

**EL PRADO WATER
AND SANITATION
DISTRICT**

Financial Statements

June 30, 2006

**(With Independent Auditors'
Report Thereon)**

Moss Adams LLP
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EL PRADO WATER AND SANITATION DISTRICT

Official Roster

As of June 30, 2006

Board of Directors

Telesfor R. Gonzales, Chairman

Chris J. Cisneros, Vice Chairman

Elaine Trujillo, Secretary/Treasurer

John Painter, Member

Carol Minton, Member

Management

Joy Garcia, General Manager

Christine Martinez, Assistant General Manager/Bookkeeper

Independent Auditors' Report

Board of Directors
El Prado Water and Sanitation District

We have audited the accompanying basic financial statements of the business-type activities and the aggregate remaining fund information of the El Prado Water and Sanitation District (District) as of June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2006, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison for the year then ended in conformity with the cash budgetary basis more fully described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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

Board of Directors
El Prado Water and Sanitation District

the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Albuquerque, New Mexico
January 29, 2008

**EL PRADO WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSIONS AND ANALYSIS
June 30, 2006**

This management's discussion and analysis (MD&A) of El Prado Water and Sanitation District (District) provides an overview of the District's financial performance for the fiscal year ended June 30, 2006. This discussion covers one year as this is the first year the District has prepared financial statements under Government Accounting Standards. In future years, it will cover two years.

Overview of the Financial Statements

The Statement of Net Assets of the District provide both long-term and short-term information about the District's overall financial status. The Statement of Activities and Change in Net Assets provides information about the operating revenues and expenses and non-operating revenues and expenses of the District. The Statements of Cash Flows provides information about the sources and uses of cash by the District.

Condensed Financial Information

Current assets	\$	472,841
Capital assets, net		3,681,264
Current liabilities		262,275
Total operating revenues		1,077,349
Total operating expenses		266,635
Total other income and expenses		2,897
Change in net assets		813,611
Total net assets, end of year		3,464,299

Financial Position

The District's current assets increased \$271,777 as of June 30, 2006. The changes from year to year are primarily due to the activity level in the accounts receivable from customers, grant receivable, and an increase in cash flow. Current liabilities increased by \$166,126 in fiscal year 2006 as a result of an increase in accounts payable due to vendors and others under construction agreements as of year-end.

Capital Assets

During the year ended June 30, 2006, the District acquired \$819,621 in capital assets and had depreciation expense of \$73,036. Water rights and land were purchased during the year ended June 30, 2006 for \$459,198, investment in construction in process was \$318,421, and purchases of other equipment were \$42,002.

**EL PRADO WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSIONS AND ANALYSIS (CONTINUED)
June 30, 2006**

At June 30, 2006, Construction in Progress consisted of Looping Line Phase I and II project, which began in 2003, Almsberger/Fresquez water and sewer extension, which began in 2005, and Well #3, which began in 2000.

Funding for the Looping Line Phase I Project consists of a \$300,000 USDA grant, a \$50,000 matching USDA loan requirement, and a \$50,000 NMFA grant. It is anticipated that in fiscal year 2007 an additional grant for \$459,000 and a \$51,000 loan will be obtained. Total estimated projected cost of the project is \$910,000. The current contract price is \$847,920. The amount expended as of June 30, 2006 is \$272,367.

Funding for Well #3 land consists of a State of NM SAP grant in the amount of \$100,000 for the purchase of additional land and water rights surrounding Well #3. The District purchased 1.5 acres of land for Well #3 for \$97,180.

Almsberger/Fresquez water and sewer extension expenses incurred through the fiscal year end is \$11,159.

During 2005, the District purchased 250 acres water rights and 336.389 acres. The water rights purchased were financed through a \$250,000 USDA loan and a RUS \$750,000 grant, in addition to state appropriations of \$350,000 and District funding of \$12,018. The land and water rights purchased occurred by four separate closings. Total cost for the purchase of 200 acres water rights was \$1,000,000. Total cost of the 336.389 acres of land, inclusive of 50 acres of waters rights, was \$112,018 for the land and \$250,000 for the water rights. The first closing occurred on May 26, 2005 and the second through fourth transaction during fiscal year 2006.

