

State of New Mexico

TOWN OF VAUGHN

FOR YEAR ENDED JUNE 30, 2018

ANNUAL FINANCIAL REPORT

RICE & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

STATE OF NEW MEXICO

TOWN OF VAUGHN

AUDIT REPORT

For The Year Ended June 30, 2018

(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, 2018

TOWN BOARD OF TRUSTEES

<u>Name</u>	<u>Title</u>
Mr. Roman Garcia	Mayor
Mr. Billy Lucero	Trustee
Mr. Antonio Castillo	Trustee
Mr. Rudy Martinez	Trustee
Mr. Jack Props	Trustee

Village Administration

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

AUDITING
BOOKKEEPING
(505) 292-8275

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11805 Menaul NE
Albuquerque, NM 87112

TAX PLANNING
TAX PREPARATION
FAX (505) 294-8904

INDEPENDENT AUDITOR'S REPORT

Mr. Brian Colon
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, Streets, Lodgers Tax and Ambulance Funds of the Town of Vaughn, as of and for the year ended June 30, 2018, 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, 2018 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 beginning balances were also unauditable as the prior years opinion was a disclaimer.

The General Fund financial statements 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, 2018, 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 30, 2017 expressed a Disclaimer Opinion on those statements. As discussed in Note 16, the Town of Vaughn has restated its 2018 financial statements during the current year for certain prior period adjustments. As part of our audit of the June 30, 2018 financial statements, we also audited the adjustments described in Note 16 that were applied to restate the June 30, 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020 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
January 30, 2020

FINANCIAL STATEMENTS

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Net Position
June 30, 2018

Statement 1
Page 1 of 2

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 822,748	\$ 204,623	\$ 1,027,371
Accounts receivable (net of uncollectible accounts)	109,735	37,340	147,075
Due from other funds	4,082	-	4,082
Total current assets	936,565	241,963	1,178,528
Non-current assets			
Restricted assets (cash)	37,668	33,803	71,471
Customer Meter Deposits	-	20,140	20,140
Total non-current assets	37,668	53,943	91,611
Land	171,465	135,582	307,047
Land improvements	5,420,163	29,022	5,449,185
Buildings and improvements	2,348,193	34,159	2,382,352
Vehicles	264,099	23,403	287,502
Heavy equipment	1,322,093	710,153	2,032,246
Equipment	255,385	216,964	472,349
Plant/Infrastructure	959,770	6,345,817	7,305,587
Total capital assets	10,741,168	7,495,100	18,236,268
Less accumulated depreciation	(5,335,248)	(4,677,461)	(10,012,709)
Total capital assets (net of accumulated depreciation)	5,405,920	2,817,639	8,223,559
Deferred outflows of resources related to pension	67,326	-	67,326
Total assets	\$ 6,447,479	\$ 3,113,545	\$ 9,561,024

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Statement of Net Position
June 30, 2018

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	-	9,000	9,000
Current portion of loan payable	-	485	485
Customer meter deposits payable from restricted assets	-	20,140	20,140
Due to other funds	936	4,082	5,018
Total current liabilities	936	251,277	252,213
Non-Current Liabilities			
Compensated absences payable	6,292	2,882	9,174
Bonds payable	-	420,000	420,000
Loan payable	231,739	11,753	243,492
Net pension liability	234,968	-	234,968
Landfill closure	-	64,650	64,650
Total non-current liabilities	472,999	499,285	972,284
Total liabilities	473,935	750,562	1,224,497
Deferred Inflows			
Deferred inflows of resources related to pension	19,562	-	19,562
Total deferred inflows	19,562	-	19,562
Net Position			
Net investment in capital assets	5,174,181	2,388,639	7,562,820
Restricted for:			
State mandated cash balance	37,417	-	37,417
Special revenue fund	774,582	-	774,582
Capital outlay	250	-	250
Debt service	1	27,775	27,776
Landfill	-	(70,860)	(70,860)
Unrestricted	(32,449)	17,429	(15,020)
Total net position	5,953,982	2,362,983	8,316,965
Total liabilities and net position	\$ 6,447,479	\$ 3,113,545	\$ 9,561,024

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, 2018

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	\$ 548,225	\$ 11,024	\$ 148,532	\$ 11,208	\$ (377,461)	\$ -	\$ (377,461)
Highways and streets	-	-	-	-	-	-	-
Public safety	175,180	56,833	187,048	17,344	86,045	-	86,045
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	59,194	3,121	68,537	-	12,464	-	12,464
Depreciation - unallocated	439,537	-	-	-	(439,537)	-	(439,537)
Interest	-	-	-	-	-	-	-
Total governmental activities	<u>1,222,136</u>	<u>70,978</u>	<u>404,117</u>	<u>28,552</u>	<u>(718,489)</u>	<u>-</u>	<u>(718,489)</u>
Business-type activities:							
Joint utilities	544,259	288,095	2,990	-	-	(253,174)	(253,174)
Landfill closure	<u>69,838</u>	<u>-</u>	<u>-</u>	<u>69,838</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>614,097</u>	<u>288,095</u>	<u>2,990</u>	<u>69,838</u>	<u>-</u>	<u>(253,174)</u>	<u>(253,174)</u>
Total all activities	<u>\$ 1,836,233</u>	<u>\$ 359,073</u>	<u>\$ 407,107</u>	<u>\$ 98,390</u>	<u>(718,489)</u>	<u>(253,174)</u>	<u>(971,663)</u>
General Revenues:							
Property taxes					64,577	-	64,577
Lodgers tax					58,351	-	58,351
Gross receipts taxes					253,763	-	253,763
MVD Fees					1,793	-	1,793
Gasoline taxes					52,185	-	52,185
State aid not restricted to special purpose							
General					90,000	-	90,000
Investment earnings					949	21	970
Transfers					-	-	-
Total general revenues					<u>521,618</u>	<u>21</u>	<u>521,639</u>
Change in net position					<u>(196,871)</u>	<u>(253,153)</u>	<u>(450,024)</u>
Net position - beginning of year					6,150,853	2,628,374	8,779,227
Restatement					-	(12,238)	(12,238)
Net position - beginning of year - restated					<u>6,150,853</u>	<u>2,616,136</u>	<u>8,766,989</u>
Net position - ending					<u>\$ 5,953,982</u>	<u>\$ 2,362,983</u>	<u>\$ 8,316,965</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, 2018

Statement 3

	General	Fire Protection Fund	Streets Fund	Lodgers Tax Fund	Ambulance Fund Fund	Other Governmental Fund	Total Governmental Funds
ASSETS							
Cash on deposit	\$ 159,802	\$ 72,787	\$ 294,594	\$ 186,043	\$ 93,135	\$ 54,055	\$ 860,416
Accounts receivable	34,442	-	4,628	5,097	21,399	44,169	109,735
Due from other funds	49,476	19,669	14,455	-	4,082	8,520	96,202
Total assets	<u>\$ 243,720</u>	<u>\$ 92,456</u>	<u>\$ 313,677</u>	<u>\$ 191,140</u>	<u>\$ 118,616</u>	<u>\$ 106,744</u>	<u>\$ 1,066,353</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	43,580	-	-	-	-	49,476	93,056
Total liabilities	<u>43,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,476</u>	<u>93,056</u>
FUND BALANCE							
Restricted for:							
Fire protection	-	92,205	-	-	-	11,201	103,406
Highways and streets	-	-	313,677	-	-	-	313,677
Corrections	-	-	-	-	-	12,968	12,968
Recreation services	-	-	-	191,140	-	28,796	219,936
Public safety	-	-	-	-	118,616	5,979	124,595
Reserves	37,417	-	-	-	-	-	37,417
Capital outlay	-	250	-	-	-	-	250
Debt service	-	1	-	-	-	-	1
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	162,723	-	-	-	-	(1,676)	161,047
Total fund balance	<u>200,140</u>	<u>92,456</u>	<u>313,677</u>	<u>191,140</u>	<u>118,616</u>	<u>57,268</u>	<u>973,297</u>
Total liabilities and fund balance	<u>\$ 243,720</u>	<u>\$ 92,456</u>	<u>\$ 313,677</u>	<u>\$ 191,140</u>	<u>\$ 118,616</u>	<u>\$ 106,744</u>	<u>\$ 1,066,353</u>

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, 2018

Statement 4

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

Total fund balances - governmental funds		\$ 973,297
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	10,741,168	
Accumulated depreciation	<u>(5,335,248)</u>	
		5,405,920
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:		
Loans payable	(231,739)	
Compensated absences	<u>(6,292)</u>	
		(238,031)
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		(234,968)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and therefore, are not reported in the funds		
		<u>47,764</u>
Net position of governmental activities		<u><u>\$ 5,953,982</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, 2018

Statement 5

	General	Fire Protection Fund	Streets Fund	Lodgers Tax Fund	Ambulance Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 64,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,577
Lodgers tax	-	-	-	58,351	-	-	58,351
Franchise taxes	-	-	-	-	-	-	-
Gas tax	-	-	52,185	-	-	-	52,185
MVD	1,793	-	-	-	-	-	1,793
Charges for services	9,764	-	-	-	23,601	3,756	37,121
Fines and forfeitures	27,332	-	-	-	-	5,900	33,232
Licenses and permits	625	-	-	-	55,867	-	56,492
Local sources	148,532	-	-	-	21,319	-	169,851
State sources	107,344	84,262	-	-	-	89,630	281,236
Federal sources	-	-	-	-	-	15,715	15,715
State shared taxes	253,763	-	-	-	-	-	253,763
Earnings from investments	-	949	-	-	-	-	949
Total revenues	613,730	85,211	52,185	58,351	100,787	115,001	1,025,265
EXPENDITURES							
Current:							
General government	481,722	-	14,402	-	-	13,164	509,288
Highways and streets	-	-	-	-	-	-	-
Public safety	60,316	82,996	-	-	17,248	14,620	175,180
Culture and recreation	-	-	-	26,651	-	32,543	59,194
Capital outlay	180,316	349,355	-	20,634	-	41,901	592,206
NMFA principal	-	-	-	-	-	-	-
NMFA interest	-	-	-	-	-	-	-
Total expenditures	722,354	432,351	14,402	47,285	17,248	102,228	1,335,868
Excess (deficiency) of revenue over expenditures	(108,624)	(347,140)	37,783	11,066	83,539	12,773	(310,603)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Loan proceeds	-	231,739	-	-	-	-	231,739
Total other financing sources	-	231,739	-	-	-	-	231,739
Net change in fund balances	(108,624)	(115,401)	37,783	11,066	83,539	12,773	(78,864)
Fund balance beginning of year	308,764	207,857	275,894	180,074	35,077	44,495	1,052,161
Fund balance end of year	\$ 200,140	\$ 92,456	\$ 313,677	\$ 191,140	\$ 118,616	\$ 57,268	\$ 973,297

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

STATE OF NEW MEXICO
TOWN OF VAUGHN

Statement 6

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, 2018

Net change in fund balances - total governmental funds \$ (78,864)

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
capital outlays exceeds depreciation expense in the period.

