

STATE OF NEW MEXICO
YAH-TA-HEY WATER AND
SANITATION DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

(With Independent Auditor's Report Thereon)

FIDEL A. BERNAL, PC
CERTIFIED PUBLIC ACCOUNTANT
ALBUQUERQUE, NEW MEXICO

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Table of Contents
June 30, 2006

		<u>Page</u>
Introductory Section:		
Official Roster		i
Independent Auditor's Report		1
	<u>Exhibit</u>	
Financial Statements:		
Balance Sheet	1	2
Statement of Revenues, Expenses, and Changes in Net Assets	2	3
Statement of Cash Flows	3	4
Notes to Financial Statements		5-10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		11-12
Schedule of Prior Year Findings		13
Schedule of Findings and Recommendations		14-24
Other Disclosures		25

**State of New Mexico
Yah-Ta-Hey Water and Sanitation District**

Official Roster

President

Loline Hathaway

Vice-President

Duane Plummer

Secretary

Kenneth Hielkema

Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor
and
Members of the Board
Yah-Ta-Hey Water and Sanitation District
Yah-Ta-Hey, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of the State of New Mexico Yah-Ta-Hey Water and Sanitation District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management.

We were unable to obtain sufficiently detailed property records to adequately extend our auditing procedures to utility plant in service and related depreciation expense, which represents 97% of the assets of the District. Furthermore, the District has not maintained adequate accounting records for the year ended June 30, 2006 and we were unable to apply procedures to determine whether the ending balances in the financial statements as of June 30, 2006 were presented in conformity with principles generally accepted in the United States of America or whether the accounting principles have been consistently applied between 2006 and 2007.

Since the District did not maintain adequate records and we were unable to apply other auditing procedures to satisfy ourselves about the ending balances in the financial statements as of June 30, 2006 or about the consistent application of accounting principles between 2006 and 2007, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The District has not presented the Management's Discussion and Analysis required by GASB Statement No. 34 that the Governmental Standards Board has determined is necessary to supplement, although not required to be part, of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2013 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.



Albuquerque, New Mexico
July 22, 2013

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Balance Sheet
Proprietary Fund
June 30, 2006

Exhibit 1

ASSETS

Current assets:

Cash and cash equivalents	\$	16,438
Accounts receivable, (less allowance for uncollectible accounts of \$2,103)		13,499
Other assets		1,743
		31,680
Total current assets		31,680

Noncurrent assets:

Capital assets:		
Property, plant and equipment		1,418,928
Less accumulated depreciation		(439,378)
		979,550
Total noncurrent assets		979,550
Total assets	\$	1,011,230

LIABILITIES

Current liabilities:

Accounts payable	\$	239
Accrued payroll and liabilities		24
Customer deposits payable		3,267
Current portion of notes payable		5,350
		8,880
Total current liabilities		8,880

Noncurrent liabilities:

Notes payable		58,761
		58,761
Total noncurrent liabilities		58,761
Total liabilities		67,641

NET ASSETS

Invested in capital assets, net of related debt		915,439
Unrestricted		28,150
		943,589
Total net assets		943,589
Total liabilities and net assets	\$	1,011,230

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

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
for the year Ended June 30, 2006

Exhibit 2

Operating revenues:	
Charges for services	\$ 52,518
Total operating revenues	52,518
Operating expenses:	
Salaries	672
Contract labor	6,142
Depreciation	38,372
Materials, supplies and maintenance	21,587
Legal & accounting	4,917
Taxes	666
Utilities	19,205
Insurance	100
Lab fees	1,185
Other expenses	768
Total operating expenses	93,614
Operating income (loss)	(41,096)
Nonoperating revenues (expenses):	
Interest income	443
Rental Income	7,650
Total nonoperating revenues (expenses)	8,093
Income (loss)	(33,003)
Change in net assets	(33,003)
Total net assets - beginning of year	976,592
Total net assets - ending of year	\$ 943,589

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

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Statement of Cash Flows
Proprietary Fund
for the year ended June 30, 2006

