

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
AUDIT REPORT
JUNE 30, 2008**

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
JUNE 30, 2008**

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STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
Directory of Officials
JUNE 30, 2008

Board of Commissioners

| <u>Member</u> | <u>Position</u> | <u>Entity Represented</u> |
|----------------------|------------------------|----------------------------------|
| Lonnie Ray Nunley | Chairperson | Village of Ruidoso |
| Tom Armstrong | Vice-Chairperson | City of Ruidoso Downs |
| Lorri McKnight | Secretary | Village of Ruidoso |
| Dan Higgins | Member | Village of Ruidoso |
| Dave Parks | Member | Lincoln County |
| Carol Virden | Member | City of Ruidoso Downs |

OFFICIALS

| | | |
|-------------|-------|--------------------|
| Irma Devine | Clerk | Village of Ruidoso |
|-------------|-------|--------------------|

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Village of Ruidoso and City of Ruidoso Downs
Regional Wastewater Treatment Plant
Ruidoso, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the Village of Ruidoso and City of Ruidoso Downs Regional Wastewater Treatment Plant (Plant), a component unit of the Village of Ruidoso, New Mexico, as of and for the year ended June 30, 2008, as listed in the table of contents. We have also audited the enterprise budgetary information presented as supplementary information in the accompanying individual fund financial statements 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 Plant's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

During the year ended June 30, 2008, The Village did not perform bank reconciliations in a timely and accurate manner. As of the fiscal year-end, the Village's cash balance reported in the financial statements did not agree to the bank reconciliation by approximately \$110,000. The Village made an adjustment to properly state the cash balance as of June 30, 2008. The related effect of this error on the financial statements is not reasonably determinable.

In our opinion, except for the effects as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plant as of June 30, 2008, and the respective changes in financial position and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the individual fund financial statement referred to above presents fairly, the enterprise fund budgetary information of the Plant for the year ended June 30, 2008 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 February 2, 2010, on our consideration of the Plant'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 this 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Plant has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Pattillo, Brown & Hill LLP

Pattillo, Brown, & Hill, L.L.P.
Albuquerque, New Mexico
February 2, 2010

FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

| | |
|--|---------------------|
| Current assets: | |
| Investments | \$ 397,000 |
| Receivables (net of allowances for uncollectible) | 296,438 |
| Receivable Village of Ruidoso | 573,865 |
| Inventories | <u>1,920</u> |
| Total current assets | <u>1,269,223</u> |
| Noncurrent assets: | |
| Non-depreciable assets: | |
| Land and Improvements | 892,723 |
| Capital assets being depreciated | 10,756,549 |
| Less: accumulated depreciation | <u>(6,426,936)</u> |
| Total noncurrent assets | <u>5,222,336</u> |
| Total assets | <u>6,491,559</u> |

LIABILITIES

| | |
|------------------------------|------------------|
| Current liabilities: | |
| Bank Overdraft | \$ 68,677 |
| Accrued payroll liabilities | 18,047 |
| Accrued interest | 2,094 |
| Current maturities of: | |
| Capital lease payable | 32,430 |
| Note payable | <u>67,410</u> |
| Total current liabilities | <u>188,658</u> |
| Noncurrent liabilities: | |
| Compensated absences | 98,283 |
| Note payable | <u>1,189,065</u> |
| Total noncurrent liabilities | <u>1,287,348</u> |
| Total liabilities | <u>1,476,006</u> |

NET ASSETS

| | |
|---|---------------------|
| Invested in capital assets, net of related debt | 3,933,431 |
| Unrestricted | <u>1,082,122</u> |
| Total net assets | <u>\$ 5,015,553</u> |

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

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTE WATER TREATMENT PLANT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
JUNE 30, 2008**

| | |
|--|---------------------|
| Operating revenues: | |
| Charges for services | \$ 1,961,255 |
| Miscellaneous | <u>173,339</u> |
| Total operating revenues | <u>2,134,594</u> |
| | |
| Operating expenses: | |
| Personnel Services | 370,098 |
| Employee benefits | 151,927 |
| General Operating | 640,227 |
| Depreciation | <u>381,381</u> |
| Total operating expenses | <u>1,543,633</u> |
| | |
| Operating income (loss) | 590,961 |
| | |
| Non-operating revenues (expenses): | |
| Interest income | 6,994 |
| Interest expense | <u>(27,360)</u> |
| Total non-operating revenues (expenses) | <u>(20,366)</u> |
| | |
| Change in net assets | 570,595 |
| | |
| Net assets, beginning of year | <u>4,444,958</u> |
| | |
| Net assets, end of year | \$ <u>5,015,553</u> |