Capital outlays	575,406
Depreciation expense	<u>(439,537)</u>

Excess of capital outlay over depreciation expense 135,869

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	13,016
Pension expense	(34,186)

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	(231,739)
Repayment of long-term debt	<u>-</u>

(231,739)

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>(967)</u>
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Change in net position of governmental activities **\$ (196,871)**

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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 52,000	\$ 57,000	\$ 64,577	\$ 7,577
Franchise taxes	-	-	-	-
Gas taxes	-	-	-	-
MVD	1,700	2,300	1,793	(507)
Charges for services	2,500	10,000	9,764	(236)
Fines and forfeitures	10,000	30,000	27,332	(2,668)
Licenses and permits	700	700	625	(75)
Local sources	2,000	13,824	148,532	134,708
State sources	90,000	186,779	107,344	(79,435)
Federal sources	-	-	-	-
State shared taxes	198,000	406,500	253,763	(152,737)
Earnings from investments	-	-	-	-
Total revenues	<u>\$ 356,900</u>	<u>\$ 707,103</u>	<u>\$ 613,730</u>	<u>\$ (93,373)</u>
EXPENDITURES				
General government	\$ 412,000	\$ 458,436	\$ 662,038	\$ (203,602)
Public safety	27,000	52,000	60,316	(8,316)
Highways & Streets	-	-	-	-
Culture and recreation	10,000	25,000	-	25,000
Total expenditures	<u>\$ 449,000</u>	<u>\$ 535,436</u>	<u>\$ 722,354</u>	<u>\$ (186,918)</u>
BUDGETED CASH BALANCE	<u>\$ 92,100</u>	<u>\$ -</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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
State sources	\$ 58,467	\$ 58,467	\$ 64,593	\$ 6,126
Earnings from investments	<u>87</u>	<u>87</u>	<u>949</u>	<u>862</u>
Total revenues	<u>\$ 58,554</u>	<u>\$ 58,554</u>	<u>\$ 65,542</u>	<u>\$ 6,988</u>
EXPENDITURES				
Public safety	\$ -	\$ -	\$ 432,351	\$ (432,351)
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,351</u>	<u>\$ (432,351)</u>
OTHER FINANCING SOURCES				
Loan proceeds	\$ -	\$ -	\$ 231,739	\$ 231,739
Total other financing sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,739</u>	<u>\$ 231,739</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, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Gas taxes	\$ 33,879	\$ 33,879	\$ 51,911	\$ 18,032
Total revenues	<u>\$ 33,879</u>	<u>\$ 33,879</u>	<u>\$ 51,911</u>	<u>\$ 18,032</u>
EXPENDITURES				
Highways and streets	\$ 65,879	\$ 65,879	\$ 14,402	\$ 51,477
Total expenditures	<u>\$ 65,879</u>	<u>\$ 65,879</u>	<u>\$ 14,402</u>	<u>\$ 51,477</u>
BUDGETED CASH BALANCE	<u>\$ 32,000</u>	<u>\$ 32,000</u>		

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

STATE OF NEW MEXICO
TOWN OF VAUGHN
Special Revenue - Lodgers Tax Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Lodgers tax	\$ 63,772	\$ 63,772	\$ 58,040	\$ (5,732)
Total revenues	<u>\$ 63,772</u>	<u>\$ 63,772</u>	<u>\$ 58,040</u>	<u>\$ (5,732)</u>
EXPENDITURES				
Culture and recreation	\$ 63,772	\$ 63,772	\$ 47,286	\$ 16,486
Total expenditures	<u>\$ 63,772</u>	<u>\$ 63,772</u>	<u>\$ 47,286</u>	<u>\$ 16,486</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 - Ambulance Fund
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services	\$ 41,200	\$ 41,200	\$ 17,565	\$ (23,635)
Local sources	48,000	48,000	55,867	7,867
State sources	-	-	3,803	3,803
Earnings from investments	<u>9</u>	<u>9</u>	<u>-</u>	<u>(9)</u>
Total revenues	<u>\$ 89,209</u>	<u>\$ 89,209</u>	<u>\$ 77,235</u>	<u>\$ (11,974)</u>
EXPENDITURES				
Public safety	<u>\$ 86,730</u>	<u>\$ 86,730</u>	<u>\$ 11,518</u>	<u>\$ 75,212</u>
Total expenditures	<u>\$ 86,730</u>	<u>\$ 86,730</u>	<u>\$ 11,518</u>	<u>\$ 75,212</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
Proprietary Funds
Statement of Net Position
June 30, 2018

Statement 12

	Joint Utilities Fund	Landfill Closure Fund	Total
ASSETS			
Current Assets			
Cash on deposit	\$ 204,623	\$ -	\$ 204,623
Accounts receivable (net)	<u>37,340</u>	<u>-</u>	<u>37,340</u>
Total Current Assets	<u>241,963</u>	<u>-</u>	<u>241,963</u>
Non-Current Assets			
Restricted Assets (Cash)	27,775	6,028	33,803
Customer meter deposits	<u>20,140</u>	<u>-</u>	<u>20,140</u>
Total Non-Current Assets	<u>47,915</u>	<u>6,028</u>	<u>53,943</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	6,345,817	-	6,345,817
Accumulated depreciation	<u>(4,677,461)</u>	<u>-</u>	<u>(4,677,461)</u>
Total Capital Assets	<u>2,817,639</u>	<u>-</u>	<u>2,817,639</u>
Total Assets	<u>\$ 3,107,517</u>	<u>\$ 6,028</u>	<u>\$ 3,113,545</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 217,570	\$ -	\$ 217,570
Accrued interest	-	-	-
Current portion of loan payable	-	485	485
Current portion bonds payable	9,000	-	9,000
Customer meter deposits/utility aid payable from Restricted Assets	20,140	-	20,140
Due to other funds	<u>4,082</u>	<u>-</u>	<u>4,082</u>
Total Current Liabilities	<u>250,792</u>	<u>485</u>	<u>251,277</u>
Long-Term Liabilities			
Compensated absences payable	2,882	-	2,882
Loan payable	-	11,753	11,753
Bonds payable	420,000	-	420,000
Landfill closure	<u>-</u>	<u>64,650</u>	<u>64,650</u>
Total Long-Term Liabilities	<u>422,882</u>	<u>76,403</u>	<u>499,285</u>
Total Liabilities	<u>673,674</u>	<u>76,888</u>	<u>750,562</u>
NET POSITION			
Net investment in capital assets	2,388,639	-	2,388,639
Restricted for repair and replacement	-	-	-
Restricted for landfill closures	-	(70,860)	(70,860)
Restricted for debt service	27,775	-	27,775
Unrestricted	<u>17,429</u>	<u>-</u>	<u>17,429</u>
Total Net Position	<u>2,433,843</u>	<u>(70,860)</u>	<u>2,362,983</u>
Total Liabilities and Net Position	<u>\$ 3,107,517</u>	<u>\$ 6,028</u>	<u>\$ 3,113,545</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, 2018

Statement 13

	Joint Utilities Fund	Landfill Closure Fund	Total
OPERATING REVENUES			
Sales and services	\$ 288,095	\$ -	\$ 288,095
Local source	-	-	-
State sources	-	69,838	69,838
State shared taxes	-	-	-
	<u>288,095</u>	<u>69,838</u>	<u>357,933</u>
OPERATING EXPENSES			
Maintenance and operations	234,959	-	234,959
Other operating expenses	-	69,838	69,838
Depreciation	289,635	-	289,635
	<u>524,594</u>	<u>69,838</u>	<u>594,432</u>
Operating income (loss)	<u>(236,499)</u>	<u>-</u>	<u>(236,499)</u>
NON-OPERATING REVENUE (EXPENSE)			
Investment income	-	21	21
Investment expense	(19,665)	-	(19,665)
Transfers in	-	-	-
Transfers out	-	-	-
State grant	2,990	-	2,990
Loan proceeds	-	-	-
	<u>(16,675)</u>	<u>21</u>	<u>(16,654)</u>
Change in Net Position	<u>(253,174)</u>	<u>21</u>	<u>(253,153)</u>
Total net position, beginning of year	2,622,367	6,007	2,628,374
Restatement	64,650	(76,888)	(12,238)
Net position, beginning of year - restated	<u>2,687,017</u>	<u>(70,881)</u>	<u>2,616,136</u>
Total net position, end of year	<u>\$ 2,433,843</u>	<u>\$ (70,860)</u>	<u>\$ 2,362,983</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, 2018

