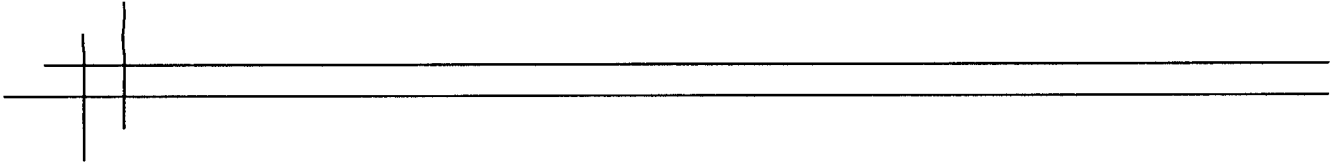




**STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
ALTO, NEW MEXICO**

ANNUAL FINANCIAL REPORT
June 30, 2008

De'Aun Willoughby CPA, PC
Certified Public Accountant
Melrose, New Mexico



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SUN VALLEY WATER & SANITATION DISTRICT
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 For the Year Ended June 30, 2008

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STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Official Roster
June 30, 2008

BOARD OF DIRECTORS

Carolyn Stephens	President
Janetta Britten	Vice President

ADMINISTRATIVE STAFF

Charles Britten	Treasurer
Sharon Stewart	Bookkeeper
Karen Payton	Secretary

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124
(505) 253-4313

Independent Auditor's Report

Mr Hector H. Balderas
State Auditor of the State of New Mexico
Board Members of the SUN VALLEY WATER & SANITATION

Mr. Balderas and Members of the Board

We have audited the accompanying financial statements of the business-type activities of the SUN VALLEY WATER & SANITATION DISTRICT (District), as of and for the year ended June 30, 2008, as listed in the table of contents. We have also audited the budget comparisons presented as supplementary information in the accompanying financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued a report dated October 2, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and the combining and individual financial statements and budgetary comparisons presented as supplemental information.

De'Ann Willoughby CPA PC

October 2, 2008

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Statement of Net Assets Proprietary Funds
June 30, 2008

ASSETS

Current Assets

Cash in Banks	\$ 130,786
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	5,563
Property Taxes Receivable	3,314
Inventory	5,062
Prepaid Expenses	1,751
Total Current Assets	<u>146,476</u>

Non-current Assets

Capital Assets

Land	9,159
Distribution System	595,599
Office Furniture & Equipment	2,517
Less Accumulated Depreciation	<u>(228,016)</u>
Total Non-current Assets	<u>379,259</u>

Total Assets

525,735

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	6,245
Gross Receipts Tax Payable	<u>301</u>
Total Current Liabilities	<u>6,546</u>

Total Liabilities

6,546

Net Assets

Invested in Capital Assets	379,259
Unrestricted	<u>139,930</u>

Total Net Assets

\$ 519,189

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

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Funds
For the Year Ended June 30, 2008

Operating Revenues	
Sales and Services	
Total Operating Revenues	\$ <u>67,449</u>
Operating Expenses	
Contract Services	54,880
Water Conservation Fee	172
Insurance	2,418
Dues	148
Other	109
Tax Collection Fees	557
Legal & Accounting	48
Office Storage Rent	2,484
Postage	743
Office Supplies	526
Newsletter Expense	181
Telephone	1,013
Education and Training	1,545
Repairs & Maintenance	9,988
Supplies	4,059
Utilities	3,474
Depreciation	23,151
Total Operating Expenses	<u>105,496</u>
Operating Income	<u>(38,047)</u>
Nonoperating Revenues (Expenses)	
Property Taxes	55,801
Interest Income	2,112
Total Nonoperating Revenues (Expenses)	<u>57,913</u>
Change in Net Assets	19,866
Net Assets at Beginning of Year	<u>499,323</u>
Net Assets at End of Year	<u>\$ <u>519,189</u></u>

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

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
 Proprietary Fund Statement of Cash Flows
 For the Year Ended June 30, 2008

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$
Payments to Employees and Suppliers	
Net Cash Provided by Operating Activities	<u>(13,679)</u>
Cash Flows from Non-capital Financing Activities	
Property Taxes	<u>55,801</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>55,801</u>
Cash Flows from Capital & Related Financing Activities	
Purchase of Capital Assets	<u>0</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>0</u>
Cash Flows from Investing Activities	
Interest Income	<u>2,112</u>
Net Cash Provided by Investing Activities	<u>2,112</u>
Net Increase (Decrease) in Cash	44,234
Cash, Beginning of Year	86,552
Cash, End of Year	\$ <u><u>130,786</u></u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income	(38,047)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	23,151
(Increase) Decrease in Accounts Receivable	181
(Increase) Decrease in Taxes Receivable	(144)
(Increase) Decrease in Inventory	(145)
(Increase) Decrease in Prepaid Expenses	83
Increase (Decrease) in Accounts Payable	1,176
Increase (Decrease) in Gross Receipts Tax Payable	66
Net Cash Provided by Operating Activities	\$ <u><u>(13,679)</u></u>

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

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the SUN VALLEY WATER & SANITATION DISTRICT (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*. Some of the significant changes in the Statement include the following:

- Financial Statements prepared using full-accrual accounting for all the District's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements) as of June 30, 2008.

