

**STATE OF NEW MEXICO**

**El Valle de Los Ranchos Water & Sanitation District**



*"Sin Agua No Hay Vida"*

*"Without Water There Is No Life"*

**Annual Financial Report  
June 30, 2008**

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Annual Financial Report  
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June 30, 2008

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Official Roster  
June 30, 2008

**BOARD OF DIRECTORS**

Gabriel Romero	Chairman
Mario Barela	Vice-Chairman
F. R. Bob Romero	Secretary
Andrew Chavez	Treasurer
Meliton Struck	Member

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## **Independent Auditor's Report**

To the Board of Directors  
El Valle De Los Ranchos Water & Sanitation District  
Ranchos de Taos, New Mexico  
And  
Hector Balderas  
New Mexico State Auditor

We have audited the accompanying basic financial statements consisting of the business-type activities of El Valle de Los Ranchos Water & Sanitation District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the individual fund statement presented as supplementary information as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of El Valle de Los Ranchos Water & Sanitation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of El Valle de Los Ranchos Water & Sanitation District as of June 30, 2008, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects the respective budgetary comparison 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 December 1, 2008, on our consideration of El Valle de Los Ranchos Water & Sanitation 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.

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The *Management's Discussion and Analysis* on page iv is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on El Valle de Los Ranchos Water & Sanitation District's basic financial statements and the budgetary comparison presented as supplemental information. The additional schedules listed as "Schedules I through III" in the table of contents are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Griego Professional Services, LLC  
Albuquerque, New Mexico  
December 1, 2008

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## El Valle de Los Ranchos Water & Sanitation District Management's Discussion and Analysis

As management of El Valle de Los Ranchos Water & Sanitation District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements of the District and additional information provided.

### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,124,773 (*net assets*). This entire amount is to be used to meet the District's ongoing obligations to citizens and creditors and construct the water and wastewater systems.
- The District's total net assets increased by \$1,089,023 during the fiscal year. The majority of this increase is due to the capitalization of utility plant in service costs, utility fees and charges and intergovernmental grants.
- The District's total debt increased by \$353,700 during the current fiscal year. The District repaid \$45,000 in funds from issuance of revenue bonds, which were issued to continue with the design and construction of the system. The District also had proceeds from debt of \$398,700 on two loans payable which were issued to extend the system.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) government-wide financial statements (entire fund) and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains only one enterprise fund for its operations.

**Proprietary funds.** Proprietary funds are generally used to account for sewer or water services for which the District charges its customers. All activity was accounted for in one fund. The District maintains one type of proprietary fund:

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the operations of the water and sanitation operations of the District. The enterprise fund is considered to be the only major fund of the District.

**El Valle de Los Ranchos Water & Sanitation District  
Management's Discussion and Analysis**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-16 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This is the third year that the District has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB #34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*.

**Analysis of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of El Valle de Los Ranchos Water & Sanitation District, assets exceeded liabilities by \$4,124,773 at the close of the current fiscal year.

**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT'S NET ASSETS  
June 30, 2008 and 2007**

	<u>2008</u> <u>Business-type</u> <u>Activities</u>	<u>2007</u> <u>Business-type</u> <u>Activities</u>
<b>Assets</b>		
Current and other assets	\$ 807,685	\$ 278,287
Capital assets, net of accumulated depreciation	<u>5,105,118</u>	<u>3,949,640</u>
Total Assets	<u><u>5,912,803</u></u>	<u><u>4,227,927</u></u>
<b>Liabilities</b>		
Long-term liabilities outstanding	1,478,700	1,125,000
Other liabilities	<u>309,330</u>	<u>67,177</u>
Total Liabilities	<u><u>1,788,030</u></u>	<u><u>1,192,177</u></u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,626,418	2,824,640
Reserved for capital projects	<u>498,355</u>	<u>211,110</u>
Total Net Assets	<u><u>4,124,773</u></u>	<u><u>3,035,750</u></u>
Total Liabilities and Net Assets	<u><u>\$ 5,912,803</u></u>	<u><u>\$ 4,227,927</u></u>

All of the District's net assets represent resources that are subject to restrictions. The restrictions are reserved to construct the water and sanitation system.

