

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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2005

(With Independent Auditor's Report Thereon)

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

STATE AUDITOR

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

Official Roster

President	Loline Hathaway
Vice-President	Duane Plummer
Secretary	Kenneth Hielkema
Director	Vacant
Director	Vacant
Director	Vacant

**STATE OF NEW MEXICO
YAH-TA-HEY WATER & SANITATION DISTRICT**

**TABLE OF CONTENTS
JUNE 30, 2005**

Introductory Section:	<u>Page</u>
Official Roster	i
Table of Contents	ii
Independent Auditor's Report	1-2
Financial Statements:	<u>Exhibit</u>
Balance Sheet	1 3
Statement of Revenues, Expenses, and Changes in Net Assets	2 4
Statement of Cash Flows	3 5
Notes to Financial Statements	6-11
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>	12-13
Schedule of Prior Year Findings	14
Schedule of Findings and Recommendations	15-23
Other Disclosures	24

Independent Auditor's Report

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 have audited 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, 2005, 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. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 disclosure 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 opinion.

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.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to adequately extend our auditing procedures to utility plant in service and related depreciation expense, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, 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, 2005, and the respective changes in financial position and cash flows where applicable thereof for the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006 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.

The District has not presented the Management's Discussion and Analysis or the budgetary comparison information required by GAAP that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

A handwritten signature in black ink, appearing to read "F. J. ...".

Albuquerque, New Mexico
November 21, 2006

State of New Mexico
Yah-Ta-Hey Water and Sanitation District
Balance Sheet
Proprietary Fund
June 30, 2005

Exhibit 1

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 16,075
Accounts receivable, (less allowance for uncollectible accounts of \$2,103)	15,499
Other Assets	1,744
Total current assets	33,318
Noncurrent assets:	
Capital assets:	
Property, Plant & Equip	1,418,929
Less accumulated depreciation	(401,007)
Total noncurrent assets	1,017,922
Total assets	\$ 1,051,240
LIABILITIES	
Current liabilities:	
Accounts Payable	\$ 2,655
Accrued Payroll & Liab	263
Customer deposits payable	2,276
Current portion of notes payable	5,342
Total current liabilities	10,536
Noncurrent liabilities:	
Notes payable	64,112
Total noncurrent liabilities	64,112
Total liabilities	74,648
NET ASSETS	
Invested in capital assets, net of related debt	948,468
Unrestricted	28,124
Total net assets	976,592
Total liabilities and net assets	\$ 1,051,240

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, 2005

Exhibit 2

Operating revenues:	
Charges for services	\$ 58,256
Total operating revenues	58,256
Operating expenses:	
Salaries	12,267
Contract labor	1,145
Depreciation	39,079
Materials, supplies and maintenance	5,798
Legal & accounting	4,799
Postage	332
Taxes	267
Utilities	5,151
Insurance	100
Lab fees	451
Other expenses	19,050
Total operating expenses	88,439
Operating income (loss)	(30,183)
Nonoperating revenues (expenses):	
Interest income	32
Rental Income	4,800
Total nonoperating revenues (expenses)	4,832
Income (loss)	(25,351)
Change in net assets	(25,351)
Total net assets - beginning of year	1,001,943
Total net assets - ending of year	\$ 976,592

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, 2005

Exhibit 3

Cash flows from operating activities:	
Received from customer services and fees	\$ 51,767
Paid to suppliers for goods and services	(42,902)
Paid for services	(12,267)
Net cash provided (used) by operating activities	(3,402)
Cash flows from investing activities:	
Interest received	32
Net cash provided (used) by investing activities	32
Cash flows from noncapital and related financing activities	
Grants Received	0
Rental Income	4,800
Net cash provided (used) by noncapital and related financing activities	4,800
Net increase in cash and cash equivalents	1,430
Cash and cash equivalents at July 1, 2004	14,645
Cash and cash equivalents at June 30, 2005	\$ 16,075

