

State of New Mexico
ANTHONY WATER
AND SANITATION DISTRICT
Anthony, New Mexico

JUNE 30, 2008

INDEPENDENT AUDITORS' REPORT
ANNUAL FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
JUNE 30, 2008

	<u>PAGE</u>
Table of Contents	2
Function of Entity & Official Roster	3
Financial Section:	
Independent Auditors' Report	4
Financial Statements:	
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information:	
Statement of Revenues and Expenditures Budget (Non-GAAP Budgetary Basis) and Actual (Cash Basis)	24
Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	25
Federal Financial Assistance: Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	27
Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	33
Exit Conference	39

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
FUNCTION OF ENTITY & OFFICIAL ROSTER
JUNE 30, 2008

The Anthony Water and Sanitation District (District) was organized on January 30, 1978 under the New Mexico Statutes Chapter 73 Article 21 to serve a public use and promote the health, safety, prosperity, security and general welfare of the inhabitants of said district. The district was created for the purpose of: (A) purchasing, acquiring, establishing or constructing waterworks to supply water for domestic, commercial and industrial purposes by any available means to persons within and without the boundaries of the district. For this purpose, the district has the power to extend its water lines outside of the boundaries of the district for the purpose of securing a source of water supply or for the purpose of supplying the water to any lands of the United States, New Mexico, or Indian reservation for use by any person, firm or corporation; (B) purchasing, acquiring, establishing or constructing sanitary sewers or a system of sewage disposal, garbage or refuse disposal; (C) purchasing, acquiring, establishing or constructing street infrastructures; (D) purchasing, acquiring, establishing or constructing park and recreational improvements; (E) purchasing, acquiring, establishing or constructing or operating other public facilities or economic development projects; or (F) all of the improvements in items A through E or any combination of them within or without the district. The district serves approximately 2,700 active meter customers.

BOARD OF DIRECTORS

Yolanda Alvarez	Chairman
Velma Navarrette	Member
Ron Gillette	Member

ADMINISTRATIVE OFFICIALS

Patrick Banegas	Superintendent
Loren Schoonover	Office Manager

Beckham & Penner, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 6TH ST. N.E., P.O. BOX 179

SOCORRO, NEW MEXICO 87801

PHONE 575/835-1091 FAX 575/835-1224

bpccpa@sdac.org

INDEPENDENT AUDITORS' REPORT

Mr. Hector Balderas, NM State Auditor and
The Board of Directors of
Anthony Water and Sanitation District
Anthony, New Mexico

We have audited the accompanying financial statements of the business-type activities of Anthony Water and Sanitation District (District), as of and for the year ended June 30, 2008, which collectively comprise the District's financial statements as listed in the table of contents. We have also audited the budgetary comparison statement of the District, presented as supplementary information for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of the internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 opinions.

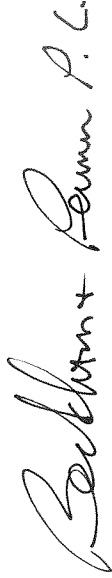
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Anthony Water and Sanitation District, as of June 30, 2008, and the respective changes in financial position, and cash flows thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the Anthony Water and Sanitation District for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, continued

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2010, on our consideration of Anthony Water and Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Anthony Water and Sanitation District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our Audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



July 21, 2010

Beckham & Penner P.C.

Certified Public Accountants

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 514,717
Receivable from customers (net of allowance \$22,250)	204,230
Grants Receivable	52,636
Inventory of system parts & supplies	11,767
Prepaid expenses & insurance	13,590
Total current assets	<u>796,940</u>
Other Assets	
Restricted cash - debt reserves	221,035
Capital assets not being depreciated	2,050,853
Capital assets (net of accumulated depreciation of \$5,803,568)	8,648,487
Intangible assets (net of accumulated amortization of \$438,600)	833,400
Total other assets	<u>11,753,775</u>
Total assets	<u><u>\$ 12,550,715</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable vendors	\$ 68,448
Accounts payable construction	125,561
Accrued interest	5,109
Accrued payroll taxes and benefits	33,772
Accrued payroll and compensated absences	51,594
Customer meter deposits	113,599
Notes payable, current portion	74,858
Total current liabilities	<u>472,941</u>
Long-Term Liabilities:	
Notes payable, net of current portion	<u>2,440,951</u>
Net Assets:	
Invested in capital assets, net of related debt	9,016,931
Restricted:	
Debt Service	221,035
Unrestricted	398,857
Total net assets	<u>9,636,823</u>
Total liabilities and net assets	<u><u>\$ 12,550,715</u></u>

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
 ANTHONY WATER AND SANITATION DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2008

Operating Revenues:	
Charges for services	\$ 1,561,942
Connection fees	159,092
Other revenues	118,501
Total operating revenues	<u>1,839,535</u>
Operating Expenses:	
Personnel services and benefits	647,296
Other operating expenses	956,140
Depreciation	432,916
Amortization	31,800
Allowance for bad debts	150
Total operating expenses	<u>2,068,302</u>
Operating income (loss)	<u>(228,767)</u>
Non-Operating Revenues (Expenses):	
Gain on sale of capital assets	13,888
Non-Capital grant expenses	(185,249)
Interest income	17,757
Interest expense	(116,553)
Total non-operating revenues (expenses)	<u>(270,157)</u>
Income (loss) before capital contributions	<u>(498,924)</u>
Capital Contributions:	
Grant Revenues:	
State	32,623
Federal	663,290
Total capital contributions	<u>695,913</u>
Change in net assets	196,989
Net assets - beginning of year	9,439,834
Net assets - end of year	<u><u>\$ 9,636,823</u></u>