Fiscal 2006 Results of Operations

Total operating revenue for fiscal year 2006 decreased by \$304,421. The net change is due to several factors: grant money received from the USDA/RUS for the District's acquisition of water rights amounting to a net decrease of \$450,000.

Total operating expenses decreased by \$38,606 for fiscal year 2006 compared to fiscal year 2005 due primarily other project expenses incurred, legal fees, and the affect of cash to accrual adjustments made to books for audit purposes.

Contacting the District's Management

This report is meant to accurately describe the financial condition and position of the District.

If you have any questions about this report or need additional financial information, contact El Prado Water and Sanitation District @ P.O. Box 1110, El Prado, NM 87529.

EL PRADO WATER AND SANITATION DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

ASSETS

Current Assets	
Cash	\$ 193,038
Certificate of deposit	30,513
Accounts receivable, trade	54,035
Grants receivable	195,255
Total current assets	<u>472,841</u>
Capital Assets, at cost	
Accumulated depreciation and amortization	4,960,927
	<u>(1,279,663)</u>
Capital assets, net	<u>3,681,264</u>
Total assets	<u>4,154,105</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	237,290
Gross receipts taxes payable	1,070
Accrued liabilities	7,968
Notes payable, short-term portion	13,127
Deferred grant revenue	2,820
Total current liabilities	<u>262,275</u>
Long-Term Debt	
Notes payable, long-term portion	427,531
Total liabilities	<u>689,806</u>
Net Assets	
Unrestricted	223,693
Invested in capital assets, net of related debt	3,240,606
Total net assets	<u>\$ 3,464,299</u>

See Notes to Financial Statements.

**EL PRADO WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2006**

Operating Revenues	
Sales	<u>\$ 310,637</u>
Total operating revenues	<u>310,637</u>
Operating Expenses	<u>266,635</u>
Income from operations	<u>44,002</u>
Nonoperating Revenue (Expense)	
Lease income	11,016
Mil levy revenue	98,379
Capital grant revenue	668,332
Other income	1,572
Interest income	878
Interest expense	<u>(10,569)</u>
Total other income	<u>769,608</u>
Change in net assets	813,611
Total net assets, beginning	<u>2,650,688</u>
Total net assets, ending	<u><u>\$ 3,464,299</u></u>

See Notes to Financial Statements.

**EL PRADO WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2006**

Cash Flows From Operating Activities	
Cash received from customers and government agencies	\$ 250,828
Cash payments to vendors and employees	(128,673)
Other income	1,574
Lease income	11,016
	<hr/>
Net cash provided by operating activities	134,745
	<hr/>
Cash Flows From Non-Capital Financing Activities	
State appropriations	557,015
Local property taxes	95,968
	<hr/>
Net cash provided by non-capital financing activities	652,983
	<hr/>
Cash Flows From Capital and Related Financing Activities	
Purchases of equipment and water lines	(361,238)
Purchases of land	(209,198)
Purchases of water rights	(250,000)
New borrowings of long-term debt	50,000
Principal repayments on long-term debt	(11,376)
Interest paid on long-term debt	(10,569)
	<hr/>
Net cash used by capital and related financing activities	(792,381)
	<hr/>
Cash Flows From Investing Activities	
Interest on investment	878
	<hr/>
Net cash provided by investing activities	878
	<hr/>
Net increase in cash and cash equivalents	(3,775)
Cash and cash equivalents, beginning of the year	98,434
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Cash and cash equivalents, end of the year	\$ 94,659
	<hr/> <hr/>

See Notes to Financial Statements.

EL PRADO WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2006

Reconciliation of Change in Membership Equity to Net	
Cash Provided by Operating Activities	
Income from operations	\$ 44,003
Adjustments to reconcile increase in unrestricted membership equity to net cash provided by operating activities	
Depreciation and amortization	73,038
Changes in operating assets and liabilities	
Accounts receivable, trade	18,897
Accrued liabilities	(1,233)
Gross receipts tax payable	40
	<hr/>
Net cash provided by operating activities	<u><u>\$ 134,745</u></u>

See Notes to Financial Statements.