Exhibit 3

Cash flows from operating activities:	
Received from customer services and fees	\$ 50,516
Paid to suppliers for goods and services	(57,574)
Paid for services	(672)
Net cash provided (used) by operating activities	<u>(7,730)</u>
Cash flows from investing activities:	
Interest received	<u>443</u>
Net cash provided (used) by investing activities	<u>443</u>
Cash flows from noncapital and related financing activities	
Rental Income	<u>7,650</u>
Net cash provided (used) by noncapital and related financing activities	<u>7,650</u>
Net increase in cash and cash equivalents	
Cash and cash equivalents at July 1, 2005	363
Cash and cash equivalents at June 30, 2006	<u>16,075</u>
Cash and cash equivalents at June 30, 2006	<u>\$ 16,438</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (41,096)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	38,372
Change in assets and liabilities: (increase) decrease in:	
Accounts receivable	2,000
(decrease) increase in:	
Accounts payable & accrued expenses	(2,415)
Accrued payroll & payroll liabilities	(239)
Customer deposits	991
Notes payable	(5,343)
Net cash provided (used) by operating activities	<u>\$ (7,730)</u>

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

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements
June 30, 2006

1. Organization and Background

The Yah-Ta-Hey Water and Sanitation District (District) was created pursuant to New Mexico statutes enacted by Laws 1943, Ch. 80, Part 1, as amended. The District was organized by decree of the District Court of the State of New Mexico Eleventh Judicial District in and for the County of McKinley on November 13, 1978. The District operates under the direction of an elected Board of Directors. The District provides water and sewer services to customers within the District, which is located in McKinley County.

2. Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United State of America as applicable to governments. Accounting principles generally accepted in the United State of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Government Units* and by the Financial Accounting Standards Board (when applicable). As allowed in GASB's *Codification of governmental Accounting and Financial Reporting Standards*, the District has elected not to apply to its proprietary activities, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The following is a summary of the more significant policies.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation based on the size of the government.

In June 2001, the GASB unanimously approved Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Statement 37 clarifies and modifies Statement 34 and should be implemented simultaneously with Statement 34. Statement 38 modifies, establishes and rescinds financial statement disclosure requirements.

The District implemented the provisions of GASB Statement No. 34, 37 and 38 effective July 1, 2004. As part of this Statement, there is a new reporting requirement regarding the government's infrastructure (roads, bridges, etc.). The District has infrastructure assets and therefore is affected by this requirement. In addition, Yah-Ta-Hey Water and Sanitation District does not have any fiduciary funds.

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements (continued)
June 30, 2006

2. Summary of Significant Accounting Policies (continued)

a. Reporting Entity

The Yah-Ta-Hey Water and Sanitation District includes the accounts of all the District's operations. The criteria for including organizations within the District's reporting entity primarily include the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from whether the District is able to exercise oversight responsibilities. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*.

There were no component units for the District during the fiscal year ended June 30, 2006, and is not a component unit of any other entity.

b. Fund Accounting.

The accounts of the District are organized on the basis of one fund, which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses. In this report, the fund is presented in the financial statements as a proprietary fund.

Proprietary fund

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is 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.

The measurement focus of proprietary funds is on the determination of net income, financial position, and cash flow. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the balance sheet.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements.

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements (continued)
June 30, 2006

2. Summary of Significant Accounting Policies (continued)

b. Fund Accounting (continued)

Capital assets (Utility Plant in Service)

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. The capital assets at stated cost less accumulated depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives assigned to these assets are as follows:

<u>Estimated lives</u>	<u>Years</u>
Buildings	40
Plant Improvements	40
Water pump	5
Office equipment	7
Computers & Computer Software	5

It is the policy of the District to capitalize the cost of Infrastructure assets (water and sewer lines). Interest incurred during the construction period of major projects is capitalized and depreciated over the estimated lives of the respective assets. Capital assets are defined by the district as an asset with an initial individual cost of more than \$1,000 and estimated useful life in excess of one year.

c. Basis of Accounting.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

This proprietary fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

d. Budgets and Budgetary Accounting.

The District is required to follow budgetary procedures that are promulgated by the state department of Finance and Administration (DFA), Local Government Division. Each year, the District is required to submit to DFA a proposed budget together with a resolution adopted by its Board of Directors. The District has not complied with these requirements.

Approval is required by the DFA, Local Government Division for any revisions that alter the total budgeted expenditures for the District. Transfers between line items require approval by the Board of Directors.

e. Cash and Cash Equivalents.

Interest bearing deposits with maturities of 90 days or less are considered cash equivalents in the statement of cash flows. All cash is deposits at a federally insured financial institution in Gallup, New Mexico.

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements (continued)
June 30, 2006

2. Summary of Significant Accounting Policies (continued)

f. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

g. Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. The District reports expenses related to the use of economic resources.

h. Restricted and Unrestricted Resources

Restricted resources are used for expenses only after unrestricted resources are depleted.