Statement 14

	Joint Utilities Fund	Landfill Closure Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 288,095	\$ -	\$ 288,095
Cash received from other sources	-	69,838	69,838
Cash payments to employees and to suppliers for goods and services	(232,860)	(69,838)	(302,698)
Net cash provided by operating activities	55,235	-	55,235
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Loan proceeds	-	-	-
Principal paid	(8,000)	-	(8,000)
Interest paid	(19,665)	-	(19,665)
Acquisition of capital assets	(16,237)	-	(16,237)
Net cash provided (used) by capital and related financing activities	(43,902)	-	(43,902)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash received from state grants	2,990	-	2,990
Cash received from federal grants	-	-	-
Operating transfers from other funds	-	-	-
Operating transfers to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	2,990	-	2,990
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	-	21	21
Net cash provided by investing activities	-	21	21
Net increase (decrease) in cash	14,323	21	14,344
Cash, beginning of year	238,215	6,007	244,222
Cash, end of year	\$ 252,538	\$ 6,028	\$ 258,566
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (236,499)	\$ -	\$ (236,499)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	289,635	-	289,635
Changes in assets and liabilities:			
(Increase) decrease in receivables	-	-	-
Increase (decrease) in accounts payable	-	-	-
Increase (decrease) in meter deposits payabl	790	-	790
Increase (decrease) in compensated absences	1,309	-	1,309
Increase (decrease) due to other funds	-	-	-
Net cash provided (used) by operating activities	\$ 55,235	\$ -	\$ 55,235

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, 2018

Statement 15

	<u>Agency Funds</u>
ASSETS	
Due from other funds	\$ <u>936</u>
Total Assets	<u><u>\$ 936</u></u>
LIABILITIES	
Due to other agencies	\$ <u>936</u>
Total Liabilities	<u><u>\$ 936</u></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, 2018

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 *Lodgers Tax Fund* (Special Revenue Fund) is to account for the administration of a Town promotional effort. Funds are derived from a lodger's tax imposed on motel rentals. (Authority is NMSA 3-38-13).

The *Ambulance Fund* (Special Revenue Fund) is to account for the operations of the Town's ambulance services.

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.

Notes to Financial Statements (continued)

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.

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.

Notes to Financial Statements (continued)

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.
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

Notes to Financial Statements (continued)

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.

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:

Notes to Financial Statements (continued)

<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.

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.

Notes to Financial Statements (continued)

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.

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

Notes to Financial Statements (continued)

groups, or the judiciary to use resources created by enabling legislation only for the purposes 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 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.

Notes to Financial Statements (continued)

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.

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	\$	5,929
Everyone's Credit Union	Recreation	Checking		1,973
Everyone's Credit Union	LEPF	Checking		1,389
Everyone's Credit Union	EMS	Checking		2,771
Everyone's Credit Union	Seniors	Checking		17,081
Everyone's Credit Union	Fire/Wildland	Checking		11,201
Everyone's Credit Union	Lodgers Tax	Checking		186,043
Everyone's Credit Union	Landfill	Checking		6,028
Everyone's Credit Union	Fire Fund	Checking		95,513
First National Bank	CDBG	Checking		13,384
Wells Fargo	Streets Fund	Checking		294,594
Wells Fargo	Corrections	Checking		4,448
Everyone's Credit Union	Ambulance	Checking		93,135
Wells Fargo	General	Checking		168,793
Wells Fargo	Water	Checking		7,353
Everyone's Credit Union	Joint Utility	Checking		201,737
Wells Fargo	Water/Sewer Imp.	Checking		27,775
Everyone's Credit Union	Meter Fund	Checking		20,140
				<u>\$1,159,287</u>

Notes to Financial Statements (continued)

New Mexico Finance Authority	<u>\$ 251</u>
Total amount on deposit	\$1,159,538
Deposit in transit	544
Outstanding checks	<u>(41,100)</u>
Total per financial statements	<u>\$1,118,982</u>

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	\$ 502,963
Less <u>FDIC</u>	<u>(250,000)</u>
Uninsured funds	252,963
Funds needing collateralization at 50% (required by State Law)	126,482
Pledged collateral at June 30	<u>165,595</u>
Excess of Pledged Collateral	<u>\$ 39,113</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	\$ 13,384
Less <u>FDIC</u>	<u>(13,384)</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>

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	\$ 636,936
Less <u>FDIC</u>	<u>(250,000)</u>
Uninsured funds	386,936
Funds needing collateralization at 50% (required by State Law)	193,468
Pledged collateral at June 30	<u>550,000</u>
Excess of Pledged Collateral	<u>\$ 356,532</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, \$653,283 of the Town's bank balance \$1,159,287 was exposed to custodial credit risk as follows:

A.	Uninsured and Uncollateralized	\$ 87,368
B.	Uninsured and collateralized with securities held by the pledging banks trust department, but not in the Town's name	<u>565,915</u>
	Total	<u>\$ 653,283</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:

<u>Wells Fargo</u>		
<u>Bank of New York Mellon</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
FNMA #3138YLN80	4-1-30	<u>\$ 165,595</u>
<u>Everyone's Credit Union- Tucumcari</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>
Fed Home Loan #3134GBL26	9-28-20	\$ 100,000
FNMA #3136G4LP6	8-28-20	300,000
FHLMC #3133EHQ61	4-15-22	<u>150,000</u>
		<u>\$ 550,000</u>

The amount held at the New Mexico Finance authority totaling \$251 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	\$ 21,399	\$ 37,340
Less allowance for uncollectible accounts	<u> -</u>	<u> -</u>
Subtotal	21,399	37,340
Gross receipts taxes receivable	32,386	-
Property taxes receivable	1,807	-
Lodger's tax	5,097	-
Gas tax	4,628	-
Intergovernmental	44,169	-
Miscellaneous	<u>249</u>	<u> -</u>
Total	<u>\$ 109,735</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, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences payable	\$ 5,325	\$ 967	\$ -	\$ 6,292	\$ -
NMFA loan payable	-	231,739	-	231,739	-
	<u>\$ 5,325</u>	<u>\$ 232,706</u>	<u>\$ -</u>	<u>\$ 238,031</u>	<u>\$ -</u>

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

The Town entered into a loan agreement with the New Mexico Finance Authority evidencing a special limited obligation of the Town to pay a principal amount of \$81,739 and interest for the purpose of defraying the cost of new Fire equipment. The yearly payments are to be redirected from the Town's State Fire Allotment. The Maturity date is May 1, 2022. The interest rate is 0.980% to 1.290%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 21,859	\$ 1,473	\$ 23,332
2020	22,722	702	23,424
2021	22,968	456	23,424
2022	14,190	184	14,374
	<u>\$ 81,739</u>	<u>\$ 2,815</u>	<u>\$ 84,554</u>

The Town entered into a loan agreement with the New Mexico Finance Authority evidencing a special limited obligation of the Town to pay a principal amount of \$150,000 and interest for the purpose of defraying the cost of a new Fire Truck. The yearly payments are to be redirected from the Town's State Fire Allotment. The maturity date is May 1, 2028. The interest rate is 0.100%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 241	\$ 241
2020	-	150	150
2021	-	150	150
2022	9,051	150	9,201
2023	23,433	141	23,574
2024-2028	117,516	353	117,869
	<u>\$ 150,000</u>	<u>\$ 1,185</u>	<u>\$ 151,185</u>

Notes to Financial Statements (continued)

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, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences payable	\$ 1,573	\$ 1,309	\$ -	\$ 2,882	\$ -
RIP Loan	-	12,238	-	12,238	485
Revenue bonds payable	437,000	-	8,000	429,000	9,000
	<u>\$ 438,573</u>	<u>\$ 13,547</u>	<u>\$ 8,000</u>	<u>\$ 444,120</u>	<u>\$ 9,485</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:

Year	Principal	Interest	Total
2019	\$ 9,000	\$ 18,950	\$ 27,950
2020	9,000	18,540	27,540
2021	10,000	18,140	28,140
2022	10,000	17,690	27,690
2023	10,000	17,240	27,240
2024-2028	59,000	64,140	123,140
2029-2033	75,000	64,180	139,180
2034-2038	93,000	45,730	138,730
2040-2043	115,000	22,960	137,960
2044	31,000	1,400	32,400
	<u>\$ 421,000</u>	<u>\$ 288,970</u>	<u>\$ 709,970</u>

The Town entered into a RIP Loan of \$12,238 to help defray the costs of the continual monitoring of the Landfill. The maturity date is 2038. The interest rate is 2.375%.

