Accounting & Consulting Group, LLP

Certified Public Accountants

Village of Ruidoso

Regional Wastewater Treatment Plant

Annual Financial Report
June 30, 2011

STATE OF NEW MEXICO
VILLAGE OF RUIDOSO
REGIONAL WASTEWATER TREATMENT PLANT

A COMPONENT UNIT OF
THE VILLAGE OF RUIDOSO, NEW MEXICO

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
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June 30, 2011

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STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Official Roster
June 30, 2011

Joint Utility Board Members

Gus Raymond Alborn	Chairman
Angel Shaw	Member
Carol Virden	Member
Tom Armstrong	Member

Administrative Officials

Debi Lee	Village Manager
Nancy Klingman	Director of Finance

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FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and
Joint Utility Board Members
Village of Ruidoso
Regional Wastewater Treatment Plant
Ruidoso, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of the Village of Ruidoso, Regional Wastewater Treatment Plant (the "Plant"), a component unit of the Village of Ruidoso, New Mexico (the "Village"), as of and for the year ended June 30, 2011, which collectively comprise the Village of Ruidoso, Regional Wastewater Treatment Plant's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparison for the year ended June 30, 2011 listed as supplementary information 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 following paragraph, we conducted our audit 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 the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. 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.

Management is continuing the process of designing and implementing policies and procedures needed to capture, record and present revenues, expenditures, contracts, grants, other agreements, and budgetary information completely and accurately in their financial statements. For the year ended June 30, 2010 the severity and pervasiveness of the material weaknesses in the Plant's system of internal control over financial reporting caused significant doubt that all possible material misstatements could be detected by our audit procedures. Because of the magnitude of the possible misstatement of the financial statements that could remain undetected, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the business-type activities of the Plant and the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2011, as listed in the table of contents.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011 on our consideration of the Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

We were engaged to conduct an audit for the purpose of forming opinions on the financial statements that comprise the basic financial statements and the budgetary comparison. The accompanying financial information listed as supporting Schedule I in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express an opinion regarding whether Schedules I is fairly stated, in all material respects, in relation to the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 30, 2011

BASIC

FINANCIAL STATEMENTS

Exhibit A-1

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Statement of Net Assets
June 30, 2011

	Total
ASSETS	
Current assets:	
Cash and cash equivalents	$ 337,215
Investments	1,057,744
Customer receivables (net of allowance for doubtful accounts)	225,649
Total current assets	1,620,608
Noncurrent assets:	
Capital assets	11,649,272
Accumulated depreciation	(7,571,079)
Bond issuance costs, net of accumulated amortization of $65,071	-
Total noncurrent assets	4,078,193
Total assets	$ 5,698,801
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 22,276
Accrued payroll expenses	17,507
Accrued compensated absences	8,805
Accrued interest	258,062
Notes and bonds payable, current portion	374,051
Total current liabilities	680,701
Non-current liabilities :	
Notes and bonds payable	9,242,047
Total noncurrent liabilities	9,242,047
Total liabilities	9,922,748
Net assets:	
Invested in capital assets, net of related debt	-
Unrestricted	(4,223,947)
Total net assets	(4,223,947)
Total liabilities and net assets	$ 5,698,801

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO Exhibit A-2

Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

Operating revenues:	
Charges for services	$ 3,518,287
Total operating revenues	3,518,287
Operating expenses:	
General and administrative	321,297
Personnel services	566,376
Contractual services	282,688
Supplies and purchased power	9,108
Maintenance and materials	61,937
Utilities	363,293
Depreciation	381,381
Total operating expenses	1,986,080
Operating income (loss)	1,532,207
Non-operating revenues (expenses):	
Interest income	1,251
Interest expense	(312,612)
Miscellaneous income	3,619
Total non-operating revenues (expenses)	(307,742)
Capital grants	-
Transfers in	-
Transfers out	(1,229,121)
Total capital grants and net transfers	(1,229,121)
Change in net assets	(4,656)
Net assets - beginning of year	(4,118,140)
Restatement (Note 12)	(101,151)
Net assets - beginning of year, as restated	(4,219,291)
Total net assets - end of year	$ (4,223,947)

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO Exhibit A-3

Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:		
Cash received from user charges	$	3,553,976
Cash payments to employees for services		(551,694)
Cash payments to suppliers for goods and services		(1,023,989)
Net cash provided (used) by operating activities		1,978,293
Cash flows from noncapital financing activities:		
Miscellaneous income		3,619
Change in noncurrent accrued compensated absences		(1,917)
Intergovernmental transfers		(1,229,121)
Net cash provided (used) by noncapital financing activities		(1,227,419)
Cash flows from capital and related financing activities:		
Principal paid on capital debt		(360,360)
Interest paid on capital debt		(54,550)
Net cash provided (used) by capital and related financing activities		(414,910)
Cash flows from investing activities:		
Interest on investments		1,251
Net cash provided (used) by investing activities		1,251
Net increase (decrease) in cash and cash equivalents		337,215
Cash and cash equivalents - beginning of year		-
Cash and cash equivalents - end of year	$	337,215
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	1,532,207
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		381,381
Changes in assets and liabilities		
Customer receivables		35,689
Inventory		7,962
Accounts payable		6,372
Accrued payroll expenses		16,575
Current accrued compensated absences		(1,893)
Net cash provided (used) by operating activities	$	1,978,293

The accompanying notes are an integral part of these financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Wastewater Treatment Plant (Plant) was established on July 3, 1974 with Plant 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 a portion of the costs of improvements to the wastewater system.

A. Financial 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 Plant, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographical boundaries of the government and is generally available to its citizens.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

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; however, the Plant is a component unit of the Village of Ruidoso.