3. CASH

Cash deposits for the District as of June 30, 2006 are as follows:

<u>Depository</u>	<u>Account Name</u>	<u>Type of Account</u>	<u>Bank Balance</u>
Wells Fargo Bank	Business Checking	Checking	\$ 7,689
	Total Checking Wells Fargo		7,689
	Less: FDIC coverage		7,689
	Total not federally insured		<u>\$ 0</u>
Wells Fargo Bank	Certificate of Deposit	Savings	\$ 8,749
	Total CD Wells Fargo		8,749
	Less: FDIC coverage		8,749
	Total not federally insured		<u>\$ 0</u>
	Total cash in bank		\$ 16,438
	Add outstanding deposits		0
	Less outstanding checks		
	Reconciled cash balance		<u>\$ 16,438</u>

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements (continued)
June 30, 2006

4. ACCOUNTS RECEIVABLE

Trade accounts receivable are those amounts due from customers for the provision of services. An allowance for uncollectible accounts is \$2,103.

Unbilled accounts receivable are those amounts due from customers for services provided from the last meter reading/billing date before the end of the fiscal year until year-end.

5. CAPITAL ASSETS

Depreciation of all exhaustible capital assets is charges as an expense against operations. Accumulated depreciation is reported on the balance sheets. The capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of 5 to 40 years.

A summary of changes in the capital assets for the year ended June 30, 2006 is as follows:

	<u>Balance</u> <u>06-30-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06-30-06</u>
<u>Business type activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 50,200	\$ 0	\$ 0	\$ 50,200
Capital assets being depreciated:				
Water and wastewater system	1,357,734	0	0	1,357,734
Furniture and Equipment	<u>10,994</u>	<u>0</u>	<u>0</u>	<u>10,994</u>
	1,368,728	0	0	1,368,728
Less accumulated depreciation for:				
Water and wastewater system	391,315	37,969	0	429,284
Furniture and Equipment	<u>9,691</u>	<u>403</u>	<u>0</u>	<u>10,094</u>
Total Accumulated depreciable	<u>401,006</u>	<u>38,372</u>	<u>0</u>	<u>439,378</u>
Total capital assets				
being depreciated, net	<u>967,722</u>	<u>38,372</u>	<u>0</u>	<u>929,350</u>
Net property and plant	<u>\$1,017,922</u>	<u>\$ 38,372</u>	<u>\$ 0</u>	<u>\$ 979,550</u>

6. EMPLOYEE BENEFITS

The District did not participate in the Public Employees' Retirement Act (PERA) of the State of New Mexico, a deferred compensation plan, or the Retiree Health Care act program.

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Notes to Financial Statements (continued)
June 30, 2006

7. NOTES PAYABLE

As part of the project to construct new wastewater facilities in 1998, the District obtained a loan from the Clean Water State Revolving Loan fund in the amount of \$107,000. The loan is required to be paid back at \$5,342 per year over 20 years with no interest. Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>	Amounts Due in <u>One Year</u>
State of New Mexico					
Environment Dept.	<u>69,454</u>	<u>0</u>	<u>5,342</u>	<u>64,112</u>	<u>5,342</u>
Total	<u>\$ 69,454</u>	<u>\$ 0</u>	<u>\$ 5,342</u>	<u>\$ 64,112</u>	<u>\$ 5,342</u>

The annual requirements to amortized debt outstanding as of June 30, 2006, including interest payments of \$ 5,342, are as follows:

<u>Year Ending</u>	<u>State of N.M. Environment Department</u>
2007	\$ 5,342
2008	5,343
2009	5,343
2010	5,343
2011	5,343
2012-2016	26,713
2017-2018	<u>10,685</u>
	<u>\$ 64,112</u>

8. Risk and Related Insurance Data

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 does not carry commercial insurance for liability and employee dishonesty.

**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. Domingo P. Martinez, CGFM
New Mexico State Auditor
and
Members of the Board
Yah-Ta-Hey Water and Sanitation District
Yah-Ta-Hey, New Mexico

We were engaged to audit the accompanying financial statements of the business type activities of the State of New Mexico, Yah-Ta-Hey Water and Sanitation District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as described in the table of contents and have issued our report thereon dated July 22, 2013. We did not express an opinion on the respective financial statements of the business type activities of the District, as of June 30, 2006 in conformity accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting were for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exist when the design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 04-1, 4-2, 04-4, 04-5, 04-06 to 04-10, 05-1 and 06-1. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for a limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items:04-4, 04-5, 04-8, 04-9, 05-1 and 06-1 to be material weaknesses.

