



**SJT GROUP LLC**  
CERTIFIED PUBLIC ACCOUNTANTS



# **State of New Mexico City of Rio Communities**

Financial Statements,  
Supplementary Information,  
and  
Independent Auditor's Reports,

June 30, 2020

# State of New Mexico City of Rio Communities

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# State of New Mexico

## City of Rio Communities

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# State of New Mexico City of Rio Communities

## Official Roster

### Mayor and Council Members

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Name	Title
Mark Gwinn, CMO	Mayor
Margaret "Peggy" Gutjahr, CMO	Mayor Pro-Tem/Councilor
William "Bill" Brown, CMO	Councilor
Joshua Ramsell	Councilor
Jim Winters	Councilor

### Administrative Officials

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Name	Title
Stephanie Finch, CMC	Finance Officer/Treasurer
Elizabeth "Lisa" Adair, CMC	Municipal Clerk



## Independent Auditor's Report

Mr. Brian S. Colón, Esq., New Mexico State Auditor  
Mark Gwinn, Mayor and the City Council  
City of Rio Communities, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue funds of the State of New Mexico, City of Rio Communities (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 misstatement, 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 from 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 City'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 City'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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2020, and the respective changes in financial position and budgetary comparisons of the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 inquiries 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 we 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 financial statements that collectively comprise the City's basic financial statements. The other schedules required by 2.2.2 NMAC, listed as "other supplementary information" in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate 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 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, on our consideration of the City'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 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 City's internal control over financial reporting and compliance.

SJT Group LLC

Albuquerque, New Mexico  
December 11, 2020

## Management's Discussion and Analysis



**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

As management of the City of Rio Communities (the "City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements of the City, which follows this section of the report.

**Financial Highlights**

- ◆ The assets of the City exceeded its liabilities at June 30, 2020, by \$10.9 million (net position). Of this amount, \$2.8 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- ◆ The City's net position decreased by \$22,551 in fiscal year 2020.
- ◆ Virtually all of the City's revenues during fiscal years 2020 and 2019 were from state and local taxes (i.e. gross receipts, property, franchise), as well as state operating grants.
- ◆ Total expenses of the City in fiscal years 2020 and 2019 were \$1.8 million and \$1.3 million, respectively. All fund expenditures in fiscal year 2020 were well within the City's approved budgets.

**Overview of the Financial Report**

The City's financial statements are comprised of four components: 1) *Management's Discussion and Analysis* (this section), 2) the *Basic Financial Statements*, 3) *Other Supplementary Information* and 4) the *Compliance Section*. The basic financial statements include two kinds of statements (government-wide financial statements and fund financial statements) that present different views of the City.

The first two statements, the statement of net position and the statement of activities, are *government-wide financial statements* that provide both long-term and short-term information about the City's overall financial status. *Fund financial statements* report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The financial statements are followed by *Other Supplementary Information*, which includes schedules required by 2.2.2 NMAC, as well as the *Compliance Section*, which presents the City's schedule of findings and responses and a schedule presenting the current year status of prior year audit findings (if any).

**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

**Government-Wide Financial Statements**

The statement of net position and the statement of activities report information about the City as a whole. All of the City's activities are reported as governmental activities. These activities are financed primarily through state and local taxes as well state operating grants. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. You can think of the City's net position, the difference between assets and liabilities, as one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such influences from state or federal agencies, should be considered in addition to net position in measuring the City's financial health.

**Fund Financial Statements**

The fund financial statements provide detailed information about the City's most significant funds – not the City as a whole. Separate funds are established by the City to help control and manage revenues and expenditures for particular purposes or to show that the City is meeting legal responsibilities for using certain money. Additionally, separate funds are maintained to protect against the possibility of co-mingling funds.

Governmental funds focus on how cash and other financial assets flow in and out, with the balances that are left at year-end available for future spending. Governmental funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information in a reconciliation schedule that explains the relationship (or differences) between the amounts reported in the statement of net position and the statement of activities and the governmental funds financial statements.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the City's four major government funds. Financial information from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining financial statements elsewhere in this report.

**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

Budgetary comparison schedules, or the Statement of Revenue and Expenditures - Budget and Actual (on the City's budgetary basis), reports the original approved budget, final approved budget, and actual results presented on a budgetary basis of accounting for the City's major governmental funds. A separate column is presented to report variances between the final approved budget and actual amounts.

**Government-Wide Financial Analysis**

*Net Position.* Table 1 reflects the condensed statement of net position as of June 30, 2020 and 2019.

TABLE 1  
CONDENSED STATEMENT OF NET POSITION

	2020	2019
<b>Assets</b>		
Current assets	\$ 2,890,557	\$ 2,572,751
Capital assets, net	8,191,235	8,613,149
<b>Total assets</b>	<b>11,081,792</b>	11,185,900
<b>Liabilities</b>		
Current liabilities	32,822	89,673
Compensated absences	9,606	5,070
Long-term debt	107,902	160,390
<b>Total liabilities</b>	<b>150,330</b>	255,133
<b>Net Position</b>		
Net investment in capital assets	8,083,333	8,452,759
Restricted	-	1,150,682
Unrestricted	2,848,129	1,327,326
<b>Total net position</b>	<b>\$ 10,931,462</b>	\$ 10,930,767

The City's current assets are made up primarily of cash of \$2.7 million. The City's other significant asset is capital assets, which had a balance of \$8.2 million, net of accumulated depreciation, at June 30, 2020.

The City's current liabilities are primarily made up of accounts payable of \$23,160 as well as payroll liabilities of \$18,508. This includes accrued salaries, payroll taxes and benefits, as well as annual leave earned by employees but not yet paid (compensated absences) as of June 30, 2020.

**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

*Changes in Net Position.* Table 2 summarizes the City's change in net position for the years ended June 30, 2020 and 2019.

TABLE 2  
CONDENSED STATEMENT OF ACTIVITIES

	2020	2019
<b>Revenues</b>		
Charges for services	\$ 8,088	\$ -
Operating grants and contributions	789,059	679,423
Capital grants and contributions	-	575,670
Taxes	991,289	996,813
Other	33,084	20,995
<b>Total revenues</b>	<b>1,821,520</b>	<b>2,272,901</b>
<b>Expenses</b>		
General government	775,919	783,707
Public safety	651,835	460,111
Public works	413,252	97,538
Interest	3,065	3,756
<b>Total expenses</b>	<b>1,844,071</b>	<b>1,345,112</b>
<b>Change in net position</b>	<b>\$ (22,551)</b>	<b>\$ 927,789</b>

During fiscal year 2020, net position decreased by \$22,551. The decrease was primarily due to increased expenditures related to the fire department and emergency medical services supplies. There was also an increase in employee salaries and benefits expenses related to the employment of a City Manager for most of the year and the hiring of a Finance Officer in second quarter of fiscal year 2020. Furthermore, there were increased professional services expenses related to the implementation of a new accounting system and a park study.

Expenses totaled \$1.8 million and \$1.3 million during fiscal years 2020 and 2019, respectively. The City's expenses were incurred primarily in the area of general government and public safety, comprising 77% and 92% of total expenses during fiscal years 2020 and 2019, respectively.