B. Basis of Accounting and Measurement Focus

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 this 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 presents increases (revenues) and decreases (expenses) in net total assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets

Deposits and Investments

The Plant is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Plant's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. If the securities pledged are United States government securities, they are pledged at market value, if they are New Mexico municipal bonds, they are pledged at par value.

Accounts Receivable

All trade receivables are shown net of an allowance for doubtful accounts. The allowance is comprised of all accounts receivable which management estimates to be uncollectible.

Inventory

The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as an expenditure at the time of consumption. Inventory for the Plant is valued at cost using the First In, First Out Method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the Plant as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

Assets	Years
Buildings	40 years
Utility system	5-33 years
Furniture, fixtures and equipment	5 years
Building improvements	40 years
Vehicles	10 years

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:

Length of Employment	Accrual Rate
1 to 12 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 leave balance shall not exceed 240 hours. Accumulated unused vacation is payable upon retirement or termination from employment. The Plant allows 40-hour employees to accumulated 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Capital Assets (continued)

Deferred Revenue

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.

Net Assets

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

- **Invested in Capital Assets, Net of Related Debt** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

- **Restricted Net Assets** – Net assets are reported as restricted when constraints placed on net asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Assets** – Net assets that do not meet the definition of "restricted" and "Invested in capital assets, net of related debt."

Unrestricted and Restricted Revenues

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Plant's financial statements include depreciation on capital assets, the current portion of accrued compensated absences and the allowance for uncollectible accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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.

The Plant does not budget depreciation expense; therefore, the budget is not prepared in accordance with generally accepted accounting principles. The budget is a guideline to operations and is not a legally enforceable document. The Plant's level of budgetary control is at the total fund level.

NOTE 2. DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of Plant funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Plant properly followed State investment requirements as of June 30, 2011.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks 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 or by collateral deposited as security or by bond given by the financial institution.

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

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state were insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest- bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

- Up to $250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts.

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

New Mexico State statutes requires collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Plant for at least one-half of the amount on deposit with the institution.

The Village of Ruidoso and the Plant have their cash comingled at Wells Fargo Bank. The cash balance for the Plant was determined based on the Village's allocation at June 30, 2011. The Village and the Plant were over collateralized at Wells Fargo Bank for the year ended June 30, 2011 as a whole and the amount of pledged collateral allocated to each entity was based on the allocation of cash at year end.

Custodial Credit Risk – Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Plant's deposits may not be returned to it. The Plant does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2011, $0 of the Plant's deposits of $0 was exposed to custodial credit risk. $0 was uninsured and collateralized by securities held by pledging institutions or by its trust department or agent in other than the Plant's name and $0 was uninsured and uncollateralized. See Schedule I on page 30.

NOTE 3. ACCOUNTS RECEIVABLE

The Plant's receivables as of June 30, 2011 are shown as follows:

	Plant
Customer receivables	$ 239,976
Allowance for doubtful accounts	(14,327)
Net accounts receivable	$ 225,649

NOTE 4. CAPITAL ASSETS

	Balance, June 30, 2010	Additions	Deletions	Balance, June 30, 2011
Regional Wastewater Treatment Plant				
Capital assets not being depreciated:				
Land	$ 892,723	$ -	$ -	$ 892,723
Total capital assets not being depreciated	892,723	-	-	892,723
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 capital assets being depreciated	10,756,549	-	-	10,756,549
Total capital assets	11,649,272	-	-	11,649,272
Less accumulated depreciation:				
Buildings and improvements	6,154,528	269,277	-	6,423,805
Utility system	298,016	68,135	-	366,151
Equipment	737,154	43,969	-	781,123
Total accumulated depreciation	7,189,698	381,381	-	7,571,079
Total capital assets, net of depreciation	$ 4,459,574	$ (381,381)	$ -	$ 4,078,193

The Plant has continued to maintain the cost of its property and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2011, totaled $381,381.

NOTE 5. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2011.

	Balance June 30, 2010	Restatement	Restated Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Bonds payable	$ 8,755,000	$ -	$ 8,755,000	$ -	$ 286,463	$ 8,468,537	$ 298,638
Notes payable	1,120,307	101,151	1,221,458	-	73,897	1,147,561	75,413
Compensated absences	12,615	-	12,615	8,682	12,492	8,805	8,805
Totals	$ 9,887,922	$ 101,151	$ 9,989,073	$ 8,682	$ 372,852	$ 9,624,903	$ 382,856

Bonds Payable

On October 7, 2009, the Plant issued their Series 2009 Wastewater System Improvement Revenue Bonds in the amount of $8,755,000 to the United States Department of Agriculture (USDA) for the purpose of improving and extending the Plant's wastewater system. Principal and interest are paid annually. The bonds are secured by and payable from the net revenues of the Regional Wastewater Treatment Plant.

Outstanding notes payable at the end of the year for the Plant are as follows:

Description	Original Issue	Final Maturity	Interest Rate	Balance, June 30, 2011
Series 2009 Wastewater Improvement	$ 8,755,000	10/1/2029	4.25%	$ 8,468,357

Debt service requirements on notes payable for the Plant at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Debt Service
2012	$ 298,638	$ 359,913	$ 658,551
2013	311,330	347,221	658,551
2014	324,561	333,990	658,551
2015	338,355	320,196	658,551
2016	352,735	305,816	658,551
2017-2021	2,001,699	1,291,056	3,292,755
2022-2026	2,464,787	827,968	3,292,755
2027-2031	2,376,432	257,749	2,634,181
Total	$ 8,468,537	$ 4,043,909	$ 12,512,446

NOTE 5. LONG-TERM LIABILITIES (continued)

Notes Payable

In prior years, the Plant borrowed $1,200,000 from the New Mexico Environment Department (NMED) for the purpose of completing improvements to the wastewater treatment plant. On June 30, 2004, the Plant refinanced the note with NMED in the amount of $1,513,154. Principal and interest are paid annually. The note is secured by and payable from the net revenues of the Regional Wastewater Treatment Plant.