As of June 30, 2008, El Valle had current and other assets of \$807,685, an increase of \$529,398 over the prior year balance of \$278,287. Capital assets, net of accumulated depreciation, also increased over the prior year due to additions to the utility plant in service. The increase was \$1,155,368 for an end of year balance of \$5,105,118. Long term liabilities increased by \$353,700 which was the net amount of principal payments made during the year and the proceeds from issuance of new debt. Other liabilities increased by \$242,153, with an ending balance of \$309,330. At June 30, 2008, the net assets of El Valle totaled \$4,124,773 which was an increase of \$1,089,023 over prior year net assets of \$3,035,750.

**El Valle de Los Ranchos Water & Sanitation District  
Management's Discussion and Analysis**

**Analysis of Changes in Net Assets**

**Business-type activities.** Business-type activities increased the District's net assets by \$1,089,023. The key element of this increase is the capitalization of construction costs incurred relating to the system, utility fees and charges and intergovernmental grants received during the fiscal year.

**Changes in Net Assets  
For the Year Ended June 30, 2008 and 2007**

	<b>2008 Business-type Activities</b>	<b>2007 Business-type Activities</b>
<b>Revenues</b>		
Operating revenues:		
Charges for service	\$ 159,766	\$ 144,653
Non-operating revenues:		
Property taxes	341,327	306,757
Intergovernmental	836,657	569,601
Interest income	7,622	10,192
Misc income	376,354	73,522
Total revenues	1,721,726	1,104,725
<b>Expenses</b>		
Administration fees	3,402	3,142
Advertising	6,712	5,044
Books, dues & registration	2,966	2,313
Depreciation	170,584	129,544
Employee salaries	108,507	66,170
Field supplies	2,257	3,506
Insurance	23,368	18,260
Interest	49,876	51,988
Legal fees	1,774	21,075
Mileage and per diem	12,596	12,772
Office expenses	4,888	7,029
Other contractual services	213,396	168,287
Payroll related expenses	16,355	12,984
Rent	10,323	10,239
Repair & maintenance	433	688
Utilities	5,266	4,820
Total expenses	623,703	517,861
Increase in net assets	1,089,023	586,864
Net assets, beginning of year	3,035,750	2,448,886
Ending net assets	\$ 4,124,773	\$ 3,035,750

Revenues for the year ending June 30, 2008 were greater than the prior year by \$617,001. The main area of increase was intergovernmental revenues, which increased by \$267,056. Miscellaneous revenues accounted for \$302,832 of the increase, mainly due to a UNM grant. Total expenditures increased by \$105,842. Most expenditure categories increased, but the largest increases were depreciation expense (\$41,040 increase), employee salaries plus related items of insurance and payroll related items (\$45,708 increase) and other contractual services (\$45,109 increase).

**El Valle de Los Ranchos Water & Sanitation District  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUND**

As noted earlier, El Valle de Los Ranchos Water & Sanitation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Proprietary Funds.* The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the reserved net assets for capital projects were \$4,124,773. The total increase in net assets for the enterprise fund was \$1,089,023. Factors concerning the finances of this fund have been addressed previously in the discussion of the District's business-type activities.

**Budgetary Highlights**

The State of New Mexico budget process is defined under state law and regulation. To enhance the process of developing a budget at the District level, El Valle de Los Ranchos utilizes goals and objectives defined by the Board of Directors, community input meetings, long term plans for water and wastewater system development and input from professional and non-professional staff to develop the District budget. District priorities are well defined through this process.

GASB Statement No. 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

The District's final budget differs from the original budget due to budget increases and decreases that were made during the fiscal year. Net budget increase in the fund totaled \$100,130 for expenditures were as follows:

Enterprise Fund	\$ <u>100,130</u>
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The Enterprise Fund had an increase in budgeted expenditures of \$100,130 due to increased estimates project costs, salaries and other administrative expenses at the beginning of the year.

During the year, actual operating revenues were lower than budgetary estimates by \$2,108. This is a difference of less than 5%, which is considered reasonable.

**Capital Asset and Debt Administration**

**Capital assets.** El Valle de Los Ranchos Water & Sanitation District's capital assets for its governmental and business-type activities as of June 30, 2008 amount to \$5,105,118 (net of accumulated depreciation). Capital assets include furniture, fixture & equipment and utility plant in service. The total increase in the District's capital assets (excluding accumulated depreciation) for the current fiscal year was \$1,155,478, which consisted of additions to the utility plant in service.