**Financial Analysis of the City's Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a governmental funds net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the general fund, special revenue funds, a capital projects fund, and a debt service fund.

**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

Revenues for governmental functions overall totaled \$1.8 million in fiscal year 2020, which represents a decrease of \$451,381 from fiscal year 2019. This is largely due to capital grants totaling \$575,670 received in fiscal year 2019 that were not received in fiscal year 2020. Expenditures for governmental functions, totaling \$1.8 million, increased by \$498,959 from fiscal year 2019. This is largely due to the increase in general government and public safety expenditures. In fiscal year 2020, expenditures for governmental functions exceeded revenues by approximately \$22,551.

The general fund is the chief operating fund of the City. It is from here that the City pays for the public safety and other basic services it provides to its citizens. At the end of fiscal year 2020, unassigned fund balance of the general fund was \$2.2 million.

Overall, the general fund's performance resulted in revenues over expenditures in fiscal year 2020 of \$898,337. The City's overall general fund financial position improved due to increased revenues from the New Mexico Small Cities Assistance Fund and a decrease in transfers out to other funds.

**General Fund Budgetary Highlights**

The City's approved budget for expenditures totaled \$1,805,398 for the general fund. The general fund budget represents an increase of \$540,027 when compared to the approved budget from fiscal year 2019, which is mainly caused by transfers of \$550,000 received from other funds in fiscal year 2020. Actual budgetary basis expenditures for the general fund in fiscal year 2020 totaled \$955,215, representing a positive variance of \$850,183.

**Capital Assets**

The City's capital assets as of June 30, 2020 amount to \$8.2 million (net of accumulated depreciation). Capital assets include land, water rights, infrastructure, buildings and improvements, equipment and machinery, and vehicles, as follows:

	<b>2020</b>	2019
Land and water rights	<b>\$ 137,500</b>	\$ 137,500
Infrastructure	<b>6,848,293</b>	6,848,293
Buildings and improvements	<b>2,702,656</b>	2,678,806
Equipment and machinery	<b>364,408</b>	288,508
Vehicles	<b>421,313</b>	421,313
Less: Acumulated depreciation	<b><u>(2,282,935)</u></b>	<u>(1,761,271)</u>
Total capital assets, net	<b><u>\$ 8,191,235</u></b>	<u>\$ 8,613,149</u>

**State of New Mexico**  
**City of Rio Communities**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

For government-wide financial statement presentation purposes, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 5 to the basic financial statements for more details regarding capital assets.

**Long-Term Debt**

At the end of fiscal year 2020, the City had a note payable outstanding of \$107,902 for the purchase of emergency vehicles. The City decreased the balance of this note payable by \$52,488 from fiscal year 2019, which represents principal payments made on the City's note payable with the New Mexico Finance Authority.

At June 30, 2020, the City also reported a compensated absences liability of \$9,606.

See Note 6 to the basic financial statements for more details about the City's long-term debt activity.

**Economic Factors Affecting the Next Fiscal Year's Budget**

The City of Rio Communities is located in Valencia County. Valencia County, like the rest of urban New Mexico, has a strong and balanced economy. Employment in the area has been stable for the past three years.

The City receives approximately 30 percent of its annual operating budget for the general fund from gross receipts taxes.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances and to provide accountability for funds the City receives. If you have any questions about this report, or need additional financial information, contact:

City of Rio Communities  
360 Rio Communities Blvd.  
Rio Communities, New Mexico 87002

## Basic Financial Statements

## Government-Wide Financial Statements



**State of New Mexico**  
**City of Rio Communities**  
**Statement of Net Position**  
**June 30, 2020**

	Governmental Activities
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 2,729,860
Accounts receivable	<u>160,697</u>
Total current assets	2,890,557
Capital assets, net	<u>8,191,235</u>
Total assets	<u>11,081,792</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	23,160
Accrued payroll liabilities	8,902
Accrued interest	760
Compensated absences, current portion	9,606
Notes payable, current portion	<u>53,491</u>
Total current liabilities	95,919
Notes payable, net of current portion	<u>54,411</u>
Total liabilities	<u>150,330</u>
<b>Net Position</b>	
Net investment in capital assets	8,083,333
Restricted for:	
Public safety	295,284
Public works	134,579
Subsequent year's expenditures	150,540
Unrestricted	<u>2,267,726</u>
Total net position	<u>\$ 10,931,462</u>

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

**State of New Mexico**  
**City of Rio Communities**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>	Net (Expenses) Revenues and Changes in Net Position			
Governmental activities:				
General government	\$ (775,919)	\$ 8,088	\$ 479,890	\$ -
Public safety	(651,835)	-	309,169	-
Public works	(413,252)	-	-	-
Interest	(3,065)	-	-	-
Total governmental activities	\$ (1,844,071)	\$ 8,088	\$ 789,059	\$ -
General revenues:				
Gross receipt taxes				289,468
Property taxes				248,684
Franchise taxes				150,075
State shared taxes				303,062
Licenses and permits				26,118
Fines and forfeitures				2,665
Investment income				600
Other				3,701
Total general revenues				1,024,373
Change in net position				(22,551)
Net position, beginning of year, as restated (Note 11)				10,954,013
<b>Net position</b> , end of year				<b>\$ 10,931,462</b>

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

## Governmental Funds Financial Statements

**State of New Mexico**  
**City of Rio Communities**  
**Balance Sheet – Governmental Funds**  
**June 30, 2020**

	101 General Fund	209 Fire Protection Fund	300 Capital Projects Fund	403 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 2,247,939	\$ 8,971	\$ 68,037	\$ 707	\$ 404,206	\$ 2,729,860
Accounts receivable, net	<u>123,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,666</u>	<u>160,697</u>
Total assets	<u>\$ 2,370,970</u>	<u>\$ 8,971</u>	<u>\$ 68,037</u>	<u>\$ 707</u>	<u>\$ 441,872</u>	<u>\$ 2,890,557</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 13,076	\$ 10,084	\$ -	\$ -	\$ -	\$ 23,160
Accrued payroll liabilities	8,902	-	-	-	-	8,902
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>661</u>	<u>99</u>	<u>760</u>
Total liabilities	<u>21,978</u>	<u>10,084</u>	<u>-</u>	<u>661</u>	<u>99</u>	<u>32,822</u>
<b>Deferred inflows of resources</b>						
Unavailable revenue - property taxes	<u>26,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,242</u>
<b>Fund balances</b>						
Restricted	150,540	-	-	-	429,863	580,403
Committed	-	-	68,037	46	11,910	79,993
Unassigned	<u>2,172,210</u>	<u>(1,113)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,171,097</u>
Total fund balances	<u>2,322,750</u>	<u>(1,113)</u>	<u>68,037</u>	<u>46</u>	<u>441,773</u>	<u>2,831,493</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,370,970</u>	<u>\$ 8,971</u>	<u>\$ 68,037</u>	<u>\$ 707</u>	<u>\$ 441,872</u>	<u>\$ 2,890,557</u>

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

**State of New Mexico**  
**City of Rio Communities**  
**Reconciliation of the Governmental Funds**  
**Balance Sheet to the Statement of Net Position**  
**June 30, 2020**

