

**CITY OF ESPANOLA, NEW MEXICO
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

CITY OF ESPANOLA, NEW MEXICO

<u>CONTENTS</u>	<u>Page</u>
OFFICIAL ROSTER	i
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information)	5
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	24
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	27
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	30
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	31
Statement of Net Assets – Proprietary Funds	32
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	33
Statement of Cash Flows – Proprietary Funds	34
Statement of Fiduciary Assets and Liabilities	35
Notes to Financial Statements	36

CITY OF ESPANOLA, NEW MEXICO

CONTENTS (Cont'd)

Page

SUPPLEMENTARY INFORMATION

Other Major Governmental Funds Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
NMDOT Grant Fund	60
Infrastructure Projects Fund	61
NMED CWSRF Proceeds Fund	62
Non-Major Special Revenue Funds:	
Combining Balance Sheet	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	74
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
Recreation Fund	81
Teen Court Fund	82
Weed & Seed Grant Fund	83
Bullet Proof Vest Grant Fund	84
Operation Buckle Down Fund	85
G.R.E.A.T. Grant Fund	86
COPS in Schools Grant Fund	87
Byrne Justice Assistance Grant Fund	88
Operation DWI State Grant Fund	89
Library Grant Fund	90
Transit System Grant Fund	91
Summer Lunch Program Fund	92
Click It or Ticket Fund	93
EMS Fund	94
Wildland Grant Fund	95
Law Enforcement Technology Grant Fund	96
Firefighters Fund	97
DWI Program Enforcement Fund	98
E-911 Grant Fund	99
Fire Protection Fund	100

CITY OF ESPANOLA, NEW MEXICO

<u>CONTENTS (Cont'd)</u>	<u>Page</u>
Roads and Streets Fund	101
Law Enforcement Protection Fund	102
Fire Discretionary Fund	103
Lodgers' Tax Fund	104
Lodgers' Tax Promotional Fund	105
Fiesta Council Fund	106
U.S. Bureau of Reclamation Fund	107
NMDOT Litter Control and Beautification Fund	108
Non-Major Debt Service Funds:	
Combining Balance Sheet	110
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	112
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
2002 Bond Debt Service Fund	114
RUS Loan Debt Service Fund	115
Environmental Department Loan Fund	116
NMFA Loan Intercepts Fund	117
NMFA Well #9 Fund	118
1994 Bond Reserve Fund	119
NMFA DWSRF Debt Service Fund	120
NMED CWSRF Debt Service Fund	121
Non-Major Capital Projects Funds:	
Combining Balance Sheet	122
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	126
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
Plaza Development Fund	130
Capital Projects Grant Fund	131
NMLA Capital Improvements Grant Fund	132
USDA Grants Fund	133
NM SAP W/WW Projects Grant Fund	134
Federal W/WW Project Grant Fund	135
NMFA Trust Board Fund	136
State Water Project Grants Fund	137

CITY OF ESPANOLA, NEW MEXICO

<u>CONTENTS (Cont'd)</u>	<u>Page</u>
State Agency on Aging Grants Fund	138
Equipment Replacement Fund	139
NMFA DWSRF Proceeds Fund	140
NMFA Loan Reserve Fund	141
NMFA PPR Equipment Project Loan Fund	142
NM Board of Finance Project Fund	143
USDA Loan / Police Department Fund	144
Proprietary Funds:	
Water and Wastewater Fund	145
Solid Waste Fund	146
Housing Assistance Fund	147
Agency Fund:	
Schedule of Changes in Assets and Liabilities	148
OTHER SUPPLEMENTAL INFORMATION	
Schedule of Pledged Collateral	150
Schedule of Deposit and Investment Accounts	151
Combining Statement of Net Assets – All HUD Programs	152
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – All HUD Programs	153
SINGLE AUDIT 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>Government Auditing Standards</i>	157
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	159
Schedule of Expenditures of Federal Awards	161
Notes to Schedule of Expenditures of Federal Awards	162

CITY OF ESPANOLA, NEW MEXICO

<u>CONTENTS (Concl'd)</u>	<u>Page</u>
SINGLE AUDIT SECTION (Concl'd)	
Schedule of Findings and Questioned Costs:	
Section I – Summary of Auditors' Results	163
Section II – Financial Statement Findings	164
Section III – Federal Award Findings and Questioned Costs	179
Summary Schedule of Prior Audit Findings	184
Exit Conference	185

CITY OF ESPANOLA, NEW MEXICO
OFFICIAL ROSTER
JUNE 30, 2008

City Government

Joseph Maestas
Mayor

Helen Kain-Salazar
Councilor

Alice Lucero
Mayor Pro-Tem

Cecilia Lujan
Councilor

Danielle Duran
Councilor

Eddie Maestas
Councilor

Rosario Garcia
Councilor

Dennis Tim Salazar
Councilor

Alfred Herrera
Councilor

Administrative Officials

Veronica Albin
City Manager

Heather Velasquez
City Clerk

(This page intentionally left blank)

**CITY OF ESPANOLA, NEW MEXICO
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(This page intentionally left blank)



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

Honorable Mayor, Members of the City Council
of the City of Espanola, New Mexico

We were engaged to audit the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Espanola, New Mexico (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the City's nonmajor governmental and fiduciary funds presented as Supplementary Information as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the City's management.

The City of Espanola, New Mexico did not maintain sufficient internal controls and/or adequate records of its cash and investments, capital assets, housing assistance activity, water and wastewater accounts receivable, and payroll expenditures. Accordingly, we were unable to perform procedures sufficient to achieve the audit objectives for these account balances and transaction classes.

As the City did not maintain sufficient internal controls and/or adequate records we were unable to obtain sufficient evidential matter and we were not able to apply other auditing procedures to satisfy ourselves as to the fairness of the presentation of the financial statements in conformity with generally accepted accounting principles. The scope of our work was not sufficient to enable us to express, and we do not express an opinion on the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Espanola, New Mexico as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, we do not express an opinion on the respective financial position of each nonmajor governmental fund and fiduciary fund of the City of Espanola, New Mexico, as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison information for all nonmajor governmental funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the City of Espanola, New Mexico'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 the audit we were engaged to perform.

The management's discussion and analysis on pages 5 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We were unable to apply to the information certain limited procedures prescribed by auditing standards generally accepted in the United States of America because of the reasons described above and, therefore, we are unable to determine whether material modifications should be made to the information for it to conform with guidelines established by the Governmental Accounting Standards Board.

We were engaged to conduct an audit for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements, nonmajor governmental funds, fiduciary funds, and budgetary comparison information presented as supplementary information. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by the 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 Other Supplemental Information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. For the reasons described above, we were unable to obtain sufficient evidential matter to form an opinion regarding the fair presentation of this information in relation to the basic financial statements taken as a whole and accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 15, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

(This page intentionally left blank)

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the City of Espanola, New Mexico (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2007-08 as follows.

- The City's total net assets of governmental activities decreased \$5.1 million and business-type activities decreased \$407,388. In total, the net change of \$5.5 million represents a decrease of 85 percent from the prior year.
- General revenues from governmental activities accounted for \$11.4 million in revenue, or 76 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.6 million or 24 percent of total governmental activities revenues. The City had \$5.4 million of program revenues and \$814,257 in general revenues related to business-type activities.
- The City had \$21.2 million in expenses related to governmental activities, a decrease of 43 percent from the prior fiscal year. The City had \$5.5 million in expenses related to business-type activities an increase of 13 percent from the prior fiscal year.
- The General Fund had \$9.9 million in revenues, which primarily consisted of municipal and state shared taxes. The total expenditures of the General Fund were \$10.0 million. The General Fund's fund balance decreased from \$471,376 to a deficit of \$122,760.
- The Water and Wastewater Fund operating revenues of \$3.7 million exceeded operating expenses of \$3.2 million. The Water and Wastewater Fund's net assets increased \$81,769.
- The Housing Assistance Fund's operating expenses of \$1.8 million exceeded operating revenues of \$124,448 and governmental funding of \$946,171. The Housing Assistance Fund's net assets decreased \$706,226 or 9 percent.
- The City did not maintain sufficient internal controls over several operational areas and account balances and therefore the auditors were unable to issue an opinion on the financial statements included in this report.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

In the government-wide financial statements the City's activities are presented in the following categories:

- **Governmental activities** – Most of the City's basic services are included here, such as general government, public safety, public works, and culture and recreation. Gross receipts taxes, property taxes, and intergovernmental revenues finance most of these activities.
- **Business-type activities** – The services provided by the City included here are water, wastewater, housing assistance, and solid waste. The services are primarily financed through charges for services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General, NMDOT Grant, Infrastructure Projects, and NMED CWSRF Proceeds Funds, all of which are considered to be the City's major governmental funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

Proprietary funds. The City of Espanola maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Espanola uses enterprise funds to account for its water and wastewater, solid waste, and housing assistance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Under New Mexico Administrative Code Section 2.2.2, governments in New Mexico must include the budgetary comparison statement for the General Fund as a component of the fund financial statements within the basic financial statements.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1.0 million as of June 30, 2008.

A significant portion of the City's net assets reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings and improvements, and vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	2008 Governmental Activities	2007 Governmental Activities	2008 Business-type Activities	2007 Business-type Activities	2008 Total	2007 Total
Current and other assets	\$ 5,450,016	\$ 6,128,535	\$ 4,077,689	\$ 3,688,094	\$ 9,527,705	\$ 9,816,629
Capital assets, net	6,092,028	8,065,371	14,360,910	15,533,928	20,452,938	23,599,299
Total assets, net	<u>11,542,044</u>	<u>14,193,906</u>	<u>18,438,599</u>	<u>19,222,022</u>	<u>29,980,643</u>	<u>33,415,928</u>
Current and other liabilities	2,277,118	2,672,810	794,844	916,786	3,071,962	3,589,596
Long-term liabilities	22,481,140	24,953,403	3,426,035	3,680,128	25,907,175	28,633,531
Total liabilities	<u>24,758,258</u>	<u>27,626,213</u>	<u>4,220,879</u>	<u>4,596,914</u>	<u>28,979,137</u>	<u>32,223,127</u>
Invested in capital assets, net of related debt	(16,606,815)	(18,178,156)	11,296,282	12,227,663	(5,310,533)	(5,950,493)
Restricted		4,274,473				4,274,473
Unrestricted	3,390,601	471,376	2,921,438	2,397,445	6,312,039	2,868,821
Total net assets	<u>\$ (13,216,214)</u>	<u>\$ (13,432,307)</u>	<u>\$14,217,720</u>	<u>\$14,625,108</u>	<u>\$ 1,001,506</u>	<u>\$ 1,192,801</u>

CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The City's total revenues for the fiscal year ended June 30, 2008, were \$21.2 million. The total cost of all programs and services was \$26.7 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	2008 Governmental Activities	2007 Governmental Activities	2008 Business-type Activities	2007 Business-type Activities	2008 Total	2007 Total
Revenues:						
Program revenues:						
Charges for services	\$ 924,732	\$ 1,183,708	\$ 4,371,450	\$ 7,263,924	\$ 5,296,182	\$ 8,447,632
Operating grants and contributions	1,052,491	11,399,988	946,171		1,998,662	11,399,988
Capital grants and contributions	1,631,481	120,133	37,600		1,669,081	120,133
General revenues:						
Property taxes, levied for general purposes	526,564	646,687			526,564	646,687
Gross receipts taxes	9,967,257	8,819,735			9,967,257	8,819,735
Franchise taxes	336,024	198,756			336,024	198,756
Unrestricted aid, and state shared revenues	444,276	468,220	807,041		1,251,317	468,220
Investment income	121,730	79,503	7,216	195	128,946	79,698
Miscellaneous income		19,300		95,854		115,154
Total revenues	<u>15,004,555</u>	<u>22,936,030</u>	<u>6,169,478</u>	<u>7,359,973</u>	<u>21,174,033</u>	<u>30,296,003</u>
Expenses:						
General government	5,517,071	20,384,126			5,517,071	20,384,126
Public safety	6,508,358	5,352,786			6,508,358	5,352,786
Public works	6,792,822	9,710,495			6,792,822	9,710,495
Culture and recreation	1,506,175	1,033,392			1,506,175	1,033,392
Interest on long-term debt	862,313	698,193			862,313	698,193
Water and wastewater			3,175,377	2,266,020	3,175,377	2,266,020
Solid waste			537,348	517,416	537,348	517,416
Housing assistance			1,784,061	2,061,584	1,784,061	2,061,584
Total expenses	<u>21,186,739</u>	<u>37,178,992</u>	<u>5,496,786</u>	<u>4,845,020</u>	<u>26,683,525</u>	<u>42,024,012</u>
Transfers	<u>1,080,080</u>	<u>1,207,026</u>	<u>(1,080,080)</u>	<u>(1,207,026)</u>		
Changes in net assets	<u>\$ (5,102,104)</u>	<u>\$ (13,035,936)</u>	<u>\$ (407,388)</u>	<u>\$ 1,307,927</u>	<u>\$ (5,509,492)</u>	<u>\$ (11,728,009)</u>

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

Governmental and Business-type activities. The following table presents the cost of the eight (8) major City functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	2008		2007	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 5,517,071	\$ (5,212,381)	\$ 20,384,126	\$ (8,976,597)
Public safety	6,508,358	(5,439,667)	5,352,786	(4,308,321)
Public works	6,792,822	(4,897,278)	9,710,495	(9,460,443)
Culture and recreation	1,506,175	(1,166,396)	1,033,392	(1,031,609)
Interest on long-term debt	862,313	(862,313)	698,193	(698,193)
Total	<u>\$21,186,739</u>	<u>\$(17,578,035)</u>	<u>\$ 37,178,992</u>	<u>\$(24,475,163)</u>
Business-type Activities				
Water and wastewater	\$ 3,175,377	\$ 592,776	\$ 2,266,020	\$ 2,419,100
Solid waste	537,348	(20,899)	517,416	185,557
Housing assistance	1,784,061	(713,442)	2,061,584	(185,753)
Total	<u>\$ 5,496,786</u>	<u>\$ (141,565)</u>	<u>\$ 4,845,020</u>	<u>\$ 2,418,904</u>

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$4.2 million, a decrease of \$516,975.

The General Fund is the principal operating fund of the City. The General Fund's fund balance decreased \$594,136 to a deficit of \$122,760.

Proprietary funds. Net assets of the Enterprise Fund decreased \$407,388 to \$14.2 million at year-end.

BUDGETARY HIGHLIGHTS

There were several amendments to the City of Espanola's fiscal year 2007-08 operating budget. A statement reporting the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as a basic financial statement. The unfavorable variance of \$1.3 million in General Fund revenues was mainly attributed to decreased municipal and state shared taxes. Expenditures had a positive variance of \$1.1 million due lower than anticipated general government and public safety expenditures.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the City had invested \$58.4 million in capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. This amount represents a net decrease prior to depreciation of \$244,692. Total depreciation expense for the year was \$2.0 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2008 and June 30, 2007.

<u>Governmental Activities</u>	As of <u>June 30, 2008</u>	As of <u>June 30, 2007</u>
Land	\$ 3,412,879	\$ 3,412,879
Buildings and improvements	19,400,283	19,400,283
Vehicles, furniture and equipment	6,310,021	6,310,021
Less: Accumulated depreciation	<u>(23,031,155)</u>	<u>(21,057,812)</u>
Total	<u>\$ 6,092,028</u>	<u>\$ 8,065,371</u>
<u>Business-type Activities</u>	As of <u>June 30, 2008</u>	As of <u>June 30, 2007</u>
Land	\$ 509,477	\$ 509,477
Land improvements	1,991,060	2,235,752
Infrastructure	11,060,404	11,060,404
Buildings and improvements	10,444,853	10,444,853
Vehicles, furniture and equipment	5,279,329	5,279,329
Less: Accumulated depreciation	<u>(14,924,213)</u>	<u>(13,995,887)</u>
Total	<u>\$ 14,360,910</u>	<u>\$ 15,533,928</u>

Additional information on the City's capital assets can be found in Note 4.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At year-end, the City had \$26.0 million in long-term debt outstanding. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2008 and June 30, 2007.

	Governmental Activities	
	2008	2007
Loans payable	\$ 20,220,510	\$ 17,197,919
Revenue bonds payable	2,728,333	3,345,000
Total	\$ 22,948,843	\$ 20,542,919
	Business-type Activities	
	2008	2007
Loans payable	\$ 3,064,628	\$ 3,277,590
Total	\$ 3,064,628	\$ 3,277,590

State statutes currently limit the amount of general obligation debt a City may issue to 4 percent of its total assessed valuation for general purposes. The current debt limitation for general purposes for the City is \$3.2 million. State statute currently does not limit the amount of general obligation debt a City may issue for a Water and Wastewater system.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Espanola estimated an increase in revenues of less than one percent. This was based upon the actual amounts that had been realized through June 2008. Some changes that affected revenues were income from new investments and revenue that was owed from the Solid Waste Authority for prior years.

**CITY OF ESPANOLA, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, City of Espanola, 405 Paseo de Oate, Espanola, New Mexico 87532.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

(This page intentionally left blank)

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 4,298,093	\$ 1,853,587	\$ 6,151,680
Property taxes receivable	142,024		142,024
Accounts receivable	1,009,899	1,866,365	2,876,264
Due from federal government		357,737	357,737
Total current assets	<u>5,450,016</u>	<u>4,077,689</u>	<u>9,527,705</u>
Noncurrent assets:			
Land	3,412,879	509,477	3,922,356
Land improvements		1,991,060	1,991,060
Infrastructure		11,060,404	11,060,404
Buildings and improvements	19,400,283	10,444,853	29,845,136
Vehicles, furniture and equipment	6,310,021	5,279,329	11,589,350
Accumulated depreciation	<u>(23,031,155)</u>	<u>(14,924,213)</u>	<u>(37,955,368)</u>
Total noncurrent assets	<u>6,092,028</u>	<u>14,360,910</u>	<u>20,452,938</u>
Total assets	<u>11,542,044</u>	<u>18,438,599</u>	<u>29,980,643</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	773,799	376,356	1,150,155
Accrued payroll	328,011	16,189	344,200
Accrued interest payable	78,333		78,333
Compensated absences payable	343,820	118,027	461,847
Unearned revenue	119,332		119,332
Customer deposits		66,668	66,668
Loans payable	380,490	217,604	598,094
Revenue bonds payable	253,333		253,333
Total current liabilities	<u>2,277,118</u>	<u>794,844</u>	<u>3,071,962</u>
Noncurrent liabilities:			
Compensated absences payable	166,120		166,120
Loans payable	19,840,020	2,847,024	22,687,044
Revenue bonds payable	2,475,000		2,475,000
Landfill closure and postclosure costs		579,011	579,011
Total non-current liabilities	<u>22,481,140</u>	<u>3,426,035</u>	<u>25,907,175</u>
Total liabilities	<u>24,758,258</u>	<u>4,220,879</u>	<u>28,979,137</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	(16,606,815)	11,296,282	(5,310,533)
Unrestricted	3,390,601	2,921,438	6,312,039
Total net assets	<u>\$ (13,216,214)</u>	<u>\$ 14,217,720</u>	<u>\$ 1,001,506</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 5,517,071	\$ 267,690	\$ 37,000	\$	\$ (5,212,381)
Public safety	6,508,358	513,837	554,854		(5,439,667)
Public works	6,792,822	8,989	256,072	1,630,483	(4,897,278)
Culture and recreation	1,506,175	134,216	204,565	998	(1,166,396)
Interest on long-term debt	862,313				(862,313)
Total governmental activities	<u>21,186,739</u>	<u>924,732</u>	<u>1,052,491</u>	<u>1,631,481</u>	<u>(17,578,035)</u>
Business-type activities:					
Water and wastewater	3,175,377	3,730,553		37,600	
Solid waste	537,348	516,449			
Housing assistance	1,784,061	124,448	946,171		
Total business-type activities	<u>5,496,786</u>	<u>4,371,450</u>	<u>946,171</u>	<u>37,600</u>	
Total primary government	<u>\$ 26,683,525</u>	<u>\$ 5,296,182</u>	<u>\$ 1,998,662</u>	<u>\$ 1,669,081</u>	<u>(17,578,035)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	526,564
Gross receipts taxes	9,967,257
Franchise taxes	336,024
Unrestricted grants, aid and state shared revenues	444,276
Investment income	121,730
Transfers	<u>1,080,080</u>
Total general revenues and transfers	<u>12,475,931</u>

Changes in net assets	(5,102,104)
Net assets, beginning of year, as restated	<u>(8,114,110)</u>
Net assets, end of year	<u>\$ (13,216,214)</u>

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue
and Changes in Net Assets

Business-type Activities	Totals
\$	\$ (5,212,381)
	(5,439,667)
	(4,897,278)
	(1,166,396)
	<u>(862,313)</u>
	<u>(17,578,035)</u>
592,776	592,776
(20,899)	(20,899)
<u>(713,442)</u>	<u>(713,442)</u>
(141,565)	(141,565)
<u>(141,565)</u>	<u>(17,719,600)</u>
	526,564
	9,967,257
	336,024
807,041	1,251,317
7,216	128,946
<u>(1,080,080)</u>	<u>12,210,108</u>
(265,823)	12,210,108
(407,388)	(5,509,492)
<u>14,625,108</u>	<u>6,510,998</u>
<u>\$ 14,217,720</u>	<u>\$ 1,001,506</u>

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

**CITY OF ESPANOLA, NEW MEXICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	NMDOT Grant	Infrastructure Projects
<u>ASSETS</u>			
Cash and investments	\$	\$	\$ 950,795
Property taxes receivable	142,024		
Accounts receivable	967,525		
Due from other funds			1,921,023
Total assets	\$ 1,109,549	\$	\$ 2,871,818
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 245,627	\$ 62,932	\$ 35,269
Accrued payroll	328,011		
Due to other funds	539,339	296,339	
Deferred revenue	119,332		
Total liabilities	1,232,309	359,271	35,269
Fund balances (deficits):			
Unreserved:			
Undesignated	(122,760)	(359,271)	2,836,549
Unreserved reported in:			
Special revenue funds			
Capital projects funds			
Debt service funds			
Total fund balances	(122,760)	(359,271)	2,836,549
 Total liabilities and fund balances	\$ 1,109,549	\$	\$ 2,871,818

The notes to the financial statements are an integral part of this statement.