In addition, in June 2001, the GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* - an amendment of GASB Statement No. 21 and No. 34 and Statement No. 38, *Certain Financial Note Disclosures*. These two statements clarify, modify, establish and rescind certain disclosure requirements under GASB No. 34. Both statements are being implemented in conjunction with GASB Statement No. 34. These statements do not have an impact on the results of operations or the financial position of the District.

Financial Reporting Entity

The SUN VALLEY WATER & SANITATION DISTRICT (District) was created by Laws of 1941, Chapter 80 (Sections 73-21-1 through 73-21-54, New Mexico Statutes, 1978 Compilation). Under law, the District will serve a public use and will promote the health, safety, prosperity, security and general welfare of the inhabitants of the District.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

The District has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected District members are financially accountable. There are no other primary governments with which the District Board Members are financially accountable. There are no other primary governments with which the District has a significant relationship.

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

Basis of Presentation

The District is engaged in business-type activity only. The financial statements (the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows) report information on all of the activities of the District.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are charges for services and interest income.

Budgetary Control

Prior to each June 1, District administration submits, to the Board of Directors, a proposed budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and the means of financing them.

Prior to each July 1, the budget is submitted for approval and legally enacted through passage of an ordinance by the Local Government Division of the State Department of Finance and Administration.

The District Board is authorized to transfer budgeted amounts between types of expenditures; however, any revisions that alter the total expenditures must be approved by the State Department of Finance and Administration.

Formal Budgetary integration is employed as a management control device during the year.

The level of budget authority is at the fund level.

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

Cash and Cash Equivalents

The District'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.

The District is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments

All money not immediately necessary for the public uses of the District may be invested in :

(a) bonds or negotiable securities of the United States, the state or any county, municipality or Village which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

Receivables and Payables

Receivables include amounts due from customers for sales and service. Payables represent routine monthly bills for services rendered and products purchased.

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets are reported in the financial statements. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year, per Section 12-6-10 NMSA 1978. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Utility System	20-50 Years
Office Equipment	5-7 Years

Revenue

Ad valorem taxes are susceptible to full accrual on the government wide financial statements. Property Tax revenues recognize revenues net of estimated refunds and uncollectible accounts in the period for which the taxes are levied. See note for property taxes for additional information.

The revenue for the proprietary fund is for the sale of water and a charge for service related to water usage.

The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

Ad Valorem Taxes

The District received ad valorem taxes (Mil Levy) from the Lincoln County Treasurer for operating purposes. The ad valorem taxes are assessed on all property within the district on January 1st of each year, and are payable in two equal installments, on November 10th of the year in which the tax bill is prepared and April 10th of the following year. Ad valorem taxes are collected by the County Treasurer and remitted to the District in the month following collection.

During the fiscal year ended June 30, 2008, ad valorem taxes were imposed upon the net taxable value of property contained within the district (except property excluded or exempted by law) at a rate of 6.6 mills per \$1,000. During the fiscal year ended June 30, 2008, ad valorem taxes accruing to the benefit of the District amounted to \$55,658.

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments.

Restricted Net Assets

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it will first be applied to restricted resources.

NOTE B: CASH AND INVESTMENTS

The District is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

City Bank

Name of Account	Balance Per Bank 6/30/08	Reconciled Balance	Type
Sun Valley Water & Sanitation District	\$ 125	\$ 999	Checking
Sun Valley Water & Sanitation District	95,618	94,618	Checking
Sun Valley Water & Sanitation District	35,119	35,119	Savings
TOTAL Deposited	130,862	\$ 130,736	
Less: FDIC Coverage	(130,862)		
Uninsured Amount	0		
50% collateral requirement	0		
Pledged securities	0		
Over (Under) requirement	\$ 0		

Cash reported on the Statement of Net Assets includes \$50 of petty cash.

Custodial Credit Risk-Deposits

Depository Account	Bank Balance
Insured	\$ 130,862
Collateralized:	
Collateral held by the pledging bank in District's name	0
Uninsured and uncollateralized	0
Total Deposits	\$ 130,862

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2008 none of the District's bank balance of \$130,862, was exposed to custodial credit risk.

NOTE C: ACCOUNTS RECEIVABLE

The accounts receivable are shown net of the allowance for bad debts. The reserve for uncollectible accounts for June 30, 2008 is \$0.

