>\$ 119,560</u>	<u>\$ 2,807</u>

\$14,694 reported as deferred outflows of resources related to pensions resulting from Town of Vaughn's contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 24,589
2019	24,589
2020	39,070
2021	13,811
2022	-

Actuarial assumptions. As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2015 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2016. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2016 actuarial valuation.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair value
Actuarial assumptions:	
- Investment rate of return	7.48% annual rate, net of investment expense
- Payroll growth	3.50% annual rate
- Projected salary increases	3.50% to 14.25% annual rate

Notes to Financial Statements (continued)

- Includes inflation at 3.00% annual rate
- Projected benefit payment 100 years
- Mortality assumption RP-2000 Mortality Tables (Combined table for healthy post-retirements, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projections to 2018 using Scale AA.
- Experience study dates July 1, 2008 to June 30, 2013

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.10%	5.00%
International Equity	24.80%	5.20
Private Equity	7.00%	8.20
Core and Global Fixed Income	26.10%	1.85
Fixed Income Plus Sectors	5.00%	4.80
Real Estate	5.00%	5.30
Real Assets	7.00%	5.70
Absolute Return	<u>4.00%</u>	4.15
Total	<u>100.00%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.48 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.48% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town of Vaughn's proportionate share of the net pension liability to changes in the discount rate. The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Town of Vaughn's net pension liability in each PERA Fund Division that Town of Vaughn participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.48%) or one percentage point higher (8.48%) than the single discount rate.

PERA Fund Municipal General Division	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Town of Vaughn's proportionate share of the net pension liability	<u>\$ 421,610</u>	<u>\$ 282,787</u>	<u>\$ 167,640</u>

Notes to Financial Statements (continued)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY15 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

10. RETIREE HEALTH CARE ACT CONTRIBUTIONS

The Town has elected not to participate in the Retiree Health Care Act of New Mexico's retiree health care program.

11. DEPOSITS HELD FOR OTHERS, ENTERPRISE FUND

Deposits in the Water and Wastewater Utility Enterprise Fund consist of the following:

Hydrant Meter deposits \$ 19,350

Water meter deposits are charged to new customers and consist of the following:

Residential properties \$ 75
Commercial properties \$ 150

12. FUND BALANCES CLASSIFIED

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented here.

<u>Fund Balances</u>	<u>General Fund</u>	<u>Fire Protection Fund</u>	<u>Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>Nonspendable:</u>					
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -
Total nonspendable	-	-	-	-	-
<u>Restricted for:</u>					
Fire protection	-	207,857	-	-	207,857
Public safety	-	-	-	51,901	51,901
Highways streets	-	-	275,894	-	275,894
Recreation services	-	-	-	200,640	200,640
Corrections	-	-	-	7,068	7,068
State mandated cash reserves	53,018	-	-	-	53,018
Capital outlay	-	-	-	-	-
Debt service	-	-	-	38	38
Total restricted	<u>53,018</u>	<u>207,857</u>	<u>275,894</u>	<u>259,647</u>	<u>796,416</u>
<u>Committed to:</u>					
Other purposes	-	-	-	-	-
Total committed	-	-	-	-	-
<u>Unassigned:</u>	<u>255,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,747</u>
Total Fund Balances	<u>\$ 308,765</u>	<u>\$ 207,857</u>	<u>\$ 275,894</u>	<u>\$ 259,647</u>	<u>\$1,052,163</u>

Notes to Financial Statements (continued)

13. LEGISLATIVE APPROPRIATIONS

<u>Appropriation</u>	<u>Term</u>	<u>Appropriated Amount</u>	<u>Remaining Balance</u>
Laws of 2016, Chapter 83 Section 48, Paragraph 48	August 9, 2016 to June 30, 2018	\$ 40,000	\$ 21,319

14. RELATED PARTY TRANSACTIONS

The Town paid \$598 for food and supplies to Lalo's Cash & Carry, which is owned by the Board Trustee, Lalo Padilla. Also, the Town paid \$4,033 to T-N-T Towing & Service for repairs and maintenance, which is owned by the Fire Chief, Thomas Owen.

15. CLOSURE AND POST CLOSURE 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 the closure and post closure care costs of \$60,340 at June 30, 2016 represents the cumulative amount reported to date based upon approximately 29% of the usable capacity of the landfill. The liability is based upon an estimate performed in March 2003. The estimate 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, or changes in technology.

The Town is required by state and federal laws and regulations to make annual contributions to finance closure and post closure care. The Town does not have any restricted cash to fund the current accrued liability.

The State of New Mexico Environment Department has issued an administrative order requiring compliance and assessing a civil penalty in the amount of \$214,100 to the Town of Vaughn for violations of the municipal landfill. The liability has been recorded as a payable in the financial statements.

The Town entered into a contract with the Estancia Valley Solid Waste Authority for the collection and disposal of waste. The Town is no longer accepting waste into the landfill.

16. RESTATEMENT OF NET POSITION AND FUND BALANCE

The Town had a restatement in the Governmental Activities of Capital Assets in the amount of \$1,254,415 and Accumulated Depreciation of \$(1,191,400) resulting in a restatement of \$63,015.

Notes to Financial Statements (continued)

The General Fund had restatement in the Fund Balance of \$42,858 for Due From Other Funds and correctly stated in previous years. The Fire Fund was restated for \$126 in cash at the New Mexico Finance Authority at the beginning of the year. The Streets Fund was restated for \$40,091 for amounts due from other funds not correctly stated in previous years. The LEPF Fund was restated for \$16 in cash at New Mexico Finance Authority that was not recorded at the beginning of the year. The Recreation Fund was restated for a previous due from other funds not correctly stated in the amount of \$1,000.

The Cemetery Fund was restated in the amount of \$578 for amounts due from other funds not correctly stated previously. The EMS Fund was restated in the amount of \$5,549 for amounts due from other funds not correctly stated previously. The Seniors Fund was restated for \$6,960 in amounts due from other funds not correctly stated previously. The Ambulance Fund was not correctly stated previously for amounts due to other funds by \$4,548. The Corrections Fund was restated for \$18,014 for amounts due from other funds not stated correctly previously.

SUPPLEMENTARY INFORMATION
NON-MAJOR FUNDS

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Governmental Funds
Combining Balance Sheet - By Fund Type
June 30, 2017

	Special Revenue Funds	Debt Service Funds	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash on deposit	\$ 246,616	\$ -	\$ 246,616
Accounts receivable	10,181	-	10,181
Due from other funds	<u>6,702</u>	<u>-</u>	<u>6,702</u>
 Total assets	 <u>\$ 263,499</u>	 <u>\$ -</u>	 <u>\$ 263,499</u>
 LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	<u>3,852</u>	<u>-</u>	<u>3,852</u>
 Total liabilities	 <u>3,852</u>	 <u>-</u>	 <u>3,852</u>
 FUND BALANCE			
Nonspendable	-	-	-
Restricted	259,647	-	259,647
Committed	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balance	 <u>259,647</u>	 <u>-</u>	 <u>259,647</u>
 Total liabilities and fund balance	 <u>\$ 263,499</u>	 <u>\$ -</u>	 <u>\$ 263,499</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - By Fund Type
Year Ended June 30, 2017

Statement A-2

	Special Revenue Funds	Debt Service Funds	Total
REVENUES			
Lodgers taxes	\$ 62,047	\$ -	\$ 62,047
Charges for services	27,210	-	27,210
Licenses and permits	-	-	-
Fines and forfeitures	2,620	-	2,620
Local sources	61,367	-	61,367
State sources	52,634	-	52,634
Federal sources	11,693	-	11,693
State shared taxes	-	-	-
Earnings from investments	27	-	27
	<u>217,598</u>	<u>-</u>	<u>217,598</u>
Total revenues			
EXPENDITURES			
Current:			
General government	3,452	-	3,452
Highways and streets	-	-	-
Public safety	88,985	-	88,985
Culture and recreation	61,429	-	61,429
Capital outlay	37,054	-	37,054
Debt service			
Principle	7,319	-	7,319
Interest	-	-	-
	<u>198,239</u>	<u>-</u>	<u>198,239</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>19,359</u>	<u>-</u>	<u>19,359</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	8,900	-	8,900
Transfer out	-	-	-
	<u>8,900</u>	<u>-</u>	<u>8,900</u>
Total other financing sources (uses)			
Net change in fund balance	<u>28,259</u>	<u>-</u>	<u>28,259</u>
Fund balance at beginning of year	203,819	143	203,962
Restatement	27,569	(143)	27,426
	<u>231,388</u>	<u>-</u>	<u>231,388</u>
Fund balance-beginning of year-restated			
Fund balance at end of year	<u>\$ 259,647</u>	<u>\$ -</u>	<u>\$ 259,647</u>

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

NON-MAJOR SPECIAL REVENUE FUNDS

ALL FUNDS - All funds were created by management directive.

LODGERS TAX FUND - To account for the administration of a Village promotional effort. Funds are derived from a lodger's tax imposed on motel rentals. (Authority is NMSA 3-38-13).

LAW ENFORCEMENT PROTECTION FUND - To account for grants received from state sources for the purpose of buying equipment for the Village Police department. (Authority is NMSA 29-13-3)

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

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

EMS (EMERGENCY MEDICAL SERVICES) FUND - To account for the operations of emergency services. Financing is provided from the State of New Mexico pursuant to the Emergency Medical Services Act (Authority is NMSA 24-10A-1).