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,347,298	\$ 4,298,093
	142,024
42,374	1,009,899
356	1,921,379
<u>\$ 3,390,028</u>	<u>\$ 7,371,395</u>

\$ 429,971	\$ 773,799
	328,011
1,085,701	1,921,379
	119,332
<u>1,515,672</u>	<u>3,142,521</u>

2,354,518

(81,118)	(81,118)
1,557,924	1,557,924
397,550	397,550
<u>1,874,356</u>	<u>4,228,874</u>
<u>\$ 3,390,028</u>	<u>\$ 7,371,395</u>

(This page intentionally left blank)

**CITY OF ESPANOLA, NEW MEXICO
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total governmental fund balances		\$ 4,228,874
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	\$ 29,123,183	
Less accumulated depreciation	<u>(23,031,155)</u>	6,092,028
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued interest payable	(78,333)	
Loans payable	(20,220,510)	
Bonds payable	(2,728,333)	
Compensated absences payable	<u>(509,940)</u>	<u>(23,537,116)</u>
Net assets of governmental activities		<u>\$ (13,216,214)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>NMDOT Grant</u>	<u>Infrastructure Projects</u>
Revenues:			
Property taxes	\$ 526,564	\$	\$
Municipal and state shared taxes	8,041,005		1,153,043
Intergovernmental	37,000	345,863	
Charges for services	302,348		
Licenses and permits	94,420		
Fines and forfeits	407,720		
Franchise fees	336,024		
Contributions and donations	22,291		
Investment income	115,593		
Other revenues	62,721		
Total revenues	<u>9,945,686</u>	<u>345,863</u>	<u>1,153,043</u>
Expenditures:			
Current -			
General government	4,370,371		
Public safety	4,126,763		
Public works	434,027		
Culture and recreation	909,541		
Capital outlay	160,164	621,275	158,738
Debt service -			
Principal			
Interest and fiscal charges			
Total expenditures	<u>10,000,866</u>	<u>621,275</u>	<u>158,738</u>
Excess (deficiency) of revenues over expenditures	<u>(55,180)</u>	<u>(275,412)</u>	<u>994,305</u>
Other financing sources (uses):			
Loan proceeds			
Transfers in	374,288		
Transfers out	(913,244)		(926,010)
Total other financing sources (uses)	<u>(538,956)</u>		<u>(926,010)</u>
Changes in fund balances	<u>(594,136)</u>	<u>(275,412)</u>	<u>68,295</u>
Fund balances (deficits), beginning of year	471,376	(83,859)	2,768,254
Fund balances (deficits), end of year	<u>\$ (122,760)</u>	<u>\$ (359,271)</u>	<u>\$ 2,836,549</u>

The notes to the financial statements are an integral part of this statement.

NMED CWSRF Proceeds	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$
	526,564	10,508,115
	1,314,067	2,574,786
	2,191,923	336,151
	33,803	95,849
	1,429	407,720
		336,024
	12,604	34,895
	6,137	121,730
		62,721
	<u>3,559,963</u>	<u>15,004,555</u>
		4,370,371
	1,409,408	5,536,171
	602,608	1,036,635
	124,035	1,033,576
3,077,509	2,137,958	6,155,644
	1,131,640	1,131,640
	862,313	862,313
<u>3,077,509</u>	<u>6,267,962</u>	<u>20,126,350</u>
<u>(3,077,509)</u>	<u>(2,707,999)</u>	<u>(5,121,795)</u>
3,077,509	291,815	3,369,324
	2,905,449	3,279,737
	(204,987)	(2,044,241)
<u>3,077,509</u>	<u>2,992,277</u>	<u>4,604,820</u>
	284,278	(516,975)
	1,590,078	4,745,849
<u>\$</u>	<u>\$ 1,874,356</u>	<u>\$ 4,228,874</u>

CITY OF ESPANOLA, NEW MEXICO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds	\$ (516,975)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.	(1,973,343)
Issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the Statement of Net Assets.	(3,369,324)
Repayment of loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	963,400
Compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported in governmental funds.	<u>(205,862)</u>
Change in net assets in governmental activities	<u>\$ (5,102,104)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 421,856	\$ 421,856	\$ 526,564	\$ 104,708
Municipal and state shared taxes	9,304,311	9,304,311	8,041,005	(1,263,306)
Intergovernmental	55,000	55,000	37,000	(18,000)
Charges for services	404,462	404,462	302,348	(102,114)
Licenses and permits	140,200	140,200	94,420	(45,780)
Fines and forfeits	469,285	469,285	407,720	(61,565)
Franchise fees	309,004	309,004	336,024	27,020
Contributions and donations			22,291	22,291
Investment income	75,000	75,000	115,593	40,593
Other revenues	23,928	23,928	62,721	38,793
Total revenues	<u>11,203,046</u>	<u>11,203,046</u>	<u>9,945,686</u>	<u>(1,257,360)</u>
Expenditures:				
Current -				
General government	4,502,316	4,693,477	4,370,371	323,106
Public safety	4,589,179	4,589,179	4,126,763	462,416
Public works	420,595	420,595	434,027	(13,432)
Culture and recreation	1,069,426	1,069,426	909,541	159,885
Capital outlay	350,202	350,202	160,164	190,038
Total expenditures	<u>10,931,718</u>	<u>11,122,879</u>	<u>10,000,866</u>	<u>1,122,013</u>
Excess (deficiency) of revenues over expenditures	<u>271,328</u>	<u>80,167</u>	<u>(55,180)</u>	<u>(135,347)</u>
Other financing sources (uses):				
Transfers in	412,689	603,850	374,288	(229,562)
Transfers out	(1,150,625)	(1,150,625)	(913,244)	237,381
Total other financing sources (uses)	<u>(737,936)</u>	<u>(546,775)</u>	<u>(538,956)</u>	<u>7,819</u>
Change in fund balances	<u>(466,608)</u>	<u>(466,608)</u>	<u>(594,136)</u>	<u>(127,528)</u>
Fund balances, July 1, 2007	1,377,588	1,377,588	471,376	(906,212)
Fund balances (deficits), June 30, 2008	<u>\$ 910,980</u>	<u>\$ 910,980</u>	<u>\$ (122,760)</u>	<u>\$ (1,033,740)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Enterprise Funds			
	Water and Wastewater	Solid Waste	Housing Assistance	Total
<u>ASSETS</u>				
Current assets:				
Cash and investments	\$ 1,456,463	\$ 225,552	\$ 171,572	\$ 1,853,587
Accounts receivable	1,584,626	281,739		1,866,365
Due from federal government			357,737	357,737
Total current assets	3,041,089	507,291	529,309	4,077,689
Noncurrent assets:				
Land	232,040		277,437	509,477
Land improvements	1,611,771		379,289	1,991,060
Infrastructure	11,060,404			11,060,404
Buildings and improvements			10,444,853	10,444,853
Vehicles, furniture and equipment	4,142,320	359,097	777,912	5,279,329
Accumulated depreciation	(9,388,739)	(240,341)	(5,295,133)	(14,924,213)
Total noncurrent assets	7,657,796	118,756	6,584,358	14,360,910
Total assets	10,698,885	626,047	7,113,667	18,438,599
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	337,222	39,134		376,356
Accrued payroll			16,189	16,189
Compensated absences payable	102,263		15,764	118,027
Customer deposits	32,032		34,636	66,668
Loans payable	217,604			217,604
Total current liabilities	689,121	39,134	66,589	794,844
Noncurrent liabilities:				
Loans payable	2,847,024			2,847,024
Landfill closure and postclosure costs		579,011		579,011
Total non-current liabilities	2,847,024	579,011		3,426,035
Total liabilities	3,536,145	618,145	66,589	4,220,879
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	4,593,168	118,756	6,584,358	11,296,282
Unrestricted	2,569,572	(110,854)	462,720	2,921,438
Total net assets	\$ 7,162,740	\$ 7,902	\$ 7,047,078	\$ 14,217,720

The notes to the financial statements are an integral part of this statement.

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds			Total
	Water and Wastewater	Solid Waste	Housing Assistance	
Operating revenues:				
Charges for services	\$ 3,727,103	\$ 516,449	\$ 124,448	\$ 4,368,000
Total operating revenues	<u>3,727,103</u>	<u>516,449</u>	<u>124,448</u>	<u>4,368,000</u>
Operating expenses:				
Payroll and benefits	1,394,902		256,746	1,651,648
Supplies and services	1,318,064	525,304	424,571	2,267,939
Housing assistance payments			648,873	648,873
Depreciation	462,411	12,044	453,871	928,326
Total operating expenses	<u>3,175,377</u>	<u>537,348</u>	<u>1,784,061</u>	<u>5,496,786</u>
Operating income (loss)	<u>551,726</u>	<u>(20,899)</u>	<u>(1,659,613)</u>	<u>(1,128,786)</u>
Nonoperating revenues (expenses):				
Municipal and state shared taxes	569,073	237,968		807,041
Intergovernmental			946,171	946,171
Investment income			7,216	7,216
Other revenues	3,450			3,450
Total nonoperating revenues (expenses)	<u>572,523</u>	<u>237,968</u>	<u>953,387</u>	<u>1,763,878</u>
Income (loss) before capital contributions and transfers	<u>1,124,249</u>	<u>217,069</u>	<u>(706,226)</u>	<u>635,092</u>
Capital contributions	193,016			193,016
Transfers in	233,237			233,237
Transfers out	<u>(1,468,733)</u>			<u>(1,468,733)</u>
Changes in net assets	<u>81,769</u>	<u>217,069</u>	<u>(706,226)</u>	<u>(407,388)</u>
Total net assets, beginning of year	7,080,971	(209,167)	7,753,304	14,625,108
Total net assets, end of year	<u>\$ 7,162,740</u>	<u>\$ 7,902</u>	<u>\$ 7,047,078</u>	<u>\$ 14,217,720</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008**

	Enterprise Funds			
	Water and Wastewater	Solid Waste	Housing Assistance	
<u>Increase (Decrease) In Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ 3,313,072	\$ 488,963	\$ 139,698	\$ 3,941,733
Cash payments to suppliers for goods and services	(1,318,064)	(525,304)	(1,262,674)	(3,106,042)
Cash payments to employees for services	(1,369,410)		(257,199)	(1,626,609)
Net cash provided by (used for) operating activities	625,598	(36,341)	(1,380,175)	(790,918)
Cash flows from noncapital and related financing activities:				
Intergovernmental revenues	569,073	237,968	1,303,908	2,110,949
Net operating transfers	(1,235,496)			(1,235,496)
Net cash provided by (used for) noncapital financing activities	(666,423)	237,968	1,303,908	875,453
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	297,943	(86,221)	(732,153)	(520,431)
Net cash provided by (used for) capital and related financing activities	297,943	(86,221)	(732,153)	(520,431)
Cash flows from investing activities:				
Interest on investments			7,216	7,216
Net cash provided by investing activities			7,216	7,216
Net increase (decrease) in cash and cash equivalents	257,118	115,406	(801,204)	(428,680)
Cash and cash equivalents, July 1, 2007	1,199,345	110,146	972,776	2,282,267
Cash and cash equivalents, June 30, 2008	\$ 1,456,463	\$ 225,552	\$ 171,572	\$ 1,853,587
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating income (loss)	\$ 551,726	\$ (20,899)	\$ (1,659,613)	\$ (1,128,786)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	462,411	12,044	453,871	928,326
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(446,063)	(27,486)	13,011	(460,538)
Decrease in accounts payable			(189,230)	(189,230)
Increase in accrued payroll and employee benefits			3,122	3,122
Increase (decrease) in compensated absences payable	25,492		(3,575)	21,917
Decrease in deposits held for others	32,032		2,239	34,271
Total adjustments	73,872	(15,442)	279,438	337,868
Net cash provided by (used for) operating activities	\$ 625,598	\$ (36,341)	\$ (1,380,175)	\$ (790,918)

CITY OF ESPANOLA, NEW MEXICO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008

	<u>Agency</u>
<u>ASSETS</u>	
Cash and investments	\$ 104,925
Total assets	<u>\$ 104,925</u>
<u>LIABILITIES</u>	
Deposits held for others	104,925
Total liabilities	<u>\$ 104,925</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Espanola (City) was incorporated under the provisions of Chapter 3, Article 2, NMSA 1978. The City operates under an elected Mayor-Council form of government.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City's significant accounting policies are described below.

A. Reporting Entity

The City's major operations include police and fire protection, library, parks and recreation, certain community and social services and general administrative services. In addition, the City operates three enterprise funds, which include a Water and Wastewater Fund, a Solid Waste Fund, and a Housing Assistance Fund.

The financial reporting entity consists of a primary government and its component units. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the City for financial statement presentation purposes, and the City is not included in any other governmental reporting entity. Consequently, the City's financial statements include only the financial activity of those organizational entities for which its elected governing body is financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City. For the most part, the effect of internal activity has been removed from these statements. These statements distinguish between governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other items not included among program revenues, but are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. In addition, the fiduciary fund financial statements are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements, however the effect of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their exchange value. The City does not allocate indirect expenses to functions in the statement of activities.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. In addition, derived tax revenues, such as gross receipts and gasoline taxes, are recognized as revenues when the underlying exchange transaction has occurred. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, gross receipts taxes, state shared taxes, franchise fees, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenue also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Property taxes recognized are net of estimated refunds and uncollectible amounts. Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The City reports the following major governmental fund.

General Fund – This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

NMDOT Grant Fund – This fund accounts for intergovernmental revenues and expenditures for roadway projects.

Infrastructure Projects Fund – This fund accounts for City capital projects.

NMED CWSRF Proceeds Fund – This fund accounts for the New Mexico Environment Department Clean Water State Revolving Fund monies and related project expenditures. The fund had current year loan proceeds which were entirely expended during the year and the fund had no other account balances at year end. Therefore, the fund is not presented on the *Balance Sheet – Governmental Funds* in the basic financial statements.

The City reports the following major proprietary funds.

Water and Wastewater Fund – This enterprise fund is used to account for all operations of the water and wastewater systems.

Solid Waste Fund – This enterprise fund is used to account for all garbage operations of the solid waste system.

Housing Assistance Fund – This enterprise fund is used to account for all low-rent housing operations of the City.

Additionally, the City reports the following fund type:

Fiduciary Fund – The Fiduciary Fund consists of the agency fund which accounts for assets held by the City on behalf of the Municipal Court operated at City Hall.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's enterprise funds are charges to customers for water and wastewater services. Operating expenses for this fund include production costs, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

D. Investments

New Mexico Statutes Annotated (NMSA) authorizes the City to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of New Mexico, counties, cities, Citys, school districts, and special districts as specified by statute.

The State of New Mexico local government investment pool is a pool that is not registered with the United States Securities Exchange Commission. Section 6-10-101, NMSA 1978, empowers the State Treasurer, with the advise and consent of the State Board of Finance, to invest money held in the short-term investment in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary. The investment in the State of New Mexico local government investment pool approximates the value of the participant's pool share.

A significant portion of the cash and investments of funds of the City is pooled for investment purposes. The balance reported for each participating fund as "Cash and Investments" represents the equity of that fund in the pooled cash and investments. Interest earnings on pooled investments are allocated to the participating funds based on average daily balances.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Investment Income

Investment income is composed of interest and net changes in the fair value of applicable investments.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade receivables are shown net of allowance for uncollectibles.

Property taxes attach as a lien on property as of January 1. Taxes are levied each year on July 1 on the taxable valuation of property located within the City as of the preceding January 1. The taxable valuation for the various classes of property are determined by the Rio Arriba and Santa Fe County Assessors; as well as, the State of New Mexico Department of Finance and Administration (DFA), Local Government Division at one-third of assessed valuation. Property taxes are payable in two equal installments due on November 10 of the current year and April 10 of the following year and become delinquent after 30 days.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Software is capitalized when acquired while library books are not capitalized because the aggregated cost of books is considered immaterial. Donated capital assets are recorded at estimated fair market value at the date of donation. General government infrastructure assets acquired prior to July 1, 2006, consist of road network assets that were acquired or that received substantial improvements subsequent. These infrastructure assets are reported at estimated historical cost using deflated replacement cost.

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

Certain capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Vehicles	5-10
Furniture and fixtures	5-10
Machinery and equipment	7-10

H. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation benefits vest immediately at the employee's current rate of pay; however, the sick leave benefits do not vest. The current and long-term liabilities for accumulated vacation leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Resources from the General Fund are typically used to pay for compensated absences.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

I. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Net Assets Restriction and Fund Balance Reservations

In the government-wide financial statements only restrictions imposed by external sources or enabling legislation are identified as restricted net assets.

In the fund financial statements, governmental funds report reservations or designations of fund balance for amounts that are not available for expenditures or identified for use of a specific purpose by the City. At June 30, 2008, the City had no reservations of fund balance in the governmental funds.

K. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

L. Budgets

The General, Special Revenue, Debt Service, Capital Project, and Proprietary Fund budgets are subject to approval by the New Mexico Department of Finance and Administration (DFA), Local Government Division.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

During the month of May, public hearings are conducted to obtain taxpayer comments. Prior to June 1, the City submits to the DFA a proposed operating budget for the fiscal year commencing the following July 1. The budget is prepared by fund and function and includes proposed expenditures, which include carryover encumbrances and accounts payable, and the means of financing them. Prior to July 1, DFA grants interim approval for the City to operate on the proposed budget subject to adjustments and/or revisions prior to final subsequent approval before the first Monday in September. Such approval is contingent upon the City Council adopting the proposed budget in accordance with applicable state statutes, and sufficient funds being available for anticipated fiscal year expenditures. Prior to July 31, the City Council adopts by resolution a formal budget and such budget is presented to DFA for final approval.

Section 6-6-6, NMSA, 1978 Compilation prohibits municipalities from making expenditures in excess of the approved budget. For these purposes the budget referred to is the fund's total budget.

The adopted budget of the City is prepared on a basis consistent with accounting principles generally accepted in the United States of America.

M. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at June 30, 2008 were cash in bank and investments held by the City.

**CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balances – At June 30, 2008, the following major and individual non-major funds reported deficits in fund balance.