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

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
STATEMENT OF CASH FLOWS
JUNE 30, 2008**

| | |
|--|-------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 1,687,969 |
| Cash payments to employees for services | (512,827) |
| Cash payments to supplies for goods and services | (679,992) |
| Other operating revenues | <u>173,339</u> |
| Net cash provided by (used in) operating activities | <u>668,489</u> |
| Cash flows from noncapital financing activities | |
| Receivable - Village of Ruidoso | (573,865) |
| Net cash provided by capital and related activities | <u>(573,865)</u> |
| Cash flows from capital and related financing activities | |
| Principal payment on debt | (96,868) |
| Interest payment on debt | (29,840) |
| Net cash provided by (used in) capital and related financing activities | <u>(126,708)</u> |
| Cash flows from investing activities | |
| Proceeds from sale and maturities of securities | 397,000 |
| Interest on investments | <u>6,994</u> |
| Net cash provided by (used in) investing activities | <u>403,994</u> |
| Net increase (decrease) in cash and cash equivalents | 371,910 |
| Cash and equivalents beginning of year | (43,587) |
| Cash and equivalents end of year | <u>\$ 328,323</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating income | \$ 590,961 |
| Adjustments to reconcile operating income to net cash provided (used) in operating activities: | |
| Depreciation expense | 381,381 |
| Decrease (increase) in customer receivable | (273,286) |
| Decrease (increase) in other receivable | - |
| Decrease (increase) in inventory | 542 |
| Increase (decrease) in accrued payroll liabilities | (40,307) |
| Increase (decrease) in deferred revenue | 823 |
| Increase (decrease) in compensated absences | <u>8,375</u> |
| Net cash provided by (used in) operating activities | <u>\$ 668,489</u> |

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

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Wastewater Treatment Plant (Plant) was established on July 3, 1974 with authority from a joint powers agreement (JPA) between the Village of Ruidoso and the City of Ruidoso Downs. The JPA created a Joint Use Board for the implementation of planning, construction and regional control of wastewater treatment facilities for the Village of Ruidoso, the City of Ruidoso Downs and the surrounding area.

The Joint Use Board consists of five members and a clerk. The five members consist of the two mayors (or mayor pro-tem); a representative of the county commission (Lincoln County) confirmed by the council of each municipality, and two additional members, one each nominated by the mayor and confirmed by the council of each respective municipality. The terms of the mayor and members shall be coincident with their term in office. The term of the representative of the county commission shall be coincident with the term of the county commission. The term of the two additional members, nominated by the mayor and confirmed by the council of each respective municipality, shall be coincident with the terms of the nominating mayors. The Board's clerk shall be the fiscal agent for the cooperating Village. The clerk's duties shall be subject to the advice and consent of the Board.

For financial purposes only, the Plant is a discretely presented component unit of the Village of Ruidoso. The Plant was created to plan, construct and operate a wastewater treatment plant.

The financial statements of the Plant have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements and notes are the representation of the Plant's management who is responsible for their integrity and objectivity. The more significant of the government's accounting policies are described below.

The Village of Ruidoso adopted ordinance 2007-11 on November 27, 2007, amending the municipal code of ordinances, specifically Appendix A, the fee schedule to incorporate wastewater rate fees. The wastewater fee charges were effective and billing began January 2008. These fees will be utilized to defray apportion of the costs of improvements to the wastewater system.

A. Reporting Entity

In evaluating how to define the reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The most primary standard for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestations of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting

entity is the existence of special financing relationships, regardless of whether the Plant is able to exercise oversight responsibilities. Based upon the application of these criteria, the Plant has no component units.

B. Basis of Presentation and Accounting

The Plant's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting. The Plant has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), The Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB Pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The Plant has elected not to follow subsequent private-sector guidance.

The accounts of the Plant are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Plant's assets, liabilities, net assets, revenues and expenses.