FIRE/WILD LAND FUND - To account for funds used to provide services to fight wild land fires. Financing is from the State of New Mexico Energy, Minerals and Natural Resources Department of Forestry Division.

CDBG FUND - To account for resources received from a CDBG grant.

SENIORS FUND - To account for program income and expenditures related to the Senior Citizens program. The funding is authorized by NMSA 1978 9-2-5 to 9-2-15.

AMBULANCE FUND - To account for the operations of the Town's ambulance services.

AIRPORT FUND - To account for the construction and equipment used for the airport runway. Sources of revenue are from federal, state and local sources.

CORRECTIONS FUND - To account for the fines collected on local violations by the Town Court to be used for the costs associated with housing Town prisoners. (Authority is NMSA 35-14-11)

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2017

Statement B-1
1 of 2

	Lodger's Tax Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	EMS Fund	Fire/ Wild Land Fund
ASSETS						
Cash on deposit	\$ 175,288	\$ 63	\$ 1,973	\$ 5,573	\$ 25	\$ 11,201
Accounts receivable	4,786	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Total assets	<u>\$ 180,074</u>	<u>\$ 63</u>	<u>\$ 1,973</u>	<u>\$ 5,573</u>	<u>\$ 25</u>	<u>\$ 11,201</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE						
Restricted	180,074	63	1,973	5,573	25	11,201
Total fund balance	<u>180,074</u>	<u>63</u>	<u>1,973</u>	<u>5,573</u>	<u>25</u>	<u>11,201</u>
Total fund balance and liabilities	<u>\$ 180,074</u>	<u>\$ 63</u>	<u>\$ 1,973</u>	<u>\$ 5,573</u>	<u>\$ 25</u>	<u>\$ 11,201</u>

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

Statement B-1
2 of 2

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2017

	CDBG Fund	Seniors Fund	Ambulance Fund	Airport Fund	Corrections Fund	Total
ASSETS						
Cash on deposit	\$ 2,176	\$ 14,874	\$ 30,995	\$ -	\$ 4,448	\$ 246,616
Accounts receivable	1,676	3,719	-	-	-	10,181
Due from other funds	<u>-</u>	<u>-</u>	<u>4,082</u>	<u>-</u>	<u>2,620</u>	<u>6,702</u>
Total assets	<u>\$ 3,852</u>	<u>\$ 18,593</u>	<u>\$ 35,077</u>	<u>\$ -</u>	<u>\$ 7,068</u>	<u>\$ 263,499</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	<u>3,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,852</u>
Total Liabilities	<u>3,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,852</u>
FUND BALANCE						
Restricted	<u>-</u>	<u>18,593</u>	<u>35,077</u>	<u>-</u>	<u>7,068</u>	<u>259,647</u>
Total fund balance	<u>-</u>	<u>18,593</u>	<u>35,077</u>	<u>-</u>	<u>7,068</u>	<u>259,647</u>
Total fund balance and liabilities	<u>\$ 3,852</u>	<u>\$ 18,593</u>	<u>\$ 35,077</u>	<u>\$ -</u>	<u>\$ 7,068</u>	<u>\$ 263,499</u>

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2017

Statement B-2
1 of 2

	Lodger's Tax Fund	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	EMS Fund	Fire/ Wild Land Fund
REVENUES						
Lodgers taxes	\$ 62,047	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	495	-	-
Licenses and permits	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Local sources	-	691	-	-	-	-
State sources	-	20,000	-	-	5,000	190
Federal sources	-	-	-	-	-	-
Earnings from investments	-	22	-	-	-	-
Total revenues	62,047	20,713	-	495	5,000	190
EXPENDITURES						
Current:						
General government	-	-	-	100	-	-
Highways and streets	-	-	-	-	-	-
Public safety	-	18,961	-	-	5,237	549
Culture and recreation	8,330	-	-	-	-	-
Capital outlay	37,054	-	-	-	-	-
NMFA principal	-	7,319	-	-	-	-
NMFA interest	-	-	-	-	-	-
Total expenditures	45,384	26,280	-	100	5,237	549
Excess (deficiency) of revenues over expenditures	16,663	(5,567)	-	395	(237)	(359)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balance	16,663	(5,567)	-	395	(237)	(359)
Fund balance, beginning of year	163,411	5,614	973	4,600	(5,287)	11,560
Restatement	-	16	1,000	578	5,549	-
Fund balance - beginning of year - restated	163,411	5,630	1,973	5,178	262	11,560
Fund balance, end of year	\$ 180,074	\$ 63	\$ 1,973	\$ 5,573	\$ 25	\$ 11,201

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2017

Statement B-2
2 of 2

	CDBG Fund	Seniors Fund	Ambulance Fund	Airport Fund	Corrections Fund	Totals
REVENUES						
Lodgers taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,047
Charges for services	-	-	18,275	-	-	18,770
Licenses and permits	-	8,440	-	-	-	8,440
Fines and forfeitures	-	-	-	-	2,620	2,620
Local sources	-	-	60,676	-	-	61,367
State sources	-	27,444	-	-	-	52,634
Federal sources	3,352	8,341	-	-	-	11,693
Earnings from investments	-	-	-	-	5	27
Total revenues	<u>3,352</u>	<u>44,225</u>	<u>78,951</u>	<u>-</u>	<u>2,625</u>	<u>217,598</u>
EXPENDITURES						
Current:						
General government	3,352	-	-	-	-	3,452
Highways and streets	-	-	-	-	-	-
Public safety	-	-	64,238	-	-	88,985
Culture and recreation	-	53,099	-	-	-	61,429
Capital outlay	-	-	-	-	-	37,054
NMFA principal	-	-	-	-	-	7,319
NMFA interest	-	-	-	-	-	-
Total expenditures	<u>3,352</u>	<u>53,099</u>	<u>64,238</u>	<u>-</u>	<u>-</u>	<u>198,239</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(8,874)</u>	<u>14,713</u>	<u>-</u>	<u>2,625</u>	<u>19,359</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	8,900	-	-	-	8,900
Transfers out	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>8,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,900</u>
Net change in fund balance	<u>-</u>	<u>26</u>	<u>14,713</u>	<u>-</u>	<u>2,625</u>	<u>28,259</u>
Fund balance, beginning of year	-	11,607	24,912	(18,014)	4,443	203,819
Restatement	-	6,960	(4,548)	18,014	-	27,569
Fund balance - beginning of year - restated	-	18,567	20,364	-	4,443	231,388
Fund balance, end of year	<u>\$ -</u>	<u>\$ 18,593</u>	<u>\$ 35,077</u>	<u>\$ -</u>	<u>\$ 7,068</u>	<u>\$ 259,647</u>

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

DEBT SERVICE FUND - To account for the services of general long-term debt.

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Debt Service Funds
Balance Sheet
June 30, 2017

Statement C-1

	Debt Service
ASSETS	
Cash on deposit	\$ -
Taxes receivable	-
Total assets	\$ -
LIABILITIES	
Accounts payable	\$ -
Total liabilities	-
FUND BALANCE	
Restricted	-
Total fund balance	-
Total liabilities and fund balance	\$ -

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Non-Major Debt Service Funds
Statement of Revenues, Expenditures and Changes in
Fund Balances - All Governmental Funds
Year Ended June 30, 2017

Statement C-2

	Debt Service
REVENUES	
Taxes	\$ -
Charges for services	-
Local sources	-
State sources	-
Federal sources	-
Earnings from investments	-
Total revenues	-
EXPENDITURES	
Debt service:	
Principal	-
Interest	-
Total expenditures	-
Net change in fund balances	-
Fund balance beginning of year	143
Restatement	(143)
Fund balance - beginning of year - restated	-
Fund balance end of year	\$ -

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

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF PERA FUND MUNICIPAL GENERAL DIVISION
Public Employees Retirement Association (PERA) Plan
Last 10 Fiscal Years*

	2017	2016	2015
Town of Vaughn's proportion of net pension liability (asset)	0.01770%	0.01490%	0.01490%
Town of Vaughn's proportionate share of the net pension liability (asset)	\$ 282,787	\$ 151,918	\$ 116,236
Town of Vaughn's covered-employee payroll	\$ 198,558	\$ 194,585	\$ 165,633
Town of Vaughn's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	70.21%	78.07%	70.18%
Plan fiduciary net position as a percentage of the total pension liability	81.29%	76.99%	69.18%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town of Vaughn will present information for those years for which information is available.

See Independent Auditor's Report
See notes to required supplementary information

STATE OF NEW MEXICO
TOWN OF VAUGHN
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
Public Employees Retirement Association (PERA) Plan
PERA Municipal General Division
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 14,694	\$ 14,399	\$ 23,275
Contributions in relation to the contractually required contribution	<u>(14,694)</u>	<u>(14,399)</u>	<u>(23,275)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Vaughn's covered-employee payroll	\$ 198,558	\$ 194,585	\$ 189,682
Contributions as a percentage of covered-employee payroll	7.4%	7.4%	12.27%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town of Vaughn will present information for those years for which information is available.

See Independent Auditor's Report
See notes to required supplementary information

STATE OF NEW MEXICO
TOWN OF VAUGHN
Notes to Required Supplementary Information
June 30, 2017

Changes of benefit terms. The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY16 audit available at:

http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2016.pdf

Changes of assumptions.