	<u>Deficit</u>
Major Funds:	
General Fund	\$ 122,760
NMDOT Grant Fund	359,271
Non-Major Funds:	
Bullet Proof Vest Grant	15,873
Operation Buckle Down	5,593
G.R.E.A.T. Grant	8,260
COPS in Schools Grant	99,648
Operation DWI State Grant	4,055
Transit System Grant	90,899
Summer Lunch Program	32,009
Click It or Ticket	2,344
Wildland Grant	4,109
Law Enforcement Technology Grant	81,472
Firefighters	74,668
Roads and Streets	93,736
U.S. Bureau of Reclamation	38,003
NMDOT Litter Control and Beautification	1,311
2002 Bond Debt Service	190,199
RUS Loan Debt Service	24,011
NMFA DSWRF Debt Service	3,992
NMED CWSRF Debt Service	39,084
NMLA Capital Improvements Grant	74,822
USDA Grants	20,028
Federal W/WW Project Grant	300,174
State Agency on Aging Grants	60,850
USDA Loan / Police Department	125,000

The deficits arose because of operations during the year and prior years. Additional revenues received in fiscal year 2008-09 are expected to eliminate the deficits.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concl'd)

Excess Expenditures Over Appropriations – For the year ended June 30, 2008, expenditures/expenses exceeded appropriations in the following fund:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Major Fund:			
NMED CWSFR Proceeds	\$ 3,002,000	\$ 3,077,509	\$ (75,509)
Non-Major Governmental Funds:			
Bullet Proof Vest Grant		5,193	(5,193)
COPS in Schools Grant		111,377	(111,377)
Library Grant	20,000	41,535	(21,535)
Transit System Grant	67,780	106,359	(38,579)
Summer Lunch Program	40,649	43,193	(2,544)
Click It or Ticket	2,499	5,182	(2,683)
EMS	6,500	25,532	(19,032)
NMDOT Litter Control and Beautification		2,340	(2,340)
2002 Bond Debt Service	587,927	911,824	(323,897)
NMFA DSWRF Debt Service	83,979	84,422	(443)
NMED CWSRF Debt Service	279,168	318,251	(39,083)
NM SAP W/WW Project Grant		291,620	(291,620)
NMFA DSWRF Proceeds		47,126	(47,126)
NMFA PPR Equipment Project Loan	89,347	91,964	(2,617)
Proprietary Fund:			
Water and Wastewater	2,589,295	2,712,966	(123,671)

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS

At June 30, 2008, the carrying amount of the City’s deposits was \$753,508 and the bank balance was \$2,200,315. The difference represents outstanding checks, deposits, and other reconciling items.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City does not have a specific deposit policy for custodial credit risk; however, under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% of the uninsured balance. The City’s agreement with its sole depository requires pledged collateral of 102% of the public money in each account. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2008, \$2,000,315 of the City’s bank balance was exposed to custodial credit risk as uninsured and collateralized with securities held by the pledging financial institution’s trust department.

The pledged collateral by bank at June 30, 2008, consists of the following.

Deposits		\$ 2,200,315
Less FDIC coverage		<u>202,728</u>
Total unsecured public funds		1,997,587
50% collateral requirement		998,794
Pledged securities, fair value		<u>3,501,253</u>
Pledged in excess of requirement		<u>\$ 2,502,459</u>

At June 30, 2008 the City’s investments consisted of the following.

		Investment Maturities (in Years)
Investment Type	Fair Value	Less than 1
State Treasurer's Investment Pool	\$ 2,454,930	\$ 2,454,930
NMFA – Reserve	219,528	219,528
NMFA – Program	586,842	586,842
NMFA – Sub Lien Reserve	30,992	30,992
NMFA – Sub Lien Program	30,082	30,082
GRT – Reserve Bonds	276,953	276,953
GRT – Debt Service Bonds	410,311	410,311
Refunding – Escrow	<u>1,493,459</u>	<u>1,493,459</u>
Total	<u>\$ 5,503,097</u>	<u>\$ 5,503,097</u>

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Quality Risk. The City has no investment policy that would further limit its investment choices. All of the City's investments in U.S. Agencies in the preceding table were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's. The *New MexiGROW* Local Government Investment Pool (LGIP), a government investment pool is rated AAAM by Standard & Poor's and is authorized by the New Mexico State statute.

Custodial Credit Risk - Investments. To control custody risk State law and the City adopted Investment Policy requires all securities and all collateral for time and demand deposits as well as repurchase agreement collateral be transferred delivery versus payment and held by an independent party required to provide original safekeeping receipts. Repurchase agreements must be collateralized to 102%.

The City's investment in the New Mexico State Treasurer's Investment Pool represents a proportionate interest in the Pool's portfolio. The City's portion is not identified with specific investments and is not subject to custodial risk; however, separately issued financial statements of the Office of the State Treasurer disclose the collateral pledged to secure the State Treasurer's cash and investments. The most recent report may be obtained by contacting the Office of the State Treasurer, P.O. Box 608, Santa Fe, New Mexico 87504-0608.

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2008 follows.

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,412,879	\$	\$	\$ 3,412,879
Total capital assets, not being depreciated	3,412,879			3,412,879
Capital assets, being depreciated:				
Buildings and improvements	19,400,283			19,400,283
Vehicles, furniture and equipment	6,310,021			6,310,021
Total capital assets being depreciated	25,710,304			25,710,304
Less accumulated depreciation for:				
Buildings and improvements	(17,389,230)	(1,478,084)		(18,867,314)
Vehicles, furniture and equipment	(3,668,582)	(495,259)		(4,163,841)
Total accumulated depreciation	(21,057,812)	(1,973,343)		(23,031,155)
Total capital assets, being depreciated, net	4,652,492	(1,973,343)		2,679,149
Governmental activities capital assets, net	\$ 8,065,371	\$(1,973,343)	\$	\$ 6,092,028

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 – CAPITAL ASSETS (Concl'd)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 509,477	\$	\$	\$ 509,477
Total capital assets, not being depreciated	<u>509,477</u>			<u>509,477</u>
Capital assets, being depreciated:				
Land improvements	2,235,752	12,201	256,893	1,991,060
Infrastructure	11,060,404			11,060,404
Buildings and improvements	10,444,853			10,444,853
Vehicles, furniture and equipment	5,279,329			5,279,329
Total capital assets being depreciated	<u>29,020,338</u>	<u>12,201</u>	<u>256,893</u>	<u>28,775,646</u>
Less accumulated depreciation for:				
Land improvements	(980,749)	(68,307)		(1,049,056)
Infrastructure	(4,851,824)	(422,811)		(5,274,635)
Buildings and improvements	(4,581,803)	(112,038)		(4,693,841)
Vehicles, furniture and equipment	(3,581,511)	(325,170)		(3,906,681)
Total accumulated depreciation	<u>(13,995,887)</u>	<u>(928,326)</u>		<u>(14,924,213)</u>
Total capital assets, being depreciated, net	<u>15,024,451</u>	<u>(916,125)</u>	<u>256,893</u>	<u>13,851,433</u>
Governmental activities capital assets, net	<u>\$15,533,928</u>	<u>\$ (916,125)</u>	<u>\$ 256,893</u>	<u>\$14,360,910</u>

Depreciation expense was charged to functions/programs as follows.

Governmental Activities:	
General government	\$ 901,783
Public safety	569,530
Public works	213,899
Culture and recreation	288,131
Total depreciation expense – governmental activities	<u>\$1,973,343</u>
Business-Type Activities:	
Water and wastewater	\$ 462,411
Solid waste	12,044
Housing assistance	453,871
Total depreciation expense – business-type activities	<u>\$ 928,326</u>

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 – LOANS PAYABLE

The loans payable at June 30, 2008 are as follows:

Purpose	Maturity	Outstanding Principal June 30, 2008	Due Within One Year
Governmental activities:			
2007 NMFA Loan	3/2025	\$ 7,700,000	\$
1997 NMFA Sewer/Water	5/2017	688,382	62,292
NMFA Grader	5/2009	18,740	18,740
2002 NMFA Well #9	5/2027	1,114,596	37,909
1998 NMFA Well #8	5/2018	288,902	21,713
2007 NMFA Equipment	3/2010	215,830	106,115
2006 NMFA	5/2017	774,736	83,721
2007 NMED	6/2025	9,169,324	
NM Board of Finance	7/2012	250,000	50,000
Total		<u>\$ 20,220,510</u>	<u>\$ 380,490</u>
Business-type activities:			
1991 NMED Wastewater	2/2018	\$ 2,240,083	\$ 204,579
1996 RUS	12/2036	626,003	9,839
1997 RUS	3/2037	198,542	3,186
Total		<u>\$ 3,064,628</u>	<u>\$ 217,604</u>

Principal and interest payments on the governmental and business-type activities loans payable at June 30, 2008, are summarized as follows.

Year ending June 30:	Governmental Activities	
	Principal	Interest
2009	\$ 380,490	\$ 803,844
2010	371,879	777,337
2011	1,068,563	750,287
2012	1,109,991	713,225
2013	1,152,667	674,349
2014-18	6,040,166	2,715,586
2019-23	6,379,532	1,527,919
2024-28	3,717,222	255,625
Total	<u>\$ 20,220,510</u>	<u>\$ 8,218,172</u>

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 – LOANS PAYABLE (Concl'd)

Year ending June 30:	Business-type Activities	
	Principal	Interest
2009	217,604	86,812
2010	222,360	82,056
2011	227,230	77,185
2012	232,220	72,196
2013	237,332	67,083
2014-18	1,267,889	254,189
2019-23	118,518	156,656
2024-28	151,948	123,227
2029-33	194,806	80,369
2034-38	194,721	25,418
Total	<u>3,064,628</u>	<u>1,025,191</u>

NOTE 6 – BONDS PAYABLE

Revenue and refunding bonds are issued and authorized by the governing body to provide funds to acquire and construct certain improvements to the Water and Wastewater systems of the City and to pay the costs incurred in connection with the issuance of the bonds. Revenue and refunding bonds outstanding as reported in governmental-type activities at June 30, 2008 were as follows.

Purpose	Maturity	Outstanding Principal June 30, 2008	Due Within One Year
Governmental activities:			
1999 Bonds	3/2023	\$ 2,728,333	\$ 253,333
Total		<u>\$ 2,728,333</u>	<u>\$ 253,333</u>

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – BONDS PAYABLE (Concl'd)

Annual debt service requirements to maturity on revenue and refunding bonds for governmental activities at June 30, 2008, are summarized as follows.

Year ending June 30:	Governmental Activities	
	Principal	Interest
2009	\$ 253,333	\$ 104,302
2010	400,000	139,593
2011	115,000	117,052
2012	120,000	111,072
2013	125,000	104,712
2014-18	735,000	414,218
2019-23	980,000	176,900
Total	<u>\$ 2,728,333</u>	<u>\$ 1,167,849</u>

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008 was as follows.

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	One Year
Governmental Activities:					
Loans payable	\$ 17,197,919	\$ 3,369,324	\$ 346,733	\$ 20,220,510	\$ 380,490
Bonds payable	3,345,000		616,667	2,728,333	253,333
Compensated absences	304,078	492,530	286,668	509,940	343,820
Total	<u>\$ 20,846,997</u>	<u>\$ 3,861,854</u>	<u>\$ 1,250,068</u>	<u>\$ 23,458,783</u>	<u>\$ 977,643</u>
Business-type Activities:					
Loans payable	\$ 3,277,590	\$	\$ 212,962	\$ 3,064,628	\$ 217,604
Compensated absences	96,110	74,606	52,689	118,027	118,027
Total	<u>\$ 3,373,700</u>	<u>\$ 74,606</u>	<u>\$ 265,651</u>	<u>\$ 3,182,655</u>	<u>\$ 335,631</u>

**CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2008, interfund balances were as follows.

Due to/from other funds:

	Due from			Total
	General Fund	NMDOT Grant Fund	Non-Major Governmental Funds	
Infrastructure Projects	\$ 539,339	\$ 296,339	\$ 1,085,345	\$ 1,921,023
Non-Major Governmental Funds			356	356
Total	<u>\$ 539,339</u>	<u>\$ 296,339</u>	<u>\$ 1,085,701</u>	<u>\$ 1,921,379</u>

At June 30, 2008, several funds were involved in borrowing arrangements due to the existence of a negative cash balance. All interfund balances are expected to be paid within one year.

Interfund transfers:

	Transfers in			Total
	General Fund	Non-Major Governmental Funds	Water and Wastewater Fund	
Transfers out				
General Fund	\$	\$ 680,007	\$ 233,237	\$ 913,244
Infrastructure Fund		926,010		926,010
Non-Major Governmental Funds		204,987		204,987
Water and Wastewater Fund	374,288	1,094,445		1,468,733
Total	<u>\$ 374,288</u>	<u>\$ 2,905,449</u>	<u>\$ 233,237</u>	<u>\$3,512,974</u>

Interfund transfers were made by the City during the fiscal year to ensure that sufficient resources were available to cover expenditures in the applicable funds.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 – PRIOR PERIOD ADJUSTMENT

The July 1, 2008, government-wide net assets for governmental activities do not agree to the prior year financial statements due to the correction of errors in outstanding long-term liabilities as reported in prior years.

	Statement of Activities
Net Assets, June 30, 2007, as previously reported	\$ (13,432,307)
Correction of prior years' long-term liabilities	5,318,197
Net Assets, July 1, 2007, as restated	\$ (8,114,110)

The July 1, 2008, fund balances for several funds do not agree to the prior year financial statements due to a fund balance reclassification related to various errors in prior years.

	Fund Balance June 30, 2007	Reallocation	Fund Balance July 1, 2007
Major Fund:			
Infrastructure Projects	\$ 2,686,483	\$ 81,771	\$ 2,768,254
Non-Major Funds:			
Lodgers' Tax	(49,668)	57,895	8,227
Lodgers' Tax Promotional	113,612	(62,895)	50,717
U.S. Bureau of Reclamation	(38,003)	(94,197)	(132,200)
Plaza Development	55,716	5,000	60,716
Infrastructure	(12,426)	12,426	
Total	\$ 2,755,714	\$	\$ 2,755,714

NOTE 10 – CONTINGENT LIABILITIES

Federal and State grants and loans – The City has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2008; however, the City expects no material disallowance of expenditures.

Lawsuits – The City is a defendant in a number of lawsuits as of June 30, 2008. It is the opinion of management and City counsel that the amount of losses resulting from these litigations at June 30, 2008, would not be material to the financial position of the City.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the New Mexico Self-Insurers' Fund Risk Pool (Pool), together with other cities and towns in the State. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for member cities and towns. The City pays an annual premium to the Pool for its workers' compensation coverage. The agreement provides that the Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the annual aggregate per policy for workers' compensation claims. The City carries commercial insurance for all other risks of loss including property, liability, and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description – Substantially all of the full-time employees of the City participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article II NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit public employee retirement plan. The plan provides for retirement, 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy – Plan members (other than police) are required to contribute 5.57% of their gross salary; police are required to contribute 8.30% of their gross salary. The City is required to contribute 26.50% for police and 16.73% for all other plan members. The contribution requirements of the plan members and the City are established under State statute. The City's contributions to PERA for the years ended 2008, 2007, and 2006 were \$1.2 million, \$1.1 million and \$965,742, respectively, which were equal to the amount of the required contributions for each year.

CITY OF ESPANOLA, NEW MEXICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTHCARE PLAN

Plan Description. The City of Espanola contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute 0.65% of their salary.

(This page intentionally left blank)

SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**OTHER MAJOR GOVERNMENT FUNDS
SCHEDULES OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMDOT GRANT
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,596,945	\$ 3,697,400	\$ 345,863	\$ (3,351,537)
Total revenues	<u>1,596,945</u>	<u>3,697,400</u>	<u>345,863</u>	<u>(3,351,537)</u>
Expenditures:				
Capital outlay	1,836,945	3,937,400	621,275	3,316,125
Total expenditures	<u>1,836,945</u>	<u>3,937,400</u>	<u>621,275</u>	<u>3,316,125</u>
Excess (deficiency) of revenues over expenditures	<u>(240,000)</u>	<u>(240,000)</u>	<u>(275,412)</u>	<u>(35,412)</u>
Other financing sources (uses):				
Transfers in	240,000	240,000		(240,000)
Total other financing sources (uses)	<u>240,000</u>	<u>240,000</u>		<u>(240,000)</u>
Change in fund balances			<u>(275,412)</u>	<u>(275,412)</u>
Fund balances (deficits), July 1, 2007			(83,859)	(83,859)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ (359,271)</u>	<u>\$ (359,271)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - INFRASTRUCTURE PROJECTS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Municipal and state shared taxes	\$ 1,200,000	\$ 1,153,043	\$ (46,957)
Intergovernmental	2,956,134		(2,956,134)
Total revenues	<u>4,156,134</u>	<u>1,153,043</u>	<u>(3,003,091)</u>
Expenditures:			
Capital outlay	5,524,569	158,738	5,365,831
Total expenditures	<u>5,524,569</u>	<u>158,738</u>	<u>5,365,831</u>
Excess (deficiency) of revenues over expenditures	<u>(1,368,435)</u>	<u>994,305</u>	<u>2,362,740</u>
Other financing sources (uses):			
Transfers out	(1,180,714)	(926,010)	254,704
Total other financing sources (uses)	<u>(1,180,714)</u>	<u>(926,010)</u>	<u>254,704</u>
Change in fund balances	<u>(2,549,149)</u>	<u>68,295</u>	<u>2,617,444</u>
Fund balances, July 1, 2007	2,647,941	2,768,254	120,313
Fund balances, June 30, 2008	<u>\$ 98,792</u>	<u>\$ 2,836,549</u>	<u>\$ 2,737,757</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMED CWSRF PROCEEDS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Investment income	\$ 2,000	\$	\$ (2,000)
Total revenues	<u>2,000</u>	<u></u>	<u>(2,000)</u>
Expenditures:			
Capital outlay	3,002,000	3,077,509	(75,509)
Total expenditures	<u>3,002,000</u>	<u>3,077,509</u>	<u>(75,509)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,000,000)</u>	<u>(3,077,509)</u>	<u>(77,509)</u>
Other financing sources (uses):			
Loan proceeds		3,077,509	3,077,509
Total other financing sources (uses)		<u>3,077,509</u>	<u>3,077,509</u>
Change in fund balances	<u>(3,000,000)</u>	<u></u>	<u>3,000,000</u>
Fund balances, July 1, 2007	3,000,000		(3,000,000)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$</u>

NON-MAJOR FUNDS

Special Revenue Funds

Recreation – To account for the operations and maintenance of the recreation facilities.

Teen Court – To establish and account for grant funding awarded to the City by the New Mexico Department of Health for the purpose of establishing a framework of prevention strategies associated with alcohol, tobacco, and other drug abuse.

Weed & Seed Grant – To establish and account for grant funding awarded to the City for the maintenance of land.

Bullet Proof Vest Grant – To establish and account for grant funding awarded to the Police Department for the purchase of equipment.

Operation Buckle Down – To establish and account for grant funding awarded to the Police Department by the New Mexico Department of Transportation for the enforcement of occupant protection laws and ordinances aimed at increasing seat belt and proper child restraint usage.

G.R.E.A.T. Grant – To establish and account for grant funding awarded to the Police Department by the Espanola Valley High School for a Gang Resistance Education and Training curriculum.

COPS in Schools Grant – To establish and account for grant funding awarded to the Police Department by the U.S. Department of Justice to provide a School Resource Officer (SRO) Program for the Espanola Public Schools.

Byrne Justice Assistance Grant – To establish and account for grant funding awarded to the Police Department by the U.S. Department of Justice for non-lethal force options and technology improvements.

Operation DWI State Grant – To establish and account for grant funding awarded to the Police Department by the U.S. Department of Transportation for alcohol-impaired driving countermeasures.

Library Grant – To account for a grant from the State of New Mexico to be used for additions to the City's library.

Transit System Grant – To establish and account for grant funding awarded to the City by the Federal Transit Administration for the City's transit system.

Summer Lunch Program Grant – To establish and account for grant funding awarded to the City by the U.S. Department of Agriculture through the NM CYFD to carry out Section 13 activities of the National School Lunch Program.

Special Revenue Funds (Concl'd)

Click It or Ticket – To establish and account for grant funding awarded to the Police Department by the Department of Transportation for the enforcement of occupant protection laws and ordinances aimed at increasing seatbelt and proper child restraint usage.

EMS – To account for grant funds for the City's EMS department.

Wildland Grant – To account for grant funds to be used for wildland protection.

Law Enforcement Technology Grant – To account for installation of wireless mesh to provide radio communication for the Police Department.

Firefighters Fund – To account for the operation and maintenance of the City's fire district.

DWI Program Enforcement – To account for sobriety checkpoints and saturation patrols aimed at reducing alcohol related accidents.

E-911 Grant – To account for monies received from the State of New Mexico under Section 63-9D-1 NMSA 1978 for the enhancement of the 911 Telephone Emergency System.

Fire Protection – To account for the operation and maintenance of the City's fire district.

Roads and Streets – To account for funds used to maintain roads for which the City has responsibility. Financing sources include motor vehicle registration fees and gasoline taxes.