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 would 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 04-1, 04-02, 04-04 through 04-09, 05-1 and 06-1.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly do not express an opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



July 22, 2013

**Yah-Ta-Hey Water and Sanitation District
Schedule of Prior Year Findings year ended
June 30, 2006**

<u>PRIOR YEAR FINDINGS</u>	<u>Current Status</u>
04-1 Financial Reports and Budget	Repeated and modified
04-2 Written Policies and Procedures	Repeated
04-4 Cash Receipt Deposits	Repeated
04-5 Fixed Assets	Repeated
04-6 Compliance with State Auditor Rule	Repeated
04-7 Insurance	Repeated
04-8 Control over revenue	Repeated and modified
04-9 Customer deposits	Repeated
04-10 Priced inventory	Repeated
05-1 No Supporting Documentation	Repeated and modified

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses
year ended June 30, 2006**

The reportable conditions noted are as follows:

CURRENT YEAR FINDINGS

04-1 Approved budget for fiscal year 2005-06

Condition

The District did not have an approved final budget nor did they submit one for the Fiscal Year 2005-2006 by the due date of July 1, 2005.

Criteria

The District is to furnish and file with the Department of Finance and Administration Local Government Division (LGD) a proposed budget for the next fiscal year. Each proposed budget is to be examined and approved prior to July 1 of each year. (Section 6-6-3; NMSA 1978).

Cause

The District did not comply with the requirements of the LGD budget process in an accurate and timely manner.

Effect

The District is not complying with statutory requirement. The District may not be able to adequately plan future revenues and expenditures need for the future period.

Recommendation

The District should refine its review process to submit a budget by the LGD due date. The review process should allow enough time to make necessary corrections, revisions and amendments to proposed budgets as may be necessary to meet the requirements of law.

Agency Response

A budget was prepared for the Fiscal Year 2007 and submitted to the New Mexico Department of Finance.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-2 Written Policies and Procedures

Condition

The District does not have written policies and procedures covering purchasing and cash disbursements, as well as billing, cash receipts, and collections.

Criteria

Policies and procedures, including those related to internal controls, must be adequately communicated to employees in order for them to be followed.

Cause

The District is small entity. Verbal policies and procedures may have been adequate in the past.

Effect

If policies and procedures are not adequately communicated, there can be a break down in the internal controls that management relies on to ensure accurate financial records.

Recommendation

The District should develop written policies covering purchasing and cash disbursements, as well as billing, cash receipts, and collections procedures. Management should also consider the need for written policies in other areas of operations.

Agency Response

There were some written policies of uncertain vintage which apparently were not included with the papers submitted to the Independent Auditor. Amended, and/or new written policies will be developed for proper management accountability and consistency of application. The District has switched to a utility billing software (Quikwater) which documents customer billing, cash receipts and collections.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-4 Cash Receipt Deposits

Condition

While performing our cash receipts test work. We traced 252 checks from receipt to deposit and noted that in at least 125 instances the District made deposits more than seven days after the receipt of customer payments, totaling \$7,275.

Criteria

Cash receipts should be deposited in a timely manner. This helps to facilitate safeguarding of assets as well as maximizing the amount of interest earned on the interest bearing checking account (6-10-3 NMSA 1978).

Cause

A lack of monitoring by the Board of Directors.

Effect

Cash receipts may not be adequately safeguarded against loss. Also, potential interest that could be earned on deposited amounts is lost.

Recommendation

The Board of Directors should establish a policy and monitor deposits to ensure cash receipts are deposited timely.

Agency Response

The treasurer makes an effort to deposit receipts on a weekly basis. The nearest bank is at least nine miles away. The amount of money lost due to lack of interest earned is infinitesimal compared to the cost of travel to and from the bank by volunteer officers. Customers are strongly urged to mail their payments and not proffer cash. Most payments are made by mail and are not collected from post office box until processing time, reducing the risk of loss.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-5 Capital Assets

Condition

The District does not maintain a historical listing of capital assets by type and location, i.e.: buildings, furniture and fixtures.

Criteria

Sound accounting control procedures and the Audit Act require that detailed listings of assets be maintained to properly account for and safeguard all the assets of the District (12-6-10 NMSA 1978).

Cause

No formal records of the capital assets were ever maintained.

Effect

Without the accounting and control procedures over the assets acquired, there is the possibility that assets are not being accounted for properly on the financial records and there is the possibility that assets could be misplaced, lost or stolen.