**El Valle de Los Ranchos Water & Sanitation District  
Management's Discussion and Analysis**

**Capital Assets, Net of Depreciation  
June 30, 2008 and 2007**

	<u>2008</u> <u>Business-type</u> <u>Activities</u>	<u>2007</u> <u>Business-type</u> <u>Activities</u>
Furniture, fixtures & equipment	\$ 18,504	\$ 12,831
Utility plant in service	<u>5,510,653</u>	<u>4,190,264</u>
Total capital assets	5,529,157	4,203,095
Accumulated depreciation	<u>(424,039)</u>	<u>(253,455)</u>
Capital assets, net of accumulated depreciation	<u>\$ 5,105,118</u>	<u>\$ 3,949,640</u>

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 6 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

**Debt Administration.** At the end of the current fiscal year, the District had total long-term obligations outstanding of \$1,478,700. The debt consists of revenue bonds along with two loans payable. Changes to long term debt during the year included principal payments of \$45,000 along with proceeds from the two new loans of \$398,700.

**El Valle de Los Ranchos Water & Sanitation District's Outstanding Debt  
As of June 30, 2008 and 2007**

	<u>2008</u> <u>Business-type</u> <u>Activities</u>	<u>2007</u> <u>Business-type</u> <u>Activities</u>
General obligation bonds	<u>\$ 1,478,700</u>	<u>\$ 1,125,000</u>

See Note 7 in the accompanying Notes to the Financial Statements for further information regarding El Valle de Los Ranchos Water & Sanitation District's long-term debt.

**FUTURE TRENDS.**

The District will have fully expended all grants from the State of New Mexico by the end of FY 2008-2009. The District received an \$850,000 loan from the United States Department of Agriculture for the Construction of the UNM sewer line. The agreement between UNM and El Valle required UNM to reimburse El Valle in full for the amount of the loan. The District's first payment on the loan is due in April 2009. Depending upon appropriations from the State of New Mexico and federal appropriations for FY 2009-2010, the District may use the \$850,000 for construction of Phase 2B. If the District receives appropriations from the State of New Mexico, it may pay the entire loan back before the first payment is due.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of El Valle de Los Ranchos Water & Sanitation District's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to El Valle de Los Ranchos Water & Sanitation District, P.O. Box 2797, Ranchos de Taos, New Mexico, 87557; (575) 751-1700.

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**BASIC FINANCIAL STATEMENTS**

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Statement of Net Assets  
June 30, 2008

**ASSETS***Current assets:*

Cash and temporary investments	\$ 172,316
Accounts receivable - customers	20,315
Accounts receivable - property taxes	14,376
Accounts receivable - grants	593,379
Accounts receivable - other	5,894
Prepaid expenses	<u>1,405</u>

*Total current assets* 807,685

*Capital assets*

Equipment	18,504
Buildings	21,897
Utility plant in service	<u>5,488,756</u>

Total capital assets 5,529,157  
Less accumulated depreciation (424,039)

*Net capital assets* 5,105,118

*Total assets* \$ 5,912,803

**LIABILITIES AND NET ASSETS***Current liabilities:*

Accounts payable	\$ 279,245
Accrued interest	21,304
Payroll liabilities	6,894
Accrued compensated absences	1,887
Current portion of bonds payable	<u>47,000</u>

*Total current liabilities* 356,330

*Non-current liabilities:*

Bonds payable	<u>1,431,700</u>
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*Total non-current liabilities* 1,431,700

*Total liabilities* 1,788,030

*Net Assets:*

Net assets invested in capital assets, net of related debt	3,626,418
Restricted for capital projects	<u>498,355</u>
<i>Total Net Assets</i>	4,124,773

*Total liabilities and net assets* \$ 5,912,803

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Statement of Revenues, Expenses and  
Changes in Net Assets  
For the Year Ended June 30, 2008

<i>Operating revenues:</i>	
Fees & Charges	\$ 159,766
<i>Total operating revenues</i>	<u>159,766</u>
 <i>Operating expenses:</i>	
Administration fees	3,402
Advertising	6,712
Books, dues, & registration	2,966
Depreciation	170,584
Employee salaries	108,507
Field supplies	2,257
Insurance	23,368
Interest	49,876
Legal fees	1,774
Mileage and per diem	12,596
Office expenses	4,888
Other contractual services	213,396
Payroll related expenses	16,355
Rent	10,323
Repairs and maintenance	433
Utilities	5,266
<i>Total operating expenses</i>	<u>632,703</u>
<i>Operating income (loss)</i>	<u>(472,937)</u>
 <i>Non-operating revenue (expenses):</i>	
Property Taxes	341,327
Intergovernmental	836,657
Interest income	7,622
Miscellaneous revenue	376,354
<i>Non-operating revenue (expenses)</i>	<u>1,561,960</u>
<i>Net income</i>	1,089,023
<i>Net assets at beginning of year</i>	<u>3,035,750</u>
<i>Net assets at end of year</i>	<u>\$ 4,124,773</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Statement of Cash Flows  
For the Year Ended June 30, 2008