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2016 report is available at:

http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2016%20PERA%20Valuation%20Report_FINAL.pdf

See Independent Auditor's Report
See notes to required supplementary information

OTHER SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
TOWN OF VAUGHN
Schedule of Changes in Assets
and Liabilities - All Agency Funds
Year Ended June 30, 2017

	Balances June 30, 2016	Additions	Deletions	Balances June 30, 2017
ASSETS				
Cash	\$ -	\$ 1,143	\$ -	\$ 1,143
Total assets	<u>\$ -</u>	<u>\$ 1,143</u>	<u>\$ -</u>	<u>\$ 1,143</u>
LIABILITIES				
Due to other agencies	\$ -	\$ 1,143	\$ -	\$ 1,143
Total liabilities	<u>\$ -</u>	<u>\$ 1,143</u>	<u>\$ -</u>	<u>\$ 1,143</u>

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

Rice and Associates, C.P.A.

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Albuquerque, NM 87112

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

INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson
New Mexico State Auditor
and
Honorable Mayor and Town Council
Town of Vaughn
Vaughn, New Mexico

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Vaughn, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Vaughn's basic financial statements and have issued our report thereon dated November 20, 2018. Our report disclaims an opinion on such financial statements because of material adjustments made to certain funds. Also, the Joint Utility financial statements could not be separated by fund.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Town of Vaughn, we considered the Town of Vaughn, State of New Mexico's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Vaughn's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis. We consider the deficiencies described in the accompanying status of findings and responses to be material weaknesses as Financial Statements and Disclosures (2016-004), Town Accounting Software not Adequate to Create Financial Statements (2017-002), State of New Mexico Environmental Department Lawsuit (2017-005), Transfers Between Bank Accounts and Funds to Cover Payroll (2017-006), Financial Cost Estimate for the Closure and Post-Closure of the Landfill (2017-008), Water/Solid Waste Ordinance (2017-011), Outstanding or Uncleared Items on Bank Reconciliations (2017-012), Credit Card Charges (2017-013), Water Meter Deposits (2017-018), Meter Deposit Bank Account (2017-019), Payments Made to the IRS (2017-023) and Civil Penalties for Late Payment of Federal Payroll Taxes (2017-024).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying status of findings and responses to be significant deficiencies. Travel Expenditures (2014-001), DFA Report Incorrect (2016-002), Late Audit Report (2017-001), Fund Classifications in Audit Report Different from DFA Reports (2017-003), Revenue Resources for Post-Closure Costs of Landfill (2017-007), Environmental Gross Receipts Tax not Posted to the Books of Record (2017-009), Deposits Posted/Deposited to the Wrong Fund (2017-010), Ambulance Services (2017-014), Agreement for Ambulance Service Billing and Accounts Receivable Services (2017-015), Outstanding Utility Receivables (2017-016), IRS Form 1099 & 1096 Not Being Prepared and Submitted (2017-022), Salary Budgets (2017-025), Additional Compensation (2017-026), Payments Made After Employee Retired (2017-027), Bank Reconciliations Not Reconciled to the General Ledger/No Bank Reconciliations Prepared (2017-028), Lodgers Tax Receipts (2017-029) Lodgers Tax Expenditures (2017-030), Amounts Collected on Behalf of the State (2017-032), Court Fees not Remitted to the State (2017-033), Outstanding (Unpaid) Citations (2017-034), Citations Reported on Required AOC and JEC Reports (2017-035) and Citations Received but not Reported on AOC or JEC Reports (2017-036).

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the Town of Vaughn, 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 status of findings and responses as items Accounts Receivable and Accounts Payable (2010-003), Purchase Orders Required (2016-003), Transactions Made by Third Parties Not

Recorded on Books of Record (2017-004), Allowance For Doubtful Accounts (2017-017), Checks Written Out of Sequence or Manually Typed (2017-020), Contracts/Service Agreements Unsigned or Approved by the Mayor (2017-021), Incorrect Charging of Gross Receipts Taxes on Water/Sewer/Solid Waste Services (2017-037), Budget Overruns (2017-038), Fire Fund Expenditures (2017-039), Expenditures not Reported (2017-040), Penalties and Interest Charges (2017-041), Chief Procurement Officer (2017-042), Employee Files Not Complete (2017-043), New Hire Reporting (2017-044), Receipt Books (2017-045) and Lodgers Tax Audit (2017-046).

Town of Vaughn's responses to the findings identified in our engagement is described in the accompanying status of findings and responses. Town of Vaughn's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Risk & Associates, LLP

Albuquerque, New Mexico
November 20, 2018

STATUS OF FINDINGS AND RESPONSES

Prior Year Audit Findings:

1. Accounts Receivable and Accounts Payable - (2010-003) - Repeated
2. Travel and Per Diem - (2014-001) - Repeated
3. PERA Payments - (2014-002) - Resolved
4. Pledged Collateral - (2015-001) - Resolved
5. Stale Dated Checks - (2016-001) - Resolved
6. DFA Report Incorrect - (2016-002) - Repeated
7. Purchase Orders and Expenditures - (2016-003) - Repeated
8. Financial Statements and Disclosures - (2016-004) - Repeated
9. Internal Control Over Financial Reporting - (2016-005) - Resolved

Current Year Audit Findings:

1. Late Audit Report - (2017-001)
2. Town Accounting Software not Adequate to Create Financial Statements - (2017-002)
3. Fund Classifications in Audit Report Different from DFA Report - (2017-003)
4. Transactions Made by Third Parties Not Recorded on Books of Record - (2017-004)
5. State of New Mexico Environment Department Lawsuits - (2017-005)
6. Transfers Between Bank Accounts and Funds to Cover Payroll - (2017-006)
7. Revenue Resources for Post-Closure Costs of Landfill - (2017-007)
8. Financial Cost Estimate for the Closure and Post-Closure of the Landfill - (2017-008)

Current Year Audit Findings continued:

9. Environmental Gross Receipts Tax not Posted to the Books of Record - (2017-009)
10. Deposits Posted/Deposited to the Wrong Fund - (2017-010)
11. Water/Solid Waste Ordinance - (2017-011)
12. Outstanding or Uncleared Items on Bank Reconciliations - (2017-012)
13. Credit Card Charges - (2017-013)
14. Ambulance Services - (2017-014)
15. Agreement for Ambulance Service Billing and Accounts Receivable Services - (2017-015)
16. Outstanding Utility Receivables - (2017-016)
17. Allowance for Doubtful Accounts - (2017-017)
18. Water Meter Deposits - (2017-018)
19. Meter Deposit Bank Account - (2017-019)
20. Checks Written Out of Sequence or Manually Typed - (2017-020)
21. Contracts/Service Agreements Unsigned or Approved by the Mayor - (2017-021)
22. IRS Form 1099 & 1096 Not Being Prepared and Submitted - (2017-022)
23. Payments Made to the IRS - (2017-023)
24. Civil Penalties for Late Payments of Federal Payroll Taxes - (2017-024)
25. Salary Budgets - (2017-025)
26. Additional Compensation - (2017-026)
27. Payments Made After Employee Retired - (2017-027)
28. Bank Reconciliations Not Reconciled to the General Ledger/No Bank Reconciliations Prepared - (2017-028)
29. Lodger's Tax Receipts - (2017-029)
30. Lodger's Tax Expenditures - (2017-030)

Current Year Audit Findings continued:

31. Corrections Fees Not Deposited/Recorded in the Corrections Fund - (2017-031)
32. Amounts Collected on Behalf of the State - (2017-032)
33. Court Fees Not Remitted to the State - (2017-033)
34. Outstanding (Unpaid) Citations - (2017-034)
35. Citations Reported on Required AOC and JEC Reports - (2017-035)
36. Citations Received but not Reported on AOC and JEC Reports - (2017-036)
37. Incorrect Charging of Gross Receipts Taxes on Water/Sewer/Solid Waste Services/No Conservation Fee Remitted - (2017-037)
38. Budget Overruns - (2017-038)
39. Fire Fund Expenditures - (2017-039)
40. Expenditures Not Reported - (2017-040)
41. Penalties and Interest Charges - (2017-041)
42. Chief Procurement Officer - (2017-042)
43. Employee Files Not Complete - (2017-043)
44. New Hire Reporting - (2017-044)
45. Receipt Books - (2017-045)
46. Lodger's Tax Audit - (2017-046)

Accounts Receivable and Accounts Payable - Other Matter
(2010-003)

CONDITION	The Town was unable to prepare a complete and accurate listing of accounts receivable and accounts payable for any funds. Town Management has made no progress in completing this listing.
CRITERIA	According to 2011 Government Auditing Standards Section 3.40 as well as 6.20.2.13(D) NMAC, the Town is required to prepare accurate account balances for financial presentation.
CAUSE	Management has not taken proper steps to ensure these amounts are prepared.
EFFECT	Accounts receivable and accounts payable balances would be understated for various funds.
RECOMMENDATION	The Town should review all outstanding receipts and expenditures at year end to ensure they are added to the list of accounts receivable or accounts payable as necessary.
RESPONSE	The Town will develop internal policies and procedures to review all outstanding receipts and expenditures to determine whether they need to be added to the list of accounts receivable or accounts payable.