Year	Principal	Interest	Total
2019	\$ 485	\$ 291	\$ 776
2020	497	279	776
2021	508	267	775
2022	521	255	776
2023	533	243	776
2024-2028	2,860	1,019	3,879
2029-2033	3,217	662	3,879
2034-2038	3,617	262	3,879
	<u>\$ 12,238</u>	<u>\$ 3,278</u>	<u>\$ 15,516</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 <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
Business type activities:				
Land	\$ 135,582	\$ -	\$ -	\$ 135,582
Total not being depreciated	<u>135,582</u>	<u>-</u>	<u>-</u>	<u>135,582</u>
Land Improvements	29,022	-	-	29,022
Buildings and improvements	34,159	-	-	34,159
Heavy equipment	710,153	-	-	710,153
Machinery and equipment	216,964	-	-	216,964
Vehicles	23,403	-	-	23,403
Infrastructure	<u>6,329,580</u>	<u>16,237</u>	<u>-</u>	<u>6,345,817</u>
Total	<u>7,343,281</u>	<u>16,237</u>	<u>-</u>	<u>7,359,518</u>
Less accumulated depreciation for:				
Land improvements	(9,287)	(1,161)	-	(10,448)
Buildings and improvements	(19,129)	(1,366)	-	(20,495)
Heavy equipment	(532,085)	(19,785)	-	(551,870)
Machinery and equipment	(183,154)	(13,489)	-	(196,643)
Vehicles	(23,403)	-	-	(23,403)
Infrastructure	<u>(3,620,768)</u>	<u>(253,883)</u>	<u>-</u>	<u>(3,874,601)</u>
Total accumulated depreciation	<u>(4,387,826)</u>	<u>(289,634)</u>	<u>-</u>	<u>(4,677,460)</u>
Total capital assets being depreciated	<u>2,729,111</u>	<u>(273,397)</u>	<u>-</u>	<u>2,682,058</u>
Net capital assets	<u>\$ 2,748,314</u>	<u>\$ (273,397)</u>	<u>\$ -</u>	<u>\$ 2,817,640</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, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
Governmental activities:				
Land	\$ 188,265	\$ -	\$ (16,800)	\$ 171,465
Total not being depreciated	<u>188,265</u>	<u>-</u>	<u>(16,800)</u>	<u>171,465</u>
Land Improvements	5,238,213	181,949	-	5,420,162
Buildings and improvements	2,334,863	13,330	-	2,348,193
Heavy equipment	974,398	347,695	-	1,322,093
Machinery and equipment	217,171	38,214	-	255,385
Vehicles	253,081	11,017	-	264,098
Infrastructure	<u>959,770</u>	<u>-</u>	<u>-</u>	<u>959,770</u>
Total	<u>9,977,496</u>	<u>592,205</u>	<u>-</u>	<u>10,569,701</u>
Less accumulated depreciation for:				
Land improvements	(2,214,166)	(216,807)	-	(2,430,973)
Buildings and improvements	(1,110,026)	(92,626)	-	(1,202,652)
Heavy equipment	(875,912)	(52,913)	-	(928,825)
Machinery and equipment	(189,331)	(13,858)	-	(203,189)
Vehicles	(170,814)	(24,942)	-	(195,756)
Infrastructure	<u>(335,462)</u>	<u>(38,391)</u>	<u>-</u>	<u>(373,853)</u>
Total accumulated depreciation	<u>(4,895,711)</u>	<u>(439,537)</u>	<u>-</u>	<u>(5,335,248)</u>
Total capital assets being depreciated	<u>5,081,785</u>	<u>152,668</u>	<u>-</u>	<u>5,234,453</u>
Net capital assets	<u>\$ 5,428,495</u>	<u>\$ 152,668</u>	<u>\$ -</u>	<u>\$ 5,405,918</u>

7. TRANSFERS

There were no transfers between funds during the year.

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	\$ 613,730	\$ 85,211	\$ 52,185
Budget basis	<u>613,730</u>	<u>65,542</u>	<u>51,911</u>
Increase (decrease) in receivables/ due from other funds	<u>\$ -</u>	<u>\$ 19,669</u>	<u>\$ 274</u>
<u>Expenditures</u>			
Accrual basis	\$ 722,354	\$ 432,351	\$ 14,402
Budget basis	722,354	432,351	14,402
Depreciation	-	-	-
Principal paid	-	-	-
Interest paid	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in compensated absences/payables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Financial Statements (continued)

<u>Revenues</u>	<u>Lodgers Tax Fund</u>	<u>Ambulance Fund</u>
Accrual basis	\$ 58,351	\$ 100,787
Budget basis	<u>58,040</u>	<u>79,388</u>
Increase (decrease) in receivables/ due from other funds	<u>\$ 311</u>	<u>\$ 21,399</u>
 <u>Expenditures</u>		
Accrual basis	\$ 47,285	\$ 17,248
Budget basis	47,285	17,248
Depreciation	-	-
Principal paid	-	-
Interest paid	-	-
Capital outlay	-	-
Increase (decrease) in compensated absences/payables	<u>\$ -</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'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.

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, unless specifically excluded.

Benefits provided - Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivor's annuities are also available.

TIER II - The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5% and effective July 1, 2014 employer contributions were raised .05%. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions - See PERA's compressive annual financial report for Contribution provided description

Notes to Financial Statements (continued)

PERA Contribution Rates and Pension Factors as of July 1, 2017						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.0%	2.5%	90%
MUNICIPAL PLANS 1 - 4						
Municipal Plan 1 (plan open to new employers)	7.0%	8.5%	7.4%	2.0%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	2.5%	90%
MUNICIPAL POLICE PLANS 1 - 5						
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
MUNICIPAL FIRE PLANS 1 - 5						
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.9%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.6%	9.1%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: Municipal General Division at June 30, 2018, the Town of Vaughn reported a liability of \$234,968 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017. The Town of Vaughn's proportion of the net pension liability was based on a projection of the Town of Vaughn's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Town of Vaughn's proportion was 0.0171%, which was decreased 0.0006% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town of Vaughn recognized pension expense of \$33,836. At June 30, 2018 the Town of Vaughn reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 10,836	\$ 2,428
Experience versus actual	9,232	12,034
Net difference between projected and actual earnings on pension plan investments	19,278	-
Change in proportion	14,964	5,100
Town of Vaughn's contributions subsequent to the measurement date	<u>13,016</u>	<u>-</u>
Total	<u>\$ 67,326</u>	<u>\$ 19,562</u>

\$13,016 reported as deferred outflows of resources related to pensions resulting from Town of Vaughn's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

2019	\$ 12,069
2020	26,059
2021	2,254
2022	(5,634)
2023	-

Notes to Financial Statements (continued)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smoothed Market Value
Actuarial assumptions:	
- Investment rate of return	7.51% annual rate, net of investment expense
- Projected benefit payment	100 years
- Payroll growth	2.75% for the first 9 years, then 3.25% annual rate
- Projected salary increases	2.75% to 14.00% annual rate
- Includes inflation at	2.25% annual rate first 9 years
	2.75% all other years
- Mortality assumption	RP-2000 Mortality Tables

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets to include		
Real Estate Equity	<u>20.00%</u>	7.35%
Total	<u>100.00%</u>	

Discount rate: A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Notes to Financial Statements (continued)

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Town of Vaughn's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town of Vaughn's proportionate share of net pension liability calculated using the discount rate of 7.51%, as well as what the Town of Vaughn's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51%) or 1-percentage-point higher (8.51%) than the current rate:

PERA Fund Municipal General Division	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
	<u> </u>	<u> </u>	<u> </u>
Town of Vaughn's proportionate share of the net pension liability	<u>\$ 368,273</u>	<u>\$ 234,968</u>	<u>\$ 124,107</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY17 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	<u>\$ 20,140</u>
------------------------	------------------

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

Residential properties	\$ 75
Commercial properties	\$ 150

Notes to Financial Statements (continued)

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>	Fire			Other			Totals
	General Fund	Protection Fund	Streets Fund	Lodgers Tax Fund	Ambulance Fund	Governmental Funds	
<u>Nonspendable:</u>							
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total nonspendable	-	-	-	-	-	-	-
<u>Restricted for:</u>							
Fire protection	-	92,205	-	-	-	11,201	103,406
Public safety	-	-	-	-	118,616	5,979	124,595
Highways streets	-	-	313,677	-	-	-	313,677
Recreation services	-	-	-	191,140	-	28,796	219,936
Corrections	-	-	-	-	-	12,968	12,968
State mandated cash reserves	37,417	-	-	-	-	-	37,417
Capital outlay	-	250	-	-	-	-	250
Debt service	-	1	-	-	-	-	1
Total restricted	37,417	92,456	313,677	191,140	118,616	58,944	812,250
<u>Committed to:</u>							
Other purposes	-	-	-	-	-	-	-
Total committed	-	-	-	-	-	-	-
<u>Unassigned:</u>	162,723	-	-	-	-	(1,676)	161,047
Total Fund Balances	<u>\$200,140</u>	<u>\$ 92,456</u>	<u>\$313,677</u>	<u>\$ 191,140</u>	<u>\$118,616</u>	<u>\$ 57,268</u>	<u>\$973,297</u>

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	\$ -
<u>Appropriation</u>	<u>Term</u>	<u>Appropriated Amount</u>	<u>Remaining Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 48	June 30, 2015 to June 30, 2018	\$ 570	\$ -
<u>Appropriation</u>	<u>Term</u>	<u>Appropriated Amount</u>	<u>Remaining Balance</u>
Laws of 2014, Chapter 65 Section 10, Subsection 10A Paragraph 49	December 8, 2015 to June 30, 2018	\$ 163,600	\$ -

14. RELATED PARTY TRANSACTIONS

The Town paid \$3,888 for electrical work to SGM Electric which is owned by Elias Aragon who is related to the Mayor, Roman Garcia.

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 Business Activities of \$64,650 to record the Landfill Closure liability in the Landfill Closure Fund from the Joint Utilities Fund. Also, the Landfill Closure Fund had a restatement for a long-term liability of \$12,238 that reflects a new RIP Loan.

NON-MAJOR SPECIAL REVENUE FUNDS

ALL FUNDS - All funds were created by management directive.

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.