Enterprise funds account for activities: (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulation that the activity's cost of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs, such as depreciation or debt service. The Plant distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Plant's ongoing operation. The principal operating revenues are charges for services. Operating expenses include the cost of rental operations, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The accounting and financial reporting treatment applied to the Plant is determined by its measurement focus. The transactions of the Plant are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets such as total assets net of total liabilities, are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components. The Plant's operating statement present increases (revenues) and decreases (expenses) in net total assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgets

Budgets for all funds are prepared by management and approved by the Commission and the New Mexico Department of Finance and Administration. The Clerk is responsible for preparing the budget. The appropriated budget is prepared by the line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the Joint Use Board for approval by resolution.

The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration's Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certifications of the budget by the first Monday of September. Once adopted, the expenditure section of the budget is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the State of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such an appropriated balance is presented as a reserved portion of fund balance. Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local board approval.

If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration. The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

D. Cash Equivalents and Investments

Cash includes amounts in demand deposits as well as short-term investments (i.e. certificated of deposits) with a maturity date within three months of the date acquired by the government. All amounts included in cash and investments with an original maturity of 90 days or less are considered to be cash equivalents for the purposes of the statement of cash flows.

State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivisions, and the State Treasurer's Investment Pool. New Mexico State Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the uninsured public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Plant. The pledged securities remain in the name of the financial institution.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory

Inventories consist of supplies held for consumption and are recorded at the lower of cost or market on a first in, first out basis.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by an estimated portion that is expected to be uncollectible.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond year end, are recorded as prepaid items.

H. Capital Assets

Capital assets, which include property, plant, equipment, computer hardware and software, furniture, fixtures, and vehicles are valued and reported at cost where historical records are available and at an estimated historical cost where no historical records exist. The Plant defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Major outlay for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and vehicles are depreciated using the straight-line method over the estimated useful lives as follows:

| | |
|---|------------|
| Buildings | 40 years |
| Utility system | 5-33 years |
| Equipment, computer hardware and software, furniture, and fixtures | 5 years |
| Building improvements | 40 years |
| Vehicles | 10 years |

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reflected as a liability of the Plant. In accordance with the provisions of the Government Accounting Standards Board, Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Annual leave is earned according to the following schedule:

| <u>Length of Employment</u> | <u>Full-time Employess</u> |
|-----------------------------|--------------------------------|
| 1 to 2 months | 3.39 hrs/pay period |
| 13 to 24 months | 3.70 hrs/pay period |
| 25 to 36 months | 4.00 hrs/pay period |
| 37 to 48 months | 4.31 hrs/pay period |
| 49 to 168 months | 4.62 hrs/pay period |
| 169 months and over | 6.16 hrs/pay period |

Vacation Pay

Vacation leave balance shall not exceed 240 hours. Accumulated unused vacation is payable upon retirement or termination from employment.

Sick Leave

The Plant allows 40-hour employees to accumulate unused sick leave at the rate of 3.00 hours per pay period. There is no maximum on sick leave accrual. A percentage of the accumulated unused sick leave is paid upon voluntary termination from employment after the employee's fifth year of continuous full-time employment. Accumulated sick leave will be paid upon retirement.

J. Deferred Revenues

The Plant reports deferred revenue in its statement of net assets, when applicable. Deferred revenues arise when the Plant receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the Plant has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes on other borrowings that are attributed to the acquisition, construction or improvement of those assets. If there are significant, unspent related debt proceeds at year-end; the portion of the debt attributable to the unspent proceeds is not included in the same net assets component as the unspent proceeds.

Restricted- This component of net assets consists of constraints imposed by creditors, such as through debt covenants; grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted- This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

L. Cash Flows

For the purpose of the statement of cash flows, the Plant considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

M. Use of Estimates

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

2. CASH AND INVESTMENTS

Cash

New Mexico State Statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the Plant. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The note of interest in non-demand, interest-bearing accounts shall be set by the State Board of Finance but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury Bills of the same maturity on the day of deposit.

interest be less than one hundred percent of the asked price on United States Treasury Bills of the same maturity on the day of deposit.

2. CASH AND INVESTMENTS (continued)

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities that are issued by the State or by the United States government, or by their departments or agencies and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

Cash Deposited with Financial Institutions

As of June 30, 2008, the amount of cash reported in the financial statements is co-mingled with the cash balances of the Village of Ruidoso that are held at First Federal Bank in Ruidoso, New Mexico. As of June 30, 2008, the Plant does not have any cash balances held in their own name.