<i>Cash flows from operating activities:</i>	
Cash payments received from customers, taxes and grants	\$ (413,299)
Cash payments to employees and professional contractors for services	<u>(220,627)</u>
<i>Net cash provided by operating activities</i>	<u>(633,926)</u>
<i>Cash flows from non-capital financing activities:</i>	
Principal payments	(45,000)
Proceeds from long term debt	398,700
Cash received from property taxes	341,327
Cash received from miscellaneous revenue	376,354
Cash received from intergovernmental grants	<u>836,657</u>
<i>Net cash provided by non-capital financing activities</i>	<u>1,908,038</u>
<i>Cash flows from capital and related financing activities:</i>	
Purchase of capital assets	<u>(1,326,062)</u>
<i>Net cash used by capital and related financing activities</i>	<u>(1,326,062)</u>
<i>Cash flows from investing activities:</i>	
Interest earned	<u>7,622</u>
<i>Net cash provided by investing activities</i>	<u>7,622</u>
<i>Net increase (decrease) in cash</i>	(44,328)
<i>Cash and equivalents at beginning of year</i>	<u>216,644</u>
<i>Cash and equivalents at end of year</i>	<u><u>\$ 172,316</u></u>
<i>Reconciliation of operating income to net cash provided by operating activities:</i>	
Operating income	\$ (472,937)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	170,584
(Increase) decrease in accounts receivable	(573,065)
(Increase) decrease in prepaid expenses	(661)
Increase (decrease) in accounts payable	241,197
Increase (decrease) in payroll liabilities	1,705
Increase (decrease) in accrued interest	<u>(749)</u>
<i>Net cash provided by operating activities</i>	<u><u>\$ (633,926)</u></u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

El Valle de Los Ranchos Water & Sanitation District (the "District") is a political sub-division of the State of New Mexico that was authorized by the District Court for Taos County in 1979.

The District is engaged in the development of a water and sanitation district for the El Valle de Los Ranchos area in Northern New Mexico. The District has started phase 2 of its wastewater system. It has not begun construction on the water distribution system but is seeking funding to do so.

The current phase is the construction of the system. The District has issued sewer revenue bonds with Rural Utilities Services (RUS) as the registered owner to fund construction of the system. See Note 7 for more details. The District started serving customers in November 2004.

The Board consists of five members elected by the qualified voters for four year terms. The Board appoints qualified personnel to guide and direct the operations of the District. The Board also approves all major contracts, capital outlay, and other decisions involving the District.

The financial statements of El Valle de Los Ranchos Water & Sanitation District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The operations of the District are accounted for in one fund.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**A. *Reporting Entity***

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB-14.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government:

1. Is entitled to the organization's resources;
2. Is legally obligated or has otherwise assumed the obligation to financial the deficits of, or provide financial support to the organization; or
3. Is obligated in some manner for the debt of the organization.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**A. *Reporting Entity, continued***

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The El Valle de Los Ranchos Water & Sanitation District did not have any component units during the fiscal year ended June 30, 2008.

**B. *Business-Type Activities***

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) 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 Assets 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 expenses of a given function or segments are 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 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 requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**C. *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 receivables are recorded at year-end once operations begin.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)***

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 as soon as all eligibility requirements imposed by the provider have been met. All other revenue items 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 assets components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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 funds distinguish 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 charges for customer 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.

**D. *Assets, Liabilities and Net Assets 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.

Investments for the District are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

***D. Assets, Liabilities and Net Assets or Equity, continued***

***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, 2008 consist of customer sewer fees, and property taxes collected by Taos 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 December 10th and May 10th. Property taxes are considered delinquent if not received by the due date. The taxes attach as an enforceable lien on the property thirty (30) days thereafter.

***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>
Permanent Buildings	45
Land Improvements	20
Furniture & Equipment	5-10
Utility Plant in Service	33

***Compensated Absences:*** Full time employees of the District are entitled to accumulate vacation and sick leave. Leave is granted according to a graduated leave schedule, depending on length of service, the employee's hire date and the employee's employment status. Only forty (40) hours of annual leave can be carried over from one fiscal year to the next. Upon termination, employees will be paid for accrued annual leave, but not for sick leave.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

***D. Assets, Liabilities and Net Assets or Equity, continued***

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net assets.