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. El Prado Water and Sanitation District (District) was established by order on August 12, 1981 in Taos County, New Mexico for the purpose of constructing, maintaining, and operating a water and sewer system for members of the District. The District serves approximately 280 units, providing drinking water and sewer services to the local people in the rural, non-Indian communities of the Taos Valley. The District has no component units.

Basis of Presentation. The accompanying financial statements have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The significant accounting policies are summarized below.

As a proprietary fund, the District's financial statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized as soon as the liability is incurred. Grant revenue is recognized when all eligibility requirements imposed by the provider are met.

Operating revenue and expenses are those incurred which relate directly to water and sewer provided to customers of the District. All other revenue and expenses are considered non operating.

Accounting Standards. The District follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under the provisions of that standard, the District has elected not to apply Statements on Financial Accounting Standards issued by the Financial Accounting Standards Board after November 1989.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash. For purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation at various times during the year. At June 30, 2006, there were no cash equivalents.

Accounts Receivable, Trade. Accounts receivable, trade, represent the amount earned based on existing terms under usage fees but uncollected revenues earned from customers.

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Accounts receivable, trade, are carried at original amount billed less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable, trade, are written off when deemed uncollectible. Recoveries of accounts receivable, trade previously written off are recorded when received. As of June 30, 2006, management has determined that no allowance for doubtful accounts is necessary. As all past due accounts have properly liens filed.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. At 120 days, a property lien is filed against the account holder's property. Interest is not charged on old accounts receivable.

Grants Receivable (Deferred Grant Revenue). Various reimbursement procedures are used for federal awards received by the District. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Grant receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred grant revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Generally, grants receivable or deferred grant revenue balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period.

Capital Assets. The District's policy is to capitalize all disbursements for furniture, equipment, and software in excess of \$5,000. Items with a cost of less than \$5,000 are expensed in the year of acquisition, except for all costs associated with the installation of new water lines, pumps and tanks, which are capitalized. Expenditures related to the maintenance of the existing water system are expensed in the current period. If the maintenance increases the usable life of the asset great than one year, then the disbursement is capitalized. The District capitalizes the cost of water rights; Water rights are not amortized as they have an indefinite life.

Depreciation. Depreciation is computed by the straight-line method over 40 years for all system property and equipment and over 7 years for other equipment.

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Accrued Employee Benefits. The Corporation's employees may accumulate paid personal time which is payable to the employee upon termination or retirement. Personal time costs are recognized as a liability when earned by the employee.

Revenue Recognition. Water usage fees are recognized when earned. These fees are ordinarily earned when a water meter reading is taken and the District has no further obligations with respect to the user. Grant and mil levy revenue is accrued as it is earned, if it is determined that collection is reasonably assured.

Operational expenses are recognized when all water and sewer usage requirements have been met. Grant reimbursement is recognized when earned.

Net Assets. The financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use. At June 30, 2006, there were no restricted net assets.

Unrestricted Assets - represent unrestricted liquid assets.

The District allocates expenses to restricted and unrestricted resources based on the budgeted source of funds.

NOTE 2. BUDGET AND BUDGETARY PROCESS

The Board of Directors adopts an annual operating budget, which can be amended by them throughout the year. The budget is also reviewed and approved by the Department of Finance and Administration, Local Government Division (DFA). Budgetary accounting is on a cash basis and excludes subsidized capital outlay and the related grants, and depreciation expense are not budgeted. Budgetary control is maintained at the fund level.

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. CASH

The total cash of the District consist of the following at June 30, 2006:

<u>Account</u>	<u>Bank</u>	<u>Bank Balance</u>
Checking Account - Water & Sewer Income Fund	Centinel Bank	\$ 117,755
Checking Account - Project Account	Centinel Bank	30,282
Checking Account - Customer Accounts Receivable	Centinel Bank	25,526
Checking Account - Operating	Centinel Bank	19,746
Checking Account - Project Accounts	Centinel Bank	<u>5,483</u>
Total cash		198,792
FDIC Insurance		<u>(100,000)</u>
Uninsured public funds		<u>\$ 98,792</u>
50% pledged collateral requirement per statute for		
Deposits		\$ 46,519
Amount under collateralized		<u>\$ 46,519</u>
Cash and cash equivalents per bank at June 30, 2006		\$ 198,792
Less reconciling items - outstanding checks		(6,554)
deposits in transit		<u>800</u>
Reconciled cash at June 30, 2006		<u>\$ 193,038</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$98,792 of the District’s bank balance of \$198,792 was exposed to custodial credit risk as it was uninsured and uncollateralized.