Outstanding notes payable at the end of the year for the Plant are as follows:

Description	Original Issue	Final Maturity	Interest Rate	Balance, June 30, 2010
2004 NMED Wastewater Construction	$ 1,513,154	5/1/2023	2.00%	$ 1,050,174
2009 NMED Wastewater Construction	101,151	4/27/2030	3.00%	97,387
				$ 1,147,561

Debt service requirements on notes payable for the Plant at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Principal Payment	Interest Payment	Total Debt Service
2012	$ 75,413	$ 23,925	$ 99,338
2013	76,961	22,378	99,339
2014	78,539	20,798	99,337
2015	80,152	19,187	99,339
2016	81,797	17,542	99,339
2017-2021	434,887	61,805	496,692
2022-2026	294,540	17,075	311,615
2027-2031	25,272	1,923	27,195
Total	$ 1,147,561	$ 184,633	$ 1,332,194

NOTE 6. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, 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.

NOTE 7. 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.

NOTE 8. 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.

NOTE 9. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments of out-of-pocket payments of eligible retirees. As authorized under Section 9D of Chapter 6, Laws of 1990, the Plant has elected not to participate in the program by adoption of an ordinance.

NOTE 10. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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.) The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 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 fiscal years ending June 30, 2011, 2010 and 2009 were $48,543, $38,726, and $40,772, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. COMMITMENTS

The following is a summary of construction in progress as of June 30, 2011:

Description	Contractor	Commitment	Contract Date
Convention Center Remodel	Jack Wayne Construction	$ 134,083	7/15/2009
RWWTP	RMCI	387,943	10/9/2009

NOTE 12: RESTATEMENT

The Plant has restated beginning net assets at the budgetary level and in the Plant's financial statements as a result of $101,151 of debt being recorded in governmental funds that should have recorded in the Plant. The restatement resulted in a decrease of $101,151 to beginning net assets preseneted in the Plant's statement of revenues, expenses, and changes in net assets and in the statement of revenues, expenses, and changes in net assets budget (GAAP Basis) and actual.

NOTE 13: OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

A. Deficit fund balance of individual fund. The following fund reflected a deficit fund balance as of June 30, 2011:

Regional Wastewater Treatment Plant	$	(4,223,947)

B. Excess of expenditures over appropriations. No funds exceeded approved budgetary authority for the year ended June 30, 2011.

C. Designated cash appropriations exceeded prior year available balances. There were not any funds which had designated cash appropriations in excess of available balances for the year ended June 30, 2011.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO Statement A-1

Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Statement of Revenues, Expenses and Changes in Net Assets
Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Positive (Negative)
Operating revenues:				
Charges for services	$ 3,541,899	$ 3,646,680	$ 3,518,287	$ (128,393)
Total operating revenues	3,541,899	3,646,680	3,518,287	(128,393)
Operating expenses:				
General and administrative	333,862	353,862	321,297	32,565
Personnel services	622,274	622,274	566,376	55,898
Contractual services	405,000	410,000	282,688	127,312
Supplies and purchased power	4,300	4,300	9,108	(4,808)
Maintenance and materials	68,500	68,500	61,937	6,563
Utilities	388,860	388,860	363,293	25,567
Total operating expenses	1,822,796	1,847,796	1,604,699	243,097
Operating income (loss)	1,719,103	1,798,884	1,913,588	114,704
Non-operating revenues (expenses):				
Operating grants	-	-	-	-
Interest income	-	-	1,251	1,251
Interest expense	-	-	(312,612)	(312,612)
Gross receipts tax expense	-	-	-	-
Miscellaneous income	1,500	1,500	3,619	2,119
Total non-operating revenues (expenses)	1,500	1,500	(307,742)	(309,242)
Capital grants	-	-	-	-
Transfers out	(305,106)	(305,106)	(1,229,121)	(924,015)
Total capital grants and net transfers	(305,106)	(305,106)	(1,229,121)	(924,015)
Change in net assets	1,415,497	1,495,278	376,725	(1,118,553)
Designated cash (budgeted increase in cash)	(1,415,497)	(1,495,278)	-	(1,495,278)
Total net assets, beginning of year	-	-	(4,118,140)	(4,118,140)
Total net assets, restatement (Note 12)	-	-	(101,151)	(101,151)
Total net assets, beginning of year, as restated	-	-	(4,219,291)	(4,219,291)
Total net assets, end of year	$ -	$ -	$ (3,842,566)	$ (6,833,122)
Change in net assets, above			$ 376,725	
Adjustments for depreciation			(381,381)	
Change in net assets (Exhibit A-2)			$ (4,656)	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

Schedule I

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Schedule of Deposit and Investment Accounts
For the Year Ended June 30, 2011

Bank Account Type/Name	Wells Fargo Bank
Deposits	
Operating - Checking	$ 32,885
Ruidoso - Certificate of Deposit	1,057,744
Total on deposit	1,090,629
Less: FDIC coverage	282,885
Total uninsured public funds	807,744
50% collateral requirements	403,872
Pledged securities	1,806,387
Over collateralized	1,402,515
Bank balance	1,090,629
Outstanding items	(2,591,557)
Deposits in transit	13,388,385
Other adjustments - primary government deposits	(10,492,498)
Book balance	$ 1,394,959
Total deposits and investments per Schedule I	$ 1,394,959
Total cash and cash equivalents per Exhibit A-1	$ 337,215
Total investments per exhibit A-1	1,057,744
Total deposits and investments per Statement of Net Assets	$ 1,394,959