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,792,703
Cash paid to suppliers for goods and services	(958,978)
Cash paid to and on behalf of employees	(629,434)
Net cash provided by operating activities	<u>204,291</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(696,333)
Principal paid on notes payable	(69,689)
Interest paid on notes payable	(109,306)
Proceeds from capital grants	458,028
Proceeds from capital loans	258,000
Proceeds from sale of capital assets	36,788
Increase in customer meter deposits	5,803
Net cash used for capital and related financing activities	<u>(116,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	17,757
Net cash provided by investing activities	<u>17,757</u>
Net increase in cash	105,339
Cash, Beginning of year	630,413
Cash, End of year	<u>\$ 735,752</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	(228,767)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	432,916
Amortization	31,800
Allowance for bad debts	150
Change in Assets and Liabilities:	
Change in accounts receivable and grants receivable	(46,832)
Change in supply inventory and prepaid insurance	(2,681)
Change in accounts payable and accrued expenses	17,705
Net cash provided by operating activities	<u>\$ 204,291</u>
CASH ENDING:	
Cash	514,717
Restricted cash	221,035
Total cash reported in the Statement of Net Assets	<u>\$ 735,752</u>

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview:

The Anthony Water and Sanitation District (District) in Anthony, New Mexico has been determined to be a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation.

The District has a Board of Directors that consists of three elected officials who are responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District. The purpose of the District is to provide water and wastewater services for the users within and without the boundaries of the district.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

Reporting Entity

Criterion for determining the entity for financial reporting purposes is whether the governing body (Board of Directors) exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the application of these criteria, the District has no component units, and is not a component unit of another governmental agency.

Basic Financial Statements

The District has only one fund. The operations of the District include both water and wastewater sanitation sewer services. This activity is accounted for in a proprietary fund, which is a business type activity, generally financed with fees charged to users. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. The District does not have any fiduciary funds.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all applicable Financial Accounting Standard Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District has elected not to apply FASB pronouncements issued after November 30, 1989. After November 30, 1989, the District applies all relevant Governmental Accounting Standards Boards (GASB) pronouncements.

The financial statement reports were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used regardless of when the related cash flows take place. Operating income reported in the financial statements includes revenue and expenses related to the primary and continuing operation of the fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Principal operating revenues are charges to customers for sales and services. The District also recognizes as operating revenue, connection fees intended to recover the cost of connecting new customers to the system. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The reported net assets are segregated into invested in capital assets, net of related debt, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

Cash and Cash Equivalents

The District's cash is 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
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash is funds set aside in a separate bank account and restricted through a Board of Directors resolution as required by the New Mexico Environment Department and the Rural Utilities Service debt agreements. See Note 5 and 8.

Accounts Receivable

Accounts receivable represents the amounts due from customers' water and sewer accounts. The allowance for doubtful accounts was \$22,250 at year end. There was an increase of \$150 in the allowance for doubtful accounts during the fiscal year. The allowance consists primarily of amounts owed by renters who have moved from the serviced property.

Inventory

Inventories consist of system parts and supplies valued at cost using the first in first out method of accounting. An actual inventory is taken on an annual basis.

Capital Assets

Capital assets are valued at historical cost. The District defines capital assets as assets with lives greater than one year and a cost or donated value greater than \$5,000. Donated capital assets are valued at their estimated fair value on the date donated. Software is capitalized and depreciated through the equipment category. Repairs and maintenance are recorded as expenditures; improvements are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment, Vehicles and Software	5 - 10 years
Buildings, Improvements and plant/system	20 - 50 years

Intangible Assets

Intangible assets consist of water rights. Intangible assets are recorded at cost and amortized over 40 years on a straight line basis.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

Water and sanitation districts follow procedures that are promulgated by the New Mexico Department of Finance and Administration, Local Government Division. The procedures established by the Department of Finance and Administration, Local Government Division, are not consistent with GAAP; budgets are adopted on the modified cash basis. Under the budgetary basis, principal payments on debt are considered expenditures, purchase of capital assets are expenditures and depreciation is not recognized as an expense. The Board approves the original budget at a public meeting for which legal notices are published. The public is invited to comment at the meeting. The original budget must be approved by the District's Board and the Local Government Division and may be subsequently amended. Local Government Division approval is required for any revisions that alter the total budgeted expenditures. Actual expenditures may not legally exceed the appropriations in total. Budget control for expenses is by category of line item. Formal budgetary integration is employed as a management control device. Appropriations lapse at the end of the fiscal year.

Vacation and Sick Pay

It is the District's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits, after they have attained the status of permanent employees, which will be paid to employees upon separation from service. Employees who have been employed by the District for more than five years are paid ten percent of their accumulated sick leave upon separation. The amount of accumulated sick leave is also limited by District policy.

Contributed Capital

On July 1, 2000, the District was required to adopt Governmental Accounting Standards Board's (GASB) Statement No.33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital. Previously, grants, entitlements, shared revenue and the fair market value of donated property received by the District which were restricted for the acquisition or construction of capital assets were recorded as contributed capital.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

Use of Estimates

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

NOTE 2. CASH

Deposits of funds may be made in interest or non-interest bearing accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the state board of finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of the deposit.