Travel Expenditures - Significant Deficiency
(2014-001)

CONDITION	Credit card purchases for gas coincide with travel vouchers turned in for the same date. This appears that the individual got paid twice for only one day of travel. Town Management has made no progress in ensuring travel payments are only paid once.
CRITERIA	A travel voucher can only be used when there are no other payments/requests for travel/gas.
CAUSE	Prior management allowed credit card purchases to be made without proper documentation and did not ensure a travel voucher was not submitted.
EFFECT	Individuals are being paid twice for only one days travel. This violates DFA regulations and the Anti-Donation Clause.
RECOMMENDATION	Only one type of payment can be used for any travel.
RESPONSE	The Town will reevaluate credit card policies and procedures to maintain better control of credit card expenditures and ensure that a PO and prior approval have been obtained before purchases are made. Travel vouchers will not be paid if the town has used another payment method to purchase gas. Documentation will be required for all travel purchases, whether made via credit card or travel voucher.

DFA Report Incorrect - Significant Deficiency
(2016-002)

CONDITION The DFA Report is not being prepared correctly. Examples are:

1. Transfers shown are transfers between bank accounts not between funds.
2. Adjustments shown are not supported or do not agree to the audit report.
3. Certain beginning cash balances could not be verified as correct.
4. The Ambulance and Cemetary Funds are included in the 500 Series but are reported as Special Revenue Funds in the audit report.
5. A transfer between the General and Seniors Funds of \$8,900 was not reported.

Management has made no progress in correcting/preparing the DFA quarterly reports.

CRITERIA The DFA report must agree to and be supported by the underlying books of record.

CAUSE Prior management was never trained on how this report should be prepared. Also, DFA analysts for the Town have not reviewed these reports adequately.

EFFECT The amounts reported on the DFA report are incorrect.

RECOMMENDATION Current management should obtain proper training and knowledge on how to prepare this report.

RESPONSE The Town will work closely with DFA to ensure that the reports are prepared correctly. The Town will develop internal policies and procedures to ensure that appropriate backup documentation files are kept. Personnel have attended DFA training to become familiarized with the new LGBMS reporting system and are receiving additional training from a financial consultant.

Purchase Orders Required - Other Matter
(2016-003)

CONDITION

Management of the Town prepared a purchase order after the item/service was purchased twelve out of twenty nine times for purchase orders reviewed for the General Fund.

Also, Purchase Order violations occurred in several areas. The are as follows:

1. The same employee that was preparing the purchase orders was approving the purchase orders.
2. The same employee preparing the purchase orders for payment also signed the checks.
3. Purchase orders were altered to agree to the amount on the invoice received.
4. Dates on the purchase orders were altered(changed).
5. The Purchase Orders were not issued or kept in sequence.
6. Several purchase orders could not be found even though were reported in the general ledger as issued.
7. The approval on the purchase order for payment was missing.
8. Payment was made from something other than an invoice (such as a quotation).
9. An invoice was not present.

Management has made no progress in ensuring purchase orders are prepared correctly.

CRITERIA

The New Mexico Procurement Code (13-1-28 to 13-1-199) NMSA 1978 require a purchase order to initiate a purchase and it should be approved by management prior to any purchases. This document is used to ensure the Town not only has budget or budget authority, but cash to purchase the item. This document is also used to provide guidance as to which fund and account can and will be used.

Also, Purchase order internal controls include:

1. One employee prepares the purchase order, another approves it after preparation. This is to ensure the correct fund and account are used for the purchase.
2. One employee prepares the purchase order, another employee pays for the service/product. This is to ensure proper segregation of duties.
- 3/4. Purchase orders are not to be altered. This is to ensure proper documentation exists.
5. Purchase orders are to be issued in sequence so as to control how many are issued that all can be accounted for and to ensure none can be used without proper approval (by Town Staff).
6. All purchase orders are to be kept and properly filed for review.
7. Approvals for all purchase orders should be apparent to ensure that the purchase was approved and by whom.
- 8/9. All payments must be made from an invoice.

CAUSE

Prior management did not appear to be aware of this requirement.

Also, prior management did not ensure these procedures were in place and followed.

EFFECT

NM Procurement Code is not being followed. Also, the lack of enforcing this requirement may result in non-authorized purchases and/or purchases that exceed available resources.

Also, goods and/or services could be paid for without actually receiving them.

RECOMMENDATION

Management should implement controls to ensure purchase orders are issued before an item/service is purchased.

Also, Management should implement procedures to ensure the conditions above are not continued.

RESPONSE

The Town will require that a purchase requisition be approved by the Chief Procurement Officer and a PO be created before any goods or services are obtained.

Financial Statements and Disclosures - Material Weakness
(2016-004)

CONDITION	The Town relies upon their independent auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The accounting staff lacks the knowledge to prepare such statements, as well as the ability to detect the accuracy and/or completeness of all required notes that explain financial activity contained in the financial statements. The Town requires the independent auditor to gather all necessary information to convert their cash basis accounting information into financial statements prepared in accordance with GAAP. Management has made no progress in this area.
CRITERIA	Auditing standards adopted in the United States of America in particular Statement on Auditing Standards (SAS) 115, paragraph 3 states the following: "Internal control is a process - effected by those charged with governance, management, and other personnel- designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include control relating to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting."
CAUSE	The Town's staff lacks the proper ability to prepare financial statements and associated disclosures. When audit services are sought, there is a requirement that the auditor will prepare the financial statements. In the past, this may have been sufficient; however, the accounting profession, by issuance of SAS 115, now requires recognition and reporting of significant deficiencies in internal control when there is an ineffective oversight of the financial reporting and internal control by those charged with governance.

EFFECT

Since the Town personnel lack the ability to prepare, and did not prepare, the financial statements, there is an increased risk that a misstatement of the Town's financial statements, that is more than inconsequential, will not be prevented or detected and corrected on a timely basis." SAS 115 paragraph 15 provides a list of indicators of a material weakness in internal control. One such example is "Ineffective oversight of the entity's financial reporting and internal control by those charged with governance."

RECOMMENDATION

Since the town has hired a new Town Clerk and a consultant to prepare, review and provide financial statements to the auditors and to the general public at hand it is recommended that the process continue and be reviewed by the Council periodically.

RESPONSE

Town personnel will obtain necessary training to prepare adequate financial statements. We will provide and review statements regularly.

Late Audit Report - Significant Deficiency
(2017-001)

CONDITION	The audit report was not submitted to the State Auditors Office by the required deadline of December 15, 2017.
CRITERIA	The State Audit Rule requires all Municipal audits to be submitted by the December 15 deadline.
CAUSE	There was a change in management which created a problem obtaining required documents to perform the 2017 fiscal year audit.
EFFECT	The SAO Rule has not been followed. Subsequently the Town has been included in "At Risk" lists created by the State Auditors Office.
RECOMMENDATION	The Town has a new Town Clerk and Consultant helping resolve issues and restore the books to the auditable state. This process should continue to ensure all future audits are submitted by the required deadline.
RESPONSE	The Town will develop internal policies and procedures that will ensure all necessary records are available and easily accessible for audit. This will reduce the amount of time needed to complete the audit, keeping the process timely.

Town Accounting Software not Adequate to Create Financial
Statements - Material Weakness
(2017-002)

CONDITION	Financial statements that are supported by the underlying documents, such as bank reconciliations could not be obtained for each fund. The Water, Sewer and Solid Waste Funds were not kept and maintained separately. Checks were issued and cleared the bank but not posted to the general ledger. The Water, Sewer and Solid Waste billings do not interface with the accounting software. It is a separate system. So it appears that the accounting software used by the Town is inadequate to properly prepare financial statements that can be useful for management, taxpayers, audit purposes and financial decision making purposes.
CRITERIA	The Town needs to be able to provide financial statements so sound financial decisions and reporting can be made.
CAUSE	Prior management was not trained properly on how to use the current accounting software. Also, the current accounting software is not a fund based system.
EFFECT	Proper financial statements could not be provided to ensure an audit could be completed without any issues.
RECOMMENDATION	Management should obtain a fund based accounting software that can also prepare and track all utility billings as soon as possible.
RESPONSE	The Town has been researching different fund-based accounting systems with the intent of purchasing a new system that will be adequate to the needs of the Town. The Town will continue to research the practicalities of obtaining new software that will aid employees in maintaining Town records appropriately, while meeting all recording and reporting needs of the entity.

Fund Classifications in Audit Report
Different from DFA Reports - Significant Deficiency
(2017-003)

CONDITION	The Ambulance Fund and the Cemetery Fund are being reported as Special Revenue Funds in the Town's annual audit report. As for the Department of Finance and Administration Quarterly Reports they are being reported as Enterprise Funds. These classifications do not agree.
CRITERIA	An enterprise fund is set up where the intent of the governing body is that the costs (expenses) of providing goods and/or services to the general public on a continuing basis be financed "primarily" by user charges, and can sustain itself in this manner.
CAUSE	Neither the Ambulance Fund or the Cemetery Fund can "sustain themselves" at this time without help from other funds or outside resources.
EFFECT	The audit report classification does not match the DFA quarterly report classification.
RECOMMENDATION	The Town should report these two funds as Special Revenue Funds on the DFA quarterly reports.
RESPONSE	The Town will work closely with DFA to ensure that the funds are classified correctly.