Law Enforcement Protection – To account for a grant from the State of New Mexico used for the purchase and repair of equipment as well as training for police personnel.

Fire Discretionary – To account for the Fire Department's discretionary operations.

Lodger's Tax – To account for lodgers' taxes used to promote the City.

Lodgers' Tax Promotional – To account for lodgers' taxes used to promote the City.

Fiesta Council – To account for State funds used for the Fiesta Council.

U.S. Bureau of Reclamation – To account for grant funds to be used for emergency drought assistance.

NMDOT Litter Control and Beautification – To account for the establishment of a local Keep America Beautiful Program to aid in litter control and beautification projects.

Debt Service Funds

2002 Bond Debt Service – To establish and account for the debt service payments of the 1999-2002 Bond Series.

RUS Loan Debt Service – To establish and account for the debt service payment of the RUS Water System revenue bonds.

Environmental Department Loan – To establish a budget and account for the payment of a New Mexico Environmental Department loan used to finance the wastewater facility.

NMFA Loan Intercepts – To account for the activities related to the debt intercept payments to the State of New Mexico.

NMFA Well #9 – To account for matching funds for the surface water project.

1994 Bond Reserve – To account for the bond reserve held in escrow by the Paying Agent.

NMFA DWSRF Debt Service – To establish and account for the payment of a New Mexico Finance Authority loan used to finance the wastewater facility.

NMED CWSRF Debt Service – To be used to fund the wastewater plant.

Capital Projects Funds

Plaza Development – To account for funds received for construction of the Plaza Project.

Capital Projects Grant – To account for capital projects.

NMLA Capital Improvements Grant – To establish and account for a capital replacement program.

USDA Grants – To account for the purchase of vehicles and equipment for the Police Department.

NM SAP W/WW Project Grant – To account for the completion of the wastewater project and to match Federal funding of water projects.

Federal W/WW Project Grant – To complete the wastewater project and to complete water projects.

NMFA Trust Board Project Grants – To establish and account for an NMFA equipment grant.

State Water Project Grants – To establish and account for a State water capital project.

Capital Projects Funds (Concl'd)

State Agency on Aging Grants – To account for the renovation of the senior building and to purchase equipment for the senior center.

Equipment Replacement – To establish and account for a capital equipment replacement program.

NMFA DWSRF Proceeds – To account for the New Mexico Finance Authority Drinking Water State Revolving Fund monies and related project expenditures.

NMFA Loan Reserve – To account for debt reserves related to New Mexico Finance Authority debt.

NMFA PPR Equipment Project Loan – To purchase and equip police vehicles.

NM Board of Finance Project – For the renovation of the Police and Detention Department.

USDA Loan/Police Department – To purchase police vehicles and equipment.

Proprietary Funds

Water and Wastewater – To account for the water and wastewater operations of the City.

Solid Waste Utility – To account for the solid waste operations of the City.

Housing Assistance – To account for the City's low income housing operations.

NOTE: The Equipment and Replacement Fund and the NMFA DWSRF Proceeds Fund reported on the *Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Capital Projects Funds* only reported current year activity and the funds had no account balances at year end. Therefore, the funds are not presented on the *Combining Balance Sheet – Non-Major Capital Projects Funds* in the following combining statements. In addition, the NMFA Trust Board Fund reported as a *Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual* was budgeted for current year activity which did not occur during the year. Therefore, the fund is not presented in either the *Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Capital Projects Funds* or the *Combining Balance Sheet – Non-Major Capital Projects Funds*.

(This page intentionally left blank)

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008

	<u>Recreation</u>	<u>Teen Court</u>	<u>Weed and Seed Grant</u>	<u>Bullet Proof Vest Grant</u>
<u>ASSETS</u>				
Cash and investments	\$ 2,351	\$ 18,737	\$ 45,738	\$
Accounts receivable				
Due from other funds				
Total assets	<u>\$ 2,351</u>	<u>\$ 18,737</u>	<u>\$ 45,738</u>	<u>\$</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 513	\$ 340	\$ 5,633	\$
Due to other funds				15,873
Total liabilities	<u>513</u>	<u>340</u>	<u>5,633</u>	<u>15,873</u>
Fund balances (deficits):				
Unreserved:				
Undesignated	1,838	18,397	40,105	(15,873)
Total fund balances	<u>1,838</u>	<u>18,397</u>	<u>40,105</u>	<u>(15,873)</u>
Total liabilities and fund balances	<u>\$ 2,351</u>	<u>\$ 18,737</u>	<u>\$ 45,738</u>	<u>\$</u>

Operation Buckle Down	G.R.E.A.T. Grant	COPS in Schools Grant	Byrne Justice Assistance Grant	Operation DWI State Grant	Library Grant
\$	\$	\$	\$ 8,295	\$	\$ 32,306
		356			
<u>\$</u>	<u>\$</u>	<u>\$ 356</u>	<u>\$ 8,295</u>	<u>\$</u>	<u>\$ 32,306</u>
\$	\$	\$	\$	\$	\$ 5,309
5,593	8,260	100,004		4,055	
<u>5,593</u>	<u>8,260</u>	<u>100,004</u>		<u>4,055</u>	<u>5,309</u>
(5,593)	(8,260)	(99,648)	8,295	(4,055)	26,997
<u>(5,593)</u>	<u>(8,260)</u>	<u>(99,648)</u>	<u>8,295</u>	<u>(4,055)</u>	<u>26,997</u>
<u>\$</u>	<u>\$</u>	<u>\$ 356</u>	<u>\$ 8,295</u>	<u>\$</u>	<u>\$ 32,306</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008
(Continued)

	Transit System Grant	Summer Lunch Program	Click It or Ticket	EMS
<u>ASSETS</u>				
Cash and investments	\$	\$	\$	\$ 4,684
Accounts receivable				
Due from other funds				
Total assets	\$	\$	\$	\$ 4,684
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 4,664	\$ 5,548	\$	\$ 1,615
Due to other funds	86,235	26,461	2,344	
Total liabilities	90,899	32,009	2,344	1,615
Fund balances (deficits):				
Unreserved:				
Undesignated	(90,899)	(32,009)	(2,344)	3,069
Total fund balances	(90,899)	(32,009)	(2,344)	3,069
Total liabilities and fund balances	\$	\$	\$	\$ 4,684

<u>Wildland Grant</u>	<u>Law Enforcement Technology Grant</u>	<u>Firefighters</u>	<u>DWI Program Enforcement</u>	<u>E-911 Grant</u>	<u>Fire Protection</u>
\$	\$	\$	\$ 6,962	\$ 166,307 75	\$ 80,190
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,962</u>	<u>\$ 166,382</u>	<u>\$ 80,190</u>
\$	\$	\$	\$	\$ 12,186	\$ 27,295
4,109	81,472	74,668			
<u>4,109</u>	<u>81,472</u>	<u>74,668</u>		<u>12,186</u>	<u>27,295</u>
(4,109)	(81,472)	(74,668)	6,962	154,196	52,895
<u>(4,109)</u>	<u>(81,472)</u>	<u>(74,668)</u>	<u>6,962</u>	<u>154,196</u>	<u>52,895</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,962</u>	<u>\$ 166,382</u>	<u>\$ 80,190</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008
(Concluded)

	Roads and Streets	Law Enforcement Protection	Fire Discretionary	Lodgers' Tax
<u>ASSETS</u>				
Cash and investments	\$	\$ 21,108	\$ 18,432	\$ 19,013
Accounts receivable		37,400		
Due from other funds				
Total assets	\$	\$ 58,508	\$ 18,432	\$ 19,013
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 26,204	\$	\$	\$
Due to other funds	67,532			
Total liabilities	93,736			
Fund balances (deficits):				
Unreserved:				
Undesignated	(93,736)	58,508	18,432	19,013
Total fund balances	(93,736)	58,508	18,432	19,013
Total liabilities and fund balances	\$	\$ 58,508	\$ 18,432	\$ 19,013

Lodgers' Tax Promotional	Fiesta Council	U.S. Bureau of Reclamation	NMDOT Litter Control and Beautification	Totals
\$ 55,312 4,899	\$ 19,202	\$ 53,219	\$	\$ 551,856 42,374 356
<u>\$ 60,211</u>	<u>\$ 19,202</u>	<u>\$ 53,219</u>	<u>\$</u>	<u>\$ 594,586</u>
\$	\$ 17,258	\$ 91,222	\$	\$ 197,787
			1,311	477,917
	<u>17,258</u>	<u>91,222</u>	<u>1,311</u>	<u>675,704</u>
60,211	1,944	(38,003)	(1,311)	(81,118)
<u>60,211</u>	<u>1,944</u>	<u>(38,003)</u>	<u>(1,311)</u>	<u>(81,118)</u>
<u>\$ 60,211</u>	<u>\$ 19,202</u>	<u>\$ 53,219</u>	<u>\$</u>	<u>\$ 594,586</u>

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008

	Recreation	Teen Court	Weed and Seed Grant
Revenues:			
Municipal and state shared taxes	\$ 2,680	\$	\$
Intergovernmental			139,353
Charges for services			
Licenses and permits			
Contributions and donations			
Total revenues	2,680		139,353
Expenditures:			
Current -			
Public safety		8,663	126,299
Public works			
Culture and recreation	10,449		
Capital outlay		8,788	
Debt service -			
Principal			
Interest and fiscal charges			
Total expenditures	10,449	17,451	126,299
Excess (deficiency) of revenues over expenditures	(7,769)	(17,451)	13,054
Other financing sources (uses):			
Transfers in			44,810
Transfers out			
Total other financing sources (uses)			44,810
Change in fund balances	(7,769)	(17,451)	57,864
Fund balances (deficits), beginning of year	9,607	35,848	(17,759)
Fund balances (deficits), end of year	\$ 1,838	\$ 18,397	\$ 40,105

Bullet Proof Vest Grant	Operation Buckle Down	G.R.E.A.T. Grant	COPS in Schools Grant	Byrne Justice Assistance Grant	Operation DWI State Grant
\$	\$ 1,650	\$ 1,988	\$ 10,393	\$	\$ 3,244
	<u>1,650</u>	<u>1,988</u>	<u>10,393</u>		<u>3,244</u>
5,193		1,288	111,377	965	3,991
<u>5,193</u>		<u>1,288</u>	<u>111,377</u>	<u>965</u>	<u>3,991</u>
(5,193)	1,650	700	(100,984)	(965)	(747)
<u>(5,193)</u>	<u>1,650</u>	<u>700</u>	<u>(100,984)</u>	<u>(965)</u>	<u>(747)</u>
(10,680)	(7,243)	(8,960)	1,336	9,260	(3,308)
<u>\$ (15,873)</u>	<u>\$ (5,593)</u>	<u>\$ (8,260)</u>	<u>\$ (99,648)</u>	<u>\$ 8,295</u>	<u>\$ (4,055)</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008
(Continued)

	<u>Library Grant</u>	<u>Transit System Grant</u>	<u>Summer Lunch Program</u>
Revenues:			
Municipal and state shared taxes	\$	\$	\$
Intergovernmental	34,104	61,875	46,264
Charges for services			
Licenses and permits			
Contributions and donations			
Total revenues	<u>34,104</u>	<u>61,875</u>	<u>46,264</u>
Expenditures:			
Current -			
Public safety			
Public works		106,359	
Culture and recreation	506		43,193
Capital outlay	41,029		
Debt service -			
Principal			
Interest and fiscal charges			
Total expenditures	<u>41,535</u>	<u>106,359</u>	<u>43,193</u>
Excess (deficiency) of revenues over expenditures	<u>(7,431)</u>	<u>(44,484)</u>	<u>3,071</u>
Other financing sources (uses):			
Transfers in		96,340	
Transfers out			
Total other financing sources (uses)		<u>96,340</u>	
Change in fund balances	<u>(7,431)</u>	<u>51,856</u>	<u>3,071</u>
Fund balances (deficits), beginning of year	34,428	(142,755)	(35,080)
Fund balances (deficits), end of year	<u>\$ 26,997</u>	<u>\$ (90,899)</u>	<u>\$ (32,009)</u>

<u>Click It or Ticket</u>	<u>EMS</u>	<u>Wildland Grant</u>	<u>Law Enforcement Technology Grant</u>	<u>Firefighters</u>	<u>DWI Program Enforcement</u>
\$	\$ 11,829	\$	\$ 90,000	\$ 5,480	\$ 18,836
	<u>11,829</u>		<u>90,000</u>	<u>5,480</u>	<u>18,836</u>
5,182	18,167		106,049	7,255	11,874
	7,365		65,423		
<u>5,182</u>	<u>25,532</u>		<u>171,472</u>	<u>7,255</u>	<u>11,874</u>
<u>(5,182)</u>	<u>(13,703)</u>		<u>(81,472)</u>	<u>(1,775)</u>	<u>6,962</u>
<u>(5,182)</u>	<u>(13,703)</u>		<u>(81,472)</u>	<u>(1,775)</u>	<u>6,962</u>
2,838	16,772	(4,109)		(72,893)	
<u>\$ (2,344)</u>	<u>\$ 3,069</u>	<u>\$ (4,109)</u>	<u>\$ (81,472)</u>	<u>\$ (74,668)</u>	<u>\$ 6,962</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008
(Continued)

	<u>E-911 Grant</u>	<u>Fire Protection</u>	<u>Roads and Streets</u>
Revenues:			
Municipal and state shared taxes	\$ 887,887	\$	\$ 329,598
Intergovernmental		234,662	
Charges for services	12,137		
Licenses and permits			1,429
Contributions and donations		20	
Total revenues	<u>900,024</u>	<u>234,682</u>	<u>331,027</u>
Expenditures:			
Current -			
Public safety	868,228	126,907	
Public works			396,249
Culture and recreation			
Capital outlay	34,963	32,988	17,840
Debt service -			
Principal		27,984	
Interest and fiscal charges		4,162	
Total expenditures	<u>903,191</u>	<u>192,041</u>	<u>414,089</u>
Excess (deficiency) of revenues over expenditures	<u>(3,167)</u>	<u>42,641</u>	<u>(83,062)</u>
Other financing sources (uses):			
Transfers in			89,800
Transfers out	(16,340)		
Total other financing sources (uses)	<u>(16,340)</u>		<u>89,800</u>
Change in fund balances	<u>(19,507)</u>	<u>42,641</u>	<u>6,738</u>
Fund balances (deficits), beginning of year	173,703	10,254	(100,474)
Fund balances (deficits), end of year	<u>\$ 154,196</u>	<u>\$ 52,895</u>	<u>\$ (93,736)</u>

Law Enforcement Protection	Fire Discretionary	Lodgers' Tax	Lodgers' Tax Promotional	Fiesta Council	U.S. Bureau of Reclamation
\$ 37,399	\$	\$ 93,902	\$	\$ 15,000	\$ 194,197
				16,452	
				11,586	
<u>37,399</u>		<u>93,902</u>		<u>43,038</u>	<u>194,197</u>
7,970					100,000
		5,000	35,422	27,125	
8,321					
<u>16,291</u>		<u>5,000</u>	<u>35,422</u>	<u>27,125</u>	<u>100,000</u>
21,108		88,902	(35,422)	15,913	94,197
		53,792	98,708		
		(131,908)	(53,792)		
		(78,116)	44,916		
<u>21,108</u>		<u>10,786</u>	<u>9,494</u>	<u>15,913</u>	<u>94,197</u>
37,400	18,432	8,227	50,717	(13,969)	(132,200)
<u>\$ 58,508</u>	<u>\$ 18,432</u>	<u>\$ 19,013</u>	<u>\$ 60,211</u>	<u>\$ 1,944</u>	<u>\$ (38,003)</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008
(Concluded)

	NMDOT Litter Control and Beautification	Totals
Revenues:		
Municipal and state shared taxes	\$	\$ 1,314,067
Intergovernmental	1,029	907,303
Charges for services		28,589
Licenses and permits		1,429
Contributions and donations		11,606
Total revenues	1,029	2,262,994
Expenditures:		
Current -		
Public safety		1,409,408
Public works		602,608
Culture and recreation	2,340	124,035
Capital outlay		216,717
Debt service -		
Principal		27,984
Interest and fiscal charges		4,162
Total expenditures	2,340	2,384,914
Excess (deficiency) of revenues over expenditures	(1,311)	(121,920)
Other financing sources (uses):		
Transfers in		383,450
Transfers out		(202,040)
Total other financing sources (uses)		181,410
Change in fund balances	(1,311)	59,490
Fund balances (deficits), beginning of year		(140,608)
Fund balances (deficits), end of year	\$ (1,311)	\$ (81,118)

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - RECREATION
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Municipal and state shared taxes	\$ 2,700	\$ 2,680	\$ (20)
Total revenues	<u>2,700</u>	<u>2,680</u>	<u>(20)</u>
Expenditures:			
Current -			
Culture and recreation	13,318	10,449	2,869
Total expenditures	<u>13,318</u>	<u>10,449</u>	<u>2,869</u>
Change in fund balances	<u>(10,618)</u>	<u>(7,769)</u>	<u>2,849</u>
Fund balances, July 1, 2007	10,618	9,607	(1,011)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 1,838</u>	<u>\$ 1,838</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - TEEN COURT
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Expenditures:			
Current -			
Public safety	\$ 33,688	\$ 8,663	\$ 25,025
Capital outlay	2,500	8,788	(6,288)
Total expenditures	<u>36,188</u>	<u>17,451</u>	<u>18,737</u>
Change in fund balances	<u>(36,188)</u>	<u>(17,451)</u>	<u>18,737</u>
Fund balances, July 1, 2007	36,188	35,848	(340)
Fund balances, June 30, 2008	<u><u>\$</u></u>	<u><u>\$ 18,397</u></u>	<u><u>\$ 18,397</u></u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - WEED AND SEED GRANT
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 150,000	\$ 139,353	\$ (10,647)
Total revenues	<u>150,000</u>	<u>139,353</u>	<u>(10,647)</u>
Expenditures:			
Current -			
Public safety	194,810	126,299	68,511
Total expenditures	<u>194,810</u>	<u>126,299</u>	<u>68,511</u>
Excess (deficiency) of revenues over expenditures	<u>(44,810)</u>	<u>13,054</u>	<u>57,864</u>
Other financing sources (uses):			
Transfers in	44,810	44,810	
Total other financing sources (uses)	<u>44,810</u>	<u>44,810</u>	
Change in fund balances		<u>57,864</u>	<u>57,864</u>
Fund balances (deficits), July 1, 2007		(17,759)	(17,759)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 40,105</u>	<u>\$ 40,105</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - BULLET PROOF VEST GRANT
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Expenditures:			
Current -			
Public safety	\$	\$ 5,193	\$ (5,193)
Total expenditures		5,193	(5,193)
Change in fund balances		(5,193)	(5,193)
Fund balances (deficits), July 1, 2007		(10,680)	(10,680)
Fund balances (deficits), June 30, 2008	\$	\$ (15,873)	\$ (15,873)