NOTE 4. CERTIFICATE OF DEPOSIT

The District holds a certificate of deposit at First Community Bank in the amount of \$30,513. The certificate bears an interest rate of 4.0% and matured on January 25, 2007. The certificate of deposit was renewed for another year and is covered by FDIC insurance.

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5. GRANTS RECEIVABLE

The following are grants receivable as of June 30, 2006:

		Date	Original Amount	Receivable
Taos County	Awarded	5/10/2006	\$ 25,000	\$ 25,000
NMFA	Awarded	5/20/2005	50,000	24,640
USDA/RUS	Awarded	11/8/2005	300,000	145,615
Total grants receivable				<u>\$ 195,255</u>

NOTE 6. CAPITAL ASSETS

The majority of the assets of the District are located on land owned by the District, and on private easements for the specific and registered use of the District.

	June 30, 2006			Ending balance
	Beginning balance	Increases	Decreases	
Capital assets being depreciated				
Equipment and water lines	\$ 2,879,768	42,002	-	2,921,770
Capital assets not being depreciated				
Land	231,324	209,198	-	440,522
Construction in progress	30,214	318,421	-	348,635
Water rights	1,000,000	250,000	-	1,250,000
Capital assets not being depreciated, at cost	1,261,538	777,619	-	2,039,157
Capital assets, at cost	4,141,306	819,621	-	4,960,927
Accumulated depreciation	(1,206,627)	(73,036)	-	(1,279,663)
Capital assets, net	<u>\$ 2,934,679</u>	<u>746,585</u>	<u>-</u>	<u>3,681,264</u>

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 7. LONG-TERM DEBT OBLIGATIONS

A summary of notes at June 30, 2006 is as follows:

Note payable to USDA-RUS, 4.25% stated interest, payable in monthly installments of \$219, dated December 8, 2006, due November 2045, secured by the waterworks and the distribution system, physical facilities, revenues, water charges, assessments, contract rights, accounts receivables, and general intangibles.	\$ 50,000
Note payable to USDA-RD-RUS, 4.25% stated interest, payable in monthly installments of \$1,085, dated May 26, 2005, due May 2045, secured by the waterworks and the distribution system, physical facilities, revenues, water charges, assessments, contract rights, accounts receivables and general intangibles.	247,362
Note payable to NMFA, 0% stated interest, .025% administrative fee, payable in annual installments of \$5,163 dated June 14, 2002, due June 14, 2022, secured by gross revenues of the District's joint water and wastewater utility system, less costs of operation and maintenance.	81,739
Note payable to NMFA, 0% stated interest, payable in annual installments of \$3,888, dated May 26, 1999, due June 14, 2022, secured by gross revenues of the District's joint water and wastewater utility system, less costs of operation and maintenance.	<u>61,557</u>
Total long-term debt obligations	440,658
Current maturities – amounts due within one year	<u>(13,127)</u>
Total long-term debt, less current maturities	<u>\$ 427,531</u>

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 7. LONG-TERM DEBT OBLIGATIONS (CONTINUED)

Principal maturities of long-term debt are as follows:

2007	\$ 13,127
2008	14,333
2009	14,448
2010	14,569
2011	14,578
2012-2016	65,803
2017-2021	70,662
2022-2026	38,955
2027-2031	38,836
2032-2036	48,013
2037-2041	59,358
2042-2046	<u>47,976</u>
	<u>\$ 440,658</u>

Activity in notes payable for the year ending December 31, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Notes payable	<u>\$ 402,034</u>	<u>50,000</u>	<u>(11,376)</u>	<u>440,658</u>

EL PRADO WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 8. RETIREMENT

Plan Description - Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

Funding Policy - Plan members are required to contribute 9.15% of their gross salary. The District is required to contribute 9.15%. The contribution requirements of plan members and the District are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. In 2002 a resolution was approved by the Board of Directors allowing the District, as employer, to pick up the member contributions required of PERA. The District's contributions to PERA on behalf of themselves and their employees for the years ending June 30, 2006, 2005 and 2004 were \$15,750, \$16,262, and \$11,850, respectively, equal to the amount of the required contributions. PERA issues separate financial statements which may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123.