Excess funds may be temporarily invested in securities which are issued by the state or by the United States Government, or by their departments or agencies, and which are either direct obligations of the state or the United States or are backed by the full faith and credit of those governments. State statutes authorize the investment of the District's funds in a variety of instruments including certificate of deposits and other similar obligations, state investment pool and money market accounts. The District is also allowed to invest in United States Government obligations. All funds of the District must follow the above investment policies.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2. CASH (continued)

New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution. According to the Federal Deposit Insurance Authority public unit, deposits are funds owned by the District. Time deposits, savings deposits and interest bearing accounts of a public unit in an institution in the same state will be insured separate from the public unit's demand deposits at that same institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

The following schedule is designed to disclose the level of custodial credit risk assumed by the District based upon how its deposits were insured or secured with collateral at June 30, 2008.

Total of deposits in bank	\$ 809,435
Less FDIC coverage	<u>(385,756)</u>
Uninsured public funds	\$ 423,679
Pledged Collateral held by the pledging bank's trust department or agent but not in the District's name	<u>(404,595)</u>
Uninsured and uncollateralized	<u>\$ 19,084</u>

The amount above identified as uninsured (\$423,679) is subject to custodial credit risk. This 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. This amount is, however, mostly collateralized by the banks with securities held by the bank's agent and under the name of banks.

As of June 30, 2008, the District's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 19,084
Uninsured and collateral held by bank but not in the District's name	<u>404,595</u>
Custodial Credit Risk	<u>\$423,679</u>

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2. CASH (CONTINUED)

The various bank account balances were collateralized as shown in the following schedule:

Account	Account Type	Balance Per Banks				Total Balance Per Banks
		Wells Fargo	Bank of the West	White Sands Federal Credit Union	Citizens Bank	
Water/Sewer General	Demand	\$ 0	\$ 33,315	\$ 0	\$ 0	\$ 33,315
Water Tap	Demand	0	90,163	0	0	90,163
Safe Water	Demand	0	0	0	0	0
Payroll Checking	Demand	0	0	0	0	0
Business Money Market	Time	564	0	0	0	564
Cash Management	Time	0	304,141	0	0	304,141
Projects Regular	Demand	0	0	5,839	0	5,839
Projects NMFA	Demand	0	75,000	0	0	75,000
Certificate of deposit	Time	10,196	0	0	0	10,196
Effluent Outfall	Demand	28,988	0	0	0	28,988
Industrial Park	Demand	0	25	0	0	25
Projects Water	Time	0	0	13,547	0	13,547
Projects Water	Time	0	0	26,622	0	26,622
Debt Service Money Market	Time	<u>0</u>	<u>0</u>	<u>0</u>	<u>221,035</u>	<u>221,035</u>
<i>Total amount of deposits</i>		<u>39,748</u>	<u>502,644</u>	<u>46,008</u>	<u>221,035</u>	<u>809,435</u>
FDIC coverage		<u>39,748</u>	<u>200,000</u>	<u>46,008</u>	<u>100,000</u>	<u>385,756</u>
Total uninsured public funds		<u>0</u>	<u>302,644</u>	<u>0</u>	<u>121,035</u>	<u>423,679</u>
Collateral requirements (50% of uninsured public funds)		0	151,322	0	60,517	
Pledged security by banks		<u>0</u>	<u>500,743</u>	<u>0</u>	<u>101,951</u>	
Over (under) collateralization		<u>0</u>	<u>349,421</u>	<u>0</u>	<u>41,433</u>	
Uninsured and Uncollateralized		<u>0</u>	<u>0</u>	<u>0</u>	<u>19,084</u>	

Collateral pledged by Bank of the West is UNMHG 914684CG8 due 08/01/2010 \$156,794 and UNMHG 914684CS2 due 08/01/2020 \$343,949 for a total of \$500,743.

Collateral pledged by Citizens Bank is FFCEB due October 11, 2012 \$101,951.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2. CASH (CONTINUED)

The various bank account reconciliations are shown in the following schedule:

Account	Account Type	Balance Per Bank	Deposits in Transit	Outstanding Checks	Balance per Books
Water/Sewer General	Demand	\$ 33,315	\$ 3,501	\$ 78,528	\$ -41,712
Water Tap	Demand	90,163	315	0	90,478
Safe Water	Demand	0	698	698	0
Payroll Checking	Demand	0	0	469	-469
Business Money Market	Time	564	0	0	564
Cash Management	Time	304,141	698	0	304,839
Projects Regular	Demand	5,839	0	0	5,839
Projects NMFA	Demand	75,000	0	0	75,000
Certificate of deposit	Time	10,196	0	0	10,196
Effluent Outfall	Demand	28,988	0	0	28,988
Industrial Park	Demand	25	0	0	25
Projects Water	Time	13,547	0	0	13,547
Projects Water	Time	26,622	0	0	26,622
Debt Service Money Market	Time	<u>221,035</u>	<u>0</u>	<u>0</u>	<u>221,035</u>
<i>Total amount of deposits</i>		<u>809,435</u>	<u>5,212</u>	<u>79,695</u>	<u>734,952</u>
Petty Cash					<u>800</u>
Total Reconciled Cash Balances Per Books					<u>\$735,752</u>
Total as Reported in the Financial Statements:					
Statement of Net Assets					
Cash and cash equivalent					\$514,717
Restricted cash – debt reserve					<u>221,035</u>
Total cash per financial statements					<u>\$735,752</u>