Transactions Made by Third Parties
Not Recorded on Books of Record - Other Matter
(2017-004)

CONDITION	Funds held at New Mexico Finance Authority were never recorded on the Town's books of record. These included cash balances, loan payments and interest earned.
CRITERIA	All transactions whether actually made by management or outside parties needs to be posted/recorded to the entity's books of record.
CAUSE	Prior management was not aware of this requirement.
EFFECT	Cash balances and interest income were understated on the Town's books of record. Adjustments had to be made to adjust certain trial balances so these amounts were included.
RECOMMENDATION	Management should ensure all amounts/ transactions are posted/recorded to the entity's books of record.
RESPONSE	The Town has worked with the relevant authorities to obtain statements and documentation regarding third-party transactions. The Town is now recording these transactions in the books of record and reconciling the accounts with statements.

State of New Mexico Environment Department Lawsuit -
Material Weakness
(2017-005)

CONDITION The New Mexico State Environment Department sued the Town of Vaughn. The following are the alleged violations.

1. Failure to submit a Permit Application or a Plan for Closure and Post-Closure.
2. Failure to Implement a Ground Water Monitoring Program with an Approved Ground Water Monitoring System Plan.
3. Failure to apply daily cover.
4. Failure to Prevent Unauthorized Access.
5. Failure to remove Recyclable Materials in a Timely Manner.
6. Failure to Implement a Routine Methane Monitoring Program.
7. Failure to Control Litter.

CRITERIA The alleged violations do not adhere to the following Statutes.

1. SWA, NMSA 1978, Sections 74-9-20(A) and 74-9-31(A)(3) and the SWR, 20.9.2.10.A(5) and 20.9.3.8.B NMAC.
2. SWR, 20.9.9.8.A(2) NMAC
3. SWR, 20.9.5.9.N NMAC
4. SWR, 20.9.5.9.D NMAC
5. SWR, 20.9.5.9.P(2) NMAC
6. SWR, 20.9.5.9.C NMAC
7. SWR, 20.9.5.9.L NMAC

CAUSE The cause is unknown.

EFFECT The assessed Settlement of the Compliance Order (upheld by the NM Court of Appeals) was \$214,100.

RECOMMENDATION Management of the Town needs to comply with the Compliance Order as soon as possible.

RESPONSE The Town will continue to work with the New Mexico Environment Department to ensure compliance with these requirements.

Transfers Between Bank Accounts and Funds to Cover Payroll -
Material Weakness
(2017-006)

CONDITION	Prior management transferred a total of \$70,775 from the Seniors, Ambulance and Joint Utility Funds to the General Fund to cover payroll expenses that were paid out of the General Fund (bank account).
CRITERIA	All transfers between funds and between bank accounts need to be properly supported by documentation that shows why, the amount and the date a transfer is made.
CAUSE	Prior management made these transfers without properly documenting them.
EFFECT	This amount (\$70,775) is significant and could not be verified.
RECOMMENDATION	All transfers must be properly supported with the proper documentation.
RESPONSE	The Town will develop procedures and obtain training to ensure that no transfers are made without adequate documentation in the future.

Revenue Resources for Post-Closure Costs of Landfill -
Significant Deficiency
(2017-007)

CONDITION	The Town is responsible for providing a financial mechanism to pay for all post-closure costs associated with the landfill. The Town has not obtained any resources to date to help with any post-closure costs.
CRITERIA	The Town is responsible for providing resources to pay for post-closure costs of the landfill. This is to ensure that if the town goes bankrupt that there is still a financial mechanism for the State to use to finish and maintain the post-closure procedures. This is established in SWR, 20.9.10.9.A, 20.9.10.9.B, 20.9.10.10.A and 20.9.10.10.B NMAC.
CAUSE	The Town was sued by the New Mexico Environment Department of which one of the items cited was "Failure to Establish Financial Assurance for the Costs of Closure and Post-Closure Care."
EFFECT	The Town has not followed New Mexico Environment Department Solid Waste Procedures for closure and post-closure requirements.
RECOMMENDATION	The Town should start investigating all resources from which revenues can be obtained to ensure all post-closure costs can be paid for, especially if the Village becomes bankrupt.
RESPONSE	The Town will investigate all revenue resources immediately to ensure all post-closure costs can be paid for.

Financial Cost Estimate for the Closure and Post-Closure of the
Landfill - Material Weakness
(2017-008)

CONDITION	Resolution #2017-1 states that "as required by 20.9.10.10 NMAC the Town is to develop and annually submit an updated written financial cost estimate that shall account for the total costs of conducting closure and post closure care of the Vaughn Landfill". This has not been done.
CRITERIA	All Resolutions of the Town must be completed and carried out as provided by said resolution.
CAUSE	Management has not made this requirement a priority.
EFFECT	The Town is not following its own Resolution. Also, there is no current liability reported on the financial statements in the Solid Waste Fund for the amount required. This figure could be significant, thus, the payables are understated in this fund.
RECOMMENDATION	Management should make this resolution a priority as soon as possible.
RESPONSE	Town Management will prioritize carrying out the terms of this resolution in the future.

Environmental Gross Receipts Tax not Posted to the Books of
Record - Significant Deficiency
(2017-009)

CONDITION	The Town receives Environmental Gross Receipts Taxes. These amounts are not being recorded on the books of record. Also, these taxes are pledged to the Estancia Valley Solid Waste Authority to pay a loan. The agreement is with the New Mexico Finance Authority (EVSWA) and several other entities. The Town has agreed to these monies being intercepted and provided to EVSWA on a monthly basis. These revenues, however, are property of the Town. None of these monthly intercepts are being recorded in the Town's books and records as revenues and expenditures (payments to EVSWA).
CRITERIA	All transactions whether actually made by management or outside parties needs to be posted/recorded to the Town's books of record.
CAUSE	The cause is unknown.
EFFECT	The revenues and expenditures of the Solid Waste Fund are understated.
RECOMMENDATION	The new management should delegate an employee to post these amounts as soon as the monthly Taxation and Revenue Reports are received.
RESPONSE	The Town has reached out to EVSWA to acquire statements relevant to these intercept payments. The Town will begin to post the amounts appropriately.

Deposits Posted/Deposited to the Wrong Fund -
Significant Deficiency
(2017-010)

CONDITION	Management of the Town deposited/posted \$14,455 of Municipal Road gross receipts taxes to the General Fund, not the Streets Fund.
CRITERIA	The Streets Fund was established by the State Statute 7-1-16.9 and 7-13-1 to 18 NMSA 1978 by which a special gasoline tax is used only in repairing and maintaining roads. Thus, these gross receipts taxes belong to the Streets Fund. Also, this instance does not follow NMAC 1978 Section 3-37-4.
CAUSE	The cause is unknown.
EFFECT	The General Fund now owes the Streets Fund \$14,455.
RECOMMENDATION	Management needs to transfer these monies as soon as possible so the Street Fund can use these resources.
RESPONSE	The Town has completed transfers to restore funds to the appropriate place. The Town is executing transfers immediately when they are necessary. The Town will work with the State of New Mexico to ensure that funds are ACH deposited into the appropriate bank accounts immediately.

Water/Solid Waste Ordinance - Material Weakness
(2017-011)

CONDITION	The Town does not have an Ordinance that reflects what amounts will be charged for water after the first 3,000 gallons is consumed. The Town does not have an Ordinance reflecting the amount charged for Commercial garbage either.
CRITERIA	An Ordinance must be passed by the Town Council to ensure the correct amount is charged for services provided and to ensure the charges can be enforced legally.
CAUSE	Management was unaware of this oversight.
EFFECT	These charges cannot be enforced legally.
RECOMMENDATION	The Town Council should amend the Water and Solid Waste Ordinances as soon as possible.
RESPONSE	The Town will adopt an appropriate billing ordinance as soon as possible.

Outstanding or Uncleared Items on Bank Reconciliations -
Material Weakness
(2017-012)

CONDITION	The General Fund bank reconciliation was recording \$53,186 in outstanding checks at June 30, 2017. These have since been removed, reissued or restored to cash.
CRITERIA	Bank reconciliations should have accurate and meaningful information.
CAUSE	The cause is unknown.
EFFECT	The General Fund bank reconciliation was not correct as of June 30, 2017.
RECOMMENDATION	Proper internal controls should be instituted to ensure bank reconciliations are prepared accurately and in a timely basis.
RESPONSE	The Town has begun to reconcile every account on a regular basis. Each transaction is reviewed individually and are not left outstanding.

Credit Card Charges-
Material Weakness
(2017-013)

CONDITION	A credit card used by management does not have adequate documentation supporting the charges. These charges are recorded in the General and Utilities Funds.
CRITERIA	All purchases, whether by purchase order or credit card, must be adequately supported by invoices, etc.
CAUSE	Prior management did not ensure these documents are received.
EFFECT	Purchases could be made that are not required, legal, used for Town purposes, etc.
RECOMMENDATION	All credit card purchases should be restricted and adequately supported.
RESPONSE	The Town will reevaluate credit card policies to ensure that adequate controls are maintained. Prior approval, Pos, documentation and invoices will be required for all purchases. Credit card statements will be reconciled with purchase documentation to ensure that all purchases are appropriate. Any credit card purchases will be carefully controlled in the future.