***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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

***Net Assets or Fund Equity:*** In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. These designations are established to earmark resources for specific future use and to indicate that the fund equity does not represent available spendable resources.

In the Statement of Net Assets, fund equity is classified as net assets and is displayed in three components:

***Invested in capital assets, net of related debt:*** Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted Net Assets:*** Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net assets are restricted for “debt service or capital projects.”

***Unrestricted Net Assets:*** All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

***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.

***E. 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 Authority pays an annual premium for all of the above risks. There have been no claims for the past five years.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

***F. Advertising***

Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2008 were \$6,712.

**NOTE 2. 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 expenditures 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 two ways. 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.

Federal Projects – Federal categorical grants are budgeted on the grant's project year rather than the District's fiscal year and, therefore, may not reflect cash basis budgeting. Unexpended portions of prior year's programs are re-budgeted into the subsequent year's program budget. Since the programs are incomplete at June 30, the schedules of budgeted and actual revenue and expenditures present unrealized revenue and expended budget, rather than budget saving.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**RECONCILIATION OF GAAP BASIS FINANCIAL STATEMENTS TO NON-GAAP BUDGETARY BASIS**

Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP basis)	\$ 1,089,023
Adjustments:	
To revenues for tax accruals, earnings on investments, and other deferrals and accruals.	(467,099)
Adjustments:	
To adjust expenditures for payables, payroll taxes, prepaid expenses and other accruals.	<u>(752)</u>
Excess (deficiency) of revenues and other sources (uses) over expenditures (Budget Basis)	<u>\$ 621,172</u>

**NOTE 3. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of June 30, 2008.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, District or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

All of the investments of El Valle de Los Ranchos Water & Sanitation District at June 30, 2008, were in short-term investments with a maturity date within a year of the date acquired by the District or in the State Treasurer's pooled investments. The investments are stated at cost, which also approximates market value.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
 June 30, 2008

**NOTE 3. DEPOSITS AND INVESTMENTS- (continued)**

The District's practice is to limit deposits and investments to insured and collateralized time accounts and certificates of deposit with a maturity of less than one year.

**Deposits**

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for a least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

	<u>People's Bank</u>
Total amounts of deposits	\$ 157,129
FDIC coverage	(100,000)
Total uninsured public funds	<u>\$ 57,129</u>
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	(37,138)
Uninsured and uncollateralized	(19,991)
Collateral requirement (50% of uninsured public funds)	\$ 28,564
Pledged security	<u>37,138</u>
Total under (over) collateralized	<u>\$ (8,574)</u>

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in 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, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2008, \$57,129 of the District's bank balance of \$157,129 was exposed to custodial credit risk because \$37,138 was uninsured and the collateral was held by the pledging bank's trust department, not in the District's name while the remaining \$19,991 was uninsured and uncollateralized. At June 30, 2008, the carrying amount of these deposits was \$151,680.

**Investments**

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>Less than 1 Year</u>
State Investment Pool	\$ 20,336	\$ 20,336

The State Treasurer Local Government Investment Pool is not SEC Registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment funds in the securities that are issued by the United States government or by its departments or agencies and are either backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares; at the end of each month all interest earned is distributed by the State Treasurer to the



**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 3. DEPOSITS AND INVESTMENTS- (continued)**

contributing entities in the amounts of the fund were invested. Any realized gain or loss on the portfolio is distributed through the investment yield on distribution dates. The carrying amount of the portfolio approximates the fair value of all investments at June 30, 2008. The State of New Mexico is regulatory oversight entity and participation in the pool is voluntary.

*Interest rate risk* is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. At June 30, 2008, the District's investment of New MexiGROW LGIP had a credit risk rating of AAAM, value of \$20,336 and a 46-day WAM.

**Reconciliation of Cash and Temporary Investments**

Governmental Funds – Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 172,316
Less investment with State of New Mexico Treasurer	<u>(20,336)</u>
	151,980
Add outstanding checks and other reconciling items	<u>5,449</u>
	157,429
Less petty cash	<u>(300)</u>
Bank balance of deposits and repurchase agreements	<u>\$ 157,129</u>

**NOTE 4. RECEIVABLES**

Receivables as of June 30, 2008, are as follows:

	<u>Total</u>
Property taxes	\$ 14,376
Customer Receivables	20,315
Grants Receivables	593,379
Other Receivables	<u>5,894</u>
Totals by category	<u>\$ 633,964</u>

The above receivables are deemed 100% collectible. Other receivables consist of earnest money paid on a land purchase that fell through (\$5,016) and miscellaneous receivables (\$878).