Custodial Credit Risk- Deposits- Custodial credit risk is the risk that in the event of a bank failure, the Plant's deposits may not be returned to it. The Plant does not have a deposit policy for custodial credit risk. As of June 30, 2008, the Plant is unable to identify which part of the cash balance is subject to custodial credit risk.

Investments

New Mexico State Statutes authorize the creation of the local short-term investment fund in the New Mexico State Treasury. The statutes authorize the State Treasurer to pool monies received from local public bodies for investments purposes with other public monies under his control. The purpose of the local short-term fund is to provide an investment alternative for local political subdivisions to realize the maximum return consistent with safe and prudent management. As of June 30, 2008, the amounts of investments reported in the financial statements are co-mingled with the investment balances of the Village of Ruidoso that are held with the New Mexico State Treasurer.

Interest Rate Risk- The cash invested with the State Treasurer's investment pool would be considered in regards to interest rate risk. The Plant does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

3. ACCOUNTS RECEIVABLE & OTHER RECEIVABLE

Amounts due from other governments at June 30, 2008, consisted of the following:

| | |
|---------------------------------|-------------------|
| City of Ruidoso Downs | \$ 84,165 |
| Accounts receivable fees | <u>212,273</u> |
| | <u>\$ 296,438</u> |
| Receivable - Village of Ruidoso | <u>\$ 573,865</u> |

4. CAPITAL ASSETS

Capital assets for the fiscal year ended June 30, 2008, are as follows:

| | Balance 6/30/2007 | Increases | Decreases | Balance 6/30/2008 |
|--|----------------------|------------|-----------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 892,723 | \$ - | \$ - | \$ 892,723 |
| Other capital assets, being depreciated: | | | | |
| Buildings and Improvements | 9,681,976 | | - | 9,681,976 |
| Utility System | 397,347 | | - | 397,347 |
| Equipment | 677,226 | - | - | 677,226 |
| Total other capital assets, being depreciated: | 10,756,549 | - | - | 10,756,549 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 5,346,697 | 269,277 | - | 5,615,974 |
| Utility system | 93,611 | 68,135 | - | 161,746 |
| Equipment | 605,247 | 43,969 | - | 649,216 |
| Total accumulated depreciation | 6,045,555 | 381,381 | - | 6,426,936 |
| Other capital assets, net | 4,710,994 | 381,381 | - | 4,329,613 |
| Total capital assets, net | \$ 5,603,717 | \$ 381,381 | \$ - | \$ 5,222,336 |

5. LONG-TERM OBLIGATIONS

Changes in long-term obligations during the year ended June 30, 2008, were as follows:

| | Balance 6/30/2007 | Additions | Deletions | Balance 6/30/2008 | Amounts Due Within One Year |
|------------------------|----------------------|------------------|---------------------|----------------------|-----------------------------------|
| Lease purchase payable | \$ 63,209 | \$ - | \$ (30,779) | \$ 32,430 | \$ 32,430 |
| Note Payable | 1,322,564 | - | (66,089) | 1,256,475 | 67,410 |
| Compensated absences | 89,908 | 32,691 | (24,316) | 98,283 | - |
| | <u>\$ 1,475,681</u> | <u>\$ 32,691</u> | <u>\$ (121,184)</u> | <u>\$ 1,387,188</u> | <u>\$ 96,867</u> |

5. LONG-TERM OBLIGATIONS (continued)

Lease Purchase Payable

5.375% lease purchase payable for purchase of equipment, due in annual payments of \$34,168, including interest, through March 2009, payable to Mid-America Leasing.

| | | |
|----------------------|----|-----------------|
| | \$ | 32,430 |
| Less current portion | | <u>(32,430)</u> |
| | \$ | <u><u>-</u></u> |

The annual requirement to amortize the lease purchase payable as of June 30, 2008, interest payments are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------|------------------|-----------------|------------------|
| 2009 | \$ <u>32,430</u> | \$ <u>1,739</u> | \$ <u>34,169</u> |

Note Payable

The Plant has an obligation due to the New Mexico Environment Department (NMED). The proceeds of the note were used to complete the improvements of the wastewater treatment plant. This note, in the original amount of \$1,200,000 bears interest at 4% annually, and matures March 21, 2018. In June 2004, the Plant refinanced this note. Due to the increase in the cost of improvements for the wastewater treatment plant, the amount that the Plant refinanced with NMED was \$1,513,154. The refinanced interest rate is 2% per annum. The note balance is \$1,256,475 at June 30, 2008. The annual debt service requirement is as follows:

Due in year ending June 30:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|-------------------|---------------------|
| 2009 | \$ 67,410 | \$ 25,130 | \$ 92,540 |
| 2010 | 68,758 | 23,781 | 92,539 |
| 2011 | 70,133 | 22,406 | 92,539 |
| 2012 | 71,536 | 21,003 | 92,539 |
| 2013 | 72,967 | 19,573 | 92,540 |
| 2014-2018 | 387,317 | 75,381 | 462,698 |
| 2019-2023 | 427,630 | 35,068 | 462,698 |
| 2024 | 90,724 | 1,815 | 92,539 |
| | <u>\$ 1,256,475</u> | <u>\$ 224,157</u> | <u>\$ 1,480,632</u> |

5. LONG-TERM OBLIGATIONS (continued)

Compensated Absences

Changes in compensated absence obligations during the year ended June 30, 2008, were as follows:

| | Balance 6/30/2007 | Additions | Deletions | Balance 6/30/2008 | Amounts Due Within One year |
|----------------------|----------------------|-----------|-------------|----------------------|-----------------------------------|
| Compensated absences | \$ 89,908 | \$ 32,691 | \$ (24,316) | \$ 98,283 | - |

6. RETIREMENT PLAN

Plan description

Substantially all of the Plant's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978) of the State of New Mexico. The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost sharing multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. 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. This report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 4.75% of their gross salary. The Plant is required to contribute 13.55% of the gross covered salary. The contribution requirements of plan members and the Plant are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Plant's contributions to PERA for the years ended June 30, 2008, 2006 and 2005 were \$42,634, \$43,466 and \$43,059, respectively, which equal the amount of the required contributions for the fiscal year.

7. DEFERRED COMPENSATION PLAN

The Plant offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. International City Manager Association (ICMA) administers the Plan. The assets and liabilities are held in trust by ICMA.

7. DEFERRED COMPENSATION PLAN (continued)

The plan, available to all Plant employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Employees elect to contribute a certain percentage of their gross salary but the amount of contributions cannot exceed 33 1/3% of their salary up to a maximum dollar amount of \$13,000 per year into the plan.

All contributions withheld from the participant's wages by the Plant have been paid to the plan administrator. As of June 30, 2008, the Plant is unable to identify the amounts contributed to the plan as contributions are co-mingled with the contributions of Village of Ruidoso employees.

8. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act, Chapter IV, Article 7C, NMSA 1978 provides a comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Plant has elected not to participate in the post-employment health insurance plan.

9. RISK MANAGEMENT

The Plant 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 Plant (through the commingling of funds with the Village of Ruidoso) has joined together with other local governments in the State and obtained insurance through the New Mexico Self-Insurer's Fund, a public entity risk pool currently operating as common risk management and insurance program for local governments. The Plant, (through the commingling of funds with the Village of Ruidoso) pays an annual premium to the New Mexico Self-Insurer's Fund for its general insurance coverage, and all risk of loss is transferred.

10. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Plant expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET ASSETS
BUDGET (NON-GAAP BUDGETARY BASIS) and ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Budgeted Amounts</u> | | Actual Amounts | Variance with Final Budget |
|--|-------------------------|-------------------|-------------------|-------------------------------|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) |
| Operating Revenues: | | | | |
| Charges for services | \$ 1,496,097 | \$ 1,348,789 | \$ 1,687,969 | \$ 339,180 |
| Miscellaneous revenues | <u>2,000</u> | <u>-</u> | <u>173,339</u> | <u>173,339</u> |
| Total operating revenues | <u>1,498,097</u> | <u>1,348,789</u> | <u>1,861,308</u> | <u>512,519</u> |
| Operating Expenses: | | | | |
| Personnel services | 342,283 | 342,283 | 370,098 | (27,815) |
| Employee benefits | 163,000 | 163,000 | 143,552 | 19,448 |
| General operating | 667,723 | 667,723 | 598,263 | 69,460 |
| Capital outlay | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total operating expenses | <u>1,173,006</u> | <u>1,173,006</u> | <u>1,111,913</u> | <u>61,093</u> |
| Operating income (loss) | <u>325,091</u> | <u>175,783</u> | <u>749,395</u> | <u>573,612</u> |
| Non-operating revenues (expenses): | | | | |
| Interest expense | - | - | (27,360) | (27,360) |
| Interest income | <u>15,000</u> | <u>5,000</u> | <u>6,994</u> | <u>1,994</u> |
| Total non-operating revenues (expenses) | <u>15,000</u> | <u>5,000</u> | <u>(20,366)</u> | <u>(25,366)</u> |
| Net Change in fund balance | <u>\$ 340,091</u> | <u>\$ 180,783</u> | <u>\$ 729,029</u> | <u>\$ 548,246</u> |
| Beginning cash balance | <u>\$ 75,269</u> | <u>\$ 75,269</u> | | |