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type capital assets, not being depreciated:				
Land, well sites, and easements	\$879,085	\$0	\$22,900	\$856,185
Construction in process	<u>456,528</u>	<u>738,140</u>	<u>0</u>	<u>1,194,668</u>
<i>Total capital assets, not being depreciated</i>	<u>1,335,613</u>	<u>738,140</u>	<u>22,900</u>	<u>2,050,853</u>
Business-type capital assets, being depreciated:				
Buildings	1,183,650	0	0	1,183,650
Water and sewer plant/system	12,497,987	0	0	12,497,987
Equipment and vehicles	<u>797,355</u>	<u>83,754</u>	<u>110,691</u>	<u>770,418</u>
<i>Total business-type capital assets, being depreciated</i>	<u>14,478,992</u>	<u>83,754</u>	<u>110,691</u>	<u>14,452,055</u>
Less accumulated depreciation for:				
Buildings	215,251	40,112	0	255,363
Water and sewer plant/system	4,658,579	323,747	0	4,982,326
Equipment and vehicles	<u>607,513</u>	<u>69,057</u>	<u>110,691</u>	<u>565,879</u>
<i>Total accumulated depreciated</i>	<u>5,481,343</u>	<u>432,916</u>	<u>110,691</u>	<u>5,803,568</u>
<i>Business-type capital assets, net</i>	<u>\$10,333,262</u>	<u>\$388,978</u>	<u>\$22,900</u>	<u>\$10,699,340</u>
<u>Intangible Assets</u>				
Water rights	\$1,272,000	0	0	\$1,272,000
Less accumulated amortization	<u>406,800</u>	<u>31,800</u>	<u>0</u>	<u>438,600</u>
<i>Intangible assets, net</i>	<u>\$865,200</u>	<u>(31,800)</u>	<u>\$0</u>	<u>\$833,400</u>
TOTAL CAPITAL ASSETS	<u>\$11,198,462</u>	<u>\$357,178</u>	<u>\$22,900</u>	<u>\$11,532,740</u>

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4. COMMITMENT FOR LONG-TERM LEASE

The District does not own a portion of the wastewater collection system (1977 original system) within its boundaries. The District leases the collection system from Dona Ana County. Under the lease agreement, the District operates and maintains the wastewater collection system. In addition, the District is required to pay Dona Ana County one dollar (\$1.00) annually for the lease.

NOTE 5. LONG-TERM DEBT

The District's long-term liabilities consist of the following:

Note payable Rural Development, Department of Agriculture dated February 12, 1993, maturing March 16, 2044, payable in monthly installments of \$9,631, including interest at 5.25%, secured by the gross income and revenues of the water system. \$1,605,511

The note payable to the Department of Agriculture contains a requirement for the District to establish a Reserve Account to be funded at the rate of \$1,014 per month until \$121,610 is accumulated in the account. The funds may be withdrawn with the prior written approval of the Federal Government for repairs to the system caused by a catastrophe or for extensions or improvements to the system. The reserve has been fully funded.

Note payable New Mexico Environmental Department, dated July 31, 1991, maturing March 1, 2011, payable in annual installments of \$32,247, without interest, secured by net revenues of the system. 96,740

The loan agreement with the New Mexico Environmental Department requires the District to establish a repair and replacement sewer reserve fund of \$31,000. The loan agreement also requires that a permanent debt service reserve be established and funded with an amount equal to one full annual loan payment in the amount of \$32,247. The reserve is fully funded.

Discount on New Mexico Environmental Department note computed at 5% (8,924)

Note payable Rural Development, Department of Agriculture dated March 5, 2003, maturing April 5, 2043, payable in monthly installments of \$1,145, including interest at 4.625%, secured by the gross income and revenues of the water system. 231,758

The loan agreement with the Rural Development requires the District to establish a Reserve Account to be funded at the rate of \$116.50 per month until \$55,920 is accumulated in the account. The funds may be withdrawn with the prior written approval of the Federal Government for repairs to the facility caused by a catastrophe or for extensions or improvements to the facility. The reserve has been funded to \$32,253 which exceeds the current required reserve of \$7,223.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (CONTINUED)

Note payable Rural Development, Department of Agriculture dated April 3, 2007, maturing April 3, 2047, payable in monthly installments of \$1,453, including interest at 4.125%, secured by the gross income and revenues of the system. 332,724

The loan agreement with the Rural Development requires the District to establish a Reserve Account to be funded at the rate of \$145.33 per month until \$69,760 is accumulated in the account. The funds may be withdrawn with the prior written approval of the Federal Government for repairs to the facility caused by a catastrophe or for extensions or improvements to the facility. The reserve has been funded to \$3,925 which equals the current required reserve of \$3,925.

Note payable Rural Development, Department of Agriculture dated March 5, 2007, maturing March 5, 2047, payable in monthly installments of \$780.00, including interest at 4.125%, secured by the gross income and revenues of the system. 183,000

The loan agreement with the Rural Development requires the District to establish a Debt Service Reserve Account to be funded at the rate of \$78.00 per month until \$37,440 is accumulated in the account and a Replacement Reserve Account to be funded at the rate of \$908.00 per month until \$108,960 is accumulated in the account. The funds may be withdrawn with the prior written approval of the Federal Government for repairs to the facility caused by a catastrophe or for extensions or improvements to the facility. The reserve funding begins on 08/16/2008.