<b>Total fund balance - governmental funds</b>		\$ 2,831,493
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets	10,474,170	
Less accumulated depreciation	<u>(2,282,935)</u>	
		8,191,235
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Notes payable	(107,902)	
Compensated absences	<u>(9,606)</u>	
		(117,508)
Delinquent property taxes not collected within sixty days after year-end are not considered "available" and are considered unavailable revenue in the governmental fund financial statements, but are considered revenue in the government-wide financial statements		
		<u>26,242</u>
<b>Net position - governmental activities</b>		<u><u>\$ 10,931,462</u></u>

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

**State of New Mexico**  
**City of Rio Communities**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance – Governmental Funds**  
**For the Year Ended June 30, 2020**

	101 General Fund	209 Fire Protection Fund	300 Capital Projects Fund	403 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Gross receipt taxes	\$ 148,644	\$ -	\$ -	\$ -	\$ 140,824	\$ 289,468
Property taxes	235,873	-	-	-	-	235,873
Franchise taxes	150,075	-	-	-	-	150,075
State shared taxes	261,287	-	-	-	41,775	303,062
Federal grants	-	-	-	-	3,913	3,913
State grants	475,977	281,589	-	-	27,580	785,146
Licenses and permits	26,118	-	-	-	-	26,118
Fines and forfeitures	2,665	-	-	-	-	2,665
Charges for services	6,615	-	-	-	1,473	8,088
Investment income	-	-	-	600	-	600
Other	3,179	522	-	-	-	3,701
Total revenues	<u>1,310,433</u>	<u>282,111</u>	<u>-</u>	<u>600</u>	<u>215,565</u>	<u>1,808,709</u>
<b>Expenditures</b>						
Current						
General government	652,891	-	-	-	-	652,891
Public safety	224,350	251,489	-	-	94,178	570,017
Public works	84,855	-	-	-	7,043	91,898
Debt service						
Principal	-	-	-	52,488	-	52,488
Interest	-	-	-	3,065	-	3,065
Capital outlay	-	74,260	3,500	-	21,990	99,750
Total expenditures	<u>962,096</u>	<u>325,749</u>	<u>3,500</u>	<u>55,553</u>	<u>123,211</u>	<u>1,470,109</u>
Excess (deficiency) of revenues over expenditures	<u>348,337</u>	<u>(43,638)</u>	<u>(3,500)</u>	<u>(54,953)</u>	<u>92,354</u>	<u>338,600</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	550,000	-	-	54,734	-	604,734
Transfers out	-	(54,734)	(350,000)	-	(200,000)	(604,734)
Total other financing sources (uses)	<u>550,000</u>	<u>(54,734)</u>	<u>(350,000)</u>	<u>54,734</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balances	898,337	(98,372)	(353,500)	(219)	(107,646)	338,600
Fund balances, beginning of year, as restated (Note 11)	<u>1,424,413</u>	<u>97,259</u>	<u>421,537</u>	<u>265</u>	<u>549,419</u>	<u>2,492,893</u>
<b>Fund balances, end of year</b>	<u>\$ 2,322,750</u>	<u>\$ (1,113)</u>	<u>\$ 68,037</u>	<u>\$ 46</u>	<u>\$ 441,773</u>	<u>\$ 2,831,493</u>

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

**State of New Mexico**  
**City of Rio Communities**  
**Reconciliation of the Governmental Funds Statement**  
**of Revenues, Expenditures, and Changes in**  
**Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2020**

<b>Net change in fund balances - governmental funds</b>		<b>\$ 338,600</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the general fund as expenditures, however, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	99,750	
Depreciation expense	<u>(521,664)</u>	
		(421,914)
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Net change in compensated absences		(4,536)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Issuance of long-term debt	-	
Principal payments on long-term debt	<u>52,488</u>	
		52,488
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Change in deferred inflows of resources related to delinquent property taxes.		<u>12,811</u>
<b>Change in net position - governmental activities</b>		<b><u><u>\$ (22,551)</u></u></b>

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

**State of New Mexico**  
**City of Rio Communities**  
**Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis) – General Fund**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Gross receipt taxes	\$ 394,000	\$ 394,000	\$ 370,256	\$ (23,744)
Property taxes	236,750	236,750	238,516	1,766
Franchise taxes	159,000	159,000	149,127	(9,873)
State shared taxes	-	-	63,978	63,978
State grants	225,000	225,000	475,977	250,977
Licenses and permits	7,450	7,450	5,343	(2,107)
Fines and forfeitures	5,400	5,400	2,665	(2,735)
Charges for services	40,000	40,000	6,631	(33,369)
Other	500	500	3,164	2,664
Total revenues	1,068,100	1,068,100	1,315,657	247,557
<b>Expenses</b>				
Current				
General government	1,352,778	1,352,778	646,009	706,769
Public safety	291,782	291,782	224,351	67,431
Public works	160,838	160,838	84,855	75,983
Total expenses	1,805,398	1,805,398	955,215	850,183
Excess (deficiency) of revenues over expenditures	(737,298)	(737,298)	360,442	(602,626)
<b>Other Financing Sources (Uses)</b>				
Transfers in	50,000	550,000	550,000	-
Transfers out	(192,543)	(192,543)	-	(192,543)
Total other financing sources (uses)	(142,543)	357,457	550,000	(192,543)
Net change in fund balance	(879,841)	(379,841)	\$ 910,442	\$ (795,169)
Budgeted cash carry forward	1,376,549	1,376,549		
Total	\$ 496,708	\$ 996,708		
<b>Reconciliation to GAAP basis:</b>				
Net change in fund balance (Budgetary basis)			\$ 910,442	
To adjust applicable revenue accruals and deferrals			(5,224)	
To adjust applicable expenditure accruals			(6,881)	
Net change in fund balance (GAAP basis)			\$ 898,337	

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



**State of New Mexico**  
**City of Rio Communities**  
**Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis) – Fire Protection Fund**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
State grants	\$ 281,589	\$ 281,589	\$ 281,589	\$ -
Other	-	-	522	522
Total revenues	281,589	281,589	282,111	522
<b>Expenses</b>				
Current				
Public safety	310,344	315,944	315,876	68
Total expenses	310,344	315,944	315,876	68
Excess (deficiency) of revenues over expenditures	(28,755)	(34,355)	(33,765)	454
<b>Other Financing Sources (Uses)</b>				
Transfers out	(55,554)	(55,554)	(54,734)	820
Total other financing sources (uses)	(55,554)	(55,554)	(54,734)	820
Net change in fund balance	(84,309)	(89,909)	\$ (88,499)	\$ 1,274
Budgeted cash carry forward	99,181	99,181		
Total	\$ 14,872	\$ 9,272		

**Reconciliation to GAAP basis:**

Net change in fund balance (Budgetary basis)	\$ (88,499)
To adjust applicable revenue accruals and deferrals	-
To adjust applicable expenditure accruals	(9,873)
Net change in fund balance (GAAP basis)	\$ (98,372)

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

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**1) History and Organization**

The City of Rio Communities (the “City”) was incorporated in 2013. The City operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (highways and streets), and general administrative services.

Financial Reporting Entity

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

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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.

