

State of New Mexico
Sun Valley Water and Sanitation District
Audited Financial Statements
June 30, 2013

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, 2013**

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**STATE OF NEW MEXICO
SUN VALLEY WATER & SANITATION DISTRICT
Official Roster
June 30, 2013**

BOARD OF DIRECTORS

| | |
|------------------|---------------------|
| James Miller | Chairman |
| Marc Stewart | Vice Chairman |
| Sarah Mazur | Director |
| Charles Britten | Director /Treasurer |
| Frank Vanderveen | Director |

ADMINISTRATIVE STAFF

| | |
|----------------|------------|
| Sharon Stewart | Bookkeeper |
| Karen Payton | Secretary |

Financial Section

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

Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities Sun Valley Water and Sanitation District as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise Sun Valley Water and Sanitation District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Sun Valley Water and Sanitation District as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

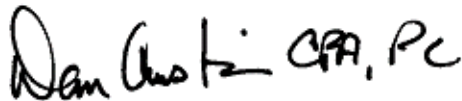
Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, We have also issued a report dated November 19, 2013, on my consideration of Sun Valley Water and Sanitation District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sun Valley Water and Sanitation District's internal control over financial reporting and compliance.



November 19, 2013

State of New Mexico
Sun Valley Water and Sanitation District
Statement of Net Position – Propriety Fund
June 30, 2013

Assets

Current Assets

| | |
|----------------------|----------------|
| Cash in Banks | \$ 140,264 |
| Accounts Receivable | 6,053 |
| Inventory | 4,079 |
| Prepaid Insurance | <u>2,850</u> |
| Total Current Assets | <u>153,246</u> |

Non-current Assets

Capital Assets:

| | |
|--------------------------------|------------------|
| Land | 9,159 |
| Distribution System | 914,354 |
| Office Furniture and Equipment | 2,290 |
| Less: Accumulated Depreciation | <u>(372,098)</u> |
| Total Non-current Assets | <u>553,705</u> |

Total Assets

\$ 706,951

Liabilities and Net Position

Current Liabilities

| | |
|----------------------------|---------------|
| Accounts Payable | \$ 13,170 |
| Gross Receipts Tax Payable | <u>343</u> |
| Total Current Liabilities | <u>13,513</u> |

Total Liabilities

13,513

Net Position

| | |
|----------------------------|----------------|
| Invested in Capital Assets | 553,705 |
| Unrestricted | <u>139,733</u> |
| Total Net Position | <u>693,438</u> |

Total Liabilities and Net Position

\$ 706,951

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 Position - Proprietary Fund
June 30, 2013

| | |
|---|-------------------|
| Operating Revenues | |
| Water Sales | \$ 70,896 |
| Transfer and late Fees | 1,791 |
| Other | <u>1,132</u> |
| Total Operating Revenues | <u>73,819</u> |
| | |
| Operating Expense | |
| Contract Services | 56,585 |
| Water Conservation Fee | 160 |
| Insurance | 3,777 |
| Dues | 180 |
| Tax Collection Fees | 600 |
| Legal and Accounting | 4,033 |
| Water Treatment | 674 |
| Office Storage Rent | 1,944 |
| Postage | 766 |
| Office Supplies | 3,156 |
| Education and Training | 480 |
| Newsletter Expense | 311 |
| Bank Charges | 10 |
| Repairs and Maintenance | 7,013 |
| Supplies | 3,886 |
| Utilities | 2,497 |
| Depreciation | <u>35,846</u> |
| Total Operating Expense | <u>121,918</u> |
| | |
| Operating Income (Expense) | <u>(48,099)</u> |
| | |
| Non-operating Revenues (Expense) | |
| Property Tax | 60,043 |
| Interest Income | <u>956</u> |
| Total Non-operating Revenue (Expense) | <u>60,999</u> |
| | |
| Change in Net Position | 12,900 |
| | |
| Net Position at Beginning of Year | <u>680,538</u> |
| | |
| Net Position at End of Year | <u>\$ 693,438</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, 2013

| | |
|---|--------------------------|
| Cash Flows from Operating Activities | |
| Receipts from Customers and users | \$ 74,208 |
| Payments Contractors and Suppliers | <u>(86,417)</u> |
| Net Cash Provided by Operating Activities | <u>(12,209)</u> |
| Cash Flows from Non-capital Financing Activities | |
| Property Taxes | \$ 60,043 |
| Other | <u>-</u> |
| Net Cash Provided (Used) by Non-capital Financing and Related Financing Activities | <u>60,043</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Purchase of Capital Assets | \$ (42,456) |
| Other | <u>-</u> |
| Net Cash Provided (Used) by Capital Financing and Related Financing Activities | <u>(42,456)</u> |
| Cash Flows from Investing Activities | |
| Interest Income | \$ 956 |
| Other | <u>-</u> |
| Net Cash Provided (Used) by Investing Activities | <u>956</u> |
| Net increase (Decrease) in Cash | 6,334 |
| Cash, Beginning of Year | <u>133,930</u> |
| Cash, end of Year | <u>\$ 140,264</u> |
| Reconciliation of Net Income to Net Cash Provided by Operating Activities: | |
| Operating Income | \$ (48,099) |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 35,849 |
| Increase(Decrease) in Accounts Receivable | 518 |
| Increase(Decrease) in Inventory | (1,711) |
| Increase(Decrease) in Prepaid Expense | 154 |
| (Increase) Decrease in Accounts Payable | 1,078 |
| (Increase) Decrease in Gross receipts Tax Payable | <u>2</u> |
| Net Cash Provided by Operating Activities | <u>\$ (12,209)</u> |