Note payable New Mexico Finance Authority dated September 28, 2007, maturing June 1, 2027, payable in monthly installments of \$3,911.22, including interest at .25%, secured by the gross income and revenues of the system. There are no reserve requirements. 75,000

TOTAL DEBT	2,515,809
Less current portion	74,858
Long-term liabilities	\$2,440,951

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 5. LONG-TERM DEBT (CONTINUED)

Following is a summary of principal maturities of long-term liabilities:

	<u>Interest</u>	<u>Principal</u>
June 30, 2009	\$115,655	\$74,858
June 30, 2010	113,413	75,854
June 30, 2011	111,189	79,543
June 30, 2012	108,849	51,171
June 30, 2013	106,387	53,632
June 30, 2014 - 2018	490,306	309,790
June 30, 2019 - 2023	406,502	393,595
June 30, 2024 - 2028	298,503	497,683
June 30, 2029 - 2033	159,408	614,939
June 30, 2034 - 2038	63,216	139,464
June 30, 2039 - 2043	30,970	141,454
June 30, 2044 - 2048	<u>6,739</u>	<u>83,826</u>
	<u>\$2,011,137</u>	<u>\$2,515,809</u>

Changes in long-term debt activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable:					
USDA Rural Development	\$1,636,106	\$0	\$30,595	\$1,605,511	\$32,047
NM Environment Dept.	114,346	0	26,530	87,816	27,856
USDA Rural Development	234,704	0	2,946	231,758	3,086
USDA Rural Development	336,625	0	3,901	332,724	3,782
USDA Rural Development	0	183,000	0	183,000	1,846
NM Finance Authority	0	75,000	0	75,000	6,241
<i>Total notes payable</i>	<u>2,321,781</u>	<u>258,000</u>	<u>63,972</u>	<u>2,515,809</u>	<u>74,858</u>

NOTE 6. COMPENSATED ABSENCES AND ACCRUED PAYROLL

Payable at June 30, 2008 consisted of the following:

Accrued Payroll	\$13,104
Accrued Compensated Absences	<u>38,490</u>
TOTAL	<u>\$51,594</u>

Following is a schedule of changes in compensated absences:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	33,543	42,936	37,989	38,490	38,490

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 7. RISK MANAGEMENT

The District covers its insurance needs through various insurance policies. The coverage includes worker's compensation, general liability, buildings, business, personal property, electronic data processing losses, contractor's equipment, directors and officers' liability, money or securities, and automobiles. The premiums paid on the policies during the fiscal year were \$49,093. If the District's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the District's losses are low, they will not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

NOTE 8. NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets amounts at June 30, 2008 were as follows:

Invested in Capital Assets, Net of Related debt:	\$ 11,532,740
Net property and equipment in service	2,515,809
Less: Notes payable	<u>9,016,931</u>
Invested in capital assets, net of related debt	
Restricted – Debt Service:	
Rural Development Debt dated 02/12/1993 R&R Reserve	121,610
NMED Debt dated 07/31/1991 R&R Reserve	31,000
NMED Debt dated 07/31/1991 Debt Service Reserve	32,247
NMED Debt dated 03/05/2003 R&R Reserve	32,253
Rural Development Debt dated 04/03/2007 R&R Reserve	3,925
Total Restricted	<u>221,035</u>
Unrestricted	<u>398,857</u>
Total net assets	<u><u>\$9,636,823</u></u>

NOTE 9. CHANGE IN INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The change in invested in capital assets, net of related debt can be summarized as follows:

Balance, Beginning	\$8,876,681
Change in capital assets in service	334,278
Change in related debt	<u>-194,028</u>
Balance, ending	<u><u>\$9,016,931</u></u>

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 10. PERA PENSION PLAN

Plan Description

Beginning September 1, 2001, substantially all of the Anthony Water and Sanitation District's full time employees began participating in the 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 benefits, disability benefits, survivor benefits and cost-of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 7% of their gross salaries. The Anthony Water and Sanitation District is also required to contribute 7%. The contribution requirements of plan members and the District are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by act of the legislature. The District's contributions to PERA for the years ending June 30, 2008, 2007 and 2006 were \$28,490, \$25,371 and \$27,068, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. BUDGETARY - GAAP REPORTING RECONCILIATION

Reconciliation between the Non-GAAP budgetary (cash) basis amounts and the GAAP (accrual) basis financial statements:

Revenues over Expenses on Budgetary Basis	\$ 100,048
Adjustments to revenue for receivables and other accruals	99,468
Adjustment to expenditures for payables and other accruals	(22,271)
Adjustment for depreciation, amortization and bad debts	(464,866)
Adjustment for purchase of capital assets	696,333
Adjustment for capital loan received	(258,000)
Adjustment for basis on capital assets sold	(22,900)
Adjustment for principal payments on debt	69,689
Adjustment for change in debt reserve	5,291
Adjustment for change in customer meter deposits	<u>(5,803)</u>
<i>Change in net assets</i>	<u>\$ 196,989</u>

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12. CONSTRUCTION PROJECTS IN PROGRESS

The District has begun to plan, design and construct a sewage effluent line that is expected to cost approximately \$1,242,658. The project will be financed with a state appropriation grant of \$40,000 which has been received and expended for the initial planning and design. The construction costs are expected to be financed with loans in the amount of \$524,000 and grants in the amount of \$667,190 from the USDA Rural Development. The loans and part of the grants have been received and expended and the project was about ninety percent complete at the end of the fiscal year.

The District has also purchased land for the future development of a Multi-purpose community building and a park. These projects are still in the planning process. In addition to the projects described above, the District has routine line extension projects and water improvement projects ongoing in the normal course of operations.