RECONCILIATION TO GAAP BASIS

| | |
|--|-------------------|
| Net increase (decrease) in fund balances budget basis | \$ 729,029 |
| Depreciation expense | (381,381) |
| Change in receivables | 273,286 |
| Accrued liabilities | (41,964) |
| Change in compensated absences | (8,375) |
| Change in net assets GAAP Basis | <u>\$ 570,595</u> |

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

COMPLIANCE AND FINDINGS



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Commissioners
Village of Ruidoso and City of Ruidoso Downs
Regional Wastewater Treatment Plant
Ruidoso, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements and budgetary information of the Village of Ruidoso and City of Ruidoso Downs Regional Wastewater Treatment Plant (Plant), as of and for the year ended June 30, 2008, and have issued our report thereon dated February 2, 2010. The report was qualified due to unreconciled differences in the District's cash accounts. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plant'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 Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plant'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 deficiency, that adversely affects the Plant's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a



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misstatement of the Plant's financial statements that is more than inconsequential will not be prevented or detected by the Plant's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as finding 2005-2, 2005-3, 2007-5 and 2008-1.

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 Plant's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that 2008-1 of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plant's basic 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 responses as items 2005-4, 2005-7 and 2007-5.

The Plant's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Plant's responses and, accordingly, we express non opinion on them.

This report is intended solely for the information and use of the board of commissioners, management, others within the Plant, the governing boards of the Village of Ruidoso and the City of Ruidoso Downs, the Office of the State Auditor, New Mexico Legislature and the New Mexico Department of Finance and Administration and federal awarding agencies and pass-through entities and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill LLP

Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
February 2, 2010

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008**

Findings – Financial Statements Audit

Prior Year

- 2005-2 Information System Disaster Recovery Policy – repeat
- 2005-3 Accounting Policies and Procedures Manual – repeat
- 2005-4 Regional Wastewater Treatment Plant - repeat
- 2005-7 Audit Report Submission to the New Mexico State Auditor – repeat
- 2007-1 RWWTP Accounts Receivable and Billings-resolved
- 2007-2 Missing Invoices- resolved
- 2007-3 Outstanding Check List - resolved
- 2007-4 Procurement- resolved
- 2007-5 Auditor Prepared Financial Statements

Current Year

- 2005-2 Information System Disaster Recovery Policy
- 2005-3 Accounting Policies and Procedures Manual
- 2005-4 Regional Wastewater Treatment Plant
- 2005-7 Audit Report Submission to the New Mexico State Auditor
- 2007-5 Auditor Prepared Financial Statements – repeat
- 2008-1 Bank Reconciliations

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2005-2 Information System Disaster Recovery Policy

Condition: The Village and the Regional Waste Water Treatment Plant (Plant) do not have an approved information system disaster recovery or technology plan. There are information system manuals, but they have not been reviewed and approved by the administration, Village council, or finance committee members, and the Plant board, and formally placed in service by administrative policy.

Criteria: Information system controls require that a comprehensive plan and procedures be documented in a place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help insure best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

Criteria: Information system controls require that a comprehensive plan and procedures be documented in a place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help insure best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

Effect: System usage could be impaired or rendered useless for a significant period of time, which could severely impact the Village's and the Plant's ability to conduct daily operations. Additionally, productivity and effectiveness may be increased with a sound information system and technology planning.

Cause: The Village and Plant have not placed a high priority on adopting a formal disaster recovery or technology plan.

Recommendation: The Village and Plant should adopt a disaster recovery plan that would provide procedures and processes for appropriate computer locations. The plan should address items not limited to: system redundancy, data storage, system firewall monitoring, back-up systems, restoration, contact personnel, and vendors. The adopted plan should be tested and communicated to all necessary parties. Annually, the plan should be assessed by information system personnel for content and revised with approvals when appropriate or necessary.