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

Operating Income (Loss)	\$ (30,183)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	39,079
Change in assets and liabilities:	
(increase) decrease in:	
Accounts receivable	(6,489)
Inventory	(1,619)
(decrease) increase in:	
Accounts payable & accrued expenses	2,142
Accrued payroll & payroll liabilities	(990)
Notes payable	(5,342)
Net cash provided (used) by operating activities	\$ (3,402)

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, 2005

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, 2005

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, 2005, 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, 2005

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 at 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, 2005

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, 2005 are as follows:

Depository	Account Name	Type of Account	Bank Balance
Wells Fargo Bank	Business Checking	Checking	\$ 12,694
	Total Checking Wells Fargo		12,694
	Less: FDIC coverage		12,694
	Total not federally insured		<u>\$ 0</u>
Wells Fargo Bank	Certificate of Deposit	Savings	\$ 3,381
	Total CD Wells Fargo		3,381
	Less: FDIC coverage		3,381
	Total not federally insured		<u>\$ 0</u>
	Total cash in bank		\$ 19,190
	Add outstanding deposits		0
	Less outstanding checks		<u>(3,115)</u>
	Reconciled cash balance		<u>\$ 16,075</u>

STATE OF NEW MEXICO
YA-TA-HEY WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2005

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, 2005 is as follows:

	<u>Balance</u> <u>06-30-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06-30-05</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	1,357,733	0	0	1,357,733
Furniture and Equipment	10,995	0	0	10,995
	<u>1,368,728</u>	<u>0</u>	<u>0</u>	<u>1,368,729</u>
Less accumulated depreciation for:				
Water and wastewater system	353,346	37,969	0	391,315
Furniture and Equipment	8,581	1,111	0	9,692
Total Accumulated depreciable	<u>361,927</u>	<u>39,080</u>	<u>0</u>	<u>401,007</u>
Total capital assets				
being depreciated, net	<u>1,006,801</u>	<u>39,080</u>	<u>0</u>	<u>967,722</u>
Net property and plant	<u>\$1,057,001</u>	<u>\$ 39,080</u>	<u>\$ 0</u>	<u>\$ 1,017,922</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, 2005

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, 2005 was as follows:

	Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2005</u>	Amounts Due in <u>One Year</u>
State of New Mexico					
Environment Dept.	<u>74,796</u>	<u>0</u>	<u>5,342</u>	<u>69,454</u>	<u>5,342</u>
Total	<u>\$ 74,796</u>	<u>\$ 0</u>	<u>\$ 5,342</u>	<u>\$ 69,454</u>	<u>\$ 5,342</u>

The annual requirements to amortized debt outstanding as of June 30, 2005, including interest payments of \$ 5,342, are as follows:

<u>Year Ending</u>	<u>State of N.M. Environment Department</u>
2006	\$ 5,342
2007	5,343
2008	5,342
2009	5,343
2010	5,343
2011-2015	26,713
2016-2018	<u>16,028</u>
	<u>\$ 69,454</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 have audited the 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, 2005, which collectively comprise the District's basic financial statements as described in the table of contents and have issued our report thereon dated November 21, 2006. The report was qualified because we were unable to obtain sufficiently detailed property records to adequately extend our auditing procedures to utility plant in service and related depreciation expense. Except as discussed in the preceding sentence we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items (04-2, 04-4, 04-5, 04-8, 04-9 and 05-1).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 and 05-1.

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.

A handwritten signature in black ink, appearing to read "F. J. ...", is written over the page.

November 21, 2006

**YA-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2005**

<u>PRIOR YEAR FINDINGS</u>	<u>Current Status</u>
04-1 Financial Reports and Budget	Repeated
04-2 Written Policies and Procedures	Repeated
04-3 Procurement Process	Resolved
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
04-9 Customer deposits	Repeated
04-10 Priced inventory	Resolved

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2005**

The reportable conditions noted are as follows:

CURRENT YEAR FINDINGS

04-1 Approved budget for fiscal year 2004-05

Condition

The District did not have an approved final budget nor did they submit one for the fiscal year 2004-2005 by the due date of July 1, 2004.