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. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the City has no component units, and is not a component unit of another governmental agency.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**2) Summary of Significant Accounting Principles**

Accounting Standards

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The GASB is the standard-setting body for governmental accounting and financial reporting. GASB standards and interpretations constitute GAAP for governments.

Basis of Presentation

*Government-Wide Financial Statements.* The government-wide financial statements include a statement of net position and a statement of activities. These statements present information about the City as a whole. These statements include the financial activities of the overall entity, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements present the governmental activities of the City. Governmental activities generally are financed through general fund appropriations.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. Indirect expenses are allocated to program/functions that they benefit.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds. Separate statements for each fund category: governmental, proprietary and fiduciary are displayed, as applicable. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. The City reports the following major governmental funds:

- ◆ *General Fund*—is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- ◆ *Fire Protection Fund (59A-53-2, NMSA 1978)*—This fund accounts for state fire marshal funds used for the operation of the fire department.
- ◆ *Capital Projects Fund*—This fund accounts for state capital outlay funds used to purchase and repair City buildings as approved through City Council resolution.
- ◆ *Debt Service Fund*—This fund accounts for funds required to pay off the City's loans as approved through City Council resolution.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Measurement Focus and Basis of Accounting

*City-Wide Financial Statements.* The statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which eligibility requirements have been satisfied.

*Fund Financial Statements.* Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in its governmental funds to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred. However, principal and interest on general long-term liabilities and claims and judgments are recorded as fund liabilities and expenditures when they are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Revenue Recognition

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, subject to the availability criterion. 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, subject to the availability criterion. 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 City.

Cash and Cash Equivalents

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

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

Accounts Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2020, all receivables are considered to be 100% collectible.

In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied. Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Valencia County and remitted monthly to the City.

Capital Assets

According to Section 12-6-10 NMSA 1978, capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation on all capital assets is provided using the straight-line basis over the following estimated useful lives of the assets:

<u>Asset Class</u>	<u>Useful Life</u>
Infrastructure	30 years
Buildings and improvements	40 years
Equipment and machinery	5-15 years
Vehicles	5-10 years

Compensated Absences

Qualified employees are entitled to accumulate paid time off (PTO) according to a graduated leave schedule of 120 to 195 hours per year, depending upon the length of service and employees hire date.

Vested or accumulated PTO that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated PTO that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net position.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Deferred Outflows/Inflows of Resources

In addition to assets, the governmental funds balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a *consumption* of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until that time. The City reported no deferred outflows of resources at June 30, 2020.

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an *acquisition* of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by deferred inflows of resources. The City reports one type of deferred inflow which arises under the modified accrual basis of accounting. Accordingly, the financial statement line items “unavailable revenue – property taxes” is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The City has recorded \$26,242 related to property taxes considered “unavailable”.

Net Position and Fund Balance

In the government-wide financial statements, net position is classified into the following categories:

- ◆ *Net investment in capital assets*—Consists of capital assets, net of accumulated depreciation and outstanding principal balances attributable to the acquisition, construction, or improvement of those assets;
- ◆ *Restricted*—When constraints placed on an assets use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The basic concept is that restrictions are not unilaterally established by a reporting government itself and cannot be removed without the consent of those imposing the restrictions. This category of net position is intended to identify resources that were received or earned by the City with an explicit understanding between the City and the resource providers that the funds would be used for a specific purpose;
- ◆ *Unrestricted*—Consists of net position that does not meet the definition of the two preceding categories.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies fund balance primarily on the extent to which the City is bound to observe constraints imposed on the use of the resources reported in governmental funds. This statement provides the following classifications:

- ◆ *Nonspendable*—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ◆ *Restricted*—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- ◆ *Committed*—Amounts that can only be used for specific purposes to constraints imposed by formal action of the highest level of authority, the City Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specific use by taking the same type of action (for example, resolution or ordinance) it employed to previously commit those amounts;
- ◆ *Assigned*—Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed and should be reported as assigned fund balance. The City Council has not delegated the authority to assign amounts to any individuals or Commissions within the City;
- ◆ *Unassigned*—Residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.

The City’s policy for maintaining a minimum amount of fund balance for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. At a minimum, the budget shall ensure that the City holds cash reserves equal to 1/12th of the general fund’s annual expenditures as required by the New Mexico Department of Finance and Administration (NM DFA). This restricted fund balance for the City is \$150,540 at June 30, 2020.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Use of Estimates

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

Tax Abatements

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. For financial statement reporting purposes, this statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forego tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future.

The City has evaluated the requirements of GASB Statement No. 77 and has concluded that this disclosure requirement does not apply to the City.

Budgetary Data

Annual budgets of the City are prepared prior to June 1 and must be approved by resolution of the City Council and submitted to the NM DFA for State approval. Once the budget has been formally approved, any budget adjustment requests (BAR) must also be approved by the City Council and NM DFA. A separate budget is prepared for each fund of the City. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total by fund.

State law prescribes that the City's budget be prepared on the basis of cash receipts and cash expenditures. Therefore, budgetary comparison statements are prepared on a cash basis to compare actual revenues and expenditures with a cash basis budget, as amended. Since the budgetary basis differs significantly from the basis of accounting used to present financial statements in conformity with GAAP, a reconciliation of the budgetary comparison statements to the GAAP basis financial statements is presented at the bottom of each budgetary comparison statement.



**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

New Accounting Standards

The following GASB pronouncements, which may have a future impact on the City, have been issued, but are not yet effective, at June 30, 2020:

- ◆ GASB Statement No. 84, *Fiduciary Activities*
- ◆ GASB Statement No. 87, *Leases*
- ◆ GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- ◆ GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statement No. 14 and Statement No. 61*
- ◆ GASB Statement No. 91, *Conduit Debt Obligations*

The City will implement the new GASB pronouncements in the fiscal year no later than the required effective date. Management is still evaluating the financial impact of these pronouncements.

3) **Cash and Cash Equivalents**

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. Deposits of funds may be made in interest or noninterest-bearing checking accounts in one or more banks or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for at least 50% of the deposit amount in excess of the deposit insurance.

At June 30, 2020, the carrying amount of the City’s cash and cash equivalents was comprised of the following:

Carrying amount of deposits	\$ 2,729,077
Cash on hand	76
NMFA reserve funds	<u>707</u>
Total cash and cash equivalents	<u>\$ 2,729,860</u>
Statement of net position - cash and cash equivalents	<u>\$ 2,729,860</u>

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

3) Cash and Cash Equivalents – continued

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2020, the City’s bank deposits were exposed to custodial credit risk as follows:

	United Business Bank
Bank balance of deposits	\$ 2,802,981
Less: FDIC insurance coverage	(250,000)
Total uninsured deposits	2,552,981
Less: Pledged collateral at fair value	(1,500,000)
Total uninsured/uncollateralized deposits	\$ 1,052,981
Collateral requirement (50%)	\$ 1,401,491
Pledged collateral	1,500,000
Over (under) collateralized	\$ 98,509

4) **Accounts Receivable**

Accounts receivable of the City are as follows as of June 30, 2020:

	Nonmajor Governmental		
<i>Governmental activities</i>	General Fund	Funds	Total
Gross receipts tax	\$ 73,727	\$ 37,666	\$ 111,393
Property tax	31,739	-	31,739
Franchise tax	13,940	-	13,940
Other	3,625	-	3,625
Total accounts receivable, net	\$ 123,031	\$ 37,666	\$ 160,697