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - OPERATION BUCKLE DOWN
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,400	\$ 8,400	\$ 1,650	\$ (6,750)
Total revenues	<u>3,400</u>	<u>8,400</u>	<u>1,650</u>	<u>(6,750)</u>
Expenditures:				
Current -				
Public safety	3,400	8,400		8,400
Total expenditures	<u>3,400</u>	<u>8,400</u>		<u>8,400</u>
Change in fund balances			1,650	1,650
Fund balances (deficits), July 1, 2007			(7,243)	(7,243)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ (5,593)</u>	<u>\$ (5,593)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - G.R.E.A.T. GRANT
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 13,500	\$ 1,988	\$ (11,512)
Total revenues	<u>13,500</u>	<u>1,988</u>	<u>(11,512)</u>
Expenditures:			
Current -			
Public safety	13,500	1,288	12,212
Total expenditures	<u>13,500</u>	<u>1,288</u>	<u>12,212</u>
Change in fund balances		<u>700</u>	<u>700</u>
Fund balances (deficits), July 1, 2007		(8,960)	(8,960)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (8,260)</u>	<u>\$ (8,260)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - COPS IN SCHOOLS GRANT
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$	\$ 10,393	\$ 10,393
Total revenues		<u>10,393</u>	<u>10,393</u>
Expenditures:			
Current -			
Public safety		111,377	(111,377)
Total expenditures		<u>111,377</u>	<u>(111,377)</u>
Change in fund balances		<u>(100,984)</u>	<u>(100,984)</u>
Fund balances, July 1, 2007		1,336	1,336
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (99,648)</u>	<u>\$ (99,648)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - BYRNE JUSTICE ASSISTANCE GRANT
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 11,845	\$	\$ (11,845)
Total revenues	<u>11,845</u>	<u></u>	<u>(11,845)</u>
Expenditures:			
Current -			
Public safety	11,845	965	10,880
Total expenditures	<u>11,845</u>	<u>965</u>	<u>10,880</u>
Change in fund balances	<u></u>	<u>(965)</u>	<u>(965)</u>
Fund balances, July 1, 2007	9,260	9,260	
Fund balances, June 30, 2008	<u>\$ 9,260</u>	<u>\$ 8,295</u>	<u>\$ (965)</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - OPERATION DWI STATE GRANT
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 15,324	\$ 64,677	\$ 3,244	\$ (61,433)
Total revenues	<u>15,324</u>	<u>64,677</u>	<u>3,244</u>	<u>(61,433)</u>
Expenditures:				
Current -				
Public safety	15,324	64,677	3,991	60,686
Total expenditures	<u>15,324</u>	<u>64,677</u>	<u>3,991</u>	<u>60,686</u>
Change in fund balances			(747)	(747)
Fund balances (deficits), July 1, 2007			(3,308)	(3,308)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ (4,055)</u>	<u>\$ (4,055)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LIBRARY GRANT
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 20,000	\$ 34,104	\$ 14,104
Total revenues	<u>20,000</u>	<u>34,104</u>	<u>14,104</u>
Expenditures:			
Current -			
Culture and recreation		506	(506)
Capital outlay	20,000	41,029	(21,029)
Total expenditures	<u>20,000</u>	<u>41,535</u>	<u>(21,535)</u>
Change in fund balances		<u>(7,431)</u>	<u>(7,431)</u>
Fund balances, July 1, 2007		34,428	34,428
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 26,997</u>	<u>\$ 26,997</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - TRANSIT SYSTEM GRANT
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$	\$ 61,875	\$ 61,875
Total revenues		61,875	61,875
Expenditures:			
Current -			
Public works	67,780	106,359	(38,579)
Total expenditures	67,780	106,359	(38,579)
Excess (deficiency) of revenues over expenditures	(67,780)	(44,484)	23,296
Other financing sources (uses):			
Transfers in	96,340	96,340	
Total other financing sources (uses)	96,340	96,340	
Change in fund balances	28,560	51,856	23,296
Fund balances (deficits), July 1, 2007		(142,755)	(142,755)
Fund balances (deficits), June 30, 2008	\$ 28,560	\$ (90,899)	\$ (119,459)

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SUMMER LUNCH PROGRAM
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 40,649	\$ 46,264	\$ 5,615
Total revenues	<u>40,649</u>	<u>46,264</u>	<u>5,615</u>
Expenditures:			
Current -			
Culture and recreation	40,649	43,193	(2,544)
Total expenditures	<u>40,649</u>	<u>43,193</u>	<u>(2,544)</u>
Change in fund balances		<u>3,071</u>	<u>3,071</u>
Fund balances (deficits), July 1, 2007		(35,080)	(35,080)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (32,009)</u>	<u>\$ (32,009)</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CLICK IT OR TICKET
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Expenditures:			
Current -			
Public safety	\$ 2,499	\$ 5,182	\$ (2,683)
Total expenditures	<u>2,499</u>	<u>5,182</u>	<u>(2,683)</u>
Change in fund balances	<u>(2,499)</u>	<u>(5,182)</u>	<u>(2,683)</u>
Fund balances, July 1, 2007	2,499	2,838	339
Fund balances, June 30, 2008	<u><u>\$</u></u>	<u><u>\$ (2,344)</u></u>	<u><u>\$ (2,344)</u></u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - EMS
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 6,500	\$ 11,829	\$ 5,329
Total revenues	<u>6,500</u>	<u>11,829</u>	<u>5,329</u>
Expenditures:			
Current -			
Public safety		18,167	(18,167)
Capital outlay	6,500	7,365	(865)
Total expenditures	<u>6,500</u>	<u>25,532</u>	<u>(19,032)</u>
Change in fund balances		<u>(13,703)</u>	<u>(13,703)</u>
Fund balances, July 1, 2007		16,772	16,772
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 3,069</u>	<u>\$ 3,069</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - WILDLAND GRANT
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Fund balances (deficits), July 1, 2007	\$	\$ (4,109)	\$ (4,109)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (4,109)</u>	<u>\$ (4,109)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LAW ENFORCEMENT TECHNOLOGY GRANT
YEAR ENDED JUNE 30, 2008

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 394,891	\$ 90,000	\$ (304,891)
Total revenues	<u>394,891</u>	<u>90,000</u>	<u>(304,891)</u>
Expenditures:			
Current -			
Public safety		106,049	(106,049)
Capital outlay	394,891	65,423	329,468
Total expenditures	<u>394,891</u>	<u>171,472</u>	<u>223,419</u>
Change in fund balances		<u>(81,472)</u>	<u>(81,472)</u>
Fund balances, July 1, 2007			
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (81,472)</u>	<u>\$ (81,472)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIREFIGHTERS
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 16,000	\$ 5,480	\$ (10,520)
Total revenues	<u>16,000</u>	<u>5,480</u>	<u>(10,520)</u>
Expenditures:			
Current -			
Public safety	16,000	7,255	8,745
Total expenditures	<u>16,000</u>	<u>7,255</u>	<u>8,745</u>
Change in fund balances		<u>(1,775)</u>	<u>(1,775)</u>
Fund balances (deficits), July 1, 2007		(72,893)	(72,893)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (74,668)</u>	<u>\$ (74,668)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DWI PROGRAM ENFORCEMENT
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	(Negative)
Revenues:			
Intergovernmental	\$ 45,738	\$ 18,836	\$ (26,902)
Total revenues	45,738	18,836	(26,902)
Expenditures:			
Current -			
Public safety	45,738	11,874	33,864
Total expenditures	45,738	11,874	33,864
Change in fund balances		6,962	6,962
Fund balances, July 1, 2007			
Fund balances, June 30, 2008	\$	\$ 6,962	\$ 6,962

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - E-911 GRANT
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Municipal and state shared taxes	\$ 864,547	\$ 887,887	\$ 23,340
Charges for services	23,340	12,137	(11,203)
Total revenues	<u>887,887</u>	<u>900,024</u>	<u>12,137</u>
Expenditures:			
Current -			
Public safety	891,490	868,228	23,262
Capital outlay	36,397	34,963	1,434
Total expenditures	<u>927,887</u>	<u>903,191</u>	<u>24,696</u>
Excess (deficiency) of revenues over expenditures	<u>(40,000)</u>	<u>(3,167)</u>	<u>36,833</u>
Other financing sources (uses):			
Transfers out		(16,340)	(16,340)
Total other financing sources (uses)		<u>(16,340)</u>	<u>(16,340)</u>
Change in fund balances	<u>(40,000)</u>	<u>(19,507)</u>	<u>20,493</u>
Fund balances, July 1, 2007	40,000	173,703	133,703
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 154,196</u>	<u>\$ 154,196</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIRE PROTECTION
YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 207,613	\$ 234,662	\$ 27,049
Contributions and donations		20	20
Total revenues	<u>207,613</u>	<u>234,682</u>	<u>27,069</u>
Expenditures:			
Current -			
Public safety	81,100	126,907	(45,807)
Capital outlay	94,367	32,988	61,379
Debt service -			
Principal	27,984	27,984	
Interest and fiscal charges	4,162	4,162	
Total expenditures	<u>207,613</u>	<u>192,041</u>	<u>15,572</u>
Change in fund balances		<u>42,641</u>	<u>42,641</u>
Fund balances, July 1, 2007		10,254	10,254
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 52,895</u>	<u>\$ 52,895</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - ROADS AND STREETS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Municipal and state shared taxes	\$ 325,000	\$ 329,598	\$ 4,598
Licenses and permits	2,000	1,429	(571)
Total revenues	<u>327,000</u>	<u>331,027</u>	<u>4,027</u>
Expenditures:			
Current -			
Public works	391,800	396,249	(4,449)
Capital outlay	25,000	17,840	7,160
Total expenditures	<u>416,800</u>	<u>414,089</u>	<u>2,711</u>
Excess (deficiency) of revenues over expenditures	<u>(89,800)</u>	<u>(83,062)</u>	<u>6,738</u>
Other financing sources (uses):			
Transfers in	89,800	89,800	
Total other financing sources (uses)	<u>89,800</u>	<u>89,800</u>	
Change in fund balances		<u>6,738</u>	<u>6,738</u>
Fund balances (deficits), July 1, 2007		(100,474)	(100,474)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (93,736)</u>	<u>\$ (93,736)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LAW ENFORCEMENT PROTECTION
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 37,400	\$ 37,399	\$ (1)
Total revenues	<u>37,400</u>	<u>37,399</u>	<u>(1)</u>
Expenditures:			
Current -			
Public safety		7,970	(7,970)
Capital outlay	37,400	8,321	29,079
Total expenditures	<u>37,400</u>	<u>16,291</u>	<u>21,109</u>
Change in fund balances		<u>21,108</u>	<u>21,108</u>
Fund balances, July 1, 2007		37,400	37,400
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 58,508</u>	<u>\$ 58,508</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIRE DISCRETIONARY
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Expenditures:			
Capital outlay	\$ 18,432	\$	\$ 18,432
Total expenditures	<u>18,432</u>		<u>18,432</u>
Change in fund balances	<u>(18,432)</u>		<u>18,432</u>
Fund balances, July 1, 2007	18,432	18,432	
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 18,432</u>	<u>\$ 18,432</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LODGERS' TAX
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Municipal and state shared taxes	\$ 70,000	\$ 93,902	\$ 23,902
Total revenues	<u>70,000</u>	<u>93,902</u>	<u>23,902</u>
Expenditures:			
Current -			
Culture and recreation	10,000	5,000	5,000
Total expenditures	<u>10,000</u>	<u>5,000</u>	<u>5,000</u>
Excess (deficiency) of revenues over expenditures	<u>60,000</u>	<u>88,902</u>	<u>28,902</u>
Other financing sources (uses):			
Transfers in		53,792	53,792
Transfers out	(109,921)	(131,908)	(21,987)
Total other financing sources (uses)	<u>(109,921)</u>	<u>(78,116)</u>	<u>31,805</u>
Change in fund balances	<u>(49,921)</u>	<u>10,786</u>	<u>60,707</u>
Fund balances, July 1, 2007	49,921	8,227	(41,694)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 19,013</u>	<u>\$ 19,013</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LODGERS' TAX PROMOTIONAL
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Expenditures:			
Current -			
Culture and recreation	\$ 76,721	\$ 35,422	\$ 41,299
Total expenditures	<u>76,721</u>	<u>35,422</u>	<u>41,299</u>
Excess (deficiency) of revenues over expenditures	<u>(76,721)</u>	<u>(35,422)</u>	<u>41,299</u>
Other financing sources (uses):			
Transfers in	76,721	98,708	21,987
Transfers out		<u>(53,792)</u>	<u>(53,792)</u>
Total other financing sources (uses)	<u>76,721</u>	<u>44,916</u>	<u>(31,805)</u>
Change in fund balances		<u>9,494</u>	<u>9,494</u>
Fund balances, July 1, 2007		50,717	50,717
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 60,211</u>	<u>\$ 60,211</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIESTA COUNCIL
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$	\$ 15,000	\$ 15,000
Charges for services	53,100	16,452	(36,648)
Contributions and donations	5,000	11,586	6,586
Total revenues	<u>58,100</u>	<u>43,038</u>	<u>(15,062)</u>
Expenditures:			
Current -			
Culture and recreation	58,100	27,125	30,975
Total expenditures	<u>58,100</u>	<u>27,125</u>	<u>30,975</u>
Change in fund balances		<u>15,913</u>	<u>15,913</u>
Fund balances (deficits), July 1, 2007		(13,969)	(13,969)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 1,944</u>	<u>\$ 1,944</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - U.S. BUREAU OF RECLAMATION
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 401,662	\$ 401,662	\$ 194,197	\$ (207,465)
Total revenues	<u>401,662</u>	<u>401,662</u>	<u>194,197</u>	<u>(207,465)</u>
Expenditures:				
Current -				
Public works	401,622	401,662	100,000	301,662
Total expenditures	<u>401,622</u>	<u>401,662</u>	<u>100,000</u>	<u>301,662</u>
Change in fund balances	<u>40</u>		<u>94,197</u>	<u>94,197</u>
Fund balances (deficits), July 1, 2007			(132,200)	(132,200)
Fund balances (deficits), June 30, 2008	<u>\$ 40</u>	<u>\$</u>	<u>\$ (38,003)</u>	<u>\$ (38,003)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMDOT LITTER CONTROL AND BEAUTIFICATION
YEAR ENDED JUNE 30, 2008

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$	1,029	\$ 1,029
Total revenues		<u>1,029</u>	<u>1,029</u>
Expenditures:			
Current -			
Culture and recreation		2,340	(2,340)
Total expenditures		<u>2,340</u>	<u>(2,340)</u>
Change in fund balances		<u>(1,311)</u>	<u>(1,311)</u>
Fund balances, July 1, 2007			
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>(1,311)</u>	<u>\$ (1,311)</u>

(This page intentionally left blank)

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2008

	2002 Bond Debt Service	RUS Loan Debt Service	Environmental Department Loan	NMFA Loan Intercepts
<u>ASSETS</u>				
Cash and investments	\$	\$	\$ 37	\$ 1,207
Total assets	\$	\$	\$ 37	\$ 1,207
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$	\$	\$	\$
Due to other funds	190,199	24,011		
Total liabilities	190,199	24,011		
Fund balances (deficits):				
Unreserved:				
Undesignated	(190,199)	(24,011)	37	1,207
Total fund balances	(190,199)	(24,011)	37	1,207
Total liabilities and fund balances	\$	\$	\$ 37	\$ 1,207

<u>NMFA Well #9</u>	<u>1994 Bond Reserve</u>	<u>NMFA DWSRF Debt Service</u>	<u>NMED CWSRF Debt Service</u>	<u>Totals</u>
\$ 115	\$ 653,477	\$	\$	\$ 654,836
<u>\$ 115</u>	<u>\$ 653,477</u>	<u>\$</u>	<u>\$</u>	<u>\$ 654,836</u>
\$	\$	\$ 444	\$	\$ 444
		3,548	39,084	256,842
		3,992	39,084	257,286
115	653,477	(3,992)	(39,084)	397,550
<u>115</u>	<u>653,477</u>	<u>(3,992)</u>	<u>(39,084)</u>	<u>397,550</u>
<u>\$ 115</u>	<u>\$ 653,477</u>	<u>\$</u>	<u>\$</u>	<u>\$ 654,836</u>

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2008

	2002 Bond Debt Service	RUS Loan Debt Service	Environmental Department Loan
Revenues:			
Investment income	\$ 6,137	\$	\$
Total revenues	6,137		
Expenditures:			
Debt service -			
Principal	431,347	13,000	200,568
Interest and fiscal charges	480,477	41,654	48,813
Total expenditures	911,824	54,654	249,381
Excess (deficiency) of revenues over expenditures	(905,687)	(54,654)	(249,381)
Other financing sources (uses):			
Transfers in	907,499	56,350	249,418
Total other financing sources (uses)	907,499	56,350	249,418
Change in fund balances	1,812	1,696	37
Fund balances (deficits), beginning of year	(192,011)	(25,707)	
Fund balances (deficits), end of year	\$ (190,199)	\$ (24,011)	\$ 37

<u>NMFA Loan Intercepts</u>	<u>NMFA Well #9</u>	<u>1994 Bond Reserve</u>	<u>NMFA DWSRF Debt Service</u>	<u>NMED CWSRF Debt Service</u>	<u>Totals</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 6,137</u>
					<u>6,137</u>
98,982	36,443		78,847	160,299	1,019,486
<u>60,548</u>	<u>55,338</u>		<u>5,575</u>	<u>157,952</u>	<u>850,357</u>
<u>159,530</u>	<u>91,781</u>		<u>84,422</u>	<u>318,251</u>	<u>1,869,843</u>
(159,530)	(91,781)		(84,422)	(318,251)	(1,863,706)
160,737	91,896		83,979	279,167	1,829,046
<u>160,737</u>	<u>91,896</u>		<u>83,979</u>	<u>279,167</u>	<u>1,829,046</u>
1,207	115		(443)	(39,084)	(34,660)
		653,477	(3,549)		432,210
<u>\$ 1,207</u>	<u>\$ 115</u>	<u>\$ 653,477</u>	<u>\$ (3,992)</u>	<u>\$ (39,084)</u>	<u>\$ 397,550</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - 2002 BOND DEBT SERVICE
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Investment income	\$ 1,500	\$ 6,137	\$ 4,637
Total revenues	<u>1,500</u>	<u>6,137</u>	<u>4,637</u>
Expenditures:			
Debt service -			
Principal	421,667	431,347	(9,680)
Interest and fiscal charges	166,260	480,477	(314,217)
Total expenditures	<u>587,927</u>	<u>911,824</u>	<u>(323,897)</u>
Excess (deficiency) of revenues over expenditures	<u>(586,427)</u>	<u>(905,687)</u>	<u>(319,260)</u>
Other financing sources (uses):			
Transfers in	587,927	907,499	319,572
Total other financing sources (uses)	<u>587,927</u>	<u>907,499</u>	<u>319,572</u>
Change in fund balances	<u>1,500</u>	<u>1,812</u>	<u>312</u>
Fund balances (deficits), July 1, 2007	216,389	(192,011)	(408,400)
Fund balances (deficits), June 30, 2008	<u>\$ 217,889</u>	<u>\$ (190,199)</u>	<u>\$ (408,088)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - RUS LOAN DEBT SERVICE
YEAR ENDED JUNE 30, 2008