COMPLIANCE SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

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*

Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and
Joint Utility Board Members
Village of Ruidoso
Regional Wastewater Treatment Plant
Ruidoso, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of the Village of Ruidoso, Regional Wastewater Treatment Plant (the "Plant"), a component unit of the Village of Ruidoso, New Mexico (the "Village"), as of and for the year ended June 30, 2011, which collectively comprise the Village of Ruidoso, Regional Wastewater Treatment Plant's basic financial statements as listed in the table of contents and have issued our report thereon dated November 30, 2011. We were also engaged to audit the budgetary comparisons presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2011 as listed in the table of contents. We disclaimed our opinion because material weaknesses in internal controls caused significant doubt that all possible material misstatements could be detected by audit procedures. Except as discussed above, 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC.

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 was not designed to identity all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS2005-1, FS2005-7, FS2007-11, FS2008-2, FS2009-2, FS2009-3, FS2009-8, FS2009-9, FS2009-10, FS2009-26, FS2009-42, FS2009-70, FS2009-99, FS2009-100, and FS2011-1 through FS2011-9, inclusive, to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, the New Mexico Legislature, the New Mexico Department of Finance and Administration, the Office of the State Auditor, 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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 30, 2011

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Schedule of Findings and Responses
June 30, 2011

Section I – Summary of Audit Results

Financial Statements:

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

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Schedule of Findings and Responses
June 30, 2011

Section II – Financial Statement Findings

A. Financial Statement Findings

FS2005-1 Information System Disaster Recovery Policy (Material Weakness)

Condition: The Village and the Regional Waste Water Treatment Plant (Plant) do not have an approved information system disaster recovery of 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 ensure the 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 sound information system and technology planning.

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

Auditors' 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.

Views of Responsible Officials and Planned Corrective Actions: The Village has implemented an offsite depository of all our computerized data in FY 12. All our data is backed up to an offsite server nightly. This service through Incode completes our information system disaster recovery of technology plan.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2005-7 Regional Wastewater Treatment Plant (Material Weakness)

Condition: The Village of Ruidoso and the Village 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.

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 provision 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 has accounted for the RWWTP as a department rather than as a separate entity.

Auditors' Recommendation: We recommend that the RWWTP be dissolved as a separate entity and be treated as an enterprise fund of the Village.

Views of Responsible Officials and Planned Corrective Actions: The Village of Ruidoso is pursuing legal action to either dissolve or proceed into mediation to rectify the accounting issue present in this finding.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2007-11 Auditor Prepared Financial Statements (Material Weakness)

Condition: The financial statements and related disclosures are not being prepared by the Village. The Village does not have a procedure in place to detect and correct material misstatements in the financial statements.

Criteria: A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it doesn't eliminate the control deficiency.

Effect: The Village has a control deficiency since there are not sufficient controls over the preparation of financial statements and related disclosures. The risk of material misstatement of the financial statements is increased by the lack of control procedures over the preparation of the Village's financial statements.

Cause: Village personnel do not have the time and have not been training in the preparation of financial statements and related disclosures.

Auditors' Recommendation: We recommend that management and personnel receive training on preparation of financial statements and related disclosures under Generally Accepted Accounting Standards, or contract with a consultant to assist with the preparation and implement procedures to detect and correct misstatements.

Views of Responsible Officials and Planned Corrective Actions: The Finance Department desires to purchase the Incode GASB 34 Government Wide Financial Statements module and be trained to prepare the financial statements for audits.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2008-2 Bank Reconciliations (Material Weakness)

Condition: The Village was not able to provide the auditor's with an accurate listing of checks outstanding on their June 30, 2011 operating account bank reconciliations for testwork.

Criteria: Section 6-6-3 NMSA, 1978 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 accurately on a monthly basis 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 accurately reconciled bank statements, the Village has no assurance that all revenues and disbursements have been recorded.

Cause: The turnover in the accounting department has transpired without the new employees being trained which resulted 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.

Auditors' 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.

Views of Responsible Officials and Planned Corrective Actions: In FY 10 the Finance Department was still doing bank reconciliations manually in Excel and outstanding checks were recorded- updated manually. This process is open to errors and this was occurring. In August FY 12 the Finance Department implemented the new Incode software system which operates bank reconciliations directly downloading outstanding checks from the bank. This process ensures accuracy and eliminates human error.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-2 Segregation of Duties – Cash Disbursements (Material Weakness)

Condition: During our testwork of cash disbursements we noted the following instances of a lack of appropriate segregation of duties.

In our testwork of cash disbursements, we noted that the Accounts Payable Clerk performs all the duties and functions that are required for the cash disbursements process:

- The Accounts Payable Clerk prepares and mails the checks;
- The Staff Accountant both opens and reviews the bank statements and prepares the bank reconciliations.

Criteria: Appropriate segregation of duties in cash disbursements is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978.

Effect: Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

Cause: Due to limited resources, the Village relies on the expertise of one individual to perform many duties. Limited resources in the process noted above appear to result in a lack of segregation of duties.

Auditors' Recommendation: We recommend that the Village separate out these duties by having the Accounts Payable Clerk prepare the checks and the receptionist mail them. In addition, we recommend that the another employee open the bank statements and review them before giving them to the Staff Account to prepare bank reconciliations.