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**5) Capital Assets**

Capital assets activity for the year ended June 30, 2020 was as follows:

<i>Governmental activities</i>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets not being depreciated</i>				
Land and water rights	\$ 137,500	\$ -	\$ -	\$ 137,500
Total capital assets not being depreciated	<u>137,500</u>	<u>-</u>	<u>-</u>	<u>137,500</u>
<i>Capital assets being depreciated</i>				
Infrastructure	6,848,293	-	-	6,848,293
Buildings and improvements	2,678,806	23,850	-	2,702,656
Equipment and machinery	288,508	75,900	-	364,408
Vehicles	421,313	-	-	421,313
Total capital assets being depreciated	<u>10,236,920</u>	<u>99,750</u>	<u>-</u>	<u>10,336,670</u>
<i>Less accumulated depreciation</i>				
Infrastructure	(1,257,014)	(321,354)	-	(1,578,368)
Buildings and improvements	(240,885)	(127,990)	-	(368,875)
Equipment and machinery	(92,041)	(38,001)	-	(130,042)
Vehicles	(171,331)	(34,319)	-	(205,650)
Total accumulated depreciation	<u>(1,761,271)</u>	<u>(521,664)</u>	<u>-</u>	<u>(2,282,935)</u>
Capital assets being depreciated, net	8,475,649	(421,914)	-	8,053,735
Total capital assets, net	<u>\$ 8,613,149</u>	<u>\$ (421,914)</u>	<u>\$ -</u>	<u>\$ 8,191,235</u>

Depreciation expense for the year ended June 30, 2020 was charged to the following functions of the City's governmental activities:

General government	\$ 118,492
Public safety	81,818
Public works	321,354
	<u>\$ 521,664</u>

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**6) Long-Term Debt**

Changes in the City's long-term debt balances for the year ended June 30, 2020 were as follows:

<i>Governmental activities</i>	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
NMFA loan	\$ 160,390	\$ -	\$ (52,488)	\$ 107,902	\$ 53,491
Compensated absences	5,070	12,116	(7,580)	9,606	9,606
	<u>\$ 165,460</u>	<u>\$ 12,116</u>	<u>\$ (60,068)</u>	<u>\$ 117,508</u>	<u>\$ 63,097</u>

During fiscal year 2018, the City entered into a loan agreement with the New Mexico Finance Authority (NMFA) in the amount of \$261,488 to finance the purchase of emergency vehicles. The term of the loan is five years and carries a variable interest rate ranging from 1.66% - 2%. The loan will be paid from the revenues received pursuant to the Fire Protection Fund Law (NMSA 59A-53-1). There are no provisions for the acceleration of maturity of the principal of the loan in the event of a default in the payment of principal or interest on the loan.

Payments on the loan began on May 1, 2018. Debt service payments are liquidated from resources of the Fire Protection Fund via an intercept agreement with the New Mexico Public Regulation Commission.

Future scheduled payments on the NMFA loan are as follows:

<i>Years Ending June 30,</i>	Principal	Interest	Total
2021	\$ 53,491	\$ 2,117	\$ 55,608
2022	54,411	1,090	55,501
Total	<u>\$ 107,902</u>	<u>\$ 3,207</u>	<u>\$ 111,109</u>

Compensated absences are typically paid with general fund resources when used by employees.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**7) Transfers**

The City had the following interfund transfers, made to supplement other funding sources, for the year ended June 30, 2020:

<i>Governmental activities</i>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 550,000	\$ -
Corrections fund (nonmajor governmental fund)	-	(50,000)
Fire protection fund	-	(54,734)
Municipal street fund (nonmajor governmental fund)	-	(150,000)
Capital projects fund	-	(350,000)
Debt service fund	<u>54,734</u>	<u>-</u>
Total transfers in (out)	<u>\$ 604,734</u>	<u>\$ (604,734)</u>

**8) Retirement Plan**

During fiscal year 2020, the City was not enrolled in the Public Employees Retirement Association (PERA) or any other retirement benefit plan. The City paid its employees an additional 7% on top of its contracted wages to contribute to their Individual Retirement Accounts.

The City Council approved a resolution during fiscal year 2020 to participate in PERA as an affiliated public employer effective July 1, 2020. The City adopted the Municipal General Coverage Plan 1, the Municipal Police Plan 1, and the Municipal Fire Plan 1 within PERA.

**9) Risk Management**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The City participates in the New Mexico Self-Insurers' Fund risk pool.

The City has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the City which exceeds the insurance coverage, the City would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage has not changed significantly from prior years and coverages are expected to be continued.

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

9) Risk Management – continued

At June 30, 2020, no unpaid claims have been filed which exceed the policy limits and to the best of management’s knowledge and belief all known and unknown claims will be covered by insurance. The City is not aware of any major lawsuits that have been filed.

10) **Deficit Fund Balance**

The City had a deficit fund balance in the Fire Protection Fund (fund 209) of \$1,113. The City will cover this deficit with appropriations to be received in the upcoming fiscal year.

11) **Restatement of Previously Reported Amounts**

During fiscal year 2020, the City identified errors in its reported balances of County Fire GRT Fund, County EMS GRT Fund, and governmental activities receivables related to gross receipts tax revenues reported in the previous year. As a result of these errors, the City has restated previously reported fund balances and net position as follows:

	296 County Fire GRT Fund	297 County EMS Fund	Governmental Activities
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Fund balance/net position at June 30, 2019, as previously reported	\$ 12,825	\$ 211,129	\$ 10,930,767
Restatement to correct the balance of receivables related to gross receipts tax revenues at June 30, 2019	<u>5,673</u>	<u>17,573</u>	<u>23,246</u>
Fund balance/net position at June 30, 2019, as restated	<u>\$ 18,498</u>	<u>\$ 228,702</u>	<u>\$ 10,954,013</u>

**State of New Mexico**  
**City of Rio Communities**  
**Notes to the Financial Statements**  
**June 30, 2020**

**12) Concentrations**

The City depends on financial resources flowing from, or associated with, the State of New Mexico. Because of this dependency, the City is subject to changes in the specific flows of intergovernmental revenues based on modifications to State laws and appropriations.

## Other Supplementary Information



# State of New Mexico

## City of Rio Communities

### Nonmajor Governmental Fund Descriptions

*Corrections Fund.* This fund accounts for the proceeds of the State of New Mexico approved assessments for the municipal court, for which expenditures are designated for the care of prisoners. Authority is NMSA 1978, Section 33-2-25.

*Environmental Gross Receipts Tax (GRT) Fund.* This fund accounts for the 0.25% gross receipts tax funding used for the acquisition, construction, operation and maintenance of solid waste facilities, water facilities, wastewater facilities, sewer systems and related facilities. Authority is NMSA 1978, Section 7-19D-1 to 7-19D-11.

*Emergency Medical Services (EMS) Fund.* This fund accounts for annual grant from the Emergency Medical Service Fund Act. Funding is made available to municipalities in proportion to their needs, for use in the establishment and enhancement of local emergency medical services that assist in reducing injury and loss of life. Authority is NMSA 1978, Section 24-10A-1 to 24-10A-9.