**NOTE 5. PREPAID EXPENSES**

The District has insurance policies that are paid in advance and are expensed monthly. The portion of insurance expense not used by June 30, 2008 is \$1,405.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Furniture, fixtures & equipment	\$ 12,831	\$ 5,673	\$ —	\$ 18,504
Buildings	—	21,897	—	21,897
Utility plant in service	<u>4,190,264</u>	<u>1,298,492</u>	<u>—</u>	<u>5,488,756</u>
Total Capital Assets	<u>4,203,095</u>	<u>1,326,062</u>	<u>—</u>	<u>5,529,157</u>
Less accumulated depreciation				
Utility plant in service	(244,896)	(166,325)	—	(411,221)
Buildings	—	(664)	—	(664)
Furniture, fixtures & equipment	<u>(8,559)</u>	<u>(3,595)</u>	<u>—</u>	<u>(12,154)</u>
Total accumulated depreciation	(253,455)	(170,584)	—	(424,039)
Total capital assets, net	<u>\$ 3,949,640</u>	<u>\$ 1,155,478</u>	<u>\$ —</u>	<u>\$ 5,105,118</u>

Depreciation expense for the year ended June 30, 2008 was charged to business-type activities as follows:

Water & Sewer - Administration	<u>\$ 170,584</u>
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**NOTE 7. LONG-TERM DEBT**

During the year ended June 30, 2008, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amount Due Within One Year
Revenue Bonds	\$ 1,125,000	\$ —	\$ 45,000	\$ 1,080,000	\$ 47,000
Loan Payable- NM ED	—	75,771	—	75,771	—
RUS/UNM Bonds	—	322,929	—	322,929	—
Compensated Absence	<u>815</u>	<u>1,886</u>	<u>815</u>	<u>1,886</u>	<u>1,886</u>
Total Long-Term Debt	<u>\$ 1,125,815</u>	<u>\$ 400,586</u>	<u>\$ 45,815</u>	<u>\$ 1,480,586</u>	<u>\$ 48,886</u>

The annual requirements to amortize the bonds as of June 30, 2008, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2009	47,000	48,600	95,600
2010	50,000	46,500	96,500
2011	52,000	44,300	96,300
2012	54,000	41,900	95,900
2013	57,000	39,500	96,500
2014-2018	323,000	156,900	479,900
2019-2023	403,000	77,300	480,300
2024-2028	94,000	4,300	98,300
Total	<u>\$ 1,080,000</u>	<u>\$ 459,300</u>	<u>\$ 1,539,300</u>

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 7. LONG-TERM DEBT (continued)**

Bonds outstanding at June 30, 2008, consisted of the following issues:

*Revenue Bonds:*

2004 Sewer Revenue Bonds, dated January 22, 2004,  
principal due January 22, 2005 through 2024 having an  
approximate yield of 4.50% \$ 1,080,000

*Total Bonds* \$ 1,080,000

During the fiscal year, the District made a principal payment of \$45,000 during the year bringing the balance to \$1,080,000. The bonds were issued for the purpose of continuing the improvement and extending of the system. The bonds were sold to the Rural Utilities Service at face value.

The annual requirements to amortize the loans payable as of June 30, 2008, including interest payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	--	13,725	13,725
2010	14,114	15,779	29,893
2011	14,688	15,206	29,894
2012	15,286	14,607	29,893
2013	15,909	13,985	29,894
2014-2018	89,824	59,644	149,468
2019-2023	109,752	39,717	149,469
2024-2028	134,182	15,286	149,468
2024-2028	<u>4,945</u>	<u>148</u>	<u>5,093</u>
Total	\$ <u>398,700</u>	\$ <u>188,097</u>	\$ <u>586,797</u>

Loans outstanding at June 30, 2008, consisted of the following loans:

*Loans:*

New Mexico Environmental Department Loan,  
20 Year, 3.00% interest. \$ 75,771

Rural Utilities Service Loan,  
20 Year, 4.5% interest \$ 322,929

*Total Loans* \$ 398,700

During the fiscal year, the District made draws on loans with the New Mexico Environmental Department and the Rural Utilities Service in the amounts of \$75,771 and \$322,929 respectively. The loans are for the purpose of continuing the improvement and extending of the system.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 8. OPERATING LEASES**

The District leases an office building and office equipment under short-term cancelable operating leases. Lease expense for the year ended June 30, 2008 was \$10,323

The annual lease requirements are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2009	\$ 9,683
2010	2,783
2011	2,783
2012	<u>696</u>
Total	<u>\$ 15,945</u>

**NOTE 9. RISK MANAGEMENT**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. The District is insured through a commercial insurance agency for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past four years.