EL PRADO WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2006

	Budget		Actual	Variance Over (Under)
	Original	Final		
Revenues				
Sales revenue	\$ 207,900	207,900	308,977	101,077
Other revenue	450	450	2,448	1,998
Mill Levy	80,000	80,000	98,378	18,378
Total revenues	<u>288,350</u>	<u>288,350</u>	409,803	<u>121,453</u>
Cash to balance budget	<u>36,210</u>	<u>36,210</u>		
Total	<u>\$ 324,560</u>	<u>324,560</u>	409,803	<u>121,453</u>
Capital grant revenue not budgeted			668,332	
Change in accruals and other			<u>12,680</u>	
Revenue per financial statements			<u>\$ 1,090,815</u>	
Expenses				
Operating	\$ 302,960	302,960	199,767	(103,193)
Debt service	21,600	21,600	23,155	1,555
Total expenditures	<u>324,560</u>	<u>324,560</u>	222,922	<u>101,638</u>
Principal portion of debt service			(12,586)	
Depreciation and amortization			73,038	
Change in accruals and other			<u>(6,170)</u>	
			<u>\$ 277,204</u>	

See Notes to Financial Statements.

**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***

Board of Directors
El Prado Water and Sanitation District

We have audited the basic financial statements of the business-type activities and the aggregate remaining fund information of the El Prado Water and Sanitation District (District) as of and for the year ended June 30, 2006, and have issued our report thereon dated January 29, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we also noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items FS 06-01, FS 06-02 and FS 06-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions and, accordingly, would not necessarily describe all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item FS-06-2 to be a material weakness.

Board of Directors
El Prado Water and Sanitation District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted other instances of noncompliance that are required to be reported under Section 12-6-5 NMSA 1978, which are described in the accompanying Schedule of Audit Findings and Responses as findings FS 06-1, FS 06-3 and FS 06-5.

This report is intended solely for the information and use of the District and State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
January 29, 2008

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2006**

Not audited

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006**

FS 06-1 Capitalization Policy for Self-Constructed Fixed Assets

CONDITION

In testing fixed assets, we noted that the District has a capitalization policy, however, there is no written policy related to the capitalization of self-constructed fixed assets, including the District's methodology for determining the payroll costs to be capitalized.

CRITERIA

To ensure that accounting policies, such as the capitalization policy, are consistently followed over time; they must be communicated and should be in written form. Specifically, there should be a written policy adopted and approved by the Board of Directors related to the capitalization of self constructed fixed assets, including payroll costs.

CAUSE

The District did not consider the need for a written policy.

EFFECT

Without a written policy, costs that are capitalized may change over time and become noncompliant with accounting principles generally accepted in the United States of America (GAAP) and have a material affect on the financial statements.

RECOMMENDATION

We recommend the District prepare a written policy related to the capitalization procedures for self-constructed fixed assets, including capitalized payroll costs. This policy should be adopted and approved by the Board of Directors.

MANAGEMENT'S RESPONSE

We concur. While we have historically capitalized self-constructed fixed assets, which include a percentage of payroll, it is appropriate to memorialize that practice with a policy that includes a written criteria on the capitalization of labor.

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2006**

FS 06-2 Financial Reporting - Double Entry Accounting

CONDITION

The District maintains its books and records using a manual, single entry, cash basis accounting system.

CRITERIA

In accordance with Section 6-6-3, NMSA 1978, local public bodies are to keep adequate records and accounts in their respective offices. Sound accounting practices require accurate and reliable accounting processes and procedures be followed.