*Law Enforcement Fund.* This fund accounts for state grants from the State of New Mexico which are to be utilized to enhance the efficiency and effectiveness of law enforcement protection. Authority is NMSA 1978, Section 29-13-1 to 29-13-9.

*Municipal Street Fund.* This fund accounts for gas tax and road cut ordinance funds used for repairing and maintaining the City's streets. Authority is NMSA 1978, Sections 7-24A-1 to 7-24A-21.

*County Fire GRT Fund.* This fund accounts for resources received from Valencia County for the operation of fire protection services. Authority is NMSA 1978, Section 7-20E-15.

*County EMS Fund.* This fund accounts for resources received from Valencia County for the operation of emergency medical services operations. Authority is NMSA 1978, Section 7-24-E-22.

*Wildland Protection Fund.* This fund accounts for reimbursements received for assistance with wildland fire protection. Authority is City Council resolution.

**State of New Mexico**  
**City of Rio Communities**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	201	202	206	211	216	296	297	298	Total
	Corrections	Environmental	EMS	Law	Municipal	County	County	Wildland	Nonmajor
	Fund	GRT	Fund	Enforcement	Street	Fire GRT	EMS	Protection	Governmental
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Funds
<b>Assets</b>									
Cash and cash equivalents	\$ 5,908	\$ 16,675	\$ 4,018	\$ 12,377	\$ 113,879	\$ 9,627	\$ 229,812	\$ 11,910	\$ 404,206
Accounts receivable, net	-	2,093	-	-	1,932	8,208	25,433	-	37,666
Total assets	<u>\$ 5,908</u>	<u>\$ 18,768</u>	<u>\$ 4,018</u>	<u>\$ 12,377</u>	<u>\$ 115,811</u>	<u>\$ 17,835</u>	<u>\$ 255,245</u>	<u>\$ 11,910</u>	<u>\$ 441,872</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>									
<b>Liabilities</b>									
Accrued interest	\$ 99	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99
Total liabilities	<u>99</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99</u>
<b>Fund balances</b>									
Restricted	5,809	18,768	4,018	12,377	115,811	17,835	255,245	-	429,863
Committed	-	-	-	-	-	-	-	11,910	11,910
Unassigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>5,809</u>	<u>18,768</u>	<u>4,018</u>	<u>12,377</u>	<u>115,811</u>	<u>17,835</u>	<u>255,245</u>	<u>11,910</u>	<u>441,773</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,908</u>	<u>\$ 18,768</u>	<u>\$ 4,018</u>	<u>\$ 12,377</u>	<u>\$ 115,811</u>	<u>\$ 17,835</u>	<u>\$ 255,245</u>	<u>\$ 11,910</u>	<u>\$ 441,872</u>

**State of New Mexico**  
**City of Rio Communities**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2020**

	201	202	206	211	216	296	297	298	Total
	Corrections	Environmental	EMS	Law	Municipal	County	County	Wildland	Total
	Fund	GRT	Fund	Enforcement	Street	Fire GRT	EMS	Protection	Nonmajor
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Governmental
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Funds
<b>Revenues</b>									
Gross receipt taxes	\$ -	\$ 10,783	\$ -	\$ -	\$ -	\$ 32,362	\$ 97,679	\$ -	\$ 140,824
State shared taxes	-	-	-	-	41,775	-	-	-	41,775
Federal grants	-	-	-	-	-	-	-	3,913	3,913
State grants	-	-	7,580	20,000	-	-	-	-	27,580
Charges for services	1,473	-	-	-	-	-	-	-	1,473
Total revenues	<u>1,473</u>	<u>10,783</u>	<u>7,580</u>	<u>20,000</u>	<u>41,775</u>	<u>32,362</u>	<u>97,679</u>	<u>3,913</u>	<u>215,565</u>
<b>Expenditures</b>									
Current									
Public safety	-	-	3,562	8,445	-	33,025	49,146	-	94,178
Public works	-	6,353	-	-	690	-	-	-	7,043
Capital outlay	-	-	-	-	-	-	21,990	-	21,990
Total expenditures	<u>-</u>	<u>6,353</u>	<u>3,562</u>	<u>8,445</u>	<u>690</u>	<u>33,025</u>	<u>71,136</u>	<u>-</u>	<u>123,211</u>
Excess (deficiency) of revenues over expenditures	<u>1,473</u>	<u>4,430</u>	<u>4,018</u>	<u>11,555</u>	<u>41,085</u>	<u>(663)</u>	<u>26,543</u>	<u>3,913</u>	<u>92,354</u>
<b>Other Financing Sources (Uses)</b>									
Transfers out	(50,000)	-	-	-	(150,000)	-	-	-	(200,000)
Total other financing sources (uses)	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net change in fund balances	(48,527)	4,430	4,018	11,555	(108,915)	(663)	26,543	3,913	(107,646)
Fund balances, beginning of year as restated (Note 11)	54,336	14,338	-	822	224,726	18,498	228,702	7,997	549,419
<b>Fund balances, end of year</b>	<u>\$ 5,809</u>	<u>\$ 18,768</u>	<u>\$ 4,018</u>	<u>\$ 12,377</u>	<u>\$ 115,811</u>	<u>\$ 17,835</u>	<u>\$ 255,245</u>	<u>\$ 11,910</u>	<u>\$ 441,773</u>

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Deposits by Financial Institution**  
**June 30, 2020**

Name/Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
<i>United Business Bank</i>				
Checking account - operating	\$ 2,372,971	\$ -	\$ (73,904)	\$ 2,299,067
Checking account - reserve	430,010	-	-	430,010
<i>New Mexico Finance Authority</i>				
Reserve fund	707	-	-	707
Petty cash	-	-	-	76
Total cash and cash equivalents	<u>\$ 2,803,688</u>	<u>\$ -</u>	<u>\$ (73,904)</u>	<u>\$ 2,729,860</u>

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Collateral by Financial Institution**  
**June 30, 2020**

Name/Collateral description	Reference	Current Market Value
<i>United Business Bank</i>		
Federal Home Loan Bank - Letter of Credit	2019-762	\$ 1,500,000

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Joint Power Agreements**  
**June 30, 2020**

Joint Powers Agreement	Participants	Responsible party	Description	Beginning and ending dates	Total estimated project amount and amount applicable to agency	Amount contributed by City during current fiscal year	Audit Responsibility	Fiscal agent and responsible reporting entity
Continuation of Services	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	Animal Control Services	7/1/2016 - Ongoing	\$ 20,000.00	\$ 13,861.70	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	E-911 Services	6/30/2018 - Ongoing	33,000.00	18,640.50	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
Corrections	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	Housing and care of prison detainees	7/22/2014 - Ongoing	50,000.00	-	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
VRECC	City of Rio Communities and VRECC	City of Rio Communities and VRECC	Provided enhanced 911 and dispatch services	7/1/2015 - Ongoing	-	-	City of Rio Communities and VRECC	City of Rio Communities and VRECC
Law Enforcement Protection	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	Designation of municipal law enforcement office to City of Rio Communities	7/7/2016 - Ongoing	150,000.00	150,000.00	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
Emergency Medical Services	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	As necessary medical direction on behalf of medical director and medical wast disposal	7/7/2016 - Ongoing	5,000.00	4,575.00	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
Roadside Installation	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County	Installation of city road signs	7/7/2016 - Ongoing	-	-	City of Rio Communities and Valencia County	City of Rio Communities and Valencia County
Mutual Wildfire Supression	City of Rio Communities and EMNRD	City of Rio Communities and EMNRD	Mutual wildfire suppression, management assistanc, cooperation and use of federal excess property	1/1/2016 - Ongoing	-	-	City of Rio Communities and EMNRD	City of Rio Communities and EMNRD
Countywide EMS Tax Transference (40%) ("EMS GRT VC")	City of Rio Communities Countwide (MOA)	City of Rio Communities Countwide (MOA)	Emergency communications and medical behavioral services tax	7/1/2016 - Ongoing	\$ -	\$ -	City of Rio Communities Countwide (MOA)	City of Rio Communities Countwide (MOA)