Ambulance Services - Significant Deficiency
(2017-014)

CONDITION	There are no procedures in place to ensure that all ambulance "runs" are accounted for, billed correctly and payments remitted to the Town. Also, there is no way of determining the accounts receivable for Ambulance Services.
CRITERIA	Proper procedures are needed to ensure all charges are billed, amounts received are supported and correctly accounted for and any outstanding amounts still owed are properly pursued and obtained.
CAUSE	Prior management did not ensure procedures were in place to accurately process Ambulance Services.
EFFECT	Management cannot enforce collections of overdue balances if their reporting/accounting for these balances is inadequate. Management cannot properly determine whether the "runs" were billed or billed correctly.
RECOMMENDATION	Management needs to properly institute policies and procedures to ensure all ambulance "runs" are accounted for billed and the resources received.
RESPONSE	The Town will work with the Ambulance Department and MPS to develop internal policies and procedures to ensure that all runs are appropriately accounted for and billed.

Agreement for Ambulance Service Billing and
Accounts Receivable Services - Significant Deficiency
(2017-015)

CONDITION	According to the Director of Medical Practice Solutions an agreement exists whereby MPS is to credential, bill and obtain accounts receivable for the Town of Vaughn. However, the Town does not have a current contract on hand.
CRITERIA	All agreements/contracts entered into by the Town of Vaughn should be updated periodically and a signed copy kept on hand.
CAUSE	Prior management did not ensure this contract was available.
EFFECT	The Town could be paying for services that were not agreed to.
RECOMMENDATION	A new signed contract should be obtained immediately.
RESPONSE	The Town will obtain a current contract as soon as possible.

Outstanding Utility Receivables - Significant Deficiency
(2017-016)

CONDITION	The aged account receivable report has \$12,744 in overdue balances being reported as over 90 days old for Town accounts. However, these amounts cannot be substantiated. Also, the aged accounts receivable cannot be separated as to what amounts belong to Water, Sewer or Solid Waste.
CRITERIA	Aged receivable reports should be updated and completed on a daily basis. These reports should also provide the detail as to which amounts belong to which utility.
CAUSE	The Town does not have a proper system to provide an aged receivable report for management to use and enforce outstanding balances due.
EFFECT	Management cannot enforce collections of overdue balances if their reporting/accounting for these balances is inadequate.
RECOMMENDATION	Town management needs to correctly report receivables for the utilities charged by the Town.
RESPONSE	The Town will develop internal policies and procedures to create an aged balance report. If the current billing software makes this impossible, we will investigate the possibility of using different software.

Allowance for Doubtful Accounts - Other Matter
(2017-017)

CONDITION	The current financial statements do not include any amounts determined to be an allowance for doubtful accounts as of June 30, 2017.
CRITERIA	Town management should review the aged accounts receivable periodically and determine if and at what amount an allowance should be determined.
CAUSE	Prior management could not determine this as the aged accounts receivable is unusable.
EFFECT	Management may be overstating their receivables.
RECOMMENDATION	Management should obtain an accurate aged receivable report and determine if an allowance is conceivable.
RESPONSE	The Town will work to obtain an accurate aged receivable report.

Water Meter Deposits - Material Weakness
(2017-018)

CONDITION	The Town is not reconciling their monthly water meter deposit each month. Currently, the Town has no list.
CRITERIA	The monthly meter deposit list should be reconciled each month. This complies with good accounting practices.
CAUSE	The cause is unknown.
EFFECT	Errors or omissions could occur since an accurate list is not being prepared monthly.
RECOMMENDATION	Management should designate an employee to perform this duty each month, identify differences and resolve those differences.
RESPONSE	The Town will work to ensure that an accurate list of Water Meter deposits is compiled and maintained so that we can reconcile it in the future.

Meter Deposit Bank Account - Material Weakness
(2017-019)

CONDITION	Deposits made to the meter deposit bank account could not be verified. It is unknown at this time if the bank account has enough monies to cover all meter deposits owed.
CRITERIA	All meter deposits are owed to the residents that paid that deposit. These amounts should be kept separate to ensure the funds are available to be paid and not budgeted for.
CAUSE	Management was not aware of this requirement.
EFFECT	DFA could possibly include this amount in the budget process incorrectly. Also, deposits could be posted/deposited to another fund incorrectly.
RECOMMENDATION	Management needs to create a meter deposit list as soon as possible. This total then needs to be reconciled to the bank account. If the bank account is short, then the Water Fund must cover the difference.
RESPONSE	The Town will work to develop an accurate list of Water Meter Deposits and reconcile it to the amount of the money in the Water Meter Trust account to ensure that there are adequate funds in the account.

Checks Written Out of Sequence or Manually Typed -
Other Matter
(2017-020)

CONDITION Checks for the Fire/Wildland fund were not written in sequence. Check #1249 was written in October then check #1035 was written in December.

 Also, Management manually typed two checks out of the General Fund.

CRITERIA Proper internal controls include processing documents in sequence to ensure none are missing or used fraudulently.

 Also, all checks for all funds are to be prepared and posted from the accounting software to ensure the expenditures are properly accounted for and posted to the books of record.

CAUSE Prior management did not prepare or follow proper internal controls.

 Also, the cause is unknown for the Manually typed checks.

EFFECT Management cannot ensure checks have been misused if not properly controlled.

 Also, expenditures could be made but not properly accounted for in the books of record.

RECOMMENDATION Management should institute proper internal controls to ensure checks are pre-numbered, they are issued in sequence and that all new checks ordered follow the last check used.

 Also, Management should implement controls to ensure no checks are manually written.

RESPONSE Checks were not stored in numerical order. That deficiency has been corrected, and employees will check periodically to make sure that checks are not written out of sequence.

Contracts/Service Agreements Unsigned or Approved by the Mayor -
Other Matter
(2017-021)

CONDITION	An accounting service agreement for 2016-2017 fiscal year and a consulting agreement for the 2017-2018 fiscal year have not been signed by the Mayor.
CRITERIA	Contracts and agreements are not legally binding until signed by both parties.
CAUSE	It is unknown why the Mayor will not sign these agreements.
EFFECT	The Town is paying for services that have not been properly approved.
RECOMMENDATION	The Town Clerk should sign these documents in the future.
RESPONSE	The Town Clerk will ensure that all agreements are signed.

IRS Form 1099 & 1096 Not Being Prepared and Submitted -
Significant Deficiency
(2017-022)

CONDITION	Management is not preparing 1099 forms and the corresponding 1096.
CRITERIA	<p>The IRS copy of the 1099 forms and the 1096 that accumulates all of the 1099 forms must be submitted to the IRS by January 31 of each year.</p> <p>According to Form 1096 instructions, any person or entity who files any 1099 form must file Form 1096 to transmit those forms to the IRS.</p>
CAUSE	The cause is unknown.
EFFECT	There may be penalties and interest assessed by the IRS.
RECOMMENDATION	Management should be trained on how to prepare and submit these forms by the deadline.
RESPONSE	Town personnel have obtained training on how to file these forms. The Town has obtained W9 forms for all its vendors so that these forms can be filed.

Payments Made to the IRS - Material Weakness
(2017-023)

CONDITION	Town management paid \$6,210 to the Internal Revenue Service for taxes due on form 945 for the calendar year 2010. This is incorrect as the Town would not need to file Form 945. Also, no one in Management investigated, questioned, reviewed or substantiate this request.
CRITERIA	Form 945 reports are for required backup withholding on 1099's. All payments should be investigated, questioned, reviewed and substantiated before payment is made.
CAUSE	The cause is unknown as to why Management paid this amount.
EFFECT	Town Management appears to have wasted \$6,210 of the Town resources because the Town would not be required to file a Form 945.
RECOMMENDATION	Management should investigate, question, review and substantiate all requested payments before they are made.
RESPONSE	The Town will research all bills and payments to ensure that they are warranted and owed before any payments is made.

Civil Penalties for Late Payment of Federal Payroll Taxes -
Material Weakness
(2017-024)

CONDITION	The Town was charged \$1,467 in civil penalties from tax year 2010 and \$2,188 in civil penalties for the 2011 tax year from the Internal Revenue Service. No one in management investigated, questioned, reviewed or substantiated this request.
CRITERIA	All payments should be investigated, questioned, reviewed and substantiated all penalty requests/charges.
CAUSE	The Cause is unknown
EFFECT	Town Management paid \$3,655 to the Internal Revenue Service without ensuring it was actually due.
RECOMMENDATION	All future requests/charges by the Internal Revenue Service should be investigated, questioned reviewed and substantiated before payment is made.
RESPONSE	The Town will research all bills before making payments to ensure that they are warranted and owed before any payment is made.

Salary Budgets - Significant Deficiency
(2017-025)

CONDITION	The salaries budgeted for each position could not be verified as to whether the employee in each position was paid within the approved budget.
CRITERIA	All positions are budgeted at the beginning of the fiscal year. All employees in those positions must be paid within those approved budgets.
CAUSE	This was due to an outside entity preparing payroll for the Town for the first six months of the fiscal year.
EFFECT	Employees may have been paid over the approved budget.
RECOMMENDATION	Management should ensure that all payroll records are available and reviewed periodically to ensure no positions are paid over the approved budgeted amount.
RESPONSE	The Town will review salaries on at least a quarterly basis and ensure that they are within budget.