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, 2018

Statement A-1
1 of 2

	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	EMS Fund	Fire/ Wild Land Fund
ASSETS					
Cash on deposit	\$ 25	\$ 1,973	\$ 5,929	\$ 25	\$ 11,201
Accounts receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 25</u>	<u>\$ 1,973</u>	<u>\$ 5,929</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>
FUND BALANCE					
Restricted	<u>25</u>	<u>1,973</u>	<u>5,929</u>	<u>25</u>	<u>11,201</u>
Total fund balance	<u>25</u>	<u>1,973</u>	<u>5,929</u>	<u>25</u>	<u>11,201</u>
Total fund balance and liabilities	<u>\$ 25</u>	<u>\$ 1,973</u>	<u>\$ 5,929</u>	<u>\$ 25</u>	<u>\$ 11,201</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 Balance Sheet
June 30, 2018

Statement A-1
2 of 2

	CDBG Fund	Seniors Fund	Corrections Fund	Total
ASSETS				
Cash on deposit	\$ 13,384	\$ 17,070	\$ 4,448	\$ 54,055
Accounts receivable	-	44,169	-	44,169
Due from other funds	-	-	8,520	8,520
Total assets	\$ 13,384	\$ 61,239	\$ 12,968	\$ 106,744
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	15,060	34,416	-	49,476
Total Liabilities	15,060	34,416	-	49,476
FUND BALANCE				
Restricted	(1,676)	26,823	12,968	57,268
Total fund balance	(1,676)	26,823	12,968	57,268
Total fund balance and liabilities	\$ 13,384	\$ 61,239	\$ 12,968	\$ 106,744

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, 2018

Statement A-2
1 of 2

	Law Enforcement Protection Fund	Recreation Fund	Cemetery Fund	EMS Fund	Fire/ Wild Land Fund
REVENUES					
Charges for services	\$ -	\$ -	\$ 635	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Local sources	-	-	-	-	-
State sources	20,600	-	-	5,000	-
Federal sources	-	-	-	-	-
Earnings from investments	-	-	-	-	-
	-	-	-	-	-
Total revenues	20,600	-	635	5,000	-
EXPENDITURES					
Current:					
General government	-	-	280	-	-
Highways and streets	-	-	-	-	-
Public safety	9,620	-	-	5,000	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
NMFA principal	11,017	-	-	-	-
NMFA interest	-	-	-	-	-
	-	-	-	-	-
Total expenditures	20,637	-	280	5,000	-
Excess (deficiency) of revenues over expenditures	(37)	-	355	-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Loan proceeds	-	-	-	-	-
	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(37)	-	355	-	-
Fund balance, beginning of year	62	1,973	5,574	25	11,201
Fund balance, end of year	\$ 25	\$ 1,973	\$ 5,929	\$ 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, 2018

Statement A-2
2 of 2

	CDBG Fund	Seniors Fund	Corrections Fund	Totals
REVENUES				
Charges for services	\$ -	\$ 3,121	\$ -	\$ 3,756
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	5,900	5,900
Local sources	-	-	-	-
State sources	-	64,030	-	89,630
Federal sources	11,208	4,507	-	15,715
Earnings from investments	-	-	-	-
	<u>11,208</u>	<u>71,658</u>	<u>5,900</u>	<u>115,001</u>
Total revenues				
EXPENDITURES				
Current:				
General government	12,884	-	-	13,164
Highways and streets	-	-	-	-
Public safety	-	-	-	14,620
Culture and recreation	-	32,543	-	32,543
Capital outlay	-	30,884	-	30,884
NMFA principal	-	-	-	11,017
NMFA interest	-	-	-	-
	<u>12,884</u>	<u>63,427</u>	<u>-</u>	<u>102,228</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(1,676)</u>	<u>8,231</u>	<u>5,900</u>	<u>12,773</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Loan proceeds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balance	(1,676)	8,231	5,900	12,773
Fund balance, beginning of year	<u>-</u>	<u>18,592</u>	<u>7,068</u>	<u>44,495</u>
Fund balance, end of year	<u>\$ (1,676)</u>	<u>\$ 26,823</u>	<u>\$ 12,968</u>	<u>\$ 57,268</u>

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*

Fiscal Year Measurement Date	2018 2017	2017 2016	2016 2015	2015 2014
Town of Vaughn's proportion of net pension liability (asset)	0.01710%	0.01770%	0.01490%	0.01490%
Town of Vaughn's proportionate share of the net pension liability (asset)	\$ 234,968	\$ 282,787	\$ 151,918	\$ 116,236
Town of Vaughn's covered-employee payroll	\$ 175,961	\$ 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	74.89%	70.21%	78.07%	70.18%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

*Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Town of Vaughn is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 13,016	\$ 14,694	\$ 14,399	\$ 23,275
Contributions in relation to the contractually required contribution	<u>(13,016)</u>	<u>(14,694)</u>	<u>(14,399)</u>	<u>(23,275)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Vaughn's covered-employee payroll	\$ 175,961	\$ 198,558	\$ 194,585	\$ 165,633
Contributions as a percentage of covered-employee payroll	7.4%	7.4%	7.4%	12.27%

*Governmental Accounting Standards Board Statement 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Town of Vaughn is not available prior to fiscal year 2015, the year the statement's requirements became effective.

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, 2018

Changes of benefit terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA's CFAR. <http://www.saaonm.org>

Assumptions: The Public Employees Retirement Association of New Mexico Annual Actuarial Valuation as of June 2017 report is available at <http://www.nmpera.org/>

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, 2018

	Balances June 30, 2017	Additions	Deletions	Balances June 30, 2018
ASSETS				
Cash	\$ 1,143	\$ 2,574	\$ 2,781	\$ 936
Total assets	<u>\$ 1,143</u>	<u>\$ 2,574</u>	<u>\$ 2,781</u>	<u>\$ 936</u>
LIABILITIES				
Due to other agencies	\$ 1,143	\$ 2,574	\$ 2,781	\$ 936
Total liabilities	<u>\$ 1,143</u>	<u>\$ 2,574</u>	<u>\$ 2,781</u>	<u>\$ 936</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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TAX PREPARATION
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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. Brian Colon
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 20, 2018, 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 January 30, 2020. 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), 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), and Cash Balances for the Water/Sewer/Solid Waste Funds (2018-005).

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), Salary Budgets (2017-025), Lodgers Tax Receipts (2017-029) Lodgers Tax Expenditures (2017-030), Corrections Fees Not Deposited/Recorded in the Corrections Fund (2017-031), 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), Numerous Amounts Due to/from Other Funds Created (2018-002), Capital Asset Listing/Depreciation Schedule (2018-004), Anti-Donation Violations (2018-008), PERA not Calculated Correctly (2018-009), PERA not Deducted and Remitted (2018-011) and PERA Deduction for Police Officer Incorrect (2018-012).

Compliance and Other Matters

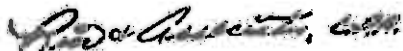
In connection with our engagement to audit the financial statements of the Town of Vaughn, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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), Budget Overruns (2017-038), Penalties and Interest Charges (2017-041), Employee Files Not Complete (2017-043), Receipt Books (2017-045) and Lodgers Tax Audit (2017-046), Travel Issues (2018-001), Transfers between Bank Accounts Recorded as Transfers In/Out (2018-003), Missing Documents (2018-006), Water Conservation Fee (2018-007), Department of Workforce Solutions Reports Filed Incorrectly (2018-010) and Drug Test Listing (2018-013).

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.



Albuquerque, New Mexico
January 30, 2020

STATUS OF FINDINGS AND RESPONSES

Prior Year Audit Findings:

1. Accounts Receivable and Accounts Payable - (2010-003) - Repeated
2. Travel Expenditures - (2014-001) - Repeated
3. DFA Report Incorrect - (2016-002) - Repeated
4. Purchase Orders Required - (2016-003) - Repeated
5. Financial Statements and Disclosures - (2016-004) - Repeated
6. Late Audit Report - (2017-001) - Repeated
7. Town Accounting Software not Adequate to Create Financial Statements - (2017-002) - Repeated
8. Fund Classifications in Audit Report Different from DFA Report - (2017-003) - Repeated
9. Transactions Made by Third Parties Not Recorded on Books of Record - (2017-004) - Repeated
10. State of New Mexico Environment Department Lawsuits - (2017-005) - Repeated
11. Transfers Between Bank Accounts and Funds to Cover Payroll - (2017-006) - Resolved
12. Revenue Resources for Post-Closure Costs of Landfill - (2017-007) - Repeated
13. Financial Cost Estimate for the Closure and Post-Closure of the Landfill - (2017-008) - Repeated
14. Environmental Gross Receipts Tax not Posted to the Books of Record - (2017-009) - Repeated
15. Deposits Posted/Deposited to the Wrong Fund - (2017-010) - Repeated
16. Water/Solid Waste Ordinance - (2017-011) - Repeated
17. Outstanding or Uncleared Items on Bank Reconciliations - (2017-012) - Repeated

Prior Year Audit Findings continued:

18. Credit Card Charges - (2017-013) - Repeated
19. Ambulance Services - (2017-014) - Repeated
20. Agreement for Ambulance Service Billing and Accounts Receivable Services - (2017-015) - Repeated
21. Outstanding Utility Receivables - (2017-016) - Repeated
22. Allowance for Doubtful Accounts - (2017-017) - Repeated
23. Water Meter Deposits - (2017-018) - Repeated
24. Meter Deposit Bank Account - (2017-019) - Repeated
25. Checks Written Out of Sequence or Manually Typed - (2017-020) - Repeated
26. Contracts/Service Agreements Unsigned or Approved by the Mayor - (2017-021) - Repeated
27. IRS Form 1099 & 1096 Not Being Prepared and Submitted - (2017-022) - Resolved
28. Payments Made to the IRS - (2017-023) - Resolved
29. Civil Penalties for Late Payments of Federal Payroll Taxes - (2017-024) - Resolved
30. Salary Budgets - (2017-025) - Repeated
31. Additional Compensation - (2017-026) - Resolved
32. Payments Made After Employee Retired - (2017-027) - Resolved
33. Bank Reconciliations Not Reconciled to the General Ledger/No Bank Reconciliations Prepared - (2017-028) - Resolved
34. Lodger's Tax Receipts - (2017-029) - Repeated
35. Lodger's Tax Expenditures - (2017-030) - Repeated
36. Corrections Fees Not Deposited/Recorded in the Corrections Fund - (2017-031) - Repeated
37. Amounts Collected on Behalf of the State - (2017-032) - Repeated
38. Court Fees Not Remitted to the State - (2017-033) - Repeated
39. Outstanding (Unpaid) Citations - (2017-034) - Repeated