Recommendation

All assets should be properly accounted for and should be documented on a schedule of property, plant and equipment. The detailed property, plant and equipment listing should be reconciled to the general ledger on a periodic basis.

Agency Response

The Board of Directors will work on procedures to resolve the finding with respect to a historical listing of capital assets by type and location, i.e.: buildings, furniture, equipment and fixtures. The Board will make an effort to obtain documentation from McKinley County for any improvements funded through the County.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-6 Audit Report

Condition

The District did not submit its audit report for the year ended June 30, 2006 by the due date.

Criteria

The New Mexico State Auditor rules require that Special District audit reports be submitted by December 1st of each year. (SAO Rule 2.2.2.9 A (1) (d))

Cause

The District was unable to submit the June 30, 2006 audit report because an auditor was not retained until September 2012.

Effect

The District is not in compliance with the New Mexico State Auditor Rules and Regulations.

Recommendation

The District needs to ensure that all future audit reports are filed in a timely manner.

Agency Response

The current Board of Directors is actively working on the resolution of this finding.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-7 Insurance

Condition

The District does not have insurance to cover the property, plant, and equipment.

Criteria

Public bodies shall purchase insurance against loss or damages in an amount not less than eighty percent of the replacement cost or actual cash value. (13-5-3; NMSA 1978)

Cause

The District has not obtained insurance policies for the property, plant, and equipment. The District did have a policy for well replacement, which has lapsed.

Effect

The District is not in compliance with New Mexico State law and the possibility exists that assets lost, stolen or damaged would not be replaced and be an economic loss to the District.

Recommendation

The District should obtain insurance to cover the replacement of property, plant and equipment.

Agency Response

The District maintains bonding for unnamed officers but no other insurance. The Board is currently soliciting bids for a comprehensive insurance package through an Albuquerque broker to cover at least 80% of the replacement of property plant and equipment, and liability, as well as errors and omissions of the Board of Directors.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-8 Control over Revenue

Condition

While performing our revenue testing we noticed there was a lack of controls over how the revenue was received, recorded, tracked, and documented.

Criteria

Sound accounting control dictates the recording and maintaining a list of customer payment listing. It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily in detail, all items of receipts and disbursements of public money. (6-6-3 NMSA 1978)

Cause

The District does not have proper controls in place to maintain an accurate listing of customers payments.

Effect

Without the proper controls, the revenue could be understated or overstated. The lack of control also makes it difficult to trace what customer account monies were posted to. If a customer questions their bill the District can not prove whether they received the payment or not.

Recommendation

We recommend that the District develop a procedure to record and account for all monies due or received from its customers.

Agency Response

This finding has now been corrected with the adoption of the Quikwater Utility Billing Software in which all customer receipts are entered and bank deposits are summarized. The actual bank deposits are checked against the software totals for accuracy. The history of an individual account may be examined and printed for the customer upon demand. The nature of the receipt is recorded (cash, check, money order) along with the identification numbers and filed. A monthly summary of current bills, including gallons used, overage, arrearage, rental, late fees, etc. is printed out for our records.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-9 Customer deposits

Condition

The district does not have a list of the initial deposits that customers have made on their accounts.

Criteria

Sound accounting control dictates the recording and maintaining a list of Customer deposits. It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily in detail, all items of receipts and disbursements of public money. (6-10-2 NMSA 1978)

Cause

When new customers put a deposit down on their water account there is no list to keep track of the deposits so the amounts can be refunded when the account is closed.

Effect

When a customer closes their account the District does not know how much the original deposit on that account was, so the District doesn't know if the customer is due a refund and what the potential liability to the District is on these customer deposits.

Recommendation

We recommend that the District develop a procedure to record and account for all monies owed to its customers.

Agency Response

The District is working on a resolution of this finding. New accounts since introduction of the utility software should reflect the deposit payment. A separate bank account shall be established to handle these deposits.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

04-10 Priced Inventory

Condition

The District does not have a priced inventory listing of the parts and supplies that the District has on hand available for review.

Criteria

The district has not taken a current inventory of parts and supplies on hand during the current administration and were not provided a priced inventory when they took office.

Cause

The District has not kept track of the parts and supplies it has purchased.

Effect

By not properly accounting for its parts and supplies it has on hand the District could be understating its net assets if they are material, The District could be purchasing supplies and materials it already has on hand thus increasing the cost of operating the District.

Recommendation

We recommend that an inventory be taken as soon as possible to establish what the District has on hand and priced.