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Expenditures:			
Debt service -			
Principal	\$ 13,050	\$ 13,000	\$ 50
Interest and fiscal charges	43,300	41,654	1,646
Total expenditures	<u>56,350</u>	<u>54,654</u>	<u>1,696</u>
Excess (deficiency) of revenues over expenditures	<u>(56,350)</u>	<u>(54,654)</u>	<u>1,696</u>
Other financing sources (uses):			
Transfers in	56,350	56,350	
Total other financing sources (uses)	<u>56,350</u>	<u>56,350</u>	
Change in fund balances		<u>1,696</u>	<u>1,696</u>
Fund balances (deficits), July 1, 2007		(25,707)	(25,707)
Fund balances, June 30, 2008	<u><u>\$</u></u>	<u><u>\$ (24,011)</u></u>	<u><u>\$ (24,011)</u></u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - ENVIRONMENTAL DEPARTMENT LOAN
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Expenditures:			
Debt service -			
Principal	\$ 200,568	\$ 200,568	\$
Interest and fiscal charges	48,850	48,813	37
Total expenditures	<u>249,418</u>	<u>249,381</u>	<u>37</u>
Excess (deficiency) of revenues over expenditures	<u>(249,418)</u>	<u>(249,381)</u>	<u>37</u>
Other financing sources (uses):			
Transfers in	249,418	249,418	
Total other financing sources (uses)	<u>249,418</u>	<u>249,418</u>	
Change in fund balances		<u>37</u>	<u>37</u>
Fund balances, July 1, 2007			
Fund balances, June 30, 2008	<u><u>\$</u></u>	<u><u>\$ 37</u></u>	<u><u>\$ 37</u></u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA LOAN INTERCEPTS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Investment income	\$ 5,500	\$	\$ (5,500)
Total revenues	<u>5,500</u>	<u></u>	<u>(5,500)</u>
Expenditures:			
Debt service -			
Principal	196,054	98,982	97,072
Interest and fiscal charges	123,010	60,548	62,462
Total expenditures	<u>319,064</u>	<u>159,530</u>	<u>159,534</u>
Excess (deficiency) of revenues over expenditures	<u>(313,564)</u>	<u>(159,530)</u>	<u>154,034</u>
Other financing sources (uses):			
Transfers in	321,473	160,737	(160,736)
Total other financing sources (uses)	<u>321,473</u>	<u>160,737</u>	<u>(160,736)</u>
Change in fund balances	<u>7,909</u>	<u>1,207</u>	<u>(6,702)</u>
Fund balances, July 1, 2007	423,122		(423,122)
Fund balances, June 30, 2008	<u>\$ 431,031</u>	<u>\$ 1,207</u>	<u>\$ (429,824)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA WELL #9
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Investment income	\$ 5,000	\$ 500	\$	\$ (500)
Total revenues	<u>5,000</u>	<u>500</u>		<u>(500)</u>
Expenditures:				
Debt service -				
Principal	36,443	36,443	36,443	
Interest and fiscal charges	55,338	55,338	55,338	
Total expenditures	<u>91,781</u>	<u>91,781</u>	<u>91,781</u>	
Excess (deficiency) of revenues over expenditures	<u>(86,781)</u>	<u>(91,281)</u>	<u>(91,781)</u>	<u>(500)</u>
Other financing sources (uses):				
Transfers in	91,896	91,896	91,896	
Total other financing sources (uses)	<u>91,896</u>	<u>91,896</u>	<u>91,896</u>	
Change in fund balances	<u>5,115</u>	<u>615</u>	<u>115</u>	<u>(500)</u>
Fund balances, July 1, 2007	76,539	76,539		(76,539)
Fund balances, June 30, 2008	<u>\$ 81,654</u>	<u>\$ 77,154</u>	<u>\$ 115</u>	<u>\$ (77,039)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - 1994 BOND RESERVE
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	<u>(Negative)</u>
Fund balances, July 1, 2007	\$ 276,000	\$ 653,477	\$ 377,477
Fund balances, June 30, 2008	<u>\$ 276,000</u>	<u>\$ 653,477</u>	<u>\$ 377,477</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA DWSRF DEBT SERVICE
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Expenditures:			
Debt service -			
Principal	\$ 78,847	\$ 78,847	\$
Interest and fiscal charges	5,132	5,575	(443)
Total expenditures	<u>83,979</u>	<u>84,422</u>	<u>(443)</u>
Excess (deficiency) of revenues over expenditures	<u>(83,979)</u>	<u>(84,422)</u>	<u>(443)</u>
Other financing sources (uses):			
Transfers in	83,979	83,979	
Total other financing sources (uses)	<u>83,979</u>	<u>83,979</u>	
Change in fund balances		<u>(443)</u>	<u>(443)</u>
Fund balances (deficits), July 1, 2007		(3,549)	(3,549)
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ (3,992)</u>	<u>\$ (3,992)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMED CWSRF DEBT SERVICE
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Investment income	\$ 2,000	\$	\$ (2,000)
Total revenues	<u>2,000</u>	<u></u>	<u>(2,000)</u>
Expenditures:			
Debt service -			
Principal	144,049	160,299	(16,250)
Interest and fiscal charges	135,119	157,952	(22,833)
Total expenditures	<u>279,168</u>	<u>318,251</u>	<u>(39,083)</u>
Excess (deficiency) of revenues over expenditures	<u>(277,168)</u>	<u>(318,251)</u>	<u>(41,083)</u>
Other financing sources (uses):			
Transfers in	279,167	279,167	
Total other financing sources (uses)	<u>279,167</u>	<u>279,167</u>	
Change in fund balances	<u>1,999</u>	<u>(39,084)</u>	<u>(41,083)</u>
Fund balances, July 1, 2007			
Fund balances (deficits), June 30, 2008	<u>\$ 1,999</u>	<u>\$ (39,084)</u>	<u>\$ (41,083)</u>

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2008

	Plaza Development	Capital Projects Grant	NMLA Capital Improvements Grant	USDA Grants
<u>ASSETS</u>				
Cash and investments	\$ 62,600	\$ 1,198,908	\$	\$
Total assets	\$ 62,600	\$ 1,198,908	\$	\$
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 1,173	\$ 635	\$ 6,716	\$
Due to other funds			68,106	20,028
Total liabilities	1,173	635	74,822	20,028
Fund balances (deficits):				
Unreserved:				
Undesignated	61,427	1,198,273	(74,822)	(20,028)
Total fund balances	61,427	1,198,273	(74,822)	(20,028)
Total liabilities and fund balances	\$ 62,600	\$ 1,198,908	\$	\$

<u>NM SAP W/ WW Project Grant</u>	<u>Federal W/WW Project Grant</u>	<u>State Water Project Grants</u>	<u>State Agency on Aging Grants</u>	<u>NMFA Loan Reserve</u>	<u>NMFA PPR Equipment Project Loan</u>
\$ 51,001	\$	\$ 40,000	\$	\$ 458,418	\$ 79,679
<u>\$ 51,001</u>	<u>\$</u>	<u>\$ 40,000</u>	<u>\$</u>	<u>\$ 458,418</u>	<u>\$ 79,679</u>
\$	\$ 223,216	\$	\$	\$	\$
	76,958		60,850		
	<u>300,174</u>		<u>60,850</u>		
51,001	(300,174)	40,000	(60,850)	458,418	79,679
<u>51,001</u>	<u>(300,174)</u>	<u>40,000</u>	<u>(60,850)</u>	<u>458,418</u>	<u>79,679</u>
<u>\$ 51,001</u>	<u>\$</u>	<u>\$ 40,000</u>	<u>\$</u>	<u>\$ 458,418</u>	<u>\$ 79,679</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2008
(Concluded)

	<u>NM Board of Finance Project</u>	<u>USDA Loan / Police Department</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and investments	\$ 250,000	\$	\$ 2,140,606
Total assets	<u>\$ 250,000</u>	<u>\$</u>	<u>\$ 2,140,606</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$	\$	\$ 231,740
Due to other funds	<u> </u>	125,000	<u>350,942</u>
Total liabilities	<u> </u>	<u>125,000</u>	<u>582,682</u>
Fund balances (deficits):			
Unreserved:			
Undesignated	<u>250,000</u>	<u>(125,000)</u>	<u>1,557,924</u>
Total fund balances	<u>250,000</u>	<u>(125,000)</u>	<u>1,557,924</u>
Total liabilities and fund balances	<u>\$ 250,000</u>	<u>\$</u>	<u>\$ 2,140,606</u>

(This page intentionally left blank)

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2008

	Plaza Development	Capital Projects Grant	NMLA Capital Improvements Grant
Revenues:			
Intergovernmental	\$	\$ 45,038	\$ 285,368
Charges for services	5,214		
Contributions and donations	998		
Total revenues	<u>6,212</u>	<u>45,038</u>	<u>285,368</u>
Expenditures:			
Capital outlay	43,626	49,141	341,434
Debt service - Principal			
Interest and fiscal charges			
Total expenditures	<u>43,626</u>	<u>49,141</u>	<u>341,434</u>
Excess (deficiency) of revenues over expenditures	<u>(37,414)</u>	<u>(4,103)</u>	<u>(56,066)</u>
Other financing sources (uses):			
Loan proceeds			
Transfers in	38,125		
Transfers out			
Total other financing sources (uses)	<u>38,125</u>		
Change in fund balances	<u>711</u>	<u>(4,103)</u>	<u>(56,066)</u>
Fund balances (deficits), beginning of year	60,716	1,202,376	(18,756)
Fund balances (deficits), end of year	<u>\$ 61,427</u>	<u>\$ 1,198,273</u>	<u>\$ (74,822)</u>

<u>USDA Grants</u>	<u>NM SAP W/ WW Project Grant</u>	<u>Federal W/WW Project Grant</u>	<u>State Water Project Grants</u>	<u>State Agency on Aging Grants</u>	<u>Equipment Replacement</u>
\$ 80,323	\$ 299,848	\$ 340,097	\$ 186,820	\$	\$
<u>80,323</u>	<u>299,848</u>	<u>340,097</u>	<u>186,820</u>		
100,351	291,620	608,691	186,820	60,850	
<u>100,351</u>	<u>291,620</u>	<u>608,691</u>	<u>186,820</u>	<u>60,850</u>	
<u>(20,028)</u>	<u>8,228</u>	<u>(268,594)</u>		<u>(60,850)</u>	
					(2,947)
					<u>(2,947)</u>
<u>(20,028)</u>	<u>8,228</u>	<u>(268,594)</u>		<u>(60,850)</u>	<u>(2,947)</u>
	42,773	(31,580)	40,000		2,947
<u>\$ (20,028)</u>	<u>\$ 51,001</u>	<u>\$ (300,174)</u>	<u>\$ 40,000</u>	<u>\$ (60,850)</u>	<u>\$</u>

(Continued)

CITY OF ESPANOLA, NEW MEXICO
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2008
(Concluded)

	NMFA DWSRF Proceeds	NMFA Loan Reserve	NMFA PPR Equipment Project Loan
Revenues:			
Intergovernmental	\$ 47,126	\$	\$
Charges for services			
Contributions and donations			
Total revenues	47,126		
Expenditures:			
Capital outlay	47,126	66,582	
Debt service -			
Principal			84,170
Interest and fiscal charges			7,794
Total expenditures	47,126	66,582	91,964
Excess (deficiency) of revenues over expenditures		(66,582)	(91,964)
Other financing sources (uses):			
Loan proceeds			41,815
Transfers in		525,000	129,828
Transfers out			
Total other financing sources (uses)		525,000	171,643
Change in fund balances		458,418	79,679
Fund balances (deficits), beginning of year			
Fund balances (deficits), end of year	\$	\$ 458,418	\$ 79,679

<u>NM Board of Finance Project</u>	<u>USDA Loan / Police Department</u>	<u>Totals</u>
\$	\$	\$ 1,284,620
		5,214
		998
		<u>1,290,832</u>
	125,000	1,921,241
		84,170
		7,794
	<u>125,000</u>	<u>2,013,205</u>
	(125,000)	(722,373)
250,000		291,815
		692,953
		(2,947)
<u>250,000</u>		<u>981,821</u>
250,000	(125,000)	259,448
		1,298,476
<u>\$ 250,000</u>	<u>\$ (125,000)</u>	<u>\$ 1,557,924</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - PLAZA DEVELOPMENT
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 500	\$ 5,214	\$ 4,714
Contributions and donations		998	998
Total revenues	<u>500</u>	<u>6,212</u>	<u>5,712</u>
Expenditures:			
Capital outlay	91,195	43,626	47,569
Total expenditures	<u>91,195</u>	<u>43,626</u>	<u>47,569</u>
Excess (deficiency) of revenues over expenditures	<u>(90,695)</u>	<u>(37,414)</u>	<u>53,281</u>
Other financing sources (uses):			
Transfers in	38,125	38,125	
Total other financing sources (uses)	<u>38,125</u>	<u>38,125</u>	
Change in fund balances	<u>(52,570)</u>	<u>711</u>	<u>53,281</u>
Fund balances, July 1, 2007	52,570	60,716	8,146
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 61,427</u>	<u>\$ 61,427</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CAPITAL PROJECTS GRANT
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 312,767	\$ 45,038	\$ (267,729)
Investment income	1,000		(1,000)
Total revenues	<u>313,767</u>	<u>45,038</u>	<u>(268,729)</u>
Expenditures:			
Capital outlay	312,767	49,141	263,626
Total expenditures	<u>312,767</u>	<u>49,141</u>	<u>263,626</u>
Change in fund balances	<u>1,000</u>	<u>(4,103)</u>	<u>(5,103)</u>
Fund balances, July 1, 2007	21,273	1,202,376	1,181,103
Fund balances, June 30, 2008	<u>\$ 22,273</u>	<u>\$ 1,198,273</u>	<u>\$ 1,176,000</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMLA CAPITAL IMPROVEMENTS GRANT
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 1,133,513	\$ 285,368	\$ (848,145)
Total revenues	<u>1,133,513</u>	<u>285,368</u>	<u>(848,145)</u>
Expenditures:			
Capital outlay	1,133,513	341,434	792,079
Total expenditures	<u>1,133,513</u>	<u>341,434</u>	<u>792,079</u>
Change in fund balances		<u>(56,066)</u>	<u>(56,066)</u>
Fund balances (deficits), July 1, 2007		(18,756)	(18,756)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (74,822)</u>	<u>\$ (74,822)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - USDA GRANTS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$ 165,000	\$ 80,323	\$ (84,677)
Total revenues	<u>165,000</u>	<u>80,323</u>	<u>(84,677)</u>
Expenditures:			
Capital outlay	165,000	100,351	64,649
Total expenditures	<u>165,000</u>	<u>100,351</u>	<u>64,649</u>
Change in fund balances		<u>(20,028)</u>	<u>(20,028)</u>
Fund balances, July 1, 2007			
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (20,028)</u>	<u>\$ (20,028)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NM SAP W/WW PROJECT GRANT
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Intergovernmental	\$	\$ 299,848	\$ 299,848
Total revenues		299,848	299,848
Expenditures:			
Capital outlay		291,620	(291,620)
Total expenditures		291,620	(291,620)
Change in fund balances		8,228	8,228
Fund balances, July 1, 2007		42,773	42,773
Fund balances, June 30, 2008	\$	\$ 51,001	\$ 51,001

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FEDERAL W/WW PROJECT GRANT
YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 1,925,529	\$ 340,097	\$ (1,585,432)
Total revenues	<u>1,925,529</u>	<u>340,097</u>	<u>(1,585,432)</u>
Expenditures:			
Capital outlay	1,925,529	608,691	1,316,838
Total expenditures	<u>1,925,529</u>	<u>608,691</u>	<u>1,316,838</u>
Change in fund balances		(268,594)	(268,594)
Fund balances (deficits), July 1, 2007		(31,580)	(31,580)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$ (300,174)</u>	<u>\$ (300,174)</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA TRUST BOARD
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 5,616,000	\$ 5,704,213	\$	\$ (5,704,213)
Total revenues	<u>5,616,000</u>	<u>5,704,213</u>		<u>(5,704,213)</u>
Expenditures:				
Capital outlay	5,616,000	5,704,213		5,704,213
Total expenditures	<u>5,616,000</u>	<u>5,704,213</u>		<u>5,704,213</u>
Change in fund balances				
Fund balances, July 1, 2007				
Fund balances, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - STATE WATER PROJECT GRANTS
YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,029,678	\$ 2,129,678	\$ 186,820	\$ (1,942,858)
Total revenues	<u>1,029,678</u>	<u>2,129,678</u>	<u>186,820</u>	<u>(1,942,858)</u>
Expenditures:				
Capital outlay	1,029,678	2,129,678	186,820	1,942,858
Total expenditures	<u>1,029,678</u>	<u>2,129,678</u>	<u>186,820</u>	<u>1,942,858</u>
Change in fund balances				
Fund balances, July 1, 2007			40,000	40,000
Fund balances, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - STATE AGENCY ON AGING GRANTS
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$ 141,976	\$ _____	\$ (141,976)
Total revenues	<u>141,976</u>	<u>_____</u>	<u>(141,976)</u>
Expenditures:			
Capital outlay	141,976	60,850	81,126
Total expenditures	<u>141,976</u>	<u>60,850</u>	<u>81,126</u>
Change in fund balances	<u>_____</u>	<u>(60,850)</u>	<u>(60,850)</u>
Fund balances, July 1, 2007			
Fund balances (deficits), June 30, 2008	<u>\$ _____</u>	<u>\$ (60,850)</u>	<u>\$ (60,850)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - EQUIPMENT REPLACEMENT
YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Other financing sources (uses):			
Transfers out	\$ (58,693)	\$ (2,947)	\$ 55,746
Total other financing sources (uses)	<u>(58,693)</u>	<u>(2,947)</u>	<u>55,746</u>
Change in fund balances	<u>(58,693)</u>	<u>(2,947)</u>	<u>55,746</u>
Fund balances, July 1, 2007	58,693	2,947	(55,746)
Fund balances (deficits), June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA DWSRF PROCEEDS
 YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$	\$ 47,126	\$ 47,126
Total revenues		<u>47,126</u>	<u>47,126</u>
 Expenditures:			
Capital outlay		47,126	(47,126)
Total expenditures		<u>47,126</u>	<u>(47,126)</u>
 Change in fund balances			
 Fund balances, July 1, 2007			
 Fund balances, June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$</u>

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA LOAN RESERVE
YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Investment income	\$ 48,830	\$	\$ (48,830)
Total revenues	<u>48,830</u>	<u></u>	<u>(48,830)</u>
Expenditures:			
Capital outlay	1,570,058	66,582	1,503,476
Total expenditures	<u>1,570,058</u>	<u>66,582</u>	<u>1,503,476</u>
Excess (deficiency) of revenues over expenditures	<u>(1,521,228)</u>	<u>(66,582)</u>	<u>1,454,646</u>
Other financing sources (uses):			
Transfers in	525,000	525,000	
Total other financing sources (uses)	<u>525,000</u>	<u>525,000</u>	
Change in fund balances	<u>(996,228)</u>	<u>458,418</u>	<u>1,454,646</u>
Fund balances, July 1, 2007	2,557,932		(2,557,932)
Fund balances, June 30, 2008	<u>\$ 1,561,704</u>	<u>\$ 458,418</u>	<u>\$ (1,103,286)</u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NMFA PPR EQUIPMENT PROJECT LOAN
YEAR ENDED JUNE 30, 2008

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Expenditures:			
Debt service -			
Principal	\$ 84,170	\$ 84,170	\$
Interest and fiscal charges	5,177	7,794	(2,617)
Total expenditures	<u>89,347</u>	<u>91,964</u>	<u>(2,617)</u>
Excess (deficiency) of revenues over expenditures	<u>(89,347)</u>	<u>(91,964)</u>	<u>(2,617)</u>
Other financing sources (uses):			
Loan proceeds		41,815	41,815
Transfers in	89,347	129,828	40,481
Total other financing sources (uses)	<u>89,347</u>	<u>171,643</u>	<u>82,296</u>
Change in fund balances		<u>79,679</u>	<u>79,679</u>
Fund balances, July 1, 2007			
Fund balances, June 30, 2008	<u>\$</u>	<u>\$ 79,679</u>	<u>\$ 79,679</u>

**CITY OF ESPANOLA, NEW MEXICO
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NM BOARD OF FINANCE PROJECT
 YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Other financing sources (uses):			
Loan proceeds	\$	\$ 250,000	\$ 250,000
Total other financing sources (uses)		250,000	250,000
 Change in fund balances		250,000	250,000
 Fund balances, July 1, 2007			
 Fund balances, June 30, 2008	\$	\$ 250,000	\$ 250,000

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - USDA LOAN / POLICE DEPARTMENT
YEAR ENDED JUNE 30, 2008

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Expenditures:			
Capital outlay	\$ 125,000	\$ 125,000	\$
Total expenditures	<u>125,000</u>	<u>125,000</u>	
Change in fund balances	<u>(125,000)</u>	<u>(125,000)</u>	
Fund balances, July 1, 2007			
Fund balances, June 30, 2008	<u><u>\$ (125,000)</u></u>	<u><u>\$ (125,000)</u></u>	<u><u>\$</u></u>

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL - WATER AND WASTEWATER FUND
YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Charges for services	\$ 3,731,640	\$ 3,727,103	\$ (4,537)
Municipal and state shared taxes	140,545	569,073	428,528
Other revenues		3,450	3,450
Total revenues	<u>3,872,185</u>	<u>4,299,626</u>	<u>427,441</u>
Expenditures:			
Operations	2,348,220	2,471,678	(123,458)
Capital outlay	241,075	241,288	(213)
Total expenditures	<u>2,589,295</u>	<u>2,712,966</u>	<u>(123,671)</u>
Excess (deficiency) of revenues over expenditures	<u>1,282,890</u>	<u>1,586,660</u>	<u>303,770</u>
Other financing sources (uses):			
Transfers in		233,237	233,237
Transfers out	(941,923)	(1,468,733)	(526,810)
Total other financing sources (uses):	<u>(941,923)</u>	<u>(1,235,496)</u>	<u>(293,573)</u>
Change in net assets	<u>\$ 340,967</u>	<u>351,164</u>	<u>\$ 10,197</u>
Expenses not budgeted:			
Depreciation		(462,411)	
Changes to conform to generally accepted accounting principles:			
Capital contributions		<u>193,016</u>	
Changes in Net Assets as reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets		<u>\$ 81,769</u>	

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL - SOLID WASTE FUND
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 473,918	\$ 516,449	\$ 42,531
Municipal and state shared taxes	93,978	237,968	143,990
Total revenues	567,896	754,417	186,521
Expenditures:			
Operations	527,100	525,304	1,796
Total expenditures	527,100	525,304	1,796
Excess (deficiency) of revenues over expenditures	\$ 40,796	229,113	\$ 188,317
Expenses not budgeted:			
Depreciation		(12,044)	
Changes in Net Assets as reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets		\$ 217,069	

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL - HOUSING ASSISTANCE FUND
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 194,652	\$ 124,448	\$ (70,204)
Intergovernmental	1,479,929	946,171	(533,758)
Investment income	11,287	7,216	(4,071)
Total revenues	1,685,868	1,077,835	(608,033)
Expenditures:			
Operations	1,908,211	1,318,190	590,021
Capital outlay	17,371	12,000	5,371
Total expenditures	1,925,582	1,330,190	595,392
Excess (deficiency) of revenues over expenditures	\$ (239,714)	(252,355)	\$ (12,641)
Expenses not budgeted:			
Depreciation		(453,871)	
Changes in Net Assets as reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets		\$ (706,226)	