Prior Year Audit Findings continued:

40. Citations Reported on Required AOC and JEC Reports - (2017-035) - Repeated
41. Citations Received but not Reported on AOC and JEC Reports - (2017-036) - Repeated
42. Incorrect Charging of Gross Receipts Taxes on Water/Sewer/Solid Waste Services/No Conservation Fee Remitted - (2017-037) - Resolved.
43. Budget Overruns - (2017-038) - Repeated
44. Fire Fund Expenditures - (2017-039) - Resolved
45. Expenditures Not Reported - (2017-040) - Resolved
46. Penalties and Interest Charges - (2017-041) - Repeated
47. Chief Procurement Officer - (2017-042) - Resolved
48. Employee Files Not Complete - (2017-043) - Repeated
49. New Hire Reporting - (2017-044) - Resolved
50. Receipt Books - (2017-045) - Repeated
51. Lodger's Tax Audit - (2017-046) - Repeated

Current Year Audit Findings:

1. Travel Issues - (2018-001)
2. Numerous amounts Due to/from Other Funds not Being Paid Back (2018-002)
3. Transfers Between Bank Accounts Recroded as Transfers In/Out - (2018-003)
4. Capital Asset Listing/Depreciation Schedule - (2018-004)
5. Cash Balances for the Water/Sewer/Solid Waste Funds - (2018-005)
6. Missing Documents - (2018-006)
7. Water Conservation Fee - (2018-007)
8. Anti-Donation Violations (2018-008)
9. PERA not Calculated Correctly (2018-009)

Current Year Audit Findings continued:

10. Department of Workforce Solutions Reports Filed Incorrectly (2018-010).
11. Public Employees Retirement Association benefits not withheld or remitted (2018-011).
12. PERA Deduction for Police Officer Incorrect (2018-012)
13. Drug Test Listing (2018-013)

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 Clerk is developing internal policies and procedures to review all outstanding receipts and expenditures to determine whether or not they need to be added to the list of accounts receivable or accounts payable. The billing clerk will research and resolve debts on the utility billing aged balance list. The Programs Coordinator will RFP for a new ambulance billing service, including requirements for regular, accurate statements in the scope of work. The Town plans to complete this by December 2020.

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 no longer has a credit card. All travel expenditures will be paid in accordance with NMAC 2.42.2.

DFA Report Incorrect - Significant Deficiency
(2016-002)

CONDITION	<p>The DFA Report is not being prepared correctly. Examples are:</p> <ol style="list-style-type: none">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. <p>Management has made no progress in correcting/preparing the DFA quarterly reports.</p>
CRITERIA	<p>The DFA report must agree to and be supported by the underlying books of record.</p>
CAUSE	<p>Prior management was never trained on how this report should be prepared. Also, DFA analysts for the Town have not reviewed these reports adequately.</p>
EFFECT	<p>The amounts reported on the DFA report are incorrect.</p>
RECOMMENDATION	<p>Current management should obtain proper training and knowledge on how to prepare this report.</p>
RESPONSE	<p>The Town has worked closely with DFA to ensure that the reports are prepared correctly. The Clerk has made significant efforts to improve record-keeping so that appropriate backup documentation is maintained. Representatives of DFA visited the Town on 2/4/2020 to provide additional assistance and will continue to support the Town with training. This issue will be resolved for the FY 2019 Audit.</p>

Purchase Orders Required - Other Matter
(2016-003)

CONDITION

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

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

1. Several purchase orders could not be found even though were reported in the general ledger as issued.
2. An invoice was not present.
3. Purchase orders were written after the invoice date.

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. All purchase orders are to be kept and properly filed for review.
2. All payments must be made from an invoice.
3. Purchase orders are written before the good/service is obtained.

CAUSE

Prior management did not appear to be aware of this requirement. Also 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 Clerk developed internal policies and procedures to ensure that a PO is created before any goods or services are obtained. The Assistant Clerk ensures that these procedures are followed. This matter is resolved as of FY 2019.

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

The Town will obtain training during 2020 to learn how to prepare the necessary financial statements, and will work with the DFA budget analyst to ensure accuracy. The Clerk will present financial reports to the Governing Body on a regular basis.

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, 2018. Management has made no progress in this area.
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 2018 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 Clerk has kept careful documentation during the 2019 fiscal year to ensure that the audit can be completed promptly. The Town's Governing Body and office staff have set a goal to complete the FY 19 audit as soon as possible and submit an accurate FY20 audit in a timely manner.

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. Management has made no progress in this area.
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. The Town would like to obtain software that integrates utility billing with the rest of the accounting system. The Town of Vaughn is a small entity and the cost of a new accounting system is prohibitive. The Town will research possible

funding sources during 2020. In the meantime, The Clerk and Accountant have overhauled the way the current accounting system is used as of FY19, making it more appropriate to the Town's needs.

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. Management has made no progress in this area.
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 has worked closely with DFA to ensure that funds are classified correctly. The Ambulance and Cemetery Fund are classified as Enterprise funds in accordance with the DFA chart of accounts. The Clerk and Financial Consultant will resolve this finding for the FY 2019 Audit.
REBUTTAL	The audit report classification of these funds still needs to be addressed.

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. Management has made no progress in this area.
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	This issue is partially resolved as of the 18-19 Fiscal Year. The Town Clerk has obtained statements from NMFA and reconciled them, including them in the books of record. The Clerk will do the same for the environmental GRT intercept payments. A point of contact with NMFA was made on 3/2/19, and the required statements should be in hand by the end of March 2020. Recording and Reconciliation will be completed as soon as the statements are obtained.

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.

Management has made no progress in this area.

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 of Vaughn will establish a contact person within the State of New Mexico Environment Department. Town personnel will work with the Environment Department to determine exactly what has or hasn't been completed with regard to the compliance order, and we will endeavor to comply with anything that hasn't been completed by the end of 2020.

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. Management has made no progress in this area.
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	Per Resolution 2017-1, The Town of Vaughn created a restricted reserve account for this purpose in February of 2017, with a deposit of \$6,000. As of January 31, 2020 the account had a balance of \$6070.02. Section 5 of the resolution states that "Additional funding of the reserve fund shall commence, on an annual basis, upon permit issuance of the Vaughn Construction and Demolition Landfill Permit and will be in conformance with the formulas

specified for trust funds in 20.9.10.14 NMAC, or as otherwise mutually agreed by the parties." The Clerk will research to determine what the additional annual funding should be, and will bring the Town into compliance with this requirement by the end of 2020.

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. Management has made no progress in this area.
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	The Town of Vaughn will work with the New Mexico Environment Department to determine whether or not the annual financial cost estimate is a requirement. If it is, we will comply. If it is not a state requirement, we will consider updating our Resolution to align with the State requirement.

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). Management has made no progress in this area.
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	As addressed in the response to (2017-004) the Town Clerk will work with Estancia Valley Solid Waste Authority to obtain the relevant statements and begin posting them appropriately to the books of record. As of 3/2/20, a point of contact was established with NMFA to obtain these statements. The Clerk expects to obtain all necessary statements by the end of March 2020.

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

CONDITION	Management of the Town deposited/posted \$19,669 of Fire Fund monies to the General Fund, not the Fire Fund. Management has made no progress in this area.
CRITERIA	The Fire Fund was established by the State Statute NMSA 59A-53-1. The allotment by the State Fire Marshall's Office is used only in fighting fires. Thus, these revenues belong to the Fire 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 Fire Fund \$19,669.
RECOMMENDATION	Management needs to transfer these monies as soon as possible so the Street Fund can use these resources.
RESPONSE	The Town Clerk will work closely with DFA to change our ACH deposits so that they are all initially deposited into the correct account, eliminating the need for transfers in the future. As of 3/2/20, the Clerk has established a contact person to complete this. The Clerk plans to complete this by the end of March 2020.

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. Management has made no progress in this area.
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	A draft of an updated ordinance was taken before the Governing Body in July 2018. It was tabled indefinitely pending engaging a third party to do a cost analysis and set our fees. Town personnel will present an updated Ordinance to the Governing Body again by September 2020 and emphasize the importance of resolving this issue.

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

CONDITION	The General Fund bank reconciliation is recording \$3,421 in outstanding checks at June 30, 2018 that are over a year old. Also, \$165 in deposits in transit are being reported from February and March of 2018. Management has made no progress in this area.
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, 2018.
RECOMMENDATION	Proper internal controls should be instituted to ensure bank reconciliations are prepared accurately and in a timely basis.
RESPONSE	The Town of Vaughn has begun reconciling the accounts on a regular basis. Transactions are reviewed individually and any outstanding transactions are researched and resolved by the Clerk and Assistant Clerk. This issue is resolved as of FY19.

