

**State of New Mexico  
Sun Valley Water and Sanitation District  
Audited Financial Statements  
June 30, 2012**

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, 2012**

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**STATE OF NEW MEXICO  
SUN VALLEY WATER & SANITATION DISTRICT  
Official Roster  
June 30, 2012**

**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  
Ste. 15  
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:

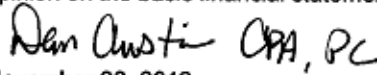
We have audited the accompanying financial statements of the business-type activities of the Sun Valley Water and Sanitation District (District), as of and for the year ended June 30, 2012, as listed in the table of contents. We have also audited the budget comparisons presented as supplementary information 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 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, 2012, 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 business type activities budgetary comparisons of the District for the year ended June 30, 2012 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 20, 2012 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 omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is required to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part financial reporting for placing the basic financial statements in an appropriate operational economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

  
November 20, 2012

## Financial Section

**State of New Mexico**  
**Sun Valley Water and Sanitation District**  
**Statement of Net Assets – Propriety Fund**  
**June 30, 2012**

**Assets**

Current Assets

Cash in Banks	\$ 133,930
Accounts Receivable	6,571
Inventory	2,368
Prepaid Insurance	<u>3,004</u>
Total Current Assets	<u>145,873</u>

Non-current Assets

Capital Assets:

Land	9,159
Distribution System	871,902
Office Furniture and Equipment	2,517
Less: Accumulated Depreciation	<u>(336,480)</u>
Total Non-current Assets	<u>547,098</u>

**Total Assets**

**\$ 692,971**

**Liabilities and Net Assets**

Current Liabilities

Accounts Payable	\$ 12,092
Gross Receipts Tax Payable	<u>341</u>
Total Current Liabilities	<u>12,433</u>

Total Liabilities

12,433

Net Assets

Invested in Capital Assets	547,098
Unrestricted	<u>133,440</u>
Total Net Assets	<u>680,538</u>

Total Liabilities and Net Assets

**\$ 692,971**

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, 2012**

<b>Operating Revenues</b>	
Water Sales	\$ 73,822
Transfer and late Fees	2,115
Other	364
Total Operating Revenues	<u>76,301</u>
 <b>Operating Expense</b>	
Contract Services	56,565
Water Conservation Fee	166
Insurance	3,051
Dues	180
Tax Collection Fees	633
Legal and Accounting	3,880
Water Treatment	680
Office Storage Rent	1,944
Postage	891
Office Supplies	1,455
Newsletter Expense	289
Bank Charges	10
Education and Training	367
Repairs and Maintenance	11,582
Supplies	4,791
Utilities	3,723
Depreciation	29,348
Total Operating Expense	<u>119,555</u>
Operating Income (Expense)	<u>(43,254)</u>
 Non-operating Revenues (Expense)	
Property Tax	63,293
Federal Grant Revenues	74,889
Interest Income	897
Total Non-operating Revenue (Expense)	<u>139,079</u>
<b>Change in Net Assets</b>	95,825
Net Assets at Beginning of Year	<u>584,713</u>
<b>Net Assets at End of Year</b>	<u>\$ 680,538</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, 2012**

<b>Cash Flows from Operating Activities</b>	
Receipts from Customers and users	\$ 74,815
Payments Contractors and Suppliers	<u>(84,976)</u>
Net Cash Provided by Operating Activities	<u>(10,161)</u>
 <b>Cash Flows from Non-capital Financing Activities</b>	
Property Taxes	\$ 63,293
Grant Revenues	74,889
Other	<u>-</u>
Net Cash Provided (Used) by Non-capital Financing and Related Financing Activities	<u>138,182</u>
 <b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of Capital Assets	\$ (129,698)
Other	<u>-</u>
Net Cash Provided (Used) by Capital Financing and Related Financing Activities	<u>(129,698)</u>
 <b>Cash Flows from Investing Activities</b>	
Interest Income	\$ 897
Other	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>897</u>
<b>Net increase (Decrease) in Cash</b>	<b>(780)</b>
Cash, Beginning of Year	<u>134,710</u>
<b>Cash, end of Year</b>	<b>\$ <u>133,930</u></b>
 <b>Reconciliation of Net Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ (43,254)
 Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	29,348
Increase(Decrease) in Accounts Receivable	589
Increase(Decrease) in Taxes Receivable	-
Increase(Decrease) in Inventory	1,294
Increase(Decrease) in Prepaid Expense	(744)
(Increase) Decrease in Accounts Payable	2,611
(Increase) Decrease in Gross receipts Tax Payable	<u>(5)</u>
Net Cash Provided by Operating Activities	<u>\$ (10,161)</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, 2012**

**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.

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SUN VALLEY WATER AND SANITATION DISTRICT  
Notes to the Financial Statements  
June 30, 2012**

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 SANITATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2012**

(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 SANITATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2012**

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, 2012, 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, 2012, ad valorem taxes accruing to the benefit of the District amounted to \$55,801.

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, 2012**

**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, 2012 calculates the required collateral requirement per the statutes:

<u>Bank</u>	<u>Type</u>	<u>Balance Bank</u>	<u>O/S Deposits</u>	<u>O/S Checks</u>	<u>Balance F/S</u>
City Bank NM	Checking	\$ 133,329	\$ -	\$ -	133,329
City Bank NM	Money Market	551	-	-	551
		133,880	-	-	133,880
	Less FDIC Coverage	(133,880)			
	Uninsured Amount	-			
	50% Collateral Pledge	-			
	Uncollateralized deposits	-			
	Pledged Collateral	-			
	Over (Under) Requirement	\$ -			
					50
					Total Cash Per Financial Statements
					<u>\$ 133,930</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, 2012 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, 2012 of \$6,751 is shown is net of any allowance for uncollectible accounts. The district had no uncollectible accounts as of June 30, 2012.