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
YEAR ENDED JUNE 30, 2008

<u>COURT BOND ACCOUNT</u>	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Assets</u>				
Cash and investments	\$ 129,393	\$ 223,441	\$ 247,909	\$ 104,925
Total assets	<u>\$ 129,393</u>	<u>\$ 223,441</u>	<u>\$ 247,909</u>	<u>\$ 104,925</u>
<u>Liabilities</u>				
Deposits held for others	\$ 129,393	\$ 223,441	\$ 247,909	\$ 104,925
Total liabilities	<u>\$ 129,393</u>	<u>\$ 223,441</u>	<u>\$ 247,909</u>	<u>\$ 104,925</u>

OTHER SUPPLEMENTAL INFORMATION

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2008**

	Valley National Bank	Community Bank
Bank Accounts:		
Checking/Demand Accounts	\$ 1,277,319	\$ 2,728
CD/NMFA/GRT Bond Accounts	920,268	
Total amount of deposits in bank	2,197,587	2,728
Less: FDIC coverage	200,000	2,728
Total uninsured public funds	1,997,587	
Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978)		
50% of uninsured time and demand accounts	998,794	
Pledged collateral		
Farmington NM Mun Sch Dist, matures September 1, 2008, CUSIP 311441FE4	200,368	
FHLMC FHR 1379 W, matures October 15, 2012, CUSIP 312912JK5	46,868	
Dona Ana Cnty NM Gross Rcpt Tax Rev WTR, matures May 1, 2019, CUSIP 257591CP0	253,900	
FNMA Pool #60591, matures January 1, 2018, CUSIP 31362GKC4	57,327	
FNMA Pool #776739, matures May 1, 2034, CUSIP 31404R4Y0	330,535	
FT BEND CO TX MUD #118 CAL, matures September 1, 2017, CUSIP 346816DR9	244,772	
FHR 2630 KU, matures April 1, 2018, CUSIP 31393RQW3	438,805	
University Southn IN Rev, matures September 1, 2022, CUSIP 914891GQ3	521,693	
FNMA Pool #800447, matures October 1, 2034, CUSIP 31405VHY6	614,717	
FNMA Pool #748084, matures September 1, 2023, CUSIP 31403GCV2	425,259	
HAY CNTY TX WTR CTL & IMPT DIST NO 1, matures September 1, 2023, CUSIP 421032BQ5	367,009	
Total collateral	3,501,253	
Over / (under) secured	\$ 2,502,459	\$
Custodial Credit Risk:		
Insured	\$ 200,000	\$ 2,728
Collateralized with securities held by pledging financial institutions trust department	1,997,587	
Uninsured and uncollateralized		
Total deposits	\$ 2,197,587	\$ 2,728

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2008

<u>Bank Account Type / Name</u>	<u>Valley National Bank</u>	<u>Community Bank</u>	<u>Bank of Albuquerque</u>	<u>New Mexico State Treasurer</u>	<u>BNY Mellon</u>	<u>Total</u>
Checking - General	\$ 1,179,182	\$ 2,728	\$	\$	\$	\$ 1,181,910
CD - General	107,000					107,000
Checking - Payroll	(1,560)					(1,560)
Checking - Bond Account	97,177					97,177
Checking - Families for Each Other	73					73
Checking - Plaza Development Committee	2,447					2,447
CD - Water	654,339					654,339
CD - Waste Water	158,929					158,929
Investment - Bond Acquisition				2,454,930		2,454,930
Investment - NMFA Reserve			219,528			219,528
Investment - NMFA Program			586,842			586,842
Investment - NMFA Sub Lien Reserve			30,992			30,992
Investment - Sub Lien Program			30,082			30,082
Investment - GRT Reserve Bonds					276,953	276,953
Investment - GRT Debt Service Bonds					410,311	410,311
Investment - Escrow					5,902,545	5,902,545
Total on deposit	2,197,587	2,728	867,444	2,454,930	6,589,809	12,112,498
Reconciling items	(1,446,807)				(4,409,086)	(5,855,893)
Reconciled balance, June 30, 2008	750,780	2,728	867,444	2,454,930	2,180,723	6,256,605
Total deposits and investments	<u>\$ 750,780</u>	<u>\$ 2,728</u>	<u>\$ 867,444</u>	<u>\$ 2,454,930</u>	<u>\$ 2,180,723</u>	<u>\$ 6,256,605</u>

**CITY OF ESPANOLA, NEW MEXICO
HOUSING ASSISTANCE PROGRAMS
FINANCIAL DATA SCHEDULES
COMBINING STATEMENT OF NET ASSETS - ALL HUD PROGRAMS
JUNE 30, 2008**

FDS Line #	Account Description	Low Rent Public Housing 14.850a	Housing Choice Vouchers 14.871	Capital Fund Program 14.872	TOTAL
ASSETS:					
111	Cash - unrestricted	\$ (339,310)	\$ 473,403	\$	\$ 134,093
114	Cash - tenant security deposits	37,479			37,479
121	Accounts receivable - PHA projects	357,737			357,737
144	Interprogram - due from	46,414			46,414
161	Land	277,437			277,437
162	Buildings	10,444,853			10,444,853
164	Furniture, equipment and machinery - administration	777,912			777,912
166	Accumulated depreciation	(5,295,133)			(5,295,133)
168	Infrastructure	379,289			379,289
TOTAL ASSETS		<u>\$ 6,686,678</u>	<u>\$ 473,403</u>	<u>\$</u>	<u>\$ 7,160,081</u>
LIABILITIES:					
321	Accrued wage/payroll taxes payable	\$ 16,189	\$	\$	\$ 16,189
322	Accrued compensated absences - current portion	15,764			15,764
341	Tenant security deposits	34,636			34,636
347	Interprogram - due to		46,414		46,414
TOTAL LIABILITIES		<u>66,589</u>	<u>46,414</u>	<u></u>	<u>113,003</u>
NET ASSETS					
508.1	Invested in capital assets, net of related debt	6,584,358			6,584,358
512.1	Unrestricted net assets	35,731	426,989		462,720
TOTAL NET ASSETS		<u>6,620,089</u>	<u>426,989</u>	<u></u>	<u>7,047,078</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 6,686,678</u>	<u>\$ 473,403</u>	<u>\$</u>	<u>\$ 7,160,081</u>

**CITY OF ESPANOLA, NEW MEXICO
HOUSING ASSISTANCE PROGRAMS
FINANCIAL DATA SCHEDULES
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - ALL HUD PROGRAMS
JUNE 30, 2008**

FDS Line #	Account Description	Low Rent Public Housing 14.850a	Housing Choice Vouchers 14.871	Capital Fund Program 14.872	TOTAL
REVENUE:					
703	Net tenant rental income	\$ 46,950			\$ 46,950
706	HUD PHA operating grants	219,581	726,590		946,171
711	Investment income - unrestricted	2,168	5,048		7,216
716	Other revenue		77,498		77,498
	TOTAL REVENUE	<u>268,699</u>	<u>809,136</u>		<u>1,077,835</u>
EXPENSES:					
911	Administrative salaries	98,306	34,894		133,200
913	Bookkeeping fee	7,535	16,792		24,327
915	Employee benefit contributions - administration	93,923	29,623		123,546
916	Other operating - administrative	105,658	652		106,310
918	Travel	7,154	55		7,209
919	Other	6,920	531		7,451
931	Water	8,480			8,480
932	Electricity	9,668			9,668
933	Gas	15,528			15,528
938	Other utilities expense	5,666			5,666
941	Ordinary maintenance and operations - labor	160,601			160,601
942	Ordinary maintenance and operations - materials and other	25,461			25,461
943	Ordinary maintenance and operations - contract costs	2,972			2,972
961	Insurance premiums	31,504			31,504
	TOTAL OPERATING EXPENSES	<u>579,376</u>	<u>82,547</u>		<u>661,923</u>
973	Housing assistance payments		668,267		668,267
974	Depreciation expense	453,871			453,871
	TOTAL EXPENSES	<u>1,033,247</u>	<u>750,814</u>		<u>1,784,061</u>
	CHANGE IN NET ASSETS	(764,548)	58,322		(706,226)
	NET ASSETS, BEGINNING OF YEAR	<u>7,384,637</u>	<u>368,667</u>		<u>7,753,304</u>
	NET ASSETS, END OF YEAR	<u>\$ 6,620,089</u>	<u>\$ 426,989</u>		<u>\$ 7,047,078</u>

(This page intentionally left blank)

SINGLE AUDIT SECTION

(This page intentionally left blank)



**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 H. Balderas
New Mexico State Auditor

Honorable Mayor, Members of the City Council
of the City of Espanola, New Mexico

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Espanola, New Mexico as of and for the year ended June 30, 2008, which collectively comprise City of Espanola, New Mexico's basic financial statements and have issued our report thereon dated January 15, 2010. We were also engaged to audit the financial statements of each of the City's nonmajor governmental and fiduciary funds presented as supplementary information in the accompanying Supplementary Information as of and for the year ended June 30, 2008, as listed in the table of contents. We were unable to express an opinion on those financial statements because the City did not maintain sufficient internal controls and/or adequate records of its cash and investments, capital assets, housing assistance activity, water and wastewater accounts receivable, and payroll expenditures.

Internal Control Over Financial Reporting

In planning and performing the engagement to audit the financial statements, we considered City of Espanola, New Mexico'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 City of Espanola, New Mexico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Espanola, New Mexico'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 affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 00-03, FS 03-01, FS 05-01, FS 05-03, FS 05-19, FS 05-21, FS 05-52, FS 08-01, FS 08-02, FS 08-03, FS 08-04, and FS 08-05 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of 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 FS 03-01, FS 05-01, FS 05-19, FS 05-21, FS 08-01, FS 08-03, FS 08-04, and FS08-05 to be material weaknesses.

Compliance and Other Matters

As part of being engaged to obtain reasonable assurance about whether City of Espanola, New Mexico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as FS 03-01 and FS 05-21.

We noted certain matters that are required to be reported under *Governmental Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying Schedule of Findings and Questioned Costs as findings FS 00-03, FS 05-03, FS 05-21, FS 08-06, FS 08-07, and FS 08-08.

The City of Espanola, New Mexico's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Espanola, New Mexico's responses and, accordingly, we express no opinion on them

This report is intended solely for the information and use of management, others within the City, the City Council, the Office of the State Auditor, the New Mexico Legislature, and applicable 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 15, 2010



**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 H. Balderas
New Mexico State Auditor

Honorable Mayor, Members of the City Council
of the City of Espanola, New Mexico

Compliance

We have audited the compliance of City of Espanola, 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. City of Espanola, New Mexico's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Espanola, New Mexico's management. Our responsibility is to express an opinion on City of Espanola, New Mexico'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 City of Espanola, New Mexico'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 City of Espanola, New Mexico's compliance with those requirements.

As described in items FA 03-01, FA 05-25, FA 05-43, FA 08-01, and FA 08-02 in the accompanying Schedule of Findings and Questioned Costs, the City of Espanola, New Mexico did not comply with requirements regarding reporting, eligibility, and special tests and provisions compliance requirements that are applicable to its Public and Indian Housing and Section 8 Housing Choice Vouchers major Federal programs. Compliance with such requirements is necessary, in our opinion, for the City of Espanola, New Mexico to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of Espanola, New Mexico did not comply in all material respects, with the requirements referred to above that are applicable to Public and Indian Housing and Section 8 Housing Choice Vouchers major Federal programs.

Internal Control Over Compliance

The management of City of Espanola, New Mexico 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 planning and performing our audit, we considered City of Espanola, New Mexico's internal control over compliance with the 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 the City of Espanola, New Mexico's internal control over compliance.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items FA 03-01, FA 05-25, FA 05-43, FA 08-01, and FA 08-02 to be significant deficiencies.

A material weakness is a significant deficiency, or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items FA 03-01, FA 05-25, FA 05-43, FA 08-01, and FA 08-02 to be material weaknesses.

City of Espanola, New Mexico's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Espanola, New Mexico's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the City, the City Council, the Office of the State Auditor, the New Mexico Legislature, and applicable 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.



HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 15, 2010

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through New Mexico Department of Finance and Administration:		
Summer Food Service Program for Children	10.559	\$ 29,659
<u>U.S. Department of Housing and Urban Development</u>		
Direct program:		
Public and Indian Housing	14.850	219,581
Section 8 Housing Choice Vouchers	14.871	<u>726,590</u>
Total U.S. Department of Housing and Urban Development		<u>946,171</u>
<u>U.S. Department of the Interior</u>		
Direct program:		
U.S. Bureau of Reclamation	15.unknown	64,157
<u>U.S. Department of Justice</u>		
Direct programs:		
Edward Byrne Memorial Formula Grant Program	16.579	964
Community Capacity Development Office	16.595	126,299
Passed through Espanola Public School District:		
Public Safety Partnership and Community Policing Grants	16.710	10,392
Passed through New Mexico Department of Finance and Administration:		
Law Enforcement Technology Grant	16.unknown	<u>90,000</u>
Total U.S. Department of Justice		<u>227,655</u>
<u>U.S. Department of Transportation</u>		
Passed through New Mexico Department of Finance and Administration:		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	1,593
Passed through Rio Arriba County:		
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>11,874</u>
Total U.S. Department of Transportation		<u>13,467</u>
<u>Environmental Protection Agency</u>		
Direct program:		
Congressionally Mandated Projects (Wastewater Treatment Facility)	66.202	<u>277,823</u>
Total Expenditures of Federal Awards		<u>\$ 1,558,932</u>

CITY OF ESPANOLA, NEW MEXICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Espanola, New Mexico and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2008 *Catalog of Federal Domestic Assistance*.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? X Yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? X Yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? X yes none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS

FS 00-03 Exceeded Budget Authority

CONDITION

In violation of New Mexico State Statute, the following funds exceeded the budgeted amounts as submitted to the State of New Mexico.

	<u>Excess</u>		<u>Excess</u>
NMED CWSFR Proceeds	\$ 75,509	EMS	19,032
Bullet Proof Vest Grant	5,193	NMDOT Litter Control and Beautification	2,340
COPS in Schools Grant	111,377	2002 Bond Debt Service	323,897
Library Grant	21,535	NMFA DSWRF Debt Service	443
Transit System Grant	38,579	NMED CWSRF Debt Service	39,083
Summer Lunch Program	2,544	NM SAP W/WW Project Grant	291,620
Click It or Ticket	2,683	NMFA DSWRF Proceeds	47,126
		NMFA PPR Equipment Project Loan	2,617
		Water and Wastewater	123,671

CRITERIA

All City funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the State of New Mexico Department of Finance and Administration – Local Government Division for approval. Once adopted, any claims or warrants in excess of budget are a violation of New Mexico State Statute 6-6-6-2-A, 1978.

EFFECT

The City exceeded the approved expenditure budgets of the funds noted. According to NMSA 6-6-6 1978, any expenditure in excess of the approved budget may be determined to be a liability of the officials authorizing such expenditure.

CAUSE

The funds exceeded the approved budget due to ineffective monitoring of budget capacity.

RECOMMENDATION

The City must follow New Mexico State law and all mandated budgetary requirements. If the lack of budget monitoring is due to limited staff and training, the City should allocate the necessary resources to remedy such situations.

AGENCY RESPONSE

City management is aware of this finding and will take actions to correct it.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 03-01 Late Audit Report

CONDITION

The City did not submit its annual financial report prior to the deadline. The audit report was submitted on January 27, 2010.

CRITERIA

Per 2.2.2.9 NMAC, the City was required to submit its fiscal year 2007-08 annual financial report to the New Mexico State Auditor by December 1, 2008.

EFFECT

The City was not in compliance with the State Auditor rule 2.2.2.9(A). Users of the financial statements (i.e. legislators, creditors, bondholders, and state and federal grantors) do not have timely audit reports and financial statements available for their review. Also, due to the late timing of the report, it will be more difficult for the City to correct deficiencies that result in findings.

CAUSE

The City experienced turnover in key management and accounting positions.

RECOMMENDATION

The City should develop policies and procedures that ensure financial records are ready for audit in a timely manner so that future fiscal periods' financial reports can be submitted prior to the deadline.

AGENCY RESPONSE

The City has improved its filing system, so that records are readily available to provide to the auditors. Additionally, the finance department is fully staffed.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 05-01 Insufficient Capital Asset Support

CONDITION

The City does not have adequate procedures in place in order to provide capital assets schedules required for financial reporting purposes. In addition, a complete physical inventory has not been completed. The City also did not calculate depreciation expense for fiscal year 2007-08. The amounts reported in the financial statements are estimated.

CRITERIA

The City must ensure that it accounts for capital assets in accordance with generally accepted accounting principles, GASB Statement 34 and Section 6-6-3 and Section 12-6-10 NMSA 1978.

EFFECT

The amounts reported for capital assets are likely materially misstated. A disclaimer opinion was issued on the City's financial statements due to our inability to sufficiently complete the audit objectives necessary to render an opinion on the capital assets balances and related accounts. In addition, the City is not in compliance with Section 6-6-3 NMSA 1978.

CAUSE

Due to turnover and a lack of sufficient and/or qualified staff in positions responsible for capital assets, the City has not maintained adequate and accurate capital assets records and schedules.

RECOMMENDATION

The City should allocate the necessary resources toward the implementation and maintenance of a capital asset tracking system that ensures compliance with the required criteria stated above.

AGENCY RESPONSE

The City concurs with the auditor's findings. The City has assigned an employee to keep track of its assets and depreciation schedules.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 05-03 Violations of City's Procurement Policies

CONDITION

The following was noted during our review of procurement records.

- For two of two proposals reviewed, the City did not indicate in writing that the use of competitive sealed bidding was not practical or advantageous.
- For one of two proposals reviewed, there was no time or date stamp on the vendor response.
- For one of two bids reviewed, there was no documentation to demonstrate that the IFB was published.
- For one of two bids reviewed, there was no time or date stamp on the vendor response.
- For one of two bids reviewed, there was no determination indicating the vendor awarded the bid.
- For one of five written threshold purchases reviewed, there was no evidence written quotes were obtained.
- For five of five verbal threshold purchases reviewed, there was no evidence verbal quotes were obtained.

CRITERIA

State Procurement Code, Sections 13-1-125, 13-1-103 through 13-1-110, and 13-1-111 through 13-1-122 NMSA 1978; as well as the City's policy, requires the use of competitive bids or sealed proposals for purchases exceeding the prescribed threshold and the use of quotes below that threshold.

EFFECT

The City's purchasing policies are not enforced consistently and could result in higher costs for goods and services being charged to the City. Additionally, the lack of record retention increases the City's risk to procurement violations.

CAUSE

The City's purchasing department did not consistently enforce City procurement policy.

RECOMMENDATION

The City should both review its purchasing policy for necessary updates, as well as stringently enforce those rules prior to processing any payments to vendors.

AGENCY RESPONSE

The City has been enforcing its procurement policies through the procurement officer. Procurement violations have been issued when they are necessary.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 05-19 Cash Controls and Monitoring

CONDITION

We noted several bank accounts in the City's name that were not recorded on the City's general ledger. Additionally, the City had material unreconciled balances in several funds at June 30, 2008.

CRITERIA

The City is responsible for establishing and maintaining internal controls that include controls over cash and investments in order to meet the financial reporting objectives of the City.

EFFECT

The amounts reported for cash and investments are likely materially misstated. Additionally, fraud risk is heightened without timely reconciliation of bank accounts. A disclaimer of opinion was issued on the City's financial statements due to our inability to sufficiently complete the audit objectives necessary to render an opinion on the cash and investments balances.

CAUSE

The City did not have a procedure for tracking bank accounts to ensure that all are captured on the general ledger and reconciled.

RECOMMENDATION

The City should review all existing bank accounts and ensure their inclusion in the general ledger. The City should also develop and enforce a policy that makes timely reconciliation of all bank accounts required.

AGENCY RESPONSE

Once the statements for all bank accounts are received, they are reconciled on a timely basis.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 05-21 Missing Housing Assistance Fund Accounting Records

CONDITION

The City did not maintain nor retain original accounting records for the Housing Assistance operations. A service organization was utilized to reconstruct Housing Assistance records for financial reporting and audit purposes.

CRITERIA

The City is responsible for establishing and maintaining internal controls over Housing Assistance operations in order to meet the financial reporting objectives of the City.