Agency Response

The District finds it burdensome for volunteers to maintain a parts and supplies inventory. Current practice is to maintain a small (less than one dozen) supply of locks, water meters, meter cans, and several risers (setters). Generally, remaining supplies are purchased as needed rather than maintained as inventory.

Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006

05-1 No Supporting Documentation

Condition

The District had inadequate documentation for revenue, payroll, accounts receivable, accounts payable, also short term and long term debt. The District was unable to produce supporting documentation for billing and payment listings for May 2006 through June 30, 2006. For payroll the District is missing the 941's for the fourth quarter of 2005, and the first and second quarters of 2006. Also, no SUTA reports were produced for any quarter in 2005 or 2006. There was not enough documentation presented to assist the District in making the adjustments for the accruals. No supporting documentation was produced for the long term debt and the short term portion, along with interest associated with any debt the District could of incurred for the fiscal year 2006. We were unable to audit the revenue by looking at individual billing cards and trace individual amounts to deposit slips and then to the bank. For the payroll we were unable to trace the payroll withholdings and payments through the general ledger to determine that the reports were filed. We were unable to make any accruals to conform to Generally Accepted Accounting Principles. We were unable to audit the debt of the District by confirming or not confirming any balances.

Criteria

In order to document that revenue was received and posted to the correct account documentation must be retained. To document that the District is in compliance federal and state laws they must maintain adequate records. (6-6-3 NMSA 1978)

Cause

The District does not have any written procedures on accounting or internal control procedures. The bookkeeping was done by a Board Member and copies of the documentation were not kept. The records were lost or misplaced.

Effect

All the revenue that was received was posted to one account and there was no break down as what the revenue was for, i.e. water, sewer, late fees, interest & rental income. There was no proof that the District was in compliance with state & federal laws for payroll requirements.

Recommendation

We recommend that the District develop a filing system to retain copies of all reports that are required to be filed, back up documentation for billings and payments received.

Agency Response

The Board of Directors is working on procedures and practices to resolve this finding with the adoption and utilization of bookkeeping software (Quickbooks) in conjunction with existing utility billing software (Quikwater), in order to improve the accounting with records available for audit, including, but not limited to, accounts payable, accounts receivable, payroll, interest earned, etc. while providing us with the information necessary to submit a budget to the Local Government Division as well as re-assess our rate structure.

**Yah-Ta-Hey Water and Sanitation District
Schedule of Findings and Responses-continued
year ended June 30, 2006**

06-1 General Ledger

Condition

During fiscal year 2006, the District used an unknown accounting software and converted to QuickBooks. The unknown software's general ledger that the district provided was incomplete, missing balances for Property, Plant and Equipment and the Fund Balance, along with several other account balances. The District did not make the recommended adjusting journal entries from the prior period audit report. The District then converted to QuickBooks in January 2006, during this conversion numerous adjusting journal entries were made to almost every account including; retained earnings, accounts receivable and accounts payable. No supporting documentation for any adjusting journal entry was provided and we could not reconcile or verify any of these adjusting journal entries.

Criteria

Maintaining a correct and complete general ledger is critical to sound accounting principles (6-5-2.1 NMSA 1978).

Cause

The District does not have any written procedures on accounting or internal control procedures. The bookkeeping was done by a board member that lacked the training or knowledge to maintain a complete and accurate general ledger. Some records were lost or misplaced.

Effect

Without a complete and accurate general ledger there is the possibility of misstated financial statements and over or under stated revenues and expenditures.

Recommendation

We recommend that the District develop procedures to maintain a complete and accurate general ledger and retain all supporting documentation for any adjustments made to the general ledger.

Agency Response

Historically, the District's bookkeeping has been done, whether paid or volunteered, out of private homes. the financial records are now being entered on a computer in a dedicated office space maintained at the local fire station. With the centralization of the record keeping and the adoption of the Quickbooks Accounting Software, it is hoped that the problem of developing and maintaining a complete and accurate ledger will soon be resolved.

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Other Disclosures
June 30, 2006

Exit Conference

An exit conference was held at the office of Fidel A. Bernal, P.C. on July 22, 2013:

Representing Yah-Ta-Hey Water and Sanitation District were:

Loline Hathaway, Secretary-Treasurer

Representing the firm of Fidel A. Bernal, P.C. was:

Fidel A. Bernal, CPA

Report Drafting

The financial statements, accompanying notes, and independent auditor's reports were drafted by Fidel A. Bernal, P.C.; however, maintaining the audited books and records is the responsibility of management. Accordingly, management is responsible for ensuring that these books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.