NOTE 13. JOINT POWERS AGREEMENT

The District entered into a joint powers agreement with Dona Ana County to act as an agent for the County and be the primary community contact for all wastewater applications, complaints, billing and collections or other customer issues for the county area specifically known as Las Palmeras - Montana Vista. The agreement was entered into on March 20, 2003 and through additional amendments shall be in effect until May 2009 with additional automatic one year renewals. The District is paid \$12.00 per residential connection per month and \$15.00 per commercial connection per month for the first 6,000 gallons of water used plus \$1.00 per 1,000 gallons thereafter. Dona Ana County also pays a capacity replacement fee of \$1,000.00 per connection for all connections occurring after the date of initial operations or the first 175 connections, whichever comes later. The connections have not yet exceeded 175 customers; therefore, the County is not yet required to pay the District. The District collects from customers for usage and is responsible for the operations of the system. These operating activities of the District are included in the audit responsibilities of the District.

STATE OF NEW MEXICO
 ANTHONY WATER AND SANITATION DISTRICT
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET (NON-GAAP) AND ACTUAL (CASH BASIS)
 FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Operating Revenues:				
Charges for services	\$ 1,729,287	\$ 1,729,287	\$ 1,515,110	\$ (214,177)
Connection fees	123,725	123,725	159,092	35,367
Other revenues	-	-	118,501	118,501
Total operating revenues	<u>1,853,012</u>	<u>1,853,012</u>	<u>1,792,703</u>	<u>(60,309)</u>
Operating Expenses:				
Personnel services and benefits	570,608	570,608	629,434	(58,826)
Other expenses - excluding grant expenses	1,046,410	1,046,410	958,978	87,432
Depreciation, Amortization & Bad Debts	-	-	-	-
Total operating expenses	<u>1,617,018</u>	<u>1,617,018</u>	<u>1,588,412</u>	<u>28,606</u>
Operating income	<u>235,994</u>	<u>235,994</u>	<u>204,291</u>	<u>(31,703)</u>
Non-Operating Revenues (Expenses):				
Interest income	3,000	3,000	17,757	14,757
Proceeds from Sale of Capital Assets	-	-	36,788	36,788
Capital outlay - other than from grants	(90,000)	(90,000)	(83,754)	6,246
Debt proceeds	-	-	258,000	258,000
Debt payments - principal	(69,689)	(69,689)	(69,689)	-
Debt payments - interest	(109,305)	(109,305)	(109,306)	(1)
Debt reserve	(20,000)	(20,000)	(5,291)	14,709
Customer deposits	50,000	50,000	5,803	(44,197)
Grants - revenue	2,906,342	2,906,342	458,028	(2,448,314)
Grants & Loan - capital outlay	(2,906,342)	(2,906,342)	(612,579)	2,293,763
Total non-operating revenues (expenses)	<u>(235,994)</u>	<u>(235,994)</u>	<u>(104,243)</u>	<u>131,751</u>
Revenues Over (Under) Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>100,048</u>	<u>\$ 100,048</u>
Beginning Unrestricted Cash			414,669	
Ending Unrestricted Cash			<u>\$ 514,717</u>	

The Notes to Financial Statements are an integral part of these statements.

Beckham & Penner, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 6TH ST. N.E., P.O. BOX 179

SOCORRO, NEW MEXICO 87801

PHONE 575/835-1091 FAX 575/835-1224

bppccpa@sdc.org

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

Mr. Hector Balderas, NM State Auditor and
The Board of Directors of
Anthony Water and Sanitation District
Anthony, New Mexico

We have audited the financial statements of the business-type activities of the Anthony Water and Sanitation District (District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 21, 2010. We have also audited the budgetary comparison statements of the District presented as supplementary information for the year ended June 30, 2008, as listed in the table of contents. 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 Anthony Water and Sanitation District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that

**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**

there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting; items 2002-02, 2002-03, 2002-10, and 2005-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the District's internal control.

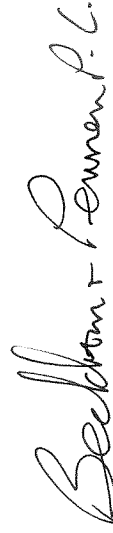
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2002-02, 2002-03, 2002-10 and 2005-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, 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* which are described in the accompanying schedule of findings and responses as items 2004-03 and 2006-01.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the New Mexico State Auditor, the New Mexico Department of Finance and Administration, the New Mexico Legislature, and other state and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



July 21, 2010
Beckham & Penner P.C.
Certified Public Accountants

Beckham & Penner, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 6TH ST. N.E., P.O. BOX 179

SOCORRO, NEW MEXICO 87801

PHONE 575/835-1091 FAX 575/835-1224

bpccpa@sdc.org

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Hector Balderas, Auditor
The Office of Management and Budget
The Board of Directors of
Anthony Water and Sanitation District
Anthony, New Mexico

Compliance

We have audited the compliance of the Anthony Water and Sanitation District, Anthony, New Mexico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Anthony Water and Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Anthony Water and Sanitation District's management. Our responsibility is to express an opinion on Anthony Water and Sanitation District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Anthony Water and Sanitation District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Anthony Water and Sanitation District's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, continued**

In our opinion, Anthony Water and Sanitation District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned cost as item FA 08-01.