EFFECT

The City is at risk of undetected misstatements in financial statements. Additionally, fraud risk is heightened without proper maintenance of Housing Assistance financial records. A disclaimer of opinion was issued on the City's financial statements due to our inability to sufficiently complete the audit objectives necessary to render an opinion on the Housing Assistance Fund account balances and transaction classes.

CAUSE

The City did not maintain accounting records for the Housing Assistance operations.

RECOMMENDATION

The City should retain all original accounting records and record all Housing Assistance accounting activity in the general ledger.

AGENCY RESPONSE

City management is aware of this finding and will take actions to correct it.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 05-52 Incomplete Records

CONDITION

During our review of the City's controls over disbursements, we noted the following:

- For six of 67 disbursements reviewed, we determined that the purchase order was prepared after the purchase was made. (purchases of approximately \$8,937)
- For one of 67 disbursements reviewed, we noted that the invoice was related to fiscal year 2006-07 services (invoice amount of \$53 dated 7/18/06 paid 12/10/07).
- For 11 of 67 disbursements reviewed, the City did not maintain adequate documentation to support the payment (purchases of approximately \$155,000).
- For one of 67 disbursements reviewed, the amount paid did not agree to the amount invoiced (amount paid of \$7,535, amount invoiced of \$15,069).

CRITERIA

The City's policy requires purchase requisitions and purchase orders to be obtained and approved before procurement of goods and services. Additionally, supporting documentation is to be retained to evidence the purpose of the purchases.

EFFECT

The City is at risk of misstatements to the financial statements.

CAUSE

The City's document retention and purchase authorization practices were not adequately enforced.

RECOMMENDATION

The City should exercise more caution with its document retention and purchase authorization procedures to ensure similar instances do not occur.

AGENCY RESPONSE

The City has implemented a new accounts payable policy that includes the segregation of duties.

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-01 Accounts Receivables Records and Procedures

CONDITION

The City does not reconcile the accounts receivable reported on the general ledger to the listing of outstanding balances tracked by the billing module for water and wastewater billings.

CRITERIA

According to generally accepted accounting principles, the general ledger and its subsidiary ledger of customer accounts should reflect true, collectible receivables due to the City for services provided.

EFFECT

The City's general ledger and subsidiary customer ledger potentially include significant amounts of uncollectible accounts receivable. A disclaimer of opinion was issued on the City's financial statements due to our inability to sufficiently complete the audit objectives necessary to render an opinion on the Water and Wastewater accounts receivable accounts and related revenue transactions.

CAUSE

The City does not have a procedure for reconciling the general ledger to the subsidiary customer account ledger to ensure proper reporting of collectible balances.

RECOMMENDATION

Management should adjust the customer account balances recorded in the general ledger and subsidiary customer ledger to properly reflect the customer balances that are estimated to be collectible.

AGENCY RESPONSE

The City has assigned an employee in accounts receivable to reconcile the general ledger to the subsidiary customer account ledger on a timely basis.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-02 Approval of Adjusting Journal Entries

CONDITION

For eight of ten journal entries reviewed, the City could not provide supporting documentation or evidence of proper authorization.

CRITERIA

Sufficient internal controls require a segregation of duties for the authorization and preparation of journal entries as well as the maintenance of physical records to ensure compliance with Section 6-6-3. NMSA 1978.

EFFECT

The City is unable to demonstrate that journal entries were approved by someone other than the preparer and may be at risk of undetected misstatements and/or fraud. Additionally, adequate supporting documentation was not maintained.

CAUSE

Insufficient policies and procedures over the journal entry process.

RECOMMENDATION

The City should develop a journal entry process that indicates who is authorized to prepare journal entries as well as who is authorized to approve journal entries. Additionally, the process should address the maintenance of physical records that demonstrate the purpose of the adjustments.

AGENCY RESPONSE

Journal entries are prepared by the Grants Administrator and are reviewed, approved, and entered by the Financial Specialist.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-03 Insufficient Controls Over the Financial Statement Process

CONDITION

The City's management did not have adequate internal control procedures in place over the financial statements issued by the City using the basis of accounting required by GAAP. Additionally, the City did not have adequate internal control procedures in place over the Schedule of Expenditures of Federal Awards (SEFA). These controls include the use of a financial statement checklist during the review of the report draft, documented review procedures, identification of management and/or staff to review the draft, and verifying amounts reported in the report draft to underlying records, schedules and grant agreements.

CRITERIA

City management is responsible for establishing and maintaining internal controls that include controls for the generally accepted accounting principles (GAAP) basis financial statements issued by the City, as well as the SEFA. The City's system of internal controls must extend beyond the cash basis general ledger and the supporting schedules prepared by the City; rather it must also include controls over the GAAP basis financial statements and the SEFA. As such, management requested the auditors to prepare a draft of the financial statements, including related note disclosures and the SEFA. The outsourcing of these services is a result of management's cost benefit decision to rely on the accounting expertise of the auditors.

EFFECT

The City's internal controls over financial reporting at the financial statement level and the SEFA are not adequate to ensure that a misstatement would be prevented and/or detected.

CAUSE

The City's small size and turnover in key management and accounting positions contribute to difficulties in establishing controls over financial reporting at the financial statement level and the preparation of the SEFA.

RECOMMENDATION

The City must design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. Specifically, the City should use checklists to aid in the review of the financial statements and related notes to the financial statements. Additionally, the City should design and implement effective internal control procedures to ensure the SEFA is accurately and completely prepared.

AGENCY RESPONSE

In order to protect financial statements and related notes from material misstatements, the City has implemented effective internal controls. A system hierarchy has been established to assure that each individual only has the authority to the privileges that pertain to his/her position.

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-04 Year-end Cutoff

CONDITION

The City does not have a formal procedure in place to identify and record significant accruals existing at year end.

CRITERIA

According to generally accepted accounting principles, the City must record expenditures in the year that goods or services were received and record revenues in the year which they are earned.

EFFECT

The City is at risk of misstatements to the financial statements. A disclaimer of opinion was issued on the City's financial statements due to our inability to sufficiently complete year-end cutoff audit procedures necessary to render an opinion on the financial statements account balances and transaction classes.

CAUSE

The City does not have a procedure to monitor year-end activity to determine proper fiscal year posting.

RECOMMENDATION

The City should implement a mechanism to track year-end activity, then properly record the applicable year-end accruals.

AGENCY RESPONSE

Finance staff will develop year-end cut-off procedures to ensure that these types of errors are prevented from happening in the future.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-05 Insufficient Controls Over Payroll and Fraud Related Item

CONDITION

During our review of the City's controls over the payroll process, we noted the following:

- For three of 11 employees reviewed, the City could not locate the employee's personnel file.
- For one of 11 employees reviewed, the City could not demonstrate how the gross pay was calculated.
- For eight of 11 employees reviewed, the City could not demonstrate that the correct PERA amount was withheld.

Additionally, the City has detected several instances of payroll fraud involving duplicate payments to certain employees that was facilitated by the City's insufficient controls over cash and its insufficient segregation of duties over the payroll function. This issue is currently under investigation by applicable law enforcement agencies.

CRITERIA

The City is responsible for developing an effective system of internal control over the payroll process designed to prevent or detect the occurrence of unauthorized actions.

EFFECT

Payroll related account balances and transaction classes may be materially misstated. In addition, unauthorized and fraudulent payroll transactions occurred. As we were unable to assess the scope of the fraudulent activity, a disclaimer of opinion was issued due to our inability to sufficiently complete the audit objectives for payroll expenditures.

CAUSE

The City's document retention and payroll policies were not adequately enforced.

RECOMMENDATION

The City should assess the current payroll procedures and consider implementing additional oversight and staffing.

AGENCY RESPONSE

The City has implemented additional staff and supervision in the payroll department. In addition, new procedures aimed to improve payroll have been put in place.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-06 Purchasing Card Transactions

CONDITION

During our review of City purchasing card (P-card) transactions we noted the following:

- For five of five P-card transactions reviewed, we determined that the card user did not sign the City's P-card Policy Acknowledgement Agreement.
- For three of five P-card transactions reviewed, a receipt could not be located to demonstrate the purpose or allowability of the transactions.

CRITERIA

Management is responsible for developing an effective system of internal control over financial reporting, which includes controls over P-card transactions. In addition, City Policy and NMSA require sufficient supporting documentation for expenditures.

EFFECT

Monitoring of P-card purchases is a key internal control activity which helps ensure the accuracy of transactions and provides assurances with respect to public funds. The internal controls over P-card transactions were not adequate to ensure processing of authorized transactions.

CAUSE

P-card purchases did not follow the City's policies.

RECOMMENDATION

Management should implement effective internal controls to ensure effective monitoring and use of P-card transactions.

AGENCY RESPONSE

In order to prevent the misuse of purchasing cards, the City has eliminated 9 of the 12 cards. The City will enforce its current policy more closely to prevent it from not being followed.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Cont'd)

FS 08-07 Deficits in Budgeted and Actual Fund Balances/Net Assets

CONDITION

The City's Housing Assistance budget process resulted in a budgeted net asset deficit of \$239,714. In addition, although debt service funds in total had positive fund balances, a number of the City's individual debt service funds had negative fund balances at June 30, 2008.

CRITERIA

All City funds are to be budgeted with yearly expenditures limited to yearly income, Section 6-6-11 NMSA 1978. In addition, bond covenants generally require debt service funds to independently maintain and report resources sufficient for the required principal and interest payments.

EFFECT

The City had a deficit in budgeted net assets in the Housing Assistance Fund. Budgeted deficits may result in ineffective budget controls. In addition, the City is not in compliance with 6-6-11 NMSA 1978.

CAUSE

Ineffective budgeting and accounting controls resulted in budgeted and actual deficits in fund balances/net assets.

RECOMMENDATION

The City should ensure that deficit fund balances/net assets are not budgeted or reported in the City's financial statements.

AGENCY RESPONSE

The City thoroughly reviewed the budgeted amounts for each line item in order to prevent deficits from happening this fiscal year. In addition, the City will record the necessary journal entries in future fiscal years to properly report fund balances of the individual debt service funds.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS (Concl'd)

FS 08-08 Incorrect Travel Expense Reimbursements

CONDITION

For two of five travel expenses reviewed, we determined that the City overpaid for overnight travel. For one item, the reimbursement exceeded the allowable per diem rate by \$5.95. For the second item, the City directly paid the hotel at an amount which exceeded the allowable per diem rate by \$77.20. (5 nights, exceeded by \$15.44 per night)

CRITERIA

The City must ensure that it reimburses employee travel according to 10-8-1 through 10-8-8 NMSA 1978.

EFFECT

The City did not reimburse employees' travel expenses in accordance with New Mexico statutes.

CAUSE

The City does not have adequate procedures for monitoring and reimbursing employee travel expenses in accordance with New Mexico statutes.

RECOMMENDATION

The City should allocate the resources necessary to properly monitor and reimburse employee travel to ensure compliance with New Mexico statutes.

AGENCY RESPONSE

The City reviewed and modified the travel policy to prevent improper payments from occurring.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA 03-01 Late Audit Report

Program Name: Public and Indian Housing,
Section 8 Housing Choice Vouchers
Grantor Number: Unavailable
Funding Agency: U.S. Department of Housing and Urban Development

Questioned Costs: None identified
CFDA Number: 14.850, 14.871

CONDITION

The City's audit reports were not submitted to the Federal Clearinghouse or HUD within nine months following the end of the fiscal year.

CRITERIA

Section 320(a) Circular A-133, requires that the single audit reporting package be submitted within nine months after the end of the audit period, unless a longer period is agreed to by the oversight agency. Additionally, the Office of Housing and Urban Development (HUD) requires that the City submit its audited HUD Real Estate Assessment Center (REAC) report within nine months after year-end.

EFFECT

Due to the late submission of the City's single audit reporting package and the REAC submission, the City is not in compliance with OMB Circular A-133 report submission requirements as well as HUD reporting requirements. In addition, the City may be subject to a penalty housing subsidy reduction due to a late REAC submission.

CAUSE

The City has had significant turnover in key management and financial positions. Additionally, the City has not sufficiently maintained the housing operations accounting records.

RECOMMENDATION

The City should consider allocating the necessary resources and/or limit turnover of management and financial positions to ensure adequate staffing of personnel and internal control procedures over timely completion of audit areas.

AGENCY RESPONSE

City management is aware of this finding and will take actions to correct it.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont'd)

FA 05-25 Insufficient Controls over the Federal Section 8 Housing Choice Vouchers Grant

Program Name: Section 8 Housing Choice Vouchers

Questioned Costs: \$32,376

Grantor Number: Unavailable

CFDA Number: 14.871

Funding Agency: U.S. Department of Housing and Urban Development

CONDITION

During our review of compliance requirements for the City's Section 8 Housing Choice Vouchers program we noted the following:

- The requirement to select from the wait list could not be performed by the auditors as the tenant waiting list was not adequately maintained.
- For three of 20 tenant files reviewed, there was no evidence or insufficient evidence that all necessary information and releases were included in the tenant file.
- For two of 20 tenant files reviewed, an applicable HUD form 50058 could not be located.
- For six of 20 tenant files reviewed, there was no evidence or insufficient evidence that third party verifications were performed on key tenant information.
- For one of 20 tenant files reviewed, the reported family income on HUD form 50058 did not agree to the third party verification.
- For four of 20 tenant files reviewed, it could not be determined if the tenant rent payment was calculated correctly as the file was missing tenant-submitted information, the applicable HUD form 50058 and/or third party verification.
- For eight of 20 tenant files reviewed, it could not be determined if family income and composition was verified at least annually due to missing tenant-submitted information and/or the applicable HUD form 50058.
- For ten of 20 tenant files reviewed, there was no evidence that the High Quality Standards (HQS) and annual quality control re-inspections were performed.
- For three of three tenant files reviewed containing failed HQS inspections, the PHA did not retain documentation that required the correction of any life threatening deficiencies within 24 hours and all other deficiencies within 30 days. Additionally, the PHA does not maintain a log, or similar records, of failed HQS inspections.
- For one of two tenant files reviewed containing a life-threatening failed HQS inspection, the PHA did not perform a re-inspection within 24 hours to ensure the life-threatening deficiencies were corrected.
- For one of 20 tenant files reviewed, the utility allowance schedule was not on file.
- For 19 of 20 tenant files reviewed, the utility allowance schedule on file was expired.
- For seven of 20 tenant files reviewed, there was no rent reasonableness documentation on file.
- For nine of 20 tenant files reviewed, the rent reasonableness documentation on file was not signed.
- For two of 20 tenant files reviewed, we could not verify that HAP contracts or contract amendments agree with the amount recorded on HUD form 50058 as the HUD form was not in the file.
- For three of 20 tenant files reviewed, the current amended HAP contract was not located in the file.
- For one of 20 tenant files reviewed, the HAP amount agrees to an outdated contract.
- The City could not provide documentation of the submission of HUD forms 52648 and 60002.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont'd)

FA 05-25 Insufficient Controls over the Federal Section 8 Housing Choice Vouchers Grant

CRITERIA

The City is responsible for establishing and maintaining internal controls that ensure compliance with Federal grant requirements related to the Section 8 Housing Choice Vouchers program (24 CFR parts 5, 982 and 985).

EFFECT

The City is not in compliance with OMB Circular A-133 and HUD grant requirements. Due to our inability to sufficiently complete audit procedures for internal controls over compliance and the compliance requirements of the Section 8 Housing Choice Vouchers Program a qualified opinion was issued on this program.

CAUSE

The City has not sufficiently maintained its Federal Section 8 Housing Choice Vouchers program.

RECOMMENDATION

The City should consider allocating the necessary resources to implement internal controls over the administration of the Federal Section 8 Housing Choice Vouchers program to ensure compliance with Federal grant requirements.

AGENCY RESPONSE

City management is aware of this finding and will take actions to correct it.

FA 05-43 Insufficient Capital Asset Support for the Public and Indian Housing Program

Program Name: Public and Indian Housing

Questioned Costs: None identified

Grantor Number: Unavailable

CFDA Number: 14.850

Funding Agency: U.S. Department of Housing and Urban Development

Refer to audit item FS 05-01.

CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concl'd)

FA 08-01 Insufficient Controls Over the Federal Public and Indian Housing Grant

Program Name: Public and Indian Housing	Questioned Costs: \$40,902
Grantor Number: Unavailable	CFDA Number: 14.850
Funding Agency: U.S. Department of Housing and Urban Development	

CONDITION

During our review of compliance requirements for the City's Public and Indian Housing program we noted the following:

- The requirement to select from the wait list could not be performed by the auditors as the tenant waiting list was not adequately maintained.
- For one of 20 tenant files reviewed, no information was retained in tenant's the file.
- For nine of 20 tenant files reviewed, there was no evidence or insufficient evidence that all necessary information and releases were included in the tenant file.
- For 14 of 20 tenant files reviewed, an applicable HUD form 50058 could not be located.
- For 13 of 20 tenant files reviewed, there was no evidence or insufficient evidence that third party verifications were performed on key tenant information.
- For 16 of 20 tenant files reviewed, it could not be determined if the tenant rent payment was calculated correctly as the file was missing tenant-submitted information, the applicable HUD form 50058 and/or third party verification.
- For 12 of 20 tenant files reviewed, it could not be determined if family income and composition was verified at least annually due to missing tenant-submitted information and/or the applicable HUD form 50058.
- For four of 20 tenant files reviewed, family income and composition was not verified at least annually.
- The City could not provide documentation of the submission of HUD forms 52722, 52723 and 60002.
- The City could not provide evidence of an agreement, budget or policies regarding tenant participation funds. Additionally, records of disbursements made by the resident council could not be obtained either.

CRITERIA

The City is responsible for establishing and maintaining internal controls that ensure compliance with Federal grant requirements related to the Public and Indian Housing program (24 CFR parts 5, 902, 960, 966, and 990).

EFFECT

The City is not in compliance with OMB Circular A-133 and HUD grant requirements. Due to our inability to sufficiently complete audit procedures for internal controls over compliance and the compliance requirements of the Section 8 Housing Choice Vouchers Program a qualified opinion was issued on this program.

**CITY OF ESPANOLA, NEW MEXICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concl'd)

FA 08-01 Insufficient Controls Over the Federal Public and Indian Housing Grant

CAUSE

The City has not sufficiently maintained its Federal Public and Indian Housing programs.

RECOMMENDATION

The City should consider allocating the necessary resources to implement internal controls over the administration of the Federal Public and Indian Housing program to ensure compliance with Federal grant requirements.

AGENCY RESPONSE

City management is aware of this finding and will take actions to correct it.

FA 08-02 Missing Housing Assistance Federal Financial Records

Program Name: Public and Indian Housing,
Section 8 Housing Choice Vouchers

Questioned Costs: None identified
CFDA Number: 14.850, 14.871

Grantor Number: Unavailable

Funding Agency: U.S. Department of Housing and Urban Development

Refer to audit item FS 05-21.

**CITY OF ESPANOLA, NEW MEXICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Status of Prior Year Findings

Finding No. FS 00-03
Status: Repeated.

Finding No. FS 05-53
Status: Corrected.

Finding No. FS 03-01
Status: Repeated.

Finding No. FS 07-01
Status: Corrected.

Finding No. FS 05-01
Status: Repeated.

Finding No. FA 03-01
Status: Repeated.

Finding No. FS 05-03
Status: Repeated.

Finding No. FA 05-23
Status: Corrected.

Finding No. FS 05-04
Status: Corrected.

Finding No. FA 05-25
Status: Repeated and revised.

Finding No. FS 05-05
Status: Corrected

Finding No. FA 05-43
Status: Repeated.

Finding No. FS 05-19
Status: Repeated.

Finding No. FA 06-02
Status: Repeated and consolidated to FA 05-25.

Finding No. FS 05-21
Status: Repeated and revised.

Finding No. FA 06-03
Status: Repeated and consolidated to FA 05-25.

Finding No. FS 05-52
Status: Repeated.

FINANCIAL STATEMENT PREPARATION

These financial statements were prepared by Heinfeld, Meech & Co., P.C. from the original books and records of the City of Espanola, New Mexico.

**CITY OF ESPANOLA, NEW MEXICO
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2008**

An exit conference was conducted on January 20, 2010, in a closed meeting, in which the contents of this report were discussed with the following.

City of Espanola

Alice Lucero, Mayor Pro-Tem
Alfred Herrera, Councilor
Veronica Albin, City Manager

Heinfeld, Meech & Co., P.C.

Corey Arvizu, Partner
Mike Hoerig, Audit Manager

(This page intentionally left blank)