

**State of New Mexico
Sun Valley Water and Sanitation District
Audited Financial Statements
June 30, 2011**

Dan Austin CPA, PC
700 Mechem Drive
Ste. 15
Ruidoso, NM 88345

**STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
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For the Year Ended June 30, 2011**

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**STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Official Roster
June 30, 2011**

BOARD OF DIRECTORS

James Miller	Chairman
Janetta Britten	Vice Chairman
Marc Stewart	Director
Charles Britten	Director /Treasurer
Frank Vanderveen	Director

ADMINISTRATIVE STAFF

Sharon Stewart	Bookkeeper
Karen Payton	Secretary

**Dan Austin CPA, PC
700 Mechem Drive
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Ruidoso, NM 88345**

Independent Auditor's Report

Mr. Hector H. Balderas
State Auditor of the State of New Mexico
Board Members of the Sun Valley Water and Sanitation District

Mr. Balderas and Members of the Board:

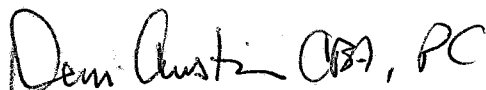
We have audited the accompanying financial statements of the business-type activities of the Sun Valley Water and Sanitation District (District), as of and for the year ended June 30, 2011, as listed in the table of contents. We have also audited the budget comparisons presented as supplementary information 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, 2011, 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, 2011 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 November 10, 2011 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.



November 10, 2011

Financial Section

State of New Mexico
Sun Valley Water and Sanitation District
Statement of Net Assets – Propriety Fund
June 30, 2011

Assets

Current Assets

Cash in Banks	\$	134,710
Accounts Receivable(Net of Allowance for Uncollectible)		7,160
Inventory		3,662
Prepaid Insurance		2,260
Total Current Assets		147,792

Non-current Assets

Capital Assets:

Land		9,159
Distribution System		742,204
Office Furniture and Equipment		2,517
Less: Accumulated Depreciation		(307,132)
Total Non-current Assets		446,748

Total Assets

\$ 594,540

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$	9,481
Gross Receipts Tax Payable		346
Total Current Liabilities		9,827

Total Liabilities

9,827

Net Assets

Invested in Capital Assets		446,748
Unrestricted		137,965
Total Net Assets		584,713

Total Liabilities and Net Assets

\$ 594,540

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Sun Valley Water and Sanitation District
Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Fund
June 30, 2011

Operating Revenues	
Water Sales	\$ 82,183
Transfer and Tap Fees	6,468
Other	<u>1,304</u>
Total Operating Revenues	<u>89,955</u>
Operating Expense	
Contract Services	56,545
Water Conservation Fee	204
Insurance	2,490
Lab Fees	304
Dues	171
Tax Collection Fees	565
Legal and Accounting	3,982
Office Storage Rent	1,944
Postage	929
Office	970
Newsletter Expense	182
Telephone	651
Education and Training	1,640
Election Expense	462
Repairs and Maintenance	11,936
Supplies	4,738
Utilities	5,289
Depreciation	<u>27,121</u>
Total Operating Expense	<u>120,123</u>
Operating Income (Expense)	<u>(30,168)</u>
Non-operating Revenues (Expense)	
Property Tax	56,447
Interest Income	<u>1,618</u>
Total Non-operating Revenue (Expense)	<u>58,065</u>
Change in Net Assets	27,897
Net Assets at Beginning of Year	<u>556,816</u>
Net Assets at End of Year	<u>\$ 584,713</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico
Sun Valley Water and Sanitation District
Statement of Cash Flows - Proprietary Fund
June 30, 2011

Cash Flows from Operating Activities	
Receipts from Customers and users	\$ 86,697
Payments Contractors and Suppliers	<u>(88,462)</u>
Net Cash Provided by Operating Activities	<u>(1,765)</u>
Cash Flows from Non-capital Financing Activities	
Property Taxes	\$ 56,447
Other	<u>-</u>
Net Cash Provided (Used) by Non-capital Financing and Related Financing Activities	<u>56,447</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	\$ (39,223)
Other	<u>-</u>
Net Cash Provided (Used) by Capital Financing and Related Financing Activities	<u>(39,223)</u>
Cash Flows from Investing Activities	
Interest Income	\$ 1,619
Other	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>1,619</u>
Net increase (Decrease) in Cash	17,078
Cash, Beginning of Year	<u>117,632</u>
Cash, end of Year	<u><u>\$ 134,710</u></u>

Reconciliation of Net Income to Net Cash Provided by Operating Activities:

Operating Income	\$ (30,168)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	27,121
Increase(Decrease) in Accounts Receivable	(3,257)
Increase(Decrease) in Taxes Receivable	23
Increase(Decrease) in Inventory	1,964
Increase(Decrease) in Prepaid Expense	(366)
(Increase) Decrease in Accounts Payable	2,954
(Increase) Decrease in Gross receipts Tax Payable	<u>(36)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,765)</u></u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW MEXICO SUN VALLEY WATER AND
SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2011**

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.

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.

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.

**STATE OF NEW MEXICO SUN VALLEY WATER AND
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June 30, 2011**

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.

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.

**STATE OF NEW MEXICO SUN VALLEY WATER AND
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June 30, 2011**

(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.

Inventory

Purchased inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of pipe and other maintenance items used to maintain the system. Costs are recorded as expenditures at the time individual inventory items are used (consumption method).

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 useage.

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.

**STATE OF NEW MEXICO SUN VALLEY WATER AND
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Notes to the Financial Statements
June 30, 2011**

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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, 2011, 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 5.5386 mills per \$1,000. During the fiscal year ended June 30, 2011, ad valorem taxes accruing to the benefit of the District amounted to \$56,447.