Views of Responsible Officials and Planned Corrective Actions: Immediately upon disclosure of this finding by auditors we implemented the needed segregation of duties. The Accounts Payable Clerk prepares the checks and prints out a check register. The check register report and the checks are given to the Staff Accountant to review and the checks are placed into the Finance mailbox for the Receptionist to post. Bank statements are delivered to the Finance Director unopened and she opens and reviews them. The Finance Director initials verifying original documents from the bank and gives to Staff Accountant to begin reconciliation process.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-3 Deficiencies in Internal Control Structure Design, Operation and Oversight – Cash Disbursements (Material Weakness

Condition: The Village does not have a comprehensive documented internal control structure. We noted the following areas in which the Village does not have sufficient key internal controls in place.

- Checks are prenumbered through the software system that is utilized; however, the sequence can be manually altered by the Accounts Payable Clerk without the ability of tracking the check numbers. When conducting a review of check registers, check ranges were out of order because some were backdated so they would show up in the previous fiscal year. In addition, one check was noted in the voided check testwork that did not appear in the system at all nor was there any documentation for it. However, it was confirmed by the bank to have never cleared.
- Material journal entries were needed for accounts payable.
- Names and/or address on checks do not appear as the same in the accounting system.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: This finding has been corrected with the new Incode financial system which tracks all assigned check numbers. The new software system tracks all void checks in the system. The procedure to review payment was implemented in FY 10 to review invoices for correct address and applied account by Staff Accountant prior to processing checks.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-8 PERA Reports and General Ledger (Material Weakness)

Condition: The amount in the general ledger for employer's contribution to PERA does not tie to the reported amount.

Criteria: Per NMAC 2.80.500.8, each state agency or affiliated public employer shall be responsible for deducting the applicable contribution from the salary or wages paid to each member for each payroll period. The total amount of PERA withheld from employees was $893,148 per the PERA reports, but the general ledger indicated that $1,185,781 was withheld from employees for PERA.

Effect: The amount of PERA being withheld from employee paychecks could be incorrect and not be detected due to the lack of the reconciliation process

Cause: The Village does not have a reconciliation process for balancing the amount paid to what is reported to PERA as the Village uses payroll software that does not interface with the existing accounting software causing Village employees to manually post all payroll items to the General Ledger.

Auditors' Recommendation: We recommend that the Village implement a process for reconciling amounts sent to PERA and amounts recorded in the general ledger and purchase a fully functional accounting software program that interfaces with the Payroll process to help eliminate errors due to manual posting.

Views of Responsible Officials and Planned Corrective Actions: The payroll was part of a separate software system but in FY 12 has been transferred to the new Incode Financial Software and therefore PERA integrates automatically into the finance general fund. Previously all payroll data had to be manually journal entered into the finance system; the manual process increases the error risk.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-9 Capital Assets (Material Weakness)

Condition: The Village does not have a complete capital asset listing. A listing had not been maintained in prior years and the Village currently has an employee working on developing a capital asset listing.

Criteria: The Village must have a capital assets management policy to provide accountability for the safeguarding of assets in accordance with GASB 34 and NMSA 1978 Section 12-6-10.

Effect: Lack of sufficient records results in assets that are not properly safeguarded. Asset identification and location are essential in the prevention of theft and loss of assets due to fraudulent activity. Capital assets cannot be depreciated due to the lack of information that is being maintained. As a result, the financial statements of the Village will be materially misstated due to the balances of capital assets and accumulated depreciation being materially misstated.

Cause: Capital asset records have not been maintained or updated to ensure accuracy or accountability of the Village's assets.

Auditors' Recommendation: We recommend the Village continue to work on completing a capital asset listing.

Views of Responsible Officials and Planned Corrective Actions: The Village of Ruidoso has completed FY 12 capital asset listing.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-10 Deficiencies in Internal Control Structure Design, Operation and Oversight – Construction of the Finance Department (Material Weakness)

Condition: The makeup and general construction of the Finance Department is not appropriate and adequate given the nature of the entity. The Finance Department is lacking skilled employees at this time to adequately oversee all the activities of the Village.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The Finance Department does have a staff shortage for FY10. The recommendation that Finance take on the task of payroll and Lodger's Tax will be implemented in FY 12. The Internal Finance/Audit Committee will continue to review and recommend makeup and general construction of the Finance Department.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-26 Deficiencies in Internal Control Structure Design, Operation and Oversight – Risk Appetite (Material Weakness)

Condition: "Risk appetite," or the amount of risk the entity is willing to accept, associated with each new activity is not discussed and influenced by the Village's culture and operating practices. Management's philosophy and operating style are not consistent with a sound control environment and has a negative pervasive effect on the entity. Management does not analyze the risks and benefits of new activities, does not assess turnover among employees, does not investigate and resolve improper business practices, does not view accounting as a means to monitor and control the various activities of the organization, and does not adopt accounting policies that reflect the economic realities of the governmental unit.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: Village Management and Finance Director have begun reviewing the many activities and capital projects in process and working on creating proper processes for these. Capital processes are tracked by the Capital Projects Administrator and other activities are tracked by department directors and Finance. The new financial software system prevents the use of accounts that lack the proper budget and requires project numbers on related purchases. The Village Manager requires all new projects be approved by her and Council with full detail on the project. The Finance Department is in the process of creating a detailed internal control manual including the new software effects on this area.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-42 Deficiencies in Internal Control Structure Design, Operation and Oversight – Organizational Structure (Material Weakness)

Condition: The organizational structure is not commensurate with the Village's activities. The organizational structure of the entity is not appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the governmental unit are not present and do not provide unfettered influence to effectively run the entity and support effective financial reporting. The Finance Department is lacking skilled and experienced employees at this time.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: Village Management and Finance Director have begun reviewing the many activities and capital projects in process and working on creating proper processes for these. Capital processes are tracked by the Capital Projects Administrator and other activities are tracked by department directors and Finance. The new financial software system prevents the use of accounts that lack the proper budget and requires project numbers on related purchases. The Village Manager requires all new projects be approved by her and Council with full detail on the project. The Finance Department is in the process of creating a detailed internal control manual including the new software effects on this area.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-70 Deficiencies in Internal Control Structure Design, Operation and Oversight – Staffing (Material Weakness)