## Compliance Section



Independent Auditor’s Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards*

Mr. Brian S. Colón, Esq., New Mexico State Auditor  
Mark Gwinn, Mayor and the City Council  
City of Rio Communities, New Mexico

We have audited, 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, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and major special revenue funds of the State of New Mexico, City of Rio Communities (the “City”) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 11, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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 City’s financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2020-003, 2020-004, 2020-005, 2020-006 and 2020-007.

### **The City's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SJT Group LLC

Albuquerque, New Mexico  
December 11, 2020



**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**Section I — Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No
Other findings required to be reported under Section 12-6-5, NMSA 1978?	Yes

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

**Section II—Financial Statement Findings**

**2020-001 – Segregation of Duties (Significant Deficiency)**

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*Criteria:* A fundamental concept of a good system of internal control is a proper segregation of duties. Without adequate segregation of duties, the risk of an error or fraud occurring and going undetected increases. The basic premise is that not one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In situations where segregation of duties is not feasible, a higher level of management oversight is appropriate.

*Condition:* The Finance Officer/Treasurer and the Finance Clerk have full access to the City's general ledger and are also authorized as check signers for the City's deposit accounts. The Finance Officer/Treasurer is also responsible for performing the monthly bank reconciliation, and there was no one responsible for independently reviewing the bank statements or reconciliations during fiscal year 2020.

*Cause:* There is a limited number of finance personnel at the City, and the City Manager was terminated during fiscal year 2020. Because of the limited number of personnel at the City, these duties could not be segregated.

*Effect:* The lack of segregation of duties increases the possibility that errors and improper activities would not be detected.

*Auditor's Recommendation:* The City should assign the responsibility for reviewing the monthly bank statements and reconciliations to the Mayor Pro-Tem or a member of City Council.

*Management's Response:* Management has implemented mitigating controls that includes ensuring the Mayor and Mayor Pro-Tem review and sign-off on the monthly bank statements. Additionally, substantially all checks will be signed and endorsed by a signer that does not have general ledger access.

*Responsible Party:* Mayor and Mayor Pro-Tem

*Anticipated Completion:* October 2020

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section II—Financial Statement Findings—continued

**2020-002 (2019-002) – Financial Close and Reporting (Significant Deficiency)**

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*Criteria:* Maintenance of complete and accurate accounting records and preparation of annual financial statements and footnotes, required supplementary information, and supplementary information in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management, those charged with governance and other interested parties. Internal controls must be in place to safeguard assets and ensure accurate financial accounting and reporting. Fundamental to a good system of internal controls is thorough review processes, accurate record keeping of accounting transactions, and preparation of the annual financial statements.

*Condition:* The City did not accurately record fiscal year 2019 fire excise gross receipts tax and EMS gross receipts tax revenues in the proper period. As a result, the County Fire GRT Fund (fund 296) beginning fund balance was understated \$5,673 and the County EMS GRT Fund (fund 297) was understated \$17,573. Beginning net position for governmental activities was understated by \$23,246. The City has made positive progress with regard to financial close and reporting due to the hiring of a full-time Finance Officer/Treasurer in the current year.

*Cause:* The City did not have internal controls implemented to ensure gross receipts tax revenues were recorded in the proper period and in accordance with GAAP.

*Effect:* Failing to record fiscal year 2019 revenues resulted in an understatement of beginning fiscal year 2020 fund balances for the County Fire GRT Fund and the County EMS Fund and net position for governmental activities totaling \$23,246. A prior period restatement was required to correct these balances.

*Auditor's Recommendation:* The City should implement internal controls to ensure revenues are recorded in the proper period.

*Management's Response:* Management has implemented procedures to ensure that revenues received after year-end have been examined and recorded in the proper period

*Responsible Party:* Finance Officer / Treasurer

*Anticipated Completion:* June 2021

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

**Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978**

**2020-003 – Travel and Per Diem Act (Other Non-Compliance)**

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*Criteria:* According to 2.42.2.9 NMAC, a public officer or an employee may elect to be reimbursed actual expenses for lodging not exceeding the single occupancy room charge (including tax) in lieu of the per diem rate. Whenever possible, public officers and employees should stay in hotels which offer government rates. Agencies, public officers or employees who incur lodging expenses in excess of \$215 per night must obtain the signature of the agency head or chairperson of the governing board on the travel voucher prior to requesting reimbursement and on the encumbering document at the time of encumbering the expenditure.

*Condition:* The City Manager attended a conference out-of-state during fiscal year 2020 and incurred lodging expenses of \$2,542.25 for a five-night stay. These lodging expenses exceeded the \$215 per night maximum, and there was no evidence that this was approved by the City’s Mayor or the City Council. Additionally, the City Manager did not attend the conference on the last day, but the City paid for the last night of lodging expenses.

*Cause:* The City Manager did not obtain the approval of the City Mayor or City Council prior to scheduling or incurring the travel.

*Effect:* The City is not in compliance with the 2.42.2 NMAC regarding the travel and per diem act. Because the lodging expenses for this conference was not approved in advance as stated in 2.42.2.9 NMAC, and because the City paid for one additional night of lodging, the City overpaid \$1,682.25 for this travel.

*Auditor’s Recommendation:* The City should ensure that reimbursement of actual expenses in excess of amounts stated in 2.42.2.9 NMAC are approved by the City Mayor or City Council prior to the travel occurring.

*Management’s Response:* The employee involved has since been terminated. Management has also updated travel policies and procedures to explicitly conform with State requirements. All out of state travel must be approved by the City Council and the Finance Department to ensure compliance with all applicable laws and regulations.

*Responsible Party:* Finance Officer / Treasurer

*Anticipated Completion:* June 2021

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978—  
continued

**2020-004 – Fringe Benefits (Other Matters)**

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*Criteria:* According to IRS Publication 15-B, any fringe benefit provided to employees is taxable and must be included in the employee’s pay unless the law specifically excludes it. IRS Publication 15-B defines a fringe benefit as a form of pay for the performance of services, and as an example states that an entity provides an employee with a fringe benefit when they allow an employee to use a business vehicle to commute to and from work.

*Condition:* The City allows one of its employees to use a public vehicle to accomplish the duties of their job. However, the public vehicle is also used by this employee to commute to and from work each day, and this benefit has never been included in the Form W-2 for this employee.