Additional Compensation - Significant Deficiency
(2017-026)

CONDITION	The Town Clerk was being paid for additional services during the fiscal year. These payments were for the position of Dispatch Supervisor. The payments were made separately from the duties as Clerk. A separate employee file, paychecks and time cards were prepared. The additional compensation was approved in a previous year.
CRITERIA	When additional duties are required by the Clerk, the proper payment method is to provide a salary increase that is approved by the Mayor. This additional compensation is included in the regular salary.
CAUSE	The cause is unknown.
EFFECT	It appears that the Clerk is obtaining additional compensation in an erroneous manner.
RECOMMENDATION	The Town Clerk has one budgeted salary each year and should only be paid that amount.
RESPONSE	The Town will monitor payroll records to ensure that exempt employees will not receive additional pay beyond their approved salary.

Payments Made After Employee Retired - Significant Deficiency
(2017-027)

CONDITION	An employee retired as of June 16, 2017, however, received three additional paychecks after retiring.
CRITERIA	Once an employee retires all salary payments cease.
CAUSE	It is unclear why these payments were made after the employee retired.
EFFECT	The employee received \$398 after resigning.
RECOMMENDATION	Management should ensure all payments to retired employees cease after retiring.
RESPONSE	The Town will not pay retired employees a wage after their retirement date in the future.

Bank Reconciliations Not Reconciled to the General Ledger/
No Bank Reconciliations Prepared - Significant Deficiency
(2017-028)

CONDITION The Fire Fund Bank Reconciliation (for June 30, 2017) had a reconciled balance of \$1,448 lower than the General Ledger.

 Also, the Municipal Street and Meter Fund bank account did not have a bank reconciliation prepared and available for review for the whole fiscal year.

CRITERIA Proper internal controls ensure balances in the bank are reconciled and agree to amounts reported on an entity's books of record.

 Also, proper internal controls ensure balances in the bank are reconciled and agree to amounts reported on an entity's books of record.

CAUSE The cause is unknown.

EFFECT The General Ledger balance reports \$1,448 more than the bank actually had on that date.

 Also, as there were no outstanding checks or deposits in transit, leaving the balance in the bank the same as the general ledger, however, proper internal controls were not being followed.

RECOMMENDATION Internal controls need to be established to ensure all bank reconciliations are reconciled to the books of record (general ledger).

 Also, a bank reconciliation should be prepared for every bank account each month and it should be reconciled to the general ledger.

RESPONSE The Town will develop procedures and obtain training to ensure that no transfers are made without adequate documentation in the future.

Lodgers Tax Receipts - Significant Deficiency
(2017-029)

CONDITION	Management of the Town could not provide documentation for three Hotels/Motels for several months as to why there were no lodgers taxes received.
CRITERIA	All payments due for Lodgers Tax are to be received at the Town the month following after the tax was received by the Hotel/Motel. This is according to Ordinance #408 Section 7-D which states "Each vendor shall make a report and shall submit the proceeds to the Municipality".
CAUSE	The cause is unknown.
EFFECT	Resources due the Town are not being received in a timely basis.
RECOMMENDATION	Management of the Town should establish procedures for when Lodgers Taxes are not received timely.
RESPONSE	The Town will develop policies and procedures to monitor whether or not Lodger's Tax payments are being made in a timely manner and procedures to collect unpaid tax.

Lodgers Tax Expenditures - Significant Deficiency
(2017-030)

CONDITION	The Lodgers Tax Fund spent only 5% of the total proceeds on advertising.
CRITERIA	According to State Statute 3.20.030(C) "not less than one half of proceeds shall be used for advertising".
CAUSE	The cause is unknown.
EFFECT	Management is not following the requirements of the State Statute.
RECOMMENDATION	Management should review and evaluate all purchases from the Lodgers Tax Fund to ensure this requirement is complied with.
RESPONSE	The Town will research to ensure that all Lodger's Tax expenditures are appropriate, and to determine other sources of advertising to comply with the expenditure requirement.

Corrections Fees not Deposited/Recorded in the Corrections Fund -
Significant Deficiency
(2017-031)

CONDITION The Town police officer that was hired in January 2017 started issuing traffic citations in February of 2017. All of the traffic tickets for the next five months were deposited into the General Fund. None of the paid citations was deposited/posted to the Corrections Fund.

CRITERIA According to NMSA 35-14-11B(1), 35-14-11D and 35-14-11D(3) a municipal judge shall collect \$20 from each citation to be deposited in a special fund to be used for paying the cost of housing municipal prisoners.

CAUSE Management was not aware of this requirement.

EFFECT The Corrections Fund revenues were understated by at least \$2,620.

RECOMMENDATION Management needs to transfer \$2,620 to the Corrections Fund from the General Fund as soon as possible.

RESPONSE Internal reporting policies have been implemented to ensure that all Corrections Fund incomes are recorded accurately. The Mayor and Council has approved the creation of a Corrections Fund bank account so that funds can be deposited appropriately.

Amounts Collected on Behalf of the State -
Significant Deficiency
(2017-032)

CONDITION	The Town is including Court Automation Fees and Judicial Education Fees as revenues and expenditures in their General Fund. These are collections made on behalf of the State and should be kept separate in an Agency Fund in the books of record and the DFA report.
CRITERIA	All amounts collected on behalf of another entity should be collected, disbursed and reported in an Agency Fund.
CAUSE	Management was not aware of this requirement.
EFFECT	These amounts are incorrectly included as revenue and expenditures for budget purposes for the General Fund. Also, any cash left in the bank at June 30, could be mistakenly budgeted for in the General Fund.
RECOMMENDATION	Management should separate these receipts and disbursements in an Agency Fund as soon as possible, not only on the DFA report but on the books of record.
RESPONSE	Management will begin posting these transactions to the correct accounts immediately.

Court Fees Not Remitted to the State -
Significant Deficiency
(2017-033)

CONDITION	The Town Court is not remitting the \$6 Automation Fee or \$3 Education correctly at the end of each month.
CRITERIA	According to NMSA 35-14-11G and H: All automation and education fees should be remitted to the state at the end of each month.
CAUSE	Management is not ensuring this is done correctly and timely.
EFFECT	State Statute NMSA 35-14-11G is not being followed.
RECOMMENDATION	Management needs to add internal controls to ensure these reports are submitted accurately and timely.
RESPONSE	The new Municipal Court Clerk has learned how to produce the needed reports to submit these fees to the state, and the Town Clerk can file them in lieu of the Judge when he is unavailable. The Town has implemented procedures to ensure that the reports are made and funds remitted every month.

Outstanding(Unpaid) Citations - Significant Deficiency
(2017-034)

CONDITION	The Judges Department of the Town are not keeping a record of every traffic complaint, traffic citation or other form of traffic charges. This situation prevents a list of outstanding citations (amount) due. It also prevents the Judges department from notifying the Motor Vehicle Department of any outstanding citations "from which the decision of no appeal or review is successfully taken."
CRITERIA	According to NMSA 1978 Section 66-8-135A "Every trial court judge shall keep a record of every traffic complaint, uniform traffic citation and other form of traffic charge filed in the judge's court or its traffic violations bureau and every official action and disposition of the charge by that court."
CAUSE	The Judge's department was not aware of this requirement.
EFFECT	NMSA Section 66-8-135A is not being followed. Which Section 66-8-135G states "Willful failure or refusal of any judicial officer to comply with this section is misconduct in office and grounds for removal."
RECOMMENDATION	The Judges department should implement procedures to comply with Section 66-8-135 immediately.
RESPONSE	The Town has reassigned a staff member to serve as Court Clerk. We will ensure that she receives the necessary training to ensure compliance and will develop policies and procedures to ensure that the department complies.

Citations Reported on Required AOC and JEC Reports -
Significant Deficiency
(2017-035)

CONDITION	The month of June, 2017 had thirty citations that were "supposedly paid" on the report of the Automated Office of the Court and Judicial Education Fee report submitted monthly, however, there were nine traffic citations that could not be verified as paid or traced to an actual deposit made for each of the nine citations.
CRITERIA	According to NMSA 1978 Section 35-14-11(2) and (3) fees are to be collected and remitted to the State Treasurer monthly. These reports need to be supported by actual documents that can confirm that these citations have been paid and that the monies have been deposited in the correct bank account and posted to the correct fund.
CAUSE	Neither Management nor the Judges department are ensuring that these procedures are being completed.
EFFECT	Monies may not be collected or monies may not be deposited correctly.
RECOMMENDATION	Management and the Judges department need to work together to establish procedures to ensure all documentation is available and attached to the correct traffic citation, deposit slip or reports submitted to ensure all monies owed to the Town have been collected and deposited.
RESPONSE	The Town is working with the Court Clerk to ensure documentation is available and appropriate files are kept.