Credit Card Charges-
Material Weakness
(2017-013)

CONDITION	A credit card used by management does not have adequate documentation supporting the charges of \$5,383. These charges are recorded in the Utilities Funds. These purchases included gas, purchases at Sportsmans Warehouse, Golf Mart and 1-800-Flowers. Management has made no progress in this area.
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 of Vaughn declined to renew the credit card when it expired in September 2018 because of these problems. If the Town ever decides to obtain another credit card, we will first research and establish policies and procedures to ensure that this issue does not arise 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. Management has made no progress in this area.
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 Clerk has had difficulty working with our third-party Ambulance billing service to obtain statements and invoices to adequately reconcile Ambulance billing. The Town's Programs Coordinator will request proposals for this service, including our need for regular receipt of detailed statements and documentation in the scope of work by the end of 2020.

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. Management has made no progress in this area.
CRITERIA	All agreements/contracts entered into by the Town of Vaughn should be updated periodically and a signed copy kept on hand.
CAUSE	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	As stated in 2017-14, the Town plans to seek proposals for Ambulance billing, with the Programs Coordinator assigned to create an RFP. A new contract will be established accordingly, by the end of 2020.

Outstanding Utility Receivables - Significant Deficiency
(2017-016)

CONDITION	The aged account receivable report has \$10,360. 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. Management has made no progress in this area.
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 Utility Billing Clerk will research and resolve outstanding receivables by the end of 2020.

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, 2018. Management has made no progress in this area.
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 Clerk will work with the Assistant Clerk to develop and implement new policies and procedures to resolve this matter by the end of 2020.

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. Management has made no progress in this area.
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 Clerk and Assistant Clerk will begin checking the Meter Deposit Report against the Bank account reconciliation on a regular monthly basis as of March 2020.

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. Management has made no progress in this area.
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 Assistant Clerk will reconcile the Water Meter Deposit List to the bank account to ensure that there are adequate funds in the account beginning in March 2020.

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

CONDITION	Checks for the General fund were not written in sequence. Check #38883 and #38990 were written before checks #38974 and #38980. Management has made no progress in this area.
CRITERIA	Proper internal controls include processing documents in sequence to ensure none are missing or used fraudulently.
CAUSE	Management did not prepare or follow proper internal controls.
EFFECT	Management cannot ensure checks have been misused if not properly controlled.
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.
RESPONSE	In the past, checks were not carefully stored in numerical order. The Clerk and Assistant Clerk have worked to ensure that this mistake is not repeated. This will be resolved for the FY 19 Fiscal Year.

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

CONDITION An accounting service agreement for 2017-2018 fiscal year and a consulting agreement for the 2017-2018 fiscal year have not been signed by the Mayor. Also, an agreement with the County of Guadalupe concerning receipts of monies that can be used for EMS services has not been renewed for the 17-18 fiscal year. Management has made no progress in this area.

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 after approval. This will be resolved for the 2019 Fiscal Year.

Salary Budgets - Significant Deficiency
(2017-025)

CONDITION	Twelve out of twenty-nine employees tested were paid more than the amount budgeted for in the DFA budget report approved by the Council and DFA. Management has made no progress in this area.
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	The cause is unknown.
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 Clerk will compare budgeted salaries to actuals on a quarterly basis to ensure that all salaries remain within the budget. This will be resolved for the 2019 Fiscal Year.

Lodgers Tax Receipts - Significant Deficiency
(2017-029)

CONDITION	Management of the Town could not provide documentation for two Hotels/Motels for several months as to why there were no lodgers taxes received. Management has made no progress in this area.
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 Clerk will create a spreadsheet to ensure that all relevant businesses submit their Lodgers Tax receipts on a monthly basis. The Assistant Clerk will check the spreadsheet on a monthly basis and will remind businesses that a receipt must be prepared and submitted each month even if there is no remittance for that month. This will be resolved by the end of 2020.

Lodgers Tax Expenditures - Significant Deficiency
(2017-030)

CONDITION	The Lodgers Tax Fund spent only 5% of the total proceeds on advertising. Management has made no progress in this area.
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 Clerk and Governing Body will review Lodgers Tax Expenditures on a quarterly basis to ensure that we are compliant with the requirement. The Clerk is investigating new ways to purchase advertising for the Town. The Clerk plans to resolve this finding by the end of the 2021 Fiscal Year.

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

CONDITION	All of the traffic tickets issued were deposited into the General Fund. None of the paid citations had a portion deposited/posted to the Corrections Fund. Management has made no progress in this area.
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 \$5,900.
RECOMMENDATION	Management needs to transfer \$5,900 for the 17-18 fiscal year and \$2,620 for the 16-17 fiscal year to the Corrections Fund from the General Fund as soon as possible.
RESPONSE	The Town Clerk and Accountant have developed a detailed Chart of Accounts within the Accounting Software that enables us to accurately record Corrections Fee deposits. Going forward, the Clerk will report these incomes accurately on the DFA reports. This will be resolved for the 2020 Fiscal Year.

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. Management has made no progress in this area.
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	The Town Clerk will begin recording these amounts as trust/agency funds instead of incomes and expenditures. This will be resolved by the end of 2020.

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. Management has made no progress in this area.
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 Town Clerk and Municipal Court Clerk have worked diligently to resolve this issue. The Court Clerk was not not able to complete the reports on a timely manner due to family emergencies. The Town will cross train some of our office staff so that we can still fulfill the requirement if needed. The Town Clerk will institute policies and procedures to ensure that these reports are being prepared and submitted on a monthly basis. The goal is to resolve this by the end of 2020.

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." Management has made no progress in this area.
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's new Court Clerk has taken measures to comply with this requirement. This should be resolved for the 2020 fiscal year.

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

CONDITION	The fiscal year 17-18 had nine 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. Management has made no progress in this area.
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's Court Clerk is working with the Business office to ensure that accurate files and documentation are kept. This will help us verify transactions in the future. This should be resolved for the 2020 fiscal year.

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

CONDITION	The Town received payment for sixty two traffic citations in July, 2017. However, only fifteen of these citations were reported on the AOC/JEC report submitted. Management has made no progress in this area.
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 for Court Automation Fees and 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	There was some confusion due to a lengthy process moving the Municipal Court offices to a new location. The Town Clerk is working with the Court Clerk to improve documentation and ensure timeliness with the AOC and JEC reports. This should be resolved for the 2021 fiscal year.

Budget Overruns - Other Matter
(2017-038)

CONDITION	The Town overspent the final approved budgets of several funds. The Cemetary Fund by \$80, the Fire Fund by \$432,351, the Landfill Closure Fund by \$69,838 and the General Fund by \$186,918. The Water, Sewer and Solid Waste Funds could not be separated so could not be audited. Management has made no progress in this area.
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 Clerk is working closely with our DFA Budget Analyst to ensure that we do not exceed budget authority. This will be resolved for FY 2019.

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

CONDITION	The Town is being charged \$156 in penalties and interest for late filing of the first two quarters (2017) Department of Labor Reports. Also, the Town was charged \$302 in penalties and interest for late filing of CRS-1 reports. Management has made no progress in this area.
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 \$156 and \$302 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 Clerk will institute procedures to ensure that all reports are filed in a timely, accurate manner to avoid future penalty and interest charges. This should be resolved by the end of 2020.

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

CONDITION	All six employee files did not have wage rate approval documentation included. Also, a form I-9 was either missing or incomplete for all six employee files. Management has made no progress in this area.
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 Clerk has received updated I9 forms for all employees for the 2019 fiscal year. The Clerk will work with the Governing Body to develop wage rate approval documents for all employees and keep them appropriately updated. These documents should be in place for the 2021 fiscal year.

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. A lodgers tax report was not attached providing details of what Motel or month the amount was for. 4. Town staff did not prepare receipts for four Lodgers Tax Reports. Management has made no progress in this area.
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. 3/4. 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. If the necessary information is not included the monies might get deposited/reported to the wrong fund. 3. Without the Lodgers Tax Report a Motel might not report all months and may not be caught by the Town staff.
RECOMMENDATION	1. All receipts not used (or skipped) should be voided. 2. All receipts should have the proper information included to ensure resources are posted to the correct fund and accounts. 3. All Lodgers Tax Receipts should have the required Lodgers Tax Report attached. 4. All Lodgers Tax Reports should have a receipt prepared for it.

RESPONSE

The Assistant Clerk will review receipts regularly to ensure that they are completed accurately and that a receipt is made for every received income. This will be resolved for FY 2019.

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

CONDITION	Town management did not perform a random audit of hotels/motels during the 2017-2018 fiscal year. Management has made no progress in this area.
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 Clerk and Governing Body will review the Ordinance. The Town will conduct a Lodgers Tax Audit as soon as possible, ideally by the end of 2020.

Travel Issues - Material Non-Compliance
(2018-001)

CONDITION	Eight out of ten travel vouchers tested were not approved before the travel was taken.
CRITERIA	According to DFA regulations all travel must be approved before it is taken.
CAUSE	Management is not ensuring this procedure is being followed.
EFFECT	Travel could be taken that was not authorized.
RECOMMENDATION	All travel forms should be approved before the travel is taken.
RESPONSE	The Town Clerk has updated the Per Diem form to reflect the pre-approval of all travel requests as of November 2019.

Amounts not Being Paid Back Between Funds -
Significant Deficiency
(2018-002)

CONDITION	Management has created \$61,786 worth of amounts due between funds. These have been created from deposits being reported/posted in the wrong funds. These amounts need to be paid back.
CRITERIA	All resources received should be posted in the correct fund.
CAUSE	Deposits are continually being reported/posted to the wrong funds.
EFFECT	Management owes \$61,786 in resources to various funds.
RECOMMENDATION	1. Management needs to have a commitment or strategy to pay back these monies. 2. Management should create a plan and time frame to pay back these amounts and also discontinue the practice of reporting/posting resources to the wrong funds.
RESPONSE	The Town Clerk will review the amounts with the Assistant Clerk and and Accountant and work to correct them accurately before the end of the 2020 Fiscal Year.