*Cause:* The City does not have an approved policy in place regarding take-home vehicles and did not realize that the personal use of the City’s public vehicles represented a taxable fringe benefit to its employees.

*Effect:* The City is not in compliance with IRS Publication 15-B regarding taxable fringe benefits.

*Auditor’s Recommendation:* The City should implement a take-home vehicle policy to include requirements regarding the personal use of its public vehicles. The City should also ensure that any personal use of vehicles in 2020 is included as a fringe benefit to the applicable employees.

*Management’s Response:* Management has since stopped and prohibited the take home use of City vehicles. Appropriate policies and procedures will be developed if the City decides to allow the take home of vehicles in the future.

*Responsible Party:* Finance Officer / Treasurer

*Anticipated Completion:* December 2020

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978—  
continued

**2020-005 – Procurement (Other Non-Compliance)**

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*Criteria:* According to the City’s Procurement Policies and Procedures Manual, all standard purchases (with the exception of credit/check card and routine monthly purchases) require a purchase order to be completed and submitted to the purchasing department prior to making a purchase. Additionally, and in accordance with the State Procurement Code, tangible personal property purchases up to \$20,000 require no fewer than two quotes, tangible personal property purchases between \$20,000 and \$60,000 require at least three written quotes, and purchases of professional services up to \$60,000 will be procured at the best negotiated price through informal competitive proposals.

*Condition:* The following purchases made during fiscal year 2020 did not comply with the City’s Procurement Policies and Procedures Manual:

- ◆ Christmas decorations totaling \$10,374 were purchased, but there is no documentation that at least two quotes were obtained.
- ◆ The City contracted a professional services company to perform a park survey at an amount of \$24,970. There was no approved purchase order in place prior to entering into this contract, or prior to the park survey services beginning.
- ◆ The City purchased an advertisement in a magazine at an amount of \$13,000. There was no approved purchase order in place prior to entering making this purchase or prior to paying a 50% deposit on this advertisement.

*Cause:* The former City Manager bypassed the City’s established Procurement Policies and Procedures Manual when making these purchases.

*Effect:* These purchases did not comply with the City’s Procurement Policies and Procedures Manual. The purchases may not have been in the best interest of the City and the City could have paid less for these purchases had these procedures been followed.

*Auditor’s Recommendation:* The City should ensure that all employees understand and follow the Procurement Policies and Procedures Manual.

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978—  
continued

**2020-005 – Procurement (continued)**

*Management's Response:* The City Manager, who was responsible for making all these purchases has since been terminated. The City has updated procurement policies and procedures to be clearer about the procurement processes to be followed to ensure compliance with all applicable laws and regulations.

*Responsible Party:* Finance Officer / Treasurer

*Anticipated Completion:* June 2021

**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978—  
continued

**2020-006 – Anti-Donation Clause (Other Non-Compliance)**

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*Criteria:* According to the Constitution of the State of New Mexico, Article IX, Section 14, neither the state nor any county, school district or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation or in aid of any private enterprise.

*Condition:* During fiscal year 2020, the City credit card was used to purchase an item through eBay at a cost of \$537.19. However, the City never actually received the items that were purchased and never recovered the amount paid through the credit card.

*Cause:* The City did not properly research the vendor it purchased these items from and were not able to recover the amount paid.

*Effect:* The City indirectly made a donation to the vendor that it purchased these items from and thus violated the Constitution of the State of New Mexico, Article IX, Section 14.

*Auditor's Recommendation:* The City should limit purchases made over eBay or with vendors that have not been used in the past without first obtaining a vendor registration form and/or a Form W-9.

*Management's Response:* The City has updated policies and procedures to prohibit purchases from eBay and to also explicitly state that all purchases must be approved by the Finance Department prior to purchase.

*Responsible Party:* Chief Procurement Officer

*Anticipated Completion:* June 2021



**State of New Mexico**  
**City of Rio Communities**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978—  
continued

**2020-007 (2019-003) – Lack of Supporting Documentation (Other Non-Compliance)**

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*Criteria:* According to 2.2.2.10 D (2) of the New Mexico Administrative Code (NMAC), Requirements of Preparation of Financial Statements, the City shall maintain adequate accounting records in order to prepare the financial statements in accordance with GAAP.

*Condition:* The City did not maintain source documentation to support credit card expenditures. During our review of credit card expenditures for the months of November 2019 and March 2020 we found several expenditures totaling \$859 did not have supporting documentation. The City has made positive progress in this area as both the number and dollar amount of instances noted in the current period have decreased compared to prior year.

*Cause:* The City did not implement internal controls to ensure adequate supporting documentation was maintained for credit card expenditures.

*Effect:* The City did not maintain adequate accounting records and thus violated 2.2.2.10 D (2) of the New Mexico Administrative Code.

*Auditor's Recommendation:* The City should ensure that supporting documentation is maintained for all purchases including those made by credit card.

*Management's Response:* Management has implemented more stringent policies and procedures related to credit cards such as confiscation for habitual lack of providing supporting documentation. Employees have been reeducated on the procedures for credit purchases.

*Responsible Party:* Chief Procurement Officer

*Anticipated Completion:* June 2021

**State of New Mexico**  
**City of Rio Communities**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2020**

**2019-001 — Timely Deposits**

*Condition:* The City did not deposit cash receipts timely. During our assessment of twenty-five (25) deposits we found fifteen (15) deposits were not recorded or deposited daily. Due to turnover of the previous Treasurer in May 2019 and vacancies in the finance department there was minimal progress on the prior year finding.

*Current Status:* Resolved, corrective action was taken.

**2019-002 — Financial Close and Reporting**

*Condition:* The City did not internally maintain a chart of accounts that allowed for the timely and accurate preparation of the balance sheet for governmental funds. As a result, significant audit entries were required to accurately prepare the City's fund financial statements.

*Current Status:* Repeated and modified, see current year finding 2020-002.

**2019-003 — Lack of Supporting Documentation**

*Condition:* The City did not maintain source documentation to support expenditures. During our assessment of seventy-one (71) disbursements we found the following:

- ◆ Twelve (12) disbursements totaling \$7,956 did not have an invoice or other supporting documentation to support the expenditure;
- ◆ Forty-five (45) disbursements did not have a purchase order available for inspection; and,
- ◆ Three (3) months of purchasing cards and gas cards were missing receipts totaling \$4,524.

*Current Status:* Repeated and modified, see current year finding 2020-007.

**State of New Mexico**  
**City of Rio Communities**  
**Exit Conference**  
**For the Year Ended June 30, 2020**

An exit conference was held in a closed session on December 11, 2020. Present at the exit conference were:

For the City of Rio Communities:

Margaret "Betty" Gutjahr, Mayor Pro-Tem/Councilor  
Joshua Ramsell, City Councilor  
Stephanie Finch, Finance Officer/Treasurer  
Angela Valadez, Finance Clerk

For the SJT Group LLC:

Joshua Trujillo, Principal  
Jeremiah Armijo, Senior Manager

Preparation of the Financial Statements

The accompanying financial statements of the City have been prepared by the SJT Group LLC, the City's independent auditors, however, the financial statements are the responsibility of management.