Response: The Village of Ruidoso Governing Body has adopted a new Information Technology (IT) Policies & Procedures Manual that includes a policy on Security of its servers, computers and telephone systems, Records management and Backup Policy and a Disaster Recovery Policy.

2005-3 Accounting Policies and Procedures Manual

Condition: During a prior year audit, it was noted that the Village and the Regional Waste Water Treatment Plant (Plant) did not have a formal accounting policies and procedures manual. The Village and Plant have procedures established by each department however, the procedures have not been compiled into one accounting policies and procedures manual that has been approved by the governing board of the Village and the Plant board as of fiscal year end.

Criteria: Elements of an effective internal control system include guidelines on whom, how and when the more significant accounting transactions should be authorized, recorded and reconciled during the accounting cycle. Formal documented accounting procedures increases the likelihood transactions are executed in accordance with management's intentions and recorded in

STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

accordance with accounting policies established by the federal, and state governments along with generally accepted accounting principles.

Effect: Not documenting formal accounting policies and procedures could allow employees to incorrectly reflect transactions that have occurred. Incorrect transactions could allow misstatement of financial data prepared by the finance department.

Cause: The ongoing changes in the Village's and Plant's policies, information systems and related financial reporting and accounting principles applicable to local governments have not been reduced to a specific accounting manual approved by management, the Village Council and the Plant board.

Recommendation: The Village should review all of the procedures from each department, make the appropriate changes, and adopt an accounting manual that is approved by management, the Village Council and the Plant board.

Response: The Village of Ruidoso Governing Body has adopted a new Accounting & Financial Policies Manual that includes policies associated with revenues and cash receipts, expenditures and disbursements, specific asset and liability accounts, policies associated with financial and tax reporting, financial management policies and policies associated with Federal and State Awards.

2005-4 Regional Wastewater Treatment Plant (RWWTP)

Condition: The Village of Ruidoso and the City of Ruidoso Downs have entered into a joint powers agreement to create a separate entity to operate a Regional Wastewater Treatment Plant (RWWTP). The agreement was executed on July 3, 1974. A board that is composed of members of each government governs the RWWTP. The Village performs all administrative functions for the RWWTP including all accounting functions. Each government contributes funds to maintain and operate the facility.

The Village has created a separate fund within their general ledger to account for all revenues and expenditures. The cash belonging to the RWWTP is pooled with the Village's other cash. All costs and expenses related to the payroll function are charged to the RWWTP fund; however, the employees who provide services for the RWWTP have been treated as a department of the Village.

The intention of the agreement was to create a separate entity; however the Village has not treated the RWWTP as a separate entity, rather the RWWTP has been treated as a department of the Village.

STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

- Criteria: The RWWTP was created with authority of the Joint Powers Agreement Act as defined in New Mexico State Statutes. According to Section 11-1-5B NMSA 1978, the administering agency under any such agreement shall be considered under the provisions of this Joint Powers Agreements Act (11-1-1 to 11-1-7 NMSA 1978) as an entity separate from the parties to such agreement.
- Effect: By treating the RWWTP as a department rather than a separate legal entity, the Village has misreported financial information to various other governments. For example, the payroll reports reported to the Internal Revenue Service contain the wages of employees who provided services to the RWWTP. All payroll activity has been reported to the Internal Revenue Service, New Mexico Taxation and Revenue Department, and the New Mexico Public Employee Retirement Association as activity belonging to the Village. The employees have accrued vacation and sick leave based on the policies established by the Village rather than the RWWTP.
- Cause: In order to streamline operations, prior Village administrations and the current Village administration have accounted for the RWWTP as a department rather than as a separate entity.
- Recommendation: The prior auditor suggested that the RWWTP be treated as a separate legal entity as stated in the agreement creating the entity and in compliance with New Mexico State Statutes. The prior auditor suggested that the RWWTP have it's own checking account and that none of it's cash be pooled with the Village's or the City of Ruidoso Downs accounts. Further, the prior auditor suggested that the RWWTP apply for its own federal and state identification numbers and all payrolls should be reported as payroll of the RWWTP not employees of the Village. The employees should earn benefits as outlined in policies established by the board of the RWWTP
- Response: The Joint Use Board (JUB) has received a federal identification number for the Regional Wastewater Treatment Plant Facility construction and operations and does keep the funds separated. The JUB is in negotiations regarding municipal representation and organization and is considering proposals on reorganization based on capacity of the plant and annual flows. Legal Counsels are working together to recommend revisions to the Joint Powers agreements and/or creating bylaws that outline more specifically how the JUB should operate.
- 2005-7** **Audit Report Submission to the New Mexico State Auditor**
- Condition: The required submission date of the audit report for the fiscal year ended June 30, 2008, to the New Mexico State Auditor was December 1, 2008. The audit report was not submitted until February 9, 2010.