Citations Received but not Reported on AOC or JEC Reports -
Significant Deficiency
(2017-036)

CONDITION	The Town received payment for four traffic citations in February of 2017. None of these citations were reported on the AOC/JEC report submitted.
CRITERIA	According to NMSA 1978 Section 35-14-11(2) and (3) fees are to be collected and remitted to the State Treasurer monthly. These reports need to be supported by actual documents that can confirm that these citations have been paid and that the monies have been deposited.
CAUSE	Neither Management nor the Judges department have implemented procedures to ensure all information is obtained and accurately included so the JEC/AOC reports can be submitted correctly and timely.
EFFECT	The Town still owes the State Treasurer \$24 for Court Automation Fees and \$12 for Judicial Education Fees. Also, internal controls have not been implemented to ensure these reports are submitted accurately and timely.
RECOMMENDATION	Management and the Judges department need to work together to establish procedures to ensure all documentation is available and attached to the AOC/JEC reports.
RESPONSE	Policies and procedures will be implemented to ensure that documentation is available, and all reports are made. The Town will ensure that the Court Clerk and Town personnel receive necessary training to accurately document and report citations and income.

Incorrect Charging of Gross Receipts Taxes on Water/Sewer/Solid
Waste Services - Other Matter
(2017-037)

CONDITION Upon testing of the billing of the Water, Sewer and Solid Waste Services, it was found that a 6% rate was being charged on water and no gross receipts tax was being charged on Sewer and Solid Waste.

 Also, the Water Conservation Fee is not being prepared and submitted. It is a charge of .03% of all water produced.

CRITERIA New Mexico Taxation and Revenue imposes a governmental gross receipts tax rate of 5% on utilities operated by municipalities.

CAUSE Management was not aware of these tax rate requirements.

EFFECT The Town is charging its clients 1% more than required.

 Also, no Water Conservation Fee is being paid to NM Taxation and Revenue.

RECOMMENDATION The Town should change its billing rate for gross receipts taxes immediately. The Town should also pay the Water Conservation Fee immediately.

RESPONSE The Town has already changed it's tax rate for utility billing. Management will ensure that the Water Conservation Fee is calculated and payment is remitted on a monthly basis.

Budget Overruns - Other Matter
(2017-038)

CONDITION	The Town overspent the final approved budgets of several funds. The LEPP Fund by \$7 and the EMS Fund by \$237. The Seniors Fund had a transfer of \$8,900 from the General Fund that was never approved or budgeted for.
CRITERIA	NMSA 1978 Section 22-8-11 B requires all funds to be spent within the established guidelines set for budgets.
CAUSE	Management did not ensure budget adjustment requests were obtained from DFA by the required deadline.
EFFECT	The Town had the adequate cash to pay the overruns but not the required budget authority from DFA.
RECOMMENDATION	Management should review its budget quarterly (at a minimum) and request all budget adjustments at that time to ensure budget overruns do not occur.
RESPONSE	The Town will review the budget regularly to ensure that budget authority is available for all purchases. The Town will submit budget adjustment requests to DFA in a timely manner.

Fire Fund Expenditures - Other Matter
(2017-039)

CONDITION	Management purchased \$249 worth of food for a Halloween dance out of a restricted Fund (Fire/Wildland).
CRITERIA	These expenditures are not allowed in this fund. The Fire/Wildland Fund is a Special Revenue Fund set up to provide services to fight wild land fires.
CAUSE	The cause is unknown.
EFFECT	Prior management spent monies for an event out of the wrong fund.
RECOMMENDATION	Management should be trained on what types of expenditures can be paid out of each of the Towns Funds. Also, implement procedures to ensure these types of expenditures are not paid for from the wrong fund.
RESPONSE	The Town has done significant research to determine what expenditures are allowable from each fund. Whenever an unknown expenditure arises, the Clerk will research until the correct information is required.

Expenditures not Reported - Other Matter
(2017-040)

CONDITION	The Town has an agreement with Medical Practice Solutions to bill and collect ambulance billings (runs). The minimum monthly fee is \$150. This amount is taken from the total revenues for the month and only the "net" amount is given to the Town. Management, however, is not booking/posting the \$150 as revenues and as the fee charged (expense) in the books of record.
CRITERIA	All transactions whether actually made by management or outside parties needs to be posted/recorded to the Town's books of record.
CAUSE	The cause is unknown.
EFFECT	The Towns Ambulance Fund was understated by \$2,859 before the audit.
RECOMMENDATION	Management should ensure all transactions are posted to the books of record.
RESPONSE	The Town will work with MPS to ensure that complete statements are obtained and all income/expenditures are recorded in the books of record.

Penalties and Interest Charges - Other Matter
(2017-041)

CONDITION	The Town is being charged \$82 in penalties and interest for late filing of the first two quarters (2017) Department of Labor Reports. Also, the Town was charged \$340 in penalties and interest for late filing of CRS-1 reports.
CRITERIA	All Department of Labor Reports are due by the end of the first month after the quarter. All CRS-1 reports are due by the 25 th of the following month.
CAUSE	The cause is unknown.
EFFECT	The Town paid \$82 and \$340 in penalties and interest that were not budgeted for and would not be required if the reports were submitted timely.
RECOMMENDATION	All future Department of Labor Reports and CRS-1 Reports should be filed timely to avoid all penalties and interest charges.
RESPONSE	The Town will submit reports in a timely manner to avoid penalty and interest charges.

Chief Procurement Officer - Other Non-Compliance
(2017-042)

CONDITION	From July to November, 2016, the Town did not have a Chief Procurement Officer.
CRITERIA	According to NM State Statute 13-1-95.2 only certified chief procurement officers may approve procurement pursuant to the Procurement Code.
CAUSE	Management did not ensure that someone attended the certification program before July 1, 2016 and become certified.
EFFECT	Management did not comply with NM State Statute 13-1-95.2.
RECOMMENDATION	Management should ensure that someone continues as the Chief Procurement Officer.
RESPONSE	The new Clerk has obtained a CPO certification as soon as the certification course was available. The certification will be kept current.

Employee Files Not Complete - Other Matter
(2017-043)

CONDITION	All nine employee files did not have wage rate approval documentation included. Also, a form I-9 was either missing or incomplete for all nine employee files.
CRITERIA	Employee files need to have complete wage rate documentation verifying wage increases during the year. Also, form I-9's are required by the Department of Homeland Security.
CAUSE	Management is not ensuring these documents are being obtained and included in the employee files.
EFFECT	Good internal controls are not being followed.
RECOMMENDATION	Management needs to ensure these forms are completed and included in each employee's file.
RESPONSE	The Town will ensure that all employees have a completed I9 form in their file.

New Hire Reporting - Other Matter
(2017-044)

CONDITION The Town did not properly report newly hired or rehired employees to a State directory within 20 days of their hire date.

CRITERIA New Mexico law (50.13-1 to 50-13-4 NMSA) and the Personal Responsibility and Work Opportunity Act (PRWORA) of 1996, 42. U.S.C 653A, requires all employers to report newly hired employees to a State directory within 20 days of their hire.

CAUSE The cause is unknown.

EFFECT The Town did not comply with New Mexico State Statute 50.13-1 or the PRWORA of 1996.

RECOMMENDATION The Town is now complying with this law, however, management should have a system in place to ensure all future reports are submitted on time.

RESPONSE The Town has developed a "new hire checklist" to ensure that all duties associated with hiring an employee, including new hire reporting to the state, will be completed in a timely manner, with documentation in the employee's file.

Receipt Books - Other Matter
(2017-045)

CONDITION	1. Town staff are not voiding receipts not used (or skipped). 2. Also, Town staff are not completing the information on the receipt, such as which fund or account code the receipt should be posted to. 3. An amount received in August, 2016 for \$4,082 was incorrectly deposited into the wrong fund.
CRITERIA	1. Proper internal controls are used to void all receipts not used and all copies are together for review. 2. Proper internal controls include documentation on the receipts so that all resources are posted to the correct fund and account code. 3. Receipts should be issued for all resources received to ensure that all resources are posted to the correct fund and account code. These are all done to comply with NMSA 1978 Section 3-37-4.
CAUSE	The cause is unknown.
EFFECT	1. Blank receipts could be used erroneously or fraudulently. 2. Funds such as the \$4,082 are being reported in the wrong fund.
RECOMMENDATION	1. All receipts not used (or skipped) should be voided. 2/3. All receipts should have the proper information included to ensure resources are posted to the correct fund and accounts.
RESPONSE	The Town will develop internal policies and procedures to void unused or skipped receipts. The Town will review receipts to ensure that all of the information is completed, and funds are posted correctly.

Lodgers Tax Audit - Other Non-Compliance
(2017-046)

CONDITION	Town management did not perform a random audit of hotels/motels during the 2016-2017 fiscal year.
CRITERIA	According to Ordinance #408, Section 13A and B "the governing body shall conduct random audits to verify full payment of occupancy tax receipts." "The Governing body shall determine each year the number of hotels/motels within the municipality to audit."
CAUSE	It is unknown why the governing body did not ensure this Ordinance was followed.
EFFECT	The Town is not complying with its own Ordinance.
RECOMMENDATION	The governing body needs to comply with this Ordinance as soon as possible.
RESPONSE	The Town will conduct a random Lodgers Tax audit as soon as possible.

FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2017 were prepared by Rice & Associates, CPA, based on managements chart of accounts and trial balances including any adjusting, correcting or closing entries approved by management. These services are allowable under SAS 115.

EXIT CONFERENCE

An exit conference was held at the Town on November 20, 2018, to discuss the current audit report. In attendance were Mr. Roman Garcia, Mayor, Mr. Rudy Martinez, Mayor Pro-Tem, Ms. Shaline Lopez, Clerk/Treasurer, Mr. Jack Props, Councilor and Ms. Pamela A. Rice, CPA, Contract Auditor.