CAUSE

The District uses a single entry, cash basis accounting system using offline spreadsheets to track account balances.

EFFECT

Without an automated accrual based, double entry accounting system, errors are likely to occur in reporting.

RECOMMENDATION

We recommend that the District purchase and implement a double entry, accrual based accounting software package. The District would be better able to produce an accrual based trial balance and internal financial statements.

MANAGEMENT'S RESPONSE

We concur. The District realizes the importance of utilizing an all inclusive accounting software package but due to finances, will likely not be able to purchase one in the near future. The District does have QuickBooks and currently utilizes it as a double check for their manual accounting procedures. The District will make a reasonable attempt to transition more of its accounting onto QuickBooks. Training will be secured for proper utilization and familiarity with accrual based accounting.

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2006**

FS 06-3 Audit Report

CONDITION

The District submitted the audit report subsequent to the December 1, 2006 deadline required by the State Auditor. The report was submitted to the State Auditor on March 27, 2008.

CRITERIA

State Audit Rule 2.2.2.9 (A), NMAC state that special districts are required to submit the audit report for the year ended June 30, 2006 on or before December 1, 2006.

CAUSE

The District was unable to submit the June 30, 2006 audit report on a timely basis. As a result, the District is not in compliance with State of New Mexico requirements.

EFFECT

The District is not in compliance with this state regulation and timely audited information is not available to users.

RECOMMENDATION

The District must ensure that all future audit reports are filed in a timely manner. The District should ensure this process is timely in the future through communication with the new State Auditor.

MANAGEMENT'S RESPONSE

This was the District's first audit. Management has already begun a planning process for the next audit, and is working with the external auditors to meet all deadlines.

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2006**

FS 06-4 Timely Reconciliation of Capital Asset Inventory

CONDITION

The annual audit for the District was due to the State Auditor's Office by December 1, 2006. The auditors were not provided with complete and accurate supporting schedules relating to capital assets until August 2007. We were unable to perform testwork of capital asset activity in a timely manner.

CRITERIA

Per Section 12-6-10, NMSA 1978, the District must maintain an inventory of capital assets, which shall be tested at the time of the annual audit.

CAUSE

The District never tracked equipment purchases and disposals throughout the year, and never reconciled activity relating to land, buildings, and construction projects from inception to date.

EFFECT

Capital asset accounts were never tracked life to date. Capital assets may not be listed that are in use or present in the District.

RECOMMENDATION

We recommend that the management track all capital asset activity throughout the year and reconcile the information with the information maintained in the vendor files no less than quarterly. Final annual reports should be available for internal and external audit review no later than 60 days subsequent to the fiscal year end.

MANAGEMENT'S RESPONSE

The District is implementing a form to be used for Capital Asset recognition for construction projects. Reports will be available within 60 days subsequent to fiscal year end.

**EL PRADO WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2006**

FS 06-5 Pledged Collateral

CONDITION

Cash deposited at one banking institution exceeds the \$100,000 FDIC insurance amount. The District does not have pledged collateral to cover the amount greater than \$100,000.

CRITERIA

According to 6-10-17, NMSA 1978, the District must maintain pledged collateral for deposits in banks, savings and loan associations, or credit unions, in an aggregate amount equal to one half of the amount of public money in each account.

CAUSE

The District was not aware of the requirement for collateralization.

EFFECT

The District's bank deposits greater than \$100,000 of the FDIC insured limit are at risk for loss.

RECOMMENDATION

We recommend that the District obtain the required collateralization with its banking institution.

MANAGEMENT'S RESPONSE

We concur.

**EL PRADO WATER AND SANITATION DISTRICT
EXIT CONFERENCE
June 30, 2006**

On February 11, 2008, the contents of this report were discussed at an exit conference. The following individuals attended.

El Prado Water and Sanitation District:

Telesfor R. Gonzales, Chairman
John S. Painter, Member
Carol Minton, Member
Joy Garcia- General Manager
Christine Martinez- Asst. General Manager

Moss Adams LLP:

Clarke Cagle, Senior Manager
Katrina B. Lucero, Manager

These financial statements were prepared with the assistance of Moss Adams LLP from the original books and records of the District.