**NOTE 10. LITIGATION**

The District is a party to legal actions arising in the normal course of business. In the opinion of management, based in part on discussions with legal counsel, resolution of such matters will not have a material adverse effect on the financial position and operating results of the District.

**NOTE 11. SURETY BOND**

District Officials and employees of the District are covered by a surety bond as required by Section 12-6-7, NMSA, 1978 Compilation.

**NOTE 12. RETIREMENT PLAN**

*Plan Description.* Substantially all of El Valle de Los Ranchos' full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978.) The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute 7% of their gross salary. El Valle de Los Ranchos is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and El Valle de Los Ranchos are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. El Valle's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$7,510, \$4,616, and \$3,122 respectively, which equal the amount of the required contributions for each fiscal year.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Notes to Financial Statements  
June 30, 2008

**NOTE 13. RETIREE HEALTH CARE**

The District had full-time employees during the year; however the District does not participate in the Retiree Health Care Act program.

**NOTE 14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The District did not have any construction projects under non-cancelable contracts at June 30, 2008.

**NOTE 15. JOINT POWERS AGREEMENT**

*Purpose*

For the Town to provide treatment for the District's wastewater and for the District to purchase such wastewater services from the Town.

*Participants*

El Valle de Los Ranchos Water & Sanitation District and the Town of Taos

*Responsible Party for Operation and Audit*

None

*Beginning and Ending Date of Agreement*

October 28, 2002 to October 27, 2022

*Total Estimated Amount of Project and Actual Amount Contributed*

\$23.25 per residential customer

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**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
 Schedule of Collateral Pledged by Depository  
 June 30, 2008

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Fair / Par Market Value June 30, 2008</u>	<u>Name and Location of Safekeeper</u>
Peoples Bank	FNMA 2004 37-AK 31393YN27 4.50%, Due 01-25-2022	\$ 7,812	Federal Reserve Bank
Peoples Bank	FHLMC 2786-PB 31394WAY4 4.00%, Due 05-15-2014	<u>29,326</u>	Federal Reserve Bank
		<u>\$ 37,138</u>	

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
 Schedule of Deposits and Investments  
 June 30, 2008

Schedule II

<u>Bank Account Type/Name</u>	<u>People's Bank</u>	<u>NM State Treasurer</u>	<u>Totals</u>
10616970	12,782	\$ -	\$ 12,782
10619790	144,247	-	144,247
10647022	100	-	100
State Treasurer's Pool	-	20,336	20,336
Total On Deposit	<u>\$ 157,129</u>	<u>\$ 20,336</u>	177,465
Reconciling Items			(5,449)
Petty Cash			300
Reconciled Cash and Investments, June 30, 2008			<u>\$ 172,316</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
 Cash Reconciliation  
 June 30, 2008

Schedule III

	<u>10616970</u>	<u>10619790</u>	<u>10647022</u>	<u>Total</u>
Bank balance end of year	\$ 12,782	\$ 144,247	\$ 100	\$ 157,129
Deposits in transit	239	100,786	-	101,025
Outstanding checks	<u>(106,474)</u>	<u>-</u>	<u>-</u>	<u>(106,474)</u>
Cash, June 30, 2008	<u>\$ (93,453)</u>	<u>\$ 245,033</u>	<u>\$ 100</u>	151,680
State Treasurer's Pool				20,336
Petty Cash				300
				<u>\$ 172,316</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Statement of Revenues, Expenses and  
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual  
For the Year Ended June 30, 2008