Transfers Between Bank Accounts Recorded as Transfers In/Out -
Material Non-Compliance
(2018-003)

CONDITION	Management is incorrectly reporting transfers between bank accounts as transfers between funds. For example: A CD cashed in was transferred to a checking account for the Water/Sewer/Solid Waste Fund for \$151,744 was recorded as a transfer In.
CRITERIA	Transfers between bank accounts are not the same as transfers between funds. Only transfers between funds are recorded on the DFA quarterly report.
CAUSE	Management was not adequately trained on how to record transfers between funds and transfers between bank accounts.
EFFECT	The books of record incorrectly shows transfers. Other financing sources and uses are recorded that are incorrect.
RECOMMENDATION	New management should be trained on how to record transfers between bank accounts immediately.
RESPONSE	The Town of Vaughn no longer records Transfers between bank accounts but within the same fund as a transfer in/out. The Clerk, Assistant Clerk and Accountant are working closely with DFA to ensure that all transfers are recorded accurately. This will be resolved for the 2019 fiscal year.

Capital Asset Listing/Depreciation Schedule -
Significant Deficiency
(2018-004)

CONDITION	The Town did not provide a Capital Asset Listing and Depreciation Schedule that had current year additions and current year depreciation for the fiscal year ending June 30, 2018.
CRITERIA	A complete clear capital asset listing segregated by fund by major class needs to be prepared annually. A depreciation schedule should be maintained. The depreciation schedule should be separated by each major class of asset to comply with GASB 34.177a. Also, a depreciation schedule is required to comply with 2.20.1.12 NMAC.
CAUSE	Management of the Town is relying on a consultant to prepare this schedule.
EFFECT	Management is not complying with Generally Accepted Accounting Principles.
RECOMMENDATION	Management should update their capital asset list including depreciation based on the policy approved by the Board.
RESPONSE	The Clerk will work with the Programs Coordinator to update the list with depreciation on an annual basis going forward. This should be resolved for the 2020 fiscal year.

Cash Balances for the Water/Sewer/Solid Waste Funds -
Material Weakness
(2018-005)

CONDITION	The cash balances shown on the DFA report for each of the Utility Funds could not be tested or verified because they are not separate in the general ledger.
CRITERIA	The DFA report must be adequately supported by the underlying books of record.
CAUSE	Management has not ensured these Funds are separated in the accounting software.
EFFECT	The Utility Funds could not be audited.
RECOMMENDATION	Management should separate these funds immediately.
RESPONSE	This is resolved as of the 18-19 Fiscal year. The Town Clerk and Financial Consultant have worked to implement a detailed chart of accounts within the accounting software, and we now have the ability to separate our utilities in the books of record.

Missing Documents - Other Non-Compliance
(2018-006)

CONDITION	A payment made for Engineering Services in the amount of \$10,550 did not have a copy of the check, an invoice, or a purchase order that could be audited.
CRITERIA	DFA regulations require supporting documentation for all expenditures.
CAUSE	Poor record keeping.
EFFECT	This expenditure may not be owed by the Town.
RECOMMENDATION	Management should ensure all payments have the supporting documentation required by DFA.
RESPONSE	The Town Clerk will reach out to the Engineer for copies of these documents in order to complete the record. The Town has instituted new filing procedures that should prevent this from happening in the future. This will be resolved as of FY 2019.

Water Conservation Fee - Other Non-Compliance
(2018-007)

CONDITION	The State of New Mexico Taxation and Revenue charges a conservation fee on all public water supply systems. This fee is to be on the amount of water "produced." The Village is calculating the fee on the amount of water "billed" each month. Also, only three out of twelve Water Conservation Reports were submitted (July, August, September of 2017).
CRITERIA	The State of New Mexico Taxation and Revenue charges a conservation fee on all public water supply systems.
CAUSE	Management was not aware of this requirement
EFFECT	The Town is not calculating the fee on the amount of water "produced." Also, the required reports are not being filed.
RECOMMENDATION	Management should start calculating all conservation fees on the amount of water produced and submit the reports as soon as possible.
RESPONSE	The Town Clerk will train the Assistant Clerk to begin preparing the reports based on produced water rather than billed water. The Clerk will institute new policies and procedures to ensure that past reports are submitted accurately and current reports are submitted on a timely basis. This should be resolved for the 2021 fiscal year.

Violations of the Anti-Donation Clause - Finding that does not
rise to the Level of a Significant Deficiency
(2018-008)

CONDITION	The Town used the General fund to pay for \$81 worth of Flowers for someone at EPCOG, \$50 to Sportsmans Warehouse and \$52 to Golf Mart. This violates the Anti-Donation Clause.
CRITERIA	According to the Anti-donation clause of New Mexico (Article IX, Section 14) "a Town shall not directly or indirectly lend or pledge its credit or make any donation to or in aid of any person."
CAUSE	The Town used public monies to pay for purchases which appear to violate the anti-donation clause and the DFA regulations concerning purchases.
EFFECT	Management is not complying with the NM Anti-donation Clause.
RECOMMENDATION	The Town needs to discontinue using this fund for these types of purchases, immediately.
RESPONSE	The Clerk will review all purchases carefully on an individual basis to ensure that no further purchases of this nature are made going forward. This should be resolved by the 2019 fiscal year.

PERA not Calculated Correctly - Significant Deficiency
(2018-009)

CONDITION	An employee did not have their PERA deducted from their paycheck correctly.
CRITERIA	According to PERA regulations, all full-time employees must contribute at the specified rate.
CAUSE	An outside consultant (CPA) prepares payroll each pay period. The consultant did not calculate the withholding correctly.
EFFECT	The Town owes \$349 for both the employer and employee portion back to the employee.
RECOMMENDATION	Management should implement procedures to ensure all full-time employees benefits are calculated correctly.
RESPONSE	The Town Clerk now prepares payroll in-house. The Clerk will review payroll deductions on a regular basis to ensure that they are being calculated correctly. This should be resolved for the 2019 fiscal year.

Department of Workforce Solutions Reports Filed Incorrectly -
Material Non-Compliance
(2018-010)

CONDITION	The Town filed their Department of Workforce Solutions reports omitting \$13,648 in gross salaries for the fiscal year.
CRITERIA	Employers are required to submit a quarterly wage report (Form ES-903A) listing wages paid to all workers and pay a tax at the applicable rate.
CAUSE	The cause is unknown.
EFFECT	The Town did not include all wages in quarterly unemployment reports which may have resulted in an underpayment of unemployment tax.
RECOMMENDATION	The Town needs to amend these reports and pay the applicable taxes, penalties and interest immediately. All future report submissions need to agree to the total payroll paid for the quarter.
RESPONSE	The Town Clerk and Accountant will obtain the necessary training to ensure that these reports can be filed correctly in the future. This should be resolved by the end of 2020.

PERA not Deducted and Remitted - Significant Deficiency
(2018-011)

CONDITION	Two employees did not have PERA deducted from their paycheck and have it submitted to PERA.
CRITERIA	According to PERA regulations, all full-time employees will have to contribute to PERA.
CAUSE	An outside consultant (CPA) prepares payroll each pay period. The consultant did not withhold this benefit.
EFFECT	The Town owes \$3,049 for both the employer and employee portion of PERA.
RECOMMENDATION	Management should implement procedures to ensure all full-time employees benefits are reviewed and deducted correctly each month.
RESPONSE	The Town Clerk will work closely with PERA to correct this matter. The Clerk will review payroll on a regular basis to ensure that all full-time employees are contributing to PERA. This will be resolved by the end of March 2020.

PERA Deduction for Police Officer Incorrect -
Significant Deficiency
(2018-012)

CONDITION	Town Council did not pass a resolution stating the Police Officer would have PERA deducted at the Municipal Divisions rate not the Police Officers rate. The difference in the two is \$618 that could potentially be owed.
CRITERIA	PERA has Municipal Divisions Plans for regular employees and Police Division Plans for Police Officers. They are not withheld at the same rate.
CAUSE	Management of the Town were not aware of this situation.
EFFECT	The Town could be liable for \$618.
RECOMMENDATION	The Town was told by PERA to pass a resolution that explained the Police Officers PERA would be withheld at the Municipal rate not the Police Officers rate.
RESPONSE	The Town Clerk will work with PERA to ensure that all employees are deducted at the appropriate rate. When a new police officer is hired, we will work with PERA to ensure that the deductions are correct and compliant with state regulations.

Drug Test Listing - Material Non-Compliance
(2018-013)

CONDITION	Management did not place any CDL employees on a list of any kind so that a random drug test could occur.
CRITERIA	According to the Federal Motor Carrier Safety Administration employees with CDL duties must be tested upon their hiring and then be placed on a list to ensure a random drug test can be done.
CAUSE	Management did not ensure this list was complete and updated for the new fiscal year.
EFFECT	The Town could be fined \$10,000 by the FMCSA.
RECOMMENDATION	The Town needs to place drivers on a drug-testing list immediately.
RESPONSE	The Town Clerk works closely with our Drug Test provider to ensure that all employees are tested when hired and are added to a list to be tested randomly. This will be resolved for the 2019 fiscal year.

FINANCIAL STATEMENT PREPARATION

The combining and individual fund financial statements and notes to the financial statements for the year ended, June 30, 2018 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 January 30, 2020, to discuss the current audit report. In attendance were Mr. Roman Garcia, Mayor, Ms. Shaline Lopez, Clerk/Treasurer, Ms. Liza Kerr, SAO Representative, Mr. Antonio Lucero and Ms. Pamela A. Rice, CPA, Contract Auditors.