Internal Control Over Compliance

The management of Anthony Water and Sanitation District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In the planning and performing our audit, we considered Anthony Water and Sanitation District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Anthony Water and Sanitation District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, continued**

Anthony Water and Sanitation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Anthony Water and Sanitation District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, the New Mexico State Auditor, the New Mexico Department of Finance and Administration, the New Mexico Legislature, and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



July 21, 2010
Beckham & Penner, P.C.
Certified Public Accountants

STATE OF NEW MEXICO
 ANTHONY WATER AND SANITATION DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

Federal Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>Direct Grants:</u>			
<u>U.S. Department of Agriculture</u>			
Rural Development:			
Colonias Grant	*	10.770	\$ 478,041
		36-007-0850303980	
Direct Loan	*	10.770	183,000
		36-007-0850303980	

U.S. Department of
Housing and Urban Development
 Rural Housing and Economic Development:

Neighborhood Initiative Grant 14.250 B-01-NI-NM-AN-0001 185,249

Total Expenditures of Federal Awards

\$ 846,290

* Major Program

STATE OF NEW MEXICO
 ANTHONY WATER AND SANITATION DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

Notes To Schedule Of Expenditures Of Federal Awards

1. Basis of Presentation

The accompanying schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Anthony Water and Sanitation District. The Schedule is presented on the accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of states, Local Government and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Subrecipients

The Anthony Water and Sanitation District did not provide any federal awards to subrecipients during the year.

3. Non-Cash Assistance

The Anthony Water and Sanitation District did not receive any non monetary assistance.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 846,290
Federal Grants on Statement of Revenues, Expenses & Changes in Net Assets	\$ 663,290
Plus Federal Loans included on Statement of Net Assets	183,000
Total Federal Funds reported on Financial Statements	\$ 846,290
Federal expenditures capitalized on construction in progress	\$ 661,041
Federal non-capital grant expenditures	185,249
Total federal expenditures	\$ 846,290

STATE OF NEW MEXICO
 ANTHONY WATER AND SANITATION DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2008

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditors' report issued | Unqualified |
| 2. | Internal Control over financial reporting: | |
| a. | Material weakness identified? | Yes |
| b. | Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. | Noncompliance material to the financial statements noted | No |

Federal Awards:

- | | | |
|----|---|---|
| 1. | Internal control over major programs: | Unqualified |
| a. | Material weaknesses identified? | No |
| b. | Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. | Type of auditors' report issued on compliance for major programs | Unqualified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 | Yes |
| 4. | Identification of major programs: | |
| | CFDA
Number
10.770 | Federal Program
U.S. Department of Agriculture-Rural Development |
| 5. | Dollar threshold used to distinguish between type A and B programs: | \$300,000 |
| 6. | Auditee qualified as low-risk auditee | No |

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SUMMARY OF FINDINGS:

PRIOR YEAR FINDINGS:

	<u>Status</u>
2002-02 Reconciling Bank Balance to General Ledger	Modified & Repeated
2002-03 Reconciliation of Accounts Receivable to GL	Modified & Repeated
2002-10 Recording Accounts Payable and Accrued Expenses	Modified & Repeated
2002-11 Expenses in Excess of Budget	Resolved
2004-03 Untimely Delivery of Audit Report	Modified & Repeated
2005-01 Recording Payroll Transactions	Modified & Repeated
2006-01 Financial Reports not timely submitted to DFA	Modified & Repeated
2006-02 DFA approval of Annual Budget	Resolved

CURRENT YEAR FINDINGS:

2002-02 Reconciling Bank Balance to General Ledger
2002-03 Reconciliation of Accounts Receivable to GL
2002-10 Recording Accounts Payable and Accrued Expenses
2004-03 Untimely Delivery of Audit Report
2005-01 Recording Payroll Transactions
2006-01 Financial Reports not timely submitted to DFA

FEDERAL AWARDS:

FA08-01 Data Collection Form not timely submitted

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

2002-02 Reconciling Bank Balance to General Ledger

Statement of Condition – Items that are identified in the bank reconciliations that need to be corrected in the general ledger are not being posted to the general ledger. After conversion to the new financial software, numerous posting errors occurred; duplicate postings, posting to incorrect accounts, missing items, and voided checks not properly posted

Criteria - In order to ensure that financial reports are accurate and the cash positions reported to DFA are correct, the general ledger should be corrected to the actual bank reconciliation held by the District.

Cause – Reconciling items noted in the bank reconciliations were just being carried forward each month and then the review process did not provide that the adjustments be made to the general ledger.

Effect - Inaccurate general ledger cash account balances produce inaccurate financial reports.

Recommendation - We recommend that all bank reconciliations be properly reviewed and adjustments be timely posted to the general ledger.

Management's Response - The District will implement procedures to insure that the adjusting journal entries are properly posted to the general ledger and will monitor the reconciliation of the bank accounts to the general ledger.

2002-03 Reconciliation of Accounts Receivable to General Ledger

Statement of Condition - The customer accounts receivable subsidiary records are not reconciled monthly to the general ledger. The water, wastewater and connection fees were recorded in the general ledger on the cash basis as funds were received; then after conversion to the new financial software, billings and collections are being posted on the accrual basis. The general ledger is not being reconciled to the subsidiary records.

Criteria – Financial records should be maintained on the accrual basis of accounting or converted to the accrual basis of accounting on a regular schedule. Regular, periodic reconciliations between subsidiary ledgers and the general ledger should be made to ensure the accuracy and completeness of reported financial information.

Cause - Accounts receivable transactions are now being posted to the general ledger; however, there are no procedures in place to reconcile the general ledger to the subsidiary records.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Effect - Inaccurate general ledger account balances produce inaccurate financial reports.

Recommendation - We recommend that accounts receivable per the general ledger be reconciled to the subsidiary records on a monthly basis. The accounts receivable general ledger and subsidiary records should be reviewed and adjusted on a regular basis. Proper aging reports should be generated for management.

Management's Response - The District has implemented a new financial accounting software package to address this problem and will provide training to their employees to record the customer billing on the accrual basis of accounting and to perform regular reconciliations.

2002-10 Recording Accounts Payable and Accrued Expenses

Statement of Condition - Accounts payable and accrued expenses recorded in the general ledger were not complete. The District is now maintaining their general ledger on the accrual basis of accounting; however, all of the proper accrual items were not recorded.