**NOTE D: CAPITAL ASSETS**

<u>Business-type Activity</u>	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2012</u>
Capital Assets not being depreciated:				
Land	\$ 9,159	\$ -	\$ -	9,159
Other Capital Assets:				
Utility System	742,205	129,697	-	871,902
Office Equipment	2,517	-	-	2,517
Total Other Capital Assets	753,881	129,697	-	883,578
Less: Accumulated Depreciation				
Utility System	304,616	29,347	-	333,963
Office Equipment	2,517	-	-	2,517
Total Accumulated Depreciation	307,133	29,347	-	336,480
Capital Assets, Net	<u>\$ 446,748</u>	<u>\$ 100,350</u>	<u>\$ -</u>	<u>\$ 547,098</u>

**STATE OF NEW MEXICO**  
**SUN VALLEY WATER AND SANITATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2012**

**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 \$8,028.

**NOTE H: GRANT REVENUES**

The District received a federal grant passed through the New Mexico Energy, Minerals and Natural Resources Department for the purchase of a solar photovoltaic system to generate electricity used in the District's water distribution system. The funding comes from the American Recovery and Reinvestment Act under CFDA # 81.041.

**NOTE I: Budgetary Variance**

The District failed to amend its budget upon receipt of New Mexico Energy, Minerals and Natural Resources Department grant thereby creating a budget deficit violating budgetary statutes. See page 15.

**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, 2012**

	Original	Final	Budget Basis Actual	Variance Positive (Negative)
<b>Operating Revenues</b>				
Water Sales	\$ 71,522	\$ 71,522	\$ 74,503	\$ 146,025
Property Tax	63,705	63,705	63,293	(412)
Interest Income	1,000	1,000	897	(103)
Transfer and Late Fees	1,400	1,400	2,430	1,030
Federal Grant Revenues	-	-	74,889	74,889
Other	50	50	49	(1)
<b>Total Operating Revenues</b>	<b>137,677</b>	<b>137,677</b>	<b>216,061</b>	<b>221,428</b>
<b>Operating Expense</b>				
Contract Services	56,565	56,565	56,564	1
Water Conservation Fee	200	200	201	(1)
Insurance	3,000	3,000	3,794	(794)
Lab Tests	223	223	104	119
Dues	220	220	180	40
Tax Collection Fees	565	565	633	(68)
Legal and Accounting	4,295	4,295	3,880	415
Water Treatment	-	-	600	(600)
Office Expense	5,331	5,331	4,714	617
Education and Training	2,000	2,000	367	1,633
Repairs and Maintenance	10,000	10,000	11,213	(1,213)
Supplies	2,000	2,000	4,488	(2,488)
Utilities	5,500	5,500	4,005	1,495
Capital Outlay-Solar Project	-	-	78,155	(78,155)
Capital Outlay	47,778	47,778	47,846	(68)
<b>Total Expenditures</b>	<b>137,677</b>	<b>137,677</b>	<b>216,744</b>	<b>(79,067)</b>
Excess(Deficiency of Revenues Over Expenditures	-	-	(683)	<u>\$ 300,495</u>
Cash Balance Beginning of Year	<u>134,710</u>	<u>134,710</u>		
Cash Balance End of Year	<u>\$ 134,710</u>	<u>\$ 134,710</u>		
Reconciliation of Budgetary Basis to GAAP Basis:				
Changes in Accounts Receivable			(588)	
Changes in Inventory			(1,392)	
Changes in Prepaid Expense			744	
Reclass Capital Outlay			129,698	
Reclass Depreciation			(29,348)	
Changes in Accounts Payable			(2,611)	
Changes in GRT Payable			5	
<b>Change in Fund Balance GAAP Basis:</b>			<b>\$ 95,825</b>	

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, 2012 and have issued our report thereon dated November 20, 2012. 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

Management of the Sun Valley Water and Sanitation District is responsible for establishing and maintaining effective 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.

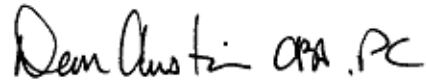
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 one instance of noncompliance or other matter that are required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings and Responses as item 12-1.

The District's response to the finding identified in our audit is described in the in the accompanying Schedule of Findings and Responses. We did not audit the Districts response and accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Dawn Austin CPA, PC". The signature is written in a cursive, flowing style.

November 20, 2012

**STATE OF NEW MEXICO  
SUN VALLEY WATER AND SANITATION DISTRICT  
Schedule of Findings and Responses  
June 30, 2012**

**Prior Year Audit Findings**

There were no prior year audit findings.

**2012-01 Excess expenditures over budget**

**CONDITION:** The District spent \$79,067 more than the budget approved by the New Mexico Department of Financial and Administration for its proprietary fund.

**CRITERIA:** NMSA 6-6-6 requires that actual expenditures do not exceed budgeted expenditures by fund.

**EFFECT OF CONDITION:** The District has violated state statutes and DFA regulations related to the budgetary process.

**CAUSE OF CONDITION:** The District did not budget the grant expenditures expended in the current year.

**RECOMMENDATION:** We recommend that the District implement controls to monitor the spending of funds and take the necessary steps whenever the budget needs adjusting.

**COSTS AND BENEFITS OF RECOMMENDED ACTION:** There is no additional cost to accounting for the budget and the benefit is that any future over-expending

**CLIENT RESPONSE:** Management failed to amend budget expenditures when it received notice of the grant and will correct budget amendment procedures in the future.

**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 28, 2012. Those present were James Miller, Chairman, Charles Britten-Treasurer, and Dan Austin, CPA. The report and other issues were discussed.