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.

Response

The Yah-Ta-Hey Water and Sanitation District (District) contracted with a local Certified Public Accountant to provide quarterly financial reports. The District will comply with the statute by providing the Board members with a copy of the reports each quarter and also forward a copy to the New Mexico Department of Finance and Administration. The District will also work on preparing a budget for future years

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

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.

MANAGEMENT RESPONSE

The District will develop written policies covering purchasing and cash disbursements, billing, cash receipts and collections procedures. Written policies in other areas of operation will be developed for proper management accountability.

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

04-4 Cash Receipt Deposits

CONDITION

While performing our cash receipts test work. We traced 264 checks from receipt to deposit and noted that in at least 130 instances the District made deposits more than seven days after the receipt of customer payments.

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.

MANAGEMENT RESPONSE

Concur the Board of Directors will work on procedures to resolve finding. Also, rural conditions, no bank with in seven miles, and poor service provided by the current bank are ameliorating conditions. The amount of interest earned on the account is overweighed by the expense of travel by volunteer officers. The district plans to change banks to a closer and better managed facility

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

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.

Response

Concur the Board of Directors will work on procedures to resolve finding.

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

04-6 Audit Report

Condition:

The District did not submit its audit report for the year ended June 30, 2005 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, 2005 audit report because an auditor was not retained until January 2006.

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.

Response:

Concur the Board of Directors will work on procedures to resolve finding.

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

04-7 Insurance

Condition

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

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, equipment, directors and officers. 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 and to cover errors and omissions for the directors and officers.

Response

Concur the Board of Directors will work on procedures to resolve finding. The district finds that the cost of insurance is prohibitive for small districts and is looking into alternative sources. Several insurance companies in McKinley County are no longer offering these insurance services to water & sanitation districts.

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

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 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. (6-6-3 NMSA 1978)

Cause

The Districts payment drop box was broken into during the year. It is not possible to determine if any receipts were taken because the District did not have the payment listing and the CRS-1 reports for July, August, and September 2004 available for review.

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.

Response

Concur the Board of Directors will work on procedures to resolve finding

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

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.

Response

Concur the Board of Directors will work on procedures to resolve finding

**YAH-TA-HEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS (CONTINUED)
Year Ended June 30, 2005**

05-1 No Supporting Documentation

Condition

The District had inadequate documentation for revenue. The District did not have copies of the CRS-1 reports for August 2004, September 2004, January through May 2005, the payment listings and billing backup for July 2004 through September 2004. For payroll the District is missing the 941's for the 3rd and 4th quarters of 2004, and the SUTA report for the 3rd quarter 2004, the I-9's and new hires reports. We were able 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 able to trace the payroll withholdings and payments through the general ledger to determine that the reports were filed just not copied.

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 law they must maintain record for payroll. (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 an outside source and copies of the documentation were not kept. The records were lost.

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.

Response

The District is currently transferring records to a commercial utility billing software and a financial accounting software as well as consolidating records and computers in a central location. The District plans to engage responsible professional accounting assistance. The filing system is currently being consolidated for improved retrieval of records and documents.

**STATE OF NEW MEXICO
YAH-TA-HEY WATER AND SANITATION DISTRICT
OTHER DISCLOSURES
June 30, 2005**

Exit Conference

An exit conference was held at the office of Fidel A. Bernal, P.C. on November 21, 2006:

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

Loline Hathaway, President

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.

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3-28-07

February 9, 2007

State of New Mexico
Office of the State Auditor
2113 Warner Circle
Santa Fe, NM 87505-5499

Re: Yah-Ta-Hey Water and Sanitation District
Year ended June 30, 2005

For the year ended June 30, 2005 there are no passed adjustments for Yah-Ta-Hey Water and Sanitation District.