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

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, 2013

| | Original | Final | Budget Basis Actual | Variance Positive (Negative) |
|---|-------------------|-------------------|------------------------|------------------------------------|
| Operating Revenues | | | | |
| Water Sales | \$ 71,522 | \$ 71,522 | \$ 71,413 | \$ (109) |
| Property Tax | 63,705 | 63,705 | 60,043 | (3,662) |
| Interest Income | 800 | 800 | 956 | 156 |
| Transfer and Late Fees | 500 | 500 | 700 | 200 |
| Late Fees | 800 | 800 | 1,091 | 291 |
| Other | 650 | 650 | 1,132 | 482 |
| Total Operating Revenues | <u>137,977</u> | <u>137,977</u> | <u>135,335</u> | <u>(2,642)</u> |
| Operating Expense | | | | |
| Contract Services | 56,565 | 56,565 | 56,565 | - |
| Water Conservation Fee | 200 | 200 | 159 | 41 |
| Insurance | 4,000 | 4,000 | 3,623 | 377 |
| Lab Tests | 150 | 150 | - | 150 |
| Dues | 220 | 220 | 180 | 40 |
| Tax Collection Fees | 638 | 638 | 600 | 38 |
| Legal and Accounting | 7,968 | 7,968 | 4,034 | 3,934 |
| Water Treatment | 755 | 755 | 754 | 1 |
| Office Expense | 7,000 | 7,000 | 6,104 | 896 |
| Education and Training | 2,000 | 2,000 | 480 | 1,520 |
| Repairs and Maintenance | 12,000 | 12,000 | 10,023 | 1,977 |
| Supplies | 5,219 | 5,219 | 5,219 | - |
| Utilities | 2,194 | 2,194 | 2,194 | - |
| Capital Outlay | 39,057 | 39,057 | 39,056 | 1 |
| Bank Charges | 11 | 11 | 10 | 1 |
| Total Expenditures | <u>137,977</u> | <u>137,977</u> | <u>129,001</u> | <u>8,976</u> |
| Excess(Deficiency of Revenues Over Expenditures | - | - | 6,334 | <u>\$ (11,618)</u> |
| Cash Balance Beginning of Year | <u>133,930</u> | <u>133,930</u> | | |
| Cash Balance End of Year | <u>\$ 133,930</u> | <u>\$ 133,930</u> | | |
| Reconciliation of Budgetary Basis to GAAP Basis: | | | | |
| Changes in Accounts Receivable | | | (518) | |
| Changes in Inventory | | | 1,711 | |
| Changes in Prepaid Expense | | | (154) | |
| Reclass Capital Outlay | | | 42,456 | |
| Reclass Depreciation | | | (35,849) | |
| Changes in Accounts Payable | | | (1,078) | |
| Changes in GRT Payable | | | (2) | |
| Change in Fund Balance GAAP Basis: | | | <u>\$ 12,900</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, 2013

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.

Business-Type Activities

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information on all of the non-fiduciary activities of the primary government. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segments is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who

STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Property taxes are recognized as revenues in the year for which they are levied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred. Billed water and sanitation services receivable are recorded at year-end once operations begin.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue items and are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues are charges to customers who purchase or use or directly benefit from the goods or services provided by the District.

The proprietary fund is accounted for on a cost of services of "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and Net Position components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private-sector standards of accounting and financial reporting under FASB and AICPA guidance are now included in GASB guidance by GASB 62.

The District reports its proprietary fund as a major governmental fund.

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

Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charged for water and wastewater services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013

Assets, Liabilities and Net Position or Equity

Cash and Temporary Investments: 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.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures in order to reserve that portion of the applicable appropriation, is not employed.

Accounts Receivable: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The receivables due at June 30, 2013 consist of customer water fees, and property taxes collected by Lincoln County and other receivables. All receivables are considered current and collectible. Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10^{*} and April 10^h. The taxes are an enforceable lien on the property.

Inventory: Valued at cost.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and proprietary financial statements.

Capital Assets: Capital assets, which include property, plant, computer software, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------|--------------|
| Furniture & Equipment | 5-7 |
| Utility Plant in Service | 20-50 |

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statements of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using

**STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013**

the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Currently the District has no debt.