Condition: All departments at the Village are not appropriately staffed. The Finance Department is lacking skilled and experienced employees at this time. All departments are minimally staffed due to budget restraints.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The Internal Finance/Audit Committee continually reviews the FY 12 budget to reduce the General fund budget thus allowing for additional staff. The Village Manager and Finance Director submitted a balanced budget to Council for approval in FY 11 and FY 12. Departments have been asked to review their work flow for efficiency and any duplication to assist in any staff shortage. The Finance Department does have a staff shortage for FY11. The recommendation that Finance take on the task of payroll and Lodger's Tax will be implemented in FY 12. The Internal Finance/Audit Committee will continue to review and recommend makeup and general construction of the Finance Department.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-99 Deficiencies in Internal Control Structure Design, Operation and Oversight – Process Procedures (Material Weakness)

Condition: Process procedures are not sufficiently formal such that management can determine whether the control objective is met, documentation supporting the procedures is in place, and personnel routinely know the procedures that need to be performed. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the Village's control processes to support the achievement of financial reporting objectives.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village is in the process of updating all their policies and procedures. The purchase and implementation of a new software system will increase the accuracy of Village financial information.

Views of Responsible Officials and Planned Corrective Actions: The Finance Department is in the process of updating a new internal control manual to include the change with the new financial software system. The old system had very limited reports and this made it difficult for the Auditors to access information. The new system in place in FY 12 allows all the departments to access all their financial information and gives them instant access to all related accounts payable pertaining to their departments. The Finance Director does review monthly the income statement and balance sheets on all funds, and was doing this procedure in FY 11. The Finance Director submits to Council a quarterly financial report and displays this report on the Village web page.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2009-100 Deficiencies in Internal Control Structure Design, Operation and Oversight – Financial Data (Material Weakness)

Condition: Data underlying financial statements are not captured completely, accurately, and timely, in accordance with the Village's policies and procedures and in compliance with laws and regulations. Information relevant to financial reporting is not identified, captured, processed, and distributed within the parameters established by the Village's control processes to support the achievement of financial reporting objectives.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: The Village should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Actions: The Finance Department is in the process of updating a new internal control manual to include the change with the new financial software system. The old system had very limited reports and this made it difficult for the Auditors to access information. The new system in place in FY 12 allows all the departments to access all their financial information and gives them instant access to all related accounts payable pertaining to their departments. The Finance Director does review monthly the income statement and balance sheets on all funds, and was doing this procedure in FY 11. The Finance Director submits to Council a quarterly financial report and displays this report on the Village web page.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-1 Cash Activity Not Recorded (Material Weakness)

Condition: Cash recorded in the general ledger did not tie to cash per Village bank reconciliations at June 30, 2011 by $3,687. The Village did not record all bank accounts in their general ledger system. The Benevolent Fund checking account at City Bank of New Mexico was not recorded.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodies in the financial statements. Good accounting policies require that the bank statements be reconciled on a timely basis to the Village's general ledger, at least monthly.

Effect: The Village's cash balances and resulting activity are at risk of being misstated at June 30, 2011.

Cause: There is a lack of internal controls being designed and implemented by management to ensure all cash transactions are recorded in the general ledger.

Auditors' Recommendation: The Village should implement policies and procedures and provide adequate training to ensure that internal controls over cash are adequately designed and effectively implemented.

Views of Responsible Officials and Planned Corrective Actions: The Benevolent Fund is recorded on the Balance Sheet (01-10190) in FY 11 at $3,687. That is the amount the finding states is off. The Benevolent Fund is not public funds and has no fund assigned. It is the recommendation of the Finance Department that this fund is dissolved and an account is established through public funds for employee recognition. This was discussed with the Auditors and they concur with this recommendation.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-2 Lack of Internal Controls Over Voided Checks (Material Weakness)

Condition: During our testwork over cash, we noted several internal control issues including:

- Checks are not being voided in the system for payroll;
- For the water meter trust fund, checks are not being voided in the system nor are some original checks maintained at the entity, the checkbook showed these as void, but t hey did not appear in the general ledger;
- In the operational account, several checks were not being voided in the system even though they were supposed to be, they would show as a zero dollar amount and an open check; and
- In the operational account, one check in the testwork in the amount of $690.15 was never voided in the general ledger when the check that was issued did clear for the amount it was supposed to.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodies in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Good internal control policy dictates that the Village shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect: This results in an increased risk of theft of voided checks and potential for misappropriation of Village funds.

Cause: Responsible officials do not have the communication between departments that is necessary to ensure that checks are voided when they are supposed to be. In addition, responsible officials are not ensuring that an adequate amount of time is taken for checks to be properly voided in the accounting system.

Auditors' Recommendation: The Village should review cash management procedures with the responsible individuals monthly to ensure that all areas of cash have sufficient internal controls, including accounting for all voided checks residing at the entity as well as a documented policy that states who is responsible for voided checks in the system.