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.

**STATE OF NEW MEXICO SUN VALLEY WATER AND
SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2011**

NOTE B: CASH AND INVESTMENTS

The district is required by NMSA Sec 6-10-17 to have all deposits in excess of FDIC insurance coverage to be collateralized. The following is a schedule of deposits as of June 30, 2011 calculates the required collateral requirement per the statutes:

Bank	Type	Balance Bank	O/S Deposits	O/S Checks	Balance F/S
City Bank NM	Checking	\$ 121,581	\$ -	\$ -	121,581
City Bank NM	Money Market	792	-	-	792
		122,373	-	-	122,373
	Less FDIC Coverage	(122,373)			
	Uninsured Amount	-			
	50% Collateral Pledge	-			
	Uncollateralized deposits	-			
	Pledged Collateral	-			
	Over (Under) Requirement	\$ -			
	Petty Cash				50
	Total Cash Per Financial Statements				<u>\$ 122,423</u>

Custodial credit risk is the risk that 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, 2011 all of the District's deposits are insured by the FDIC and the District was no exposed to custodial credit risk.

NOTE C: ACCOUNTS RECEIVABLE

The accounts receivable as of June 30, 2011 of \$7,160 is shown is net of any allowance for uncollectible accounts. The district had no uncollectible accounts as of June 30, 2011.

NOTE D: CAPITAL ASSETS

Capital Assets not being depreciated:					
Land	\$	9,159	\$	-	\$ 9,159
Other Capital Assets:					
Utility System		702,982		39,223	742,205
Office Equipment		2,517		-	2,517
Total Other Capital Assets		<u>714,658</u>		<u>39,223</u>	<u>753,881</u>
Less: Accumulated Depreciation					
Utility System		277,878		27,121	304,999
Office Equipment		2,134		-	2,134
Total Accumulated Depreciation		<u>280,012</u>		<u>27,121</u>	<u>307,133</u>
Capital Assets, Net	\$	<u>434,646</u>	\$	<u>12,102</u>	<u>\$ 446,748</u>

**STATE OF NEW MEXICO SUN VALLEY WATER AND
SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2011**

NOTE E: 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 F: 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 G: 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.

The treasurer is a paid position on the Board of Directors. The total paid to the treasurer was \$8,905.

Supplementary Information

State of New Mexico
Sun Valley Water and Sanitation District
Statement of Revenue, Expenditures, and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis)
June 30, 2011

	Original	Final	Budget Basis Actual	Variance Positive (Negative)
Operating Revenues				
Water Sales	\$ 68,560	\$ 69,232	\$ 78,978	\$ 9,746
Property Tax	56,296	56,296	56,470	174
Interest Income	700	700	1,618	918
Transfer and Late Fees	1,300	1,300	7,553	6,253
Other	150	150	131	(19)
Total Operating Revenues	<u>127,006</u>	<u>127,678</u>	<u>144,750</u>	<u>17,072</u>
Operating Expense				
Contract Services	56,465	56,286	56,286	-
Water Conservation Fee	200	176	176	-
Insurance	2,363	2,855	2,855	-
Lab Tests	225	200	200	-
Dues	220	171	171	-
Tax Collection Fees	565	564	564	-
Legal and Accounting	4,195	3,982	3,982	-
Office Storage Rent	2,000	1,944	1,944	-
Postage	875	875	871	4
Office Supplies	1,400	400	399	1
Newsletter Expense	200	181	181	-
Telephone	700	653	653	-
Office Miscellaneous	825	884	884	-
Education and Training	2,000	1,640	1,640	-
Repairs and Maintenance	9,000	10,349	10,349	-
Supplies	1,725	1,942	1,941	1
Utilities	4,450	5,352	5,352	-
Capital Outlay	39,598	39,224	39,224	-
Total Expenditures	<u>127,006</u>	<u>127,678</u>	<u>127,672</u>	<u>6</u>
Excess(Deficiency of Revenues Over Expenditures	-	-	17,078	<u>\$ 17,066</u>
Cash Balance Beginning of Year	<u>117,632</u>	<u>117,632</u>		
Cash Balance End of Year	<u>\$ 117,632</u>	<u>\$ 117,632</u>		

Reconciliation of Budgetary Basis to GAAP Basis:	
Changes in Accounts Receivable	3,257
Changes in Taxes Receivable	(23)
Changes in Inventory	(1,964)
Changes in Prepaid Expense	365
Reclass Capital Outlay	39,223
Reclass Depreciation	(27,121)
Changes in Accounts Payable	(2,954)
Changes in GRT Payable	36
Change in Fund Balance GAAP Basis:	<u>\$ 27,897</u>

The accompanying notes are an integral part of this financial statement.

**Dan Austin CPA, PC
700 Mechem Drive Ste 15
Ruidoso, NM 88345**

**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 and Sanitation District

Mr. Balderas and Members of the Board

We have audited the basic financial statements of the business-type activities of the Sun Valley Water and Sanitation (District) as of and for the year ended June 30, 2011 and have issued our report thereon dated November 10, 2011. 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 as a basis for designing the auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

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

instance 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.

Dem Austin CRA, PC

November 10, 2011

**STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Schedule of Findings and Responses
June 30, 2011**

Prior Year Audit Findings

There were no prior year audit findings.

Current Year Audit Findings

There are no current year audit findings.

Financial Statement Preparation

The financial statements were prepared by Dan Austin CPA, PC. However, they are the responsibility of management.

Exit Conference

An exit conference was held on November 17, 2011. Those present were James Miller, Chairman, Charles Britten-Treasurer, and Dan Austin, CPA. The report and other issues were discussed.