Net Position: In the fund financial statements, governmental funds report reservations of Net Position that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of Net Position represent tentative management plans that are subject to change.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates affecting the District's financial statements include management's estimate of the useful lives of capital assets.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for all of the above risks. There have been no claims for the past five years.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The budget for the Enterprise Fund is prepared by management and is approved by the Board of Directors.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Actual expenditure may not exceed the budget on a per fund basis, i.e., total budgeted expenditure must be within total budgeted amounts. Budgets may be amended in one way. If a budget transfer is necessary within a major category called a "resolution," this may be accomplished with only Board of Directors approval.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before July 1 of each year, the Board of Directors, approves and certifies to the estimated operating budgets for use by the local board pending final approval from the State of New Mexico.
2. The State of New Mexico approves the budget for the District to utilize during the year.
3. Budget adjustments may be made during the year. The Board of Directors approves budget resolutions to increase or decrease revenue and/or expenditure line items during the year.

**STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013**

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, 2013 calculates the required collateral requirement per the statutes:

| <u>Bank</u> | <u>Type</u> | <u>Balance</u> <u>Bank</u> | <u>O/S</u> <u>Deposits</u> | <u>O/S</u> <u>Checks</u> | <u>Balance</u> <u>F/S</u> |
|--------------|-------------------------------------|-------------------------------|-------------------------------|-----------------------------|------------------------------|
| City Bank NM | Checking | \$ 146 | \$ 7,800 | \$ 7,798 | 148 |
| City Bank NM | Money Market | <u>147,868</u> | - | <u>7,800</u> | <u>140,068</u> |
| | | 148,014 | <u>7,800</u> | <u>15,598</u> | 140,216 |
| | Less FDIC Coverage | <u>(148,014)</u> | | | |
| | Uninsured Amount | (0) | | | |
| | 50% Collateral Pledge | - | | | |
| | Uncollateralized deposits | (0) | | | |
| | Pledged Collateral | - | | | |
| | Over (Under) Requirement | <u>\$ (0)</u> | | | |
| | Petty Cash | | | | <u>48</u> |
| | Total Cash Per Financial Statements | | | | <u>\$ 140,264</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, 2013 all of the District's deposits are insured by the FDIC and the District was no exposed to custodial credit risk.

ACCOUNTS RECEIVABLE

The accounts receivable as of June 30, 2013 of \$6,053 is shown is net of any allowance for uncollectible accounts. The district had no uncollectible accounts as of June 30, 2013.

CAPITAL ASSETS

| | <u>Balance</u> <u>6/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>6/30/2013</u> |
|---------------------------------------|------------------------------------|------------------|------------------|------------------------------------|
| Business-type Activity | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$ 9,159 | \$ - | \$ - | 9,159 |
| Other Capital Assets: | | | | |
| Utility System | 871,902 | 42,452 | - | 914,354 |
| Office Equipment | <u>2,517</u> | <u>-</u> | <u>227</u> | <u>2,290</u> |
| Total Other Capital Assets | <u>883,578</u> | <u>42,452</u> | <u>227</u> | <u>925,803</u> |
| Less: Accumulated Depreciation | | | | |
| Utility System | 333,962 | 35,846 | - | 369,808 |
| Office Equipment | <u>2,517</u> | <u>-</u> | <u>227</u> | <u>2,290</u> |
| Total Accumulated Depreciation | <u>336,479</u> | <u>35,846</u> | <u>227</u> | <u>372,098</u> |
| Capital Assets, Net | <u>\$ 547,099</u> | <u>\$ 6,606</u> | <u>\$ -</u> | <u>\$ 553,705</u> |

**STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013**

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.

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.

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.

SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS

The GASB issued Statement No. 65, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District has implemented this statement.

The GASB issued Statement No. 66, which is effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged. The objective of this statement is to amend Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, government would base their decisions about governmental fund type usage for risk financing

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SUN VALLEY WATER AND SANITATION DISTRICT
Notes to the Financial Statements
June 30, 2013

activities on the definitions in Statement 54. Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends Statement No. 62. Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis. (2) the difference between the initial investment (purchase price) and that principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Schedule Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales of Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The District has implemented this statement.

Other Information and Reports

**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***

Independent Auditors' Report

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

We have audited, in accordance with the 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 the financial statements of the business-type activities of Sun Valley Water and Sanitation District as of and for the year ended June 30, 2013, and have issued our report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sun Valley Water and Sanitation District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sun Valley Water and Sanitation District internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sun Valley Water and Sanitation District 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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

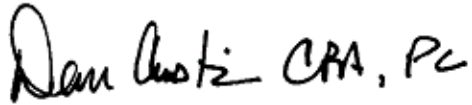
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sun Valley Water and Sanitation District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sun Valley Water and Sanitation District internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 Dan Antz CRA, PC

November 19, 2013

**STATE OF NEW MEXICO
SUN VALLEY WATER AND SANITATION DISTRICT
Schedule of Findings and Responses
June 30, 2013**

Prior Year Audit Findings

2013-01-Excess expenditures over budget – Resolved

Current Year Findings

None

Financial Statement Preparation

Although it would be preferred and desirable for the District to prepare its own GAAP-based financial statements, it is felt that the District's personnel have neither the time nor the expertise to prepare them. Therefore, the outside auditor has prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report, however, the responsibility for the content of the report remains with the District management.

Exit Conference

An exit conference was held on November 25, 2013 at the office of Dan Austin CPA, PC. Those present were James Miller, Chairman, Charles Britten-Treasurer, and Dan Austin, CPA. The report and other issues were discussed.