Receivables as of June 30, 2008, were as follows:

<u>Receivables</u>			
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	\$	5,563	
Taxes		5,062	

NOTE E: CAPITAL ASSETS

Capital Assets Balances and Activity for the Year Ended June 30, 2008, is as follows:

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Business-type Activity				
Capital Assets not being Depreciated				
Land	\$ 9,159	\$ 0	\$ 0	\$ 9,159
Other Capital Assets				
Utility System	595,599	0	0	595,599
Office Equipment	2,517	0	0	2,517
Total Capital Assets at Historical Cost	<u>607,275</u>	<u>0</u>	<u>0</u>	<u>607,275</u>
Accumulated Depreciation				
Utility System	203,515	22,733	0	226,248
Office Equipment	1,351	418	0	1,769
	<u>204,866</u>	<u>23,151</u>	<u>0</u>	<u>228,017</u>
Capital Assets, net	<u>\$ 402,409</u>	<u>\$ (23,151)</u>	<u>\$ 0</u>	<u>\$ 379,258</u>

NOTE F: PREPAID EXPENSE

Prepaid expenses are insurance premiums.

NOTE G: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2008

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are as follows:

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses:

Revenues over Expenditures Budgetary Comparison Statements-Budgetary Basis	\$ <u>44,235</u>
Adjustments:	
Depreciation	(23,151)
Capital Outlay	0
Increase(decrease) in:	
Accounts Receivable	(180)
Property Taxes Receivable	144
Inventory	145
Prepaid Expenses	(84)
Accounts Payable	(1,176)
Gross Receipts Tax	(67)
	<u>(24,369)</u>
Net Change in Net Assets	\$ <u><u>19,866</u></u>

NOTE H: RISK MANAGEMENT

Commercial insurance covers all losses. There have been no significant reductions in insurance coverage. Settlement amount have not exceeded insurance coverage for the current year of the three prior years. There are no claim liabilities at year end.

NOTE I: SURETY BONDS

The Directors and Contract Laborers of the District are covered by a surety bond as required by Section 12 6-7, NMSA, 1978 Compliance and State Auditor's Rule 89-1.

NOTE J: RELATED PARTY TRANSACTIONS

Directors on the Board of the District are recipients of water sales and services. These transactions are correctly considered arm's-length transactions since these related parties are subject to the same installation, invoicing, payment expectations, and late payment procedures as all the District customers.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
 Budget (Non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Sales & Services	\$ 63,970	\$ 63,970	\$ 63,312	\$ (658)
Water Tap Fee	0	0	3,000	3,000
Transfer Fee	500	500	550	50
Late Fee	550	550	780	230
Misc Fee	0	0	53	53
Property Taxes	52,809	52,809	55,658	2,849
Interest	1,000	1,000	2,112	1,112
Gross Profit	<u>118,829</u>	<u>118,829</u>	<u>125,465</u>	<u>6,636</u>
Expenditures				
Contract Services	54,076	54,076	53,645	431
Water Conservation Fee	250	250	166	84
Insurance	3,000	3,000	2,335	665
Lab Water Test Fees	0	0	70	(70)
Dues	150	150	148	2
Bank Charges	0	0	3	(3)
Tax Collection Fees	529	529	557	(28)
Legal & Accounting	4,424	4,424	48	4,376
Office Storage Rent	6,500	6,500	2,484	4,016
Office Expense Other	0	0	36	(36)
Education & Training	800	800	1,545	(745)
Supplies & Pipe	500	500	2,642	(2,142)
Postage	0	0	743	(743)
Office Supplies	0	0	506	(506)
News Letter Expense	0	0	181	(181)
Telephone	0	0	1,013	(1,013)
Repairs & Maintenance	5,000	5,000	9,838	(4,838)
Utilities	3,600	3,600	3,708	(108)
Capital Outlay	40,000	40,000	1,562	38,438
Total Expenditures	<u>118,829</u>	<u>118,829</u>	<u>81,230</u>	<u>37,599</u>
Excess (Deficiency) of Revenues Over Expenditures	0	0	44,235	44,235
Cash Balance Beginning of Year	<u>86,500</u>	<u>86,500</u>	<u>86,500</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 86,500</u>	<u>\$ 86,500</u>	<u>\$ 130,735</u>	<u>\$ 44,235</u>

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

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

(505) 253-4313

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

Mr Hector H. Balderas
State Auditor of the State of New Mexico
Board Members of the SUN VALLEY WATER & SANITATION

Mr. Balderas and Members of the Board

We have audited the basic financial statements of the business-type activities of the SUN VALLEY WATER & SANITATION DISTRICT (District) as of and for the year ended June 30, 2008 and have issued our report thereon dated October 2, 2008. We have also audited the budget comparisons presented as supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts 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 the audit, and that, 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.

This report is intended solely for the information and use of the administration, the board members, the Office of the State Auditor, the New Mexico State Legislature and its committees, and the New Mexico Department of Finance and Administration-Local Government Division and is not intended to be and should not be used by anyone other than these specified parties.

DeAnn Willoughby CPA PC

October 2, 2008

STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Findings and Responses
June 30, 2008

Prior Year Audit Findings

06-01 Late Audit Report Resolved

Current Year Audit Findings

There are no current year audit findings.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA. However, they are the responsibility of management.

Exit Conference

An exit conference was held on October 2, 2008. Those present were Charles Britten-Treasurer, Carolyn Stephens and De'Aun Willoughby, CPA.