Schedule IV

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variances
	<u>Original Budget</u>	<u>Final Budget</u>		Favorable (Unfavorable)
<i>Operating revenues:</i>				
Fees & Charges	\$ 161,874	\$ 161,874	\$ 159,766	\$ (2,108)
<i>Total operating revenues</i>	<u>161,874</u>	<u>161,874</u>	<u>159,766</u>	<u>(2,108)</u>
<i>Operating expenses:</i>				
Administration fees	3,500	3,500	3,402	98
Advertising	6,500	10,000	6,712	3,288
Books, dues, & registration	5,170	6,260	3,366	2,894
Depreciation	-	-	166,215	(166,215)
Employee salaries	113,018	113,018	108,507	4,511
Field supplies	3,600	3,600	2,257	1,343
Insurance	27,411	27,411	23,758	3,653
Interest	-	-	49,876	(49,876)
Land & right of way	3,101,578	3,201,708	-	3,201,708
Legal fees	45,000	38,000	1,774	36,226
Mileage and per diem	13,085	13,085	12,596	489
Office expenses	12,750	12,483	8,154	4,329
Other contractual services	737,041	738,737	213,396	525,341
Payroll related expenses	18,904	18,918	17,370	1,548
Rent	16,020	16,287	10,373	5,914
Repair & maintenance	1,000	1,000	433	567
Utilities	4,600	5,300	5,266	34
<i>Total operating expenses</i>	<u>4,109,177</u>	<u>4,209,307</u>	<u>633,455</u>	<u>3,575,852</u>
<i>Non-operating revenue:</i>				
Property Taxes	304,028	304,028	341,327	37,299
Intergovernmental	3,431,306	3,500,982	692,487	(2,808,495)
Interest	4,500	4,500	7,622	3,122
Miscellaneous revenue	100,000	130,451	53,425	(77,026)
<i>Total non-operating revenue</i>	<u>3,839,834</u>	<u>3,939,961</u>	<u>1,094,861</u>	<u>(2,845,100)</u>
<i>Other financing sources (uses)</i>				
Decrease in cash	(107,469)	(107,472)	-	107,472
Transfers	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(107,469)</u>	<u>(107,472)</u>	<u>-</u>	<u>107,472</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 621,172</u>	<u>\$ 621,172</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues			467,099	
Adjustments to expenditures			752	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			<u>\$ 1,089,023</u>	

The accompanying notes are an integral part of these financial statements

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**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***

To the Board of Directors  
El Valle De Los Ranchos Water & Sanitation District  
Ranchos de Taos, New Mexico  
and  
Hector Balderas  
New Mexico State Auditor

We have audited the basic financial statements consisting of the business-type activities of El Valle de Los Ranchos Water & Sanitation District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 1, 2008. 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 El Valle de Los Ranchos Water & Sanitation District's 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant 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 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the agency'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. (FS 06-01)

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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 agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the 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, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the New Mexico State Auditor, the New Mexico Department of Finance and Administration, the New Mexico State Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Griego Professional Services, LLC  
Albuquerque, New Mexico  
December 1, 2008

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**STATE NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Schedule of Findings and Responses  
June 30, 2008

**Section I – Summary of Audit Results**

*Financial Statements:*

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weakness identified?	No
b. Significant deficiency identified not considered to be a material weaknesses?	Yes
c. Control deficiency identified not considered to be a significant deficiency?	No
d. Noncompliance material to financial statements noted?	No

**Section II - Prior year findings:**

**FS 06-01 Repeated**  
**FS 07-01 Resolved**

**Section III - Current year findings:**

**FS 06-01— Personnel Files** (*Revised and Repeated*)

*Criteria:* To ensure employees are paid the correct hourly or salary amount, contracts or documents supporting compensation must be included in the employee personnel files. Required documents include starting pay as well as increases or decreases in hourly or salary rate.

*Condition:* During our test work of personnel files, GPS noted the following:

- Four out of four employees' personnel files contained no documentation to support hourly or salary rates of pay.

*Cause:* Employee pay rates are documented in the board minutes, but support for those rates is not maintained in personnel files.

*Effect:* Not having adequate supporting documentation in personnel files is a failure of internal control procedure and could result in various legal complications in the event of noncompliance with a contract.

*Auditors' Recommendations:* We recommend the District obtain all required information and retain the necessary documents in the employees' personnel files. In the future, the District should make periodic checks to ensure all required information is being maintained.

*Management's Response:* Minutes of meetings where salary increases were approved will be included in all Personnel Files. Two employees (Director and Assistant Project Manager) are at-will and work under employment contract with the District. These employees' rates of pay are included in their contracts and these contracts will be placed in their file.

**STATE NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**

Schedule of Findings and Responses  
June 30, 2008

**Section IV - Exit Conference**

An exit conference was conducted on December 1, 2008, with the following individuals:

EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT

Gabriel Romero, Chairman  
Sarah Backus, District Director  
Uvaldo Mondragon, Consultant

Griego Professional Services, LLC

Monica Yapple, CPA, Partner  
Ben Martinez, Staff Accountant

**Section V - Compilation of Financial Statements**

The financial statements presented in this report were compiled by the auditors, Griego Professional Services, LLC.