Views of Responsible Officials and Planned Corrective Actions: The implementation of the new software system in FY 12 starting in August enables bank reconciliations to be performed within the system. This will address outstanding checks directly through the banks. Past years of not reconciling bank accounts and clearing 90 day old checks from the system has resulted in this finding. Going forward we have put in place:

- voiding of stale checks
- follow up with payee for reissuance
- if no response from payee a form letter is sent
- copies of the form letter is placed in a payee file

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-3 Lack of Internal Controls – Use of Manual Checks (Material Weakness)

Condition: The Village uses manual checks for the Water Meter Trust Fund and Benevolent Fund instead of generating checks from their accounting system. These checks do not go through the same procedures as the system generated checks and are more susceptible to fraud.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodies in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Good internal control policy dictates that the Village shall establish and maintain a consistent cash disbursement policy to safeguard against errors and fraud. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect: The use of manual checks increases the risk that misstatement due to error or fraud are being made at the Village.

Cause: The Village has maintained manual checkbooks for years and has not implemented actions to transition to a pre-printed check stock. In addition, there were issues with being able to create reports for the past two years in the old accounting system for the Water Meter Trust Fund that hindered the Village's ability to keep track of which deposits are eligible for reimbursement.

Auditors' Recommendation: The Village should begin the transition to printing checks off the accounting system to maintain better internal controls.

Views of Responsible Officials and Planned Corrective Actions: The new system eliminates the use of any manual checks as of November 2011 when the Incode system was implemented in Utilities. Utility Billing notifies Accounts Payable, with documents produced by the system, of the amount to wire from the Water Meter Trust Fund to the General Fund. The remaining refund (any debt owed the Village is deducted) is then processed through the Accounts Payable.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-4 Inaccurate Cash and Accounts Payable Balances – Backdating of Checks (Material Weakness)

Condition: It was noted when performing extended procedures over cash balances that the Accounts Payable Clerk has been backdating checks in order for them to appear during the previous fiscal year rather than as subsequent checks.

Criteria: New Mexico Statutes, Section 6-5-2, NMSA 1978, requires local public bodies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal laws and rules related to financial matters. Generally Accepted Accounting Principles (GAAP) state that expenses incurred but not paid should be recognized in the period in which the expense is incurred as a payable. Dating checks the date they are prepared is essential to the Village maintaining accurate balances in cash, accounts payable and expenses.

Effect: Due to the backdating of checks the Village portrays incorrect cash balances at year end. This leads to misstating the balances in both periods and in the financial statements.

Cause: The Village is not familiar with GAAP rulings that state that items should be incurred in the proper period and has no policies in place to ensure that this does not happen.

Auditors' Recommendation: The Village should not backdate checks.

Views of Responsible Officials and Planned Corrective Actions: The Village no longer back dates checks and corrected that procedure in FY 12 immediately.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-5 Deficiencies in Internal Control Structure Design, Operation and Oversight – Wire Transfers (Material Weakness)

Condition: The Village does not have a comprehensive documented internal control structure. We noted the following areas in which the Village does not have sufficient key internal controls in place.

- The Accounts Payable Clerk is the only one making wire transfers and she is not an authorized user at either bank where wires transfers are being made, City Bank of New Mexico or Wells Fargo Bank.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that virtual pass keys be put into place for dual authorization for the transfers to be completed.

Views of Responsible Officials and Planned Corrective Actions: The Village does about five wires a month. We have tightened the internal controls on the wire transfer process with the following:

- We are reducing all wire transfers.
- Signature documents will have the signature of Staff Accountant to show review of transaction
- Signature documents will have the signature of Finance Director and/or Village Manager approval
- Signature documents will have attached the invoice or wire transfer request
- Signature documents will have date of wire transfer and will be posted to that date
- Staff Accountant will review bank on-line transaction to verify the wire transfer settlement
- The signature document will be filed in the vendor file upon completion

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-6 Deficiencies in Internal Control Structure Design, Operation and Oversight – No Approval for Checking Account Closure (Material Weakness)

Condition: The Village does not have a comprehensive documented internal control structure. We noted the following areas in which the Village does not have sufficient key internal controls in place.

- The Village does not require approval for the closure of checking accounts or the merging of certificates of deposits.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

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Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the Village prepare a written policy that dictates how the closing of accounts should be handled and who should be authorizing it.

Views of Responsible Officials and Planned Corrective Actions: The Village Finance Director oversees the investments held by the Village in various banks.

> *The policy for managing the Village's investment program shall be approved by the Village Council. Investment policy recommendations to the Village Council shall be developed under the general direction of the Village Manager or his/her designee.*
>
> *The Village Finance Director will have direct responsibility for developing and recommending changes to the Village's investment policy to the Village Manager. The Finance Director or his/her designee shall implement the Village's investment policy and will have direct responsibility for the placing of specific investments with banks, savings and loan associations, NM Local Government Investment Pool, and other financial institutions in accordance with this policy and State law.*

The Village will create a written form to document approval by signature of Village Manager addressing investment modifications.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-7 Lack of Internal Controls Over the Accounts Receivable Process (Material Weakness)

Condition: The Village does not have a comprehensive documented internal control structure. We noted the following areas in which the Village does not have sufficient key internal controls in place.

- The Village does not reconcile accounts receivable aging reports to the general ledger, and
- The Village does not have an accounting policy for calculating or recording an allowance for uncollectable accounts.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2011 management did not have a documented policy to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS No. 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation: We recommend that the Village prepare a written policy that dictates the accounts receivable process.

Views of Responsible Officials and Planned Corrective Actions: The Finance Department has set up a reconciliation policy to reconcile the Utility accounts receivable to the Utility accounts receivable in the general ledger. The Utility accounts receivable report will be produced by the Utility Supervisor at the end of each month and working with the General Ledger will reconcile. The reconciliation will be reviewed by Staff Accountant and signed off. The Village does not have an accounting policy for calculating or recording an allowance for uncollectable accounts and has contacted the Auditors to contract for consulting and advising of this matter.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-8 Journal Entries (Material Weakness)

Condition: The Village is unable to provide a listing of all journal entries made throughout the year.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

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Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: An adequate accounting system is not in place to generate a complete report..