Criteria - Financial records should be maintained on the accrual basis of accounting or converted to the accrual basis of accounting on a regular schedule. Regular, periodic reconciliations between subsidiary ledgers and the general ledger should be made to ensure the accuracy and completeness of reported financial information.

Cause - Accounts payable and accrued expenses transactions are only being posted to the general ledger for the final voucher run for June; however, additional accounts payable and accrued expenses are not being recorded.

Effect - Inaccurate general ledger account balances produce inaccurate financial reports.

Recommendation - We recommend the District implement the use of an accounts payable subsidiary and the accounts payable and accrued expense general ledger accounts be completely recorded and reconciled on a regular basis.

Management's Response - The District has implemented a new financial accounting software package to address this problem and will provide training to their employees to record the accounts payable and accrued expenses on the accrual basis of accounting and to perform regular reconciliations.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

2004-03 Untimely Delivery of Audit Report

Statement of Condition - The audit report of Anthony Water and Sanitation District for the fiscal year ended June 30, 2008 was not delivered to the State Auditor by the due date of December 1, 2009.

Criteria – The State Auditor Rule NMAC Subsection 2.2.2.9.A requires the audit reports be submitted by the due date.

Cause - The District was unable to submit the audit report on a timely basis as a result of the problems encountered with the conversion to the new financial software.

Effect - Noncompliance with State Auditor Rule NMAC Subsection 2.2.2.9.A. Timely audit reports were needed by management, the State of New Mexico, and others to properly monitor and evaluate the performance of the District.

Recommendation - The District should resolve the conversion issues with the financial software and contract on a timely basis with an approved auditor to insure that future audit reports are submitted in a timely manner.

Management's Response - The District concurs with the recommendation above.

2005-01 Recording Payroll Transactions

Statement of Condition - During our field work, we noted that some payroll checks were not properly posted and some payroll deduction items were not properly identified and posted to the proper general ledger accounts.

Criteria - All transactions should be properly and timely recorded in the District's accounting records.

Cause - The employee assigned this duty had not been properly trained on the new financial software to record the payment of the payroll related payments to the proper general ledger accounts.

Effect - The accounting records were incomplete for payroll expense, payroll tax expense, and payroll tax liabilities for all interim financial reporting throughout the fiscal year.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Recommendation - The District should provide the proper training to insure that the payroll related payments are accurately post and reconcile all payroll transactions to the general ledger.

Management's Response - The District concurs with the recommendation and will provide training to their employees to properly record the payroll transactions in the general ledger and to perform regular reconciliations.

2006-01 Financial Reports not timely submitted to DFA

Statement of Condition – Quarterly financial reports for the fiscal year 2007/2008 were not timely submitted to the New Mexico Department of Finance and Administration's Local Government Division.

Criteria – NMSA 1978 Section 6-6-2 requires quarterly financial reports be submitted to the New Mexico Department of Finance and Administration's Local Government Division.

Cause - The District has not properly maintained and reconciled their general ledger throughout the year to allow accurate financial reports to be completed and submit to DFA.

Effect – The District is in noncompliance with NMSA 1978 Section 6-6-2. In addition, timely accurate financial statements were not available for management to utilize.

Recommendation - The District should maintain and reconcile the general ledger on a regular basis and timely prepare and submit the required quarterly financial reports to DFA.

Management's Response - The District concurs with the recommendation and will provide training to their employees to maintain and reconcile the general ledger on a regular basis and prepare and submit the required quarterly financial reports to DFA.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA08-01 – Data Collection Form Not Timely Submitted

Federal program information:

Funding agency:	U.S. Department of Agriculture
Title:	Rural Development – Colonias Grant
CFDA number:	10.770
Award year and number:	36-007-0850303980

Condition: The District issued the Audit report subsequent to the December 1, 2008 deadline required by the State Auditor and subsequent to the March 31, 2009 deadline for submitting the data collection form required by OMB Circular A-133. The State Auditor received the report on July 28, 2010.

Criteria: The District is required to submit the data collection form for the year ended June 30, 2008 no later than 9 months following the District's fiscal year end or March 31, 2009 in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 Section 320 and NMAC 2.2.2.10J (3)(c)(ii) when receiving federal funds in excess of \$500,000.

Questioned Costs: None

Cause: The District was unable to submit the June 30, 2008 audit report on a timely basis as a result of not having completed financial records because of problems encountered in implementing the new financial software.

Effect: The District is not in compliance with the U.S. Office of Management and Budget (OMB) Circular A-133 for entities receiving federal awards. Non-compliance with the reporting requirement of U.S. Office of Management and Budget (OMB) Circular A-133 may affect the District's federal award future funding.

Auditors' 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 timely completion of the financial records and then contracting with an auditor and communication with the auditor.

Management Response: The Authority is working with the auditors to correct the matter and submit future audit reports in a timely manner.

STATE OF NEW MEXICO
ANTHONY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FINANCIAL STATEMENT PREPARATION:

The financial statements together with the related notes and supplementary information were prepared by Beckham & Penner, P.C. for the District as of and for the year ended June 30, 2008; however, management acknowledges and accepts responsibility for the financial statements

EXIT CONFERENCE:

The exit conference was held July 21, 2010 and was attended by the following:

From Anthony Water and Sanitation District:

Ron Gillette, Board Member
Patrick Banegas, Superintendent
Loren Shoonover, Office Manager

From Beckham & Penner P.C. CPA's:

Rick Penner, CPA