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008**

Criteria: Section 2.2.2.9.A of the State Audit Rule sets the due date for audit reports for municipalities as December 1st.

Effect: Noncompliance with section 2.2.2.9 A of the State Audit Rule 2008. Late audit reports and financial statements could also impact funding from federal and state sources.

Cause: The Village had substantial turnover during the performance of the audit. New employees could not find or locate information needed for the audit.

Recommendation The Village should submit the audit report each year on a timely basis.

Response: The Village had a disastrous flood in July 2008 creating a delay along with a special audit which took significant effort. The Village has also experienced a complete turnover in their Finance Department and management, but has now hired a new Village Manager and Finance Director. The Village has received approval for the FY 09-10 auditor and expects to be caught up by FY 10-11.

2007-5 Auditor Prepared Financial Statements

Condition: Due to turnover at the Village there were not any personnel with adequate qualifications and training sufficient enough to prepare the Village's financial statements.

Criteria: Per the provisions of Subsection J of 2.2.2.8 NMAX, SAS 112, insufficient expertise in selecting and applying accounting principles, including the preparation of the Village's financial statements, is considered to be significant deficiency in internal control.

Effect: A significant deficiency in internal control.

Cause: The Village has had complete turnover in the accounting and finance department. During this period the Village did not have personnel with adequate qualifications and training sufficient enough to prepare the Village's financial statements.

Recommendation: Accounting and finance personnel currently employed by the Village should take an active part in the preparation and review of annual financial statements prepared and submitted to the state auditor and IPA.

STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2008

Response: A new Finance Director has been hired for the Village of Ruidoso and all staff in the Finance Department will be cross trained and participate in the preparation and review of the annual financial statements submitted to the State Auditor.

2008-1 Bank Reconciliations

Condition: The Village has not been reconciling their main operating account in a timely and accurate manner. The Village made an adjustment of \$110,000 to properly state their cash balances as of June 30, 2008.

Criteria: NMSA 1978 6-6-3 discusses the need for the Village to keep all the books, records and accounts in their respective office in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division. Good accounting practices require that bank reconciliations be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

Effect: Without reconciled banks, the Village has no assurance that all revenues and checks have been recorded or recorded in a timely manner.

Cause: The turnover in the accounting department has transpired without the retiring employee training the incoming replacement and retiring employees leaving before replacements are found resulting in a lapse of duties and proper training. This turnover has also created a situation in which there is a backlog of work, making it difficult for current employees to catch-up.

Recommendation: The Village's Accounting Policies and Procedures manual should contain explicit instructions for all accounting related matters, as well as detailed instructions on the storage of monthly schedules used for reconciliation purposes.

Response: The Village Council has adopted an Accounting and Financial Policy Manual that provides financial policies and procedures for the finances and internal controls of the Finance Department. The Village Manager and Finance Director will be requesting an amendment to this Policy that strengthens the oversight of the Village's finances and requires the signature of the Village Manager on monthly reconciliations.

**STATE OF NEW MEXICO
VILLAGE OF RUIDOSO AND CITY OF RUIDOSO DOWNS
REGIONAL WASTEWATER TREATMENT PLANT
EXIT CONFERENCE & PREPARATION OF FINANCIAL STATEMENTS
JUNE 30, 2008**

EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2008 was discussed during the exit conference held on February 2, 2010. Present for the Regional Wastewater Treatment Plant was Greg Corey, Village Council Member, Don Williams, Village Manager, Debi Lee and Nancy Klingman, Village of Ruidoso Director of Finance. Present for the auditing firm was Cindy James, CPA.

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the auditors, Pattillo, Brown and Hill, L.L.P., Certified Public Accountants; however the financial statements are the responsibility of the management.