Auditors' Recommendation: We recommend that the Village ensure that a comprehensive internal control structure is designed, documented, and implemented.

Views of Responsible Officials and Planned Corrective Actions: The old accounting software system would no produce a report listing all journal entries processed in the fiscal year. The Auditors had to select the paper journal entries to examine from the actual file for FY 11. The new accounting system, Incode, produces a report listing all journal entries made in a fiscal year or by any date requested.

Section II – Financial Statement Findings (continued)

A. Financial Statement Findings (continued)

FS2011-9 Failure to Maintain a Separate Bank Account for the Component Unit (Material Weakness)

Condition: The Village has an operating checking account with Wells Fargo that consists of funds for the general fund, various special revenue funds, and the component unit.

Criteria: The Regional Wastewater Treatment Plant 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 provision 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: The Village cannot ascertain that all internal controls are being implemented and operating effectively, which increases the risk of assets being misappropriated and misstatements in the financial statements to go undetected.

Cause: The Village is unaware of the requirement for the component unit as a separate legal entity to have separate cash accounts from the primary government.

Auditors' Recommendation: We recommend that the Village record cash in appropriate bank accounts by separating the funds into a new account.

Views of Responsible Officials and Planned Corrective Actions: The Village is aware of the requirement that a Component Unit have a separate bank account. The Regional Wastewater Treatment Plant is treated by the Village as an Enterprise Fund presently. The Village is in the process of conferring with a legal representative to define the issue at this time.

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Schedule of Findings and Responses
June 30, 2011

Section III - Schedule of Prior Year Audit Findings

FS 2005-1	Information System Disaster Recovery Policy	Revised and Repeated
FS 2005-2	Accounting Policies and Procedures Manaual	Resolved
FS 2005-7	Regional Wastewater Treatment Plant	Revised and Repeated
FS 2005-11	Audit Report Submission to the New Mexico State Auditor and A-133 Data Collection Form	Resolved
FS 2007-7	Monitoring Grants	Resolved
FS 2007-11	Auditor Prepared Financial Statements	Revised and Repeated
FS 2008-1	Airport Contract Fuel Program	Resolved
FS 2008-2	Bank Reconciliations	Revised and Repeated
FS 2008-3	Inventories	Resolved
FS 2009-1	Lack of Adequate Documentation for Expenditures	Resolved
FS 2009-2	Segregation of Duties – Cash Disbursements	Revised and Repeated
FS 2009-3	Deficiencies in Internal Control Structure Design, Operation and Oversight - Cash Disbursements	Revised and Repeated
FS 2009-4	Segregation of Duties – Cash Receipts	Resolved
FS 2009-5	Deficiencies in Internal Control Structure Design, Operation and Oversight - Cash Receipts	Resolved
FS 2009-6	Noncompliance with the Procurement Code	Resolved
FS 2009-7	Lack of Adequate Documentation for Credit Card Expenditures	Resolved
FS 2009-8	PERA Reports and General Ledger	Revised and Repeated
FS 2009-9	Capital Assets	Revised and Repeated
FS 2009-10	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-11	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-12	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-13	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-14	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-15	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-16	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-17	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-18	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-19	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-20	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-21	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-22	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-23	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-24	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-25	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-26	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-27	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-28	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-29	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-30	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-31	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-32	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-33	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-34	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-35	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-36	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-37	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-38	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-39	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-40	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-41	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-42	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-43	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-44	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-45	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-46	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-47	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-48	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-49	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-50	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-51	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-52	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-53	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-54	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-55	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-56	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-57	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-58	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-59	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-60	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-61	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-62	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-63	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-64	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-65	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-66	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-67	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-68	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-69	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-70	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-71	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-72	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-73	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-74	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-75	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-76	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-77	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-78	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-79	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-80	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-81	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-82	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-83	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-84	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-85	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-86	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Schedule of Findings and Responses
June 30, 2011

Section III - Schedule of Prior Year Audit Findings (continued)

FS 2009-87	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-88	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-89	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-90	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-91	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-92	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-93	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-94	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-95	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-96	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-97	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-98	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-99	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-100	Deficiencies in Internal Control Structure Design, Operation and Oversight	Revised and Repeated
FS 2009-101	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-102	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-103	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-104	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-105	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-106	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-107	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-108	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-109	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-110	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-111	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-112	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-113	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-114	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-115	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-116	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-117	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-118	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-119	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-120	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-121	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-122	Deficiencies in Internal Control Structure Design, Operation and Oversight	Resolved
FS 2009-123	Deficiencies in Internal Control Structure Design, Operation and Oversight – P-Cards	Resolved
FS 2009-124	Deficiencies in Internal Control Structure Design, Operation and Oversight – Airport Supporting Documentation	Resolved
FS 2010-1	Expenditures in Excess of Budget	Resolved

STATE OF NEW MEXICO
Village of Ruidoso
Regional Wastewater Treatment Plant
A Component Unit of the Village of Ruidoso
Other Disclosures
For the Year Ended June 30, 2011

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Although it would be preferred and desirable for the Plant to prepare its own GAAP-basis financial statements, it is felt that the Plant's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

B. EXIT CONFERENCE

The contents of this report were discussed on November 30, 2011. The following individuals were in attendance.

Regional Wastewater Treatment Plant Officials

Ray Alborn	Mayor
Debi Lee	Village Manager
Sean Parker	Deputy Village Manager
Nancy Klingman	Finance Director
Karen Gutierrez	Staff Accountant

Accounting and Consulting Group, LLP

Jeff McWhorter	Partner
Shelley Olson	Senior Staff

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