

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
OFFICIAL ROSTER
June 30, 2011

Name

Title

GOVERNING BOARD

F. R. "Bob" Romero

Chairman

Mario Barela

Vice-Chairman

Meliton Struck

Secretary

Gabriel Romero

Treasurer

Anselmo "Chemo" Valerio

Member

Alipio Mondragon

Member

Administrative Official

Melene Montano

Business Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and the budgetary comparisons of the State of New Mexico, El Valle De Los Ranchos Water & Sanitation District (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the El Valle De Los Ranchos Water & Sanitation District as of June 30, 2011, and the respective change in financial position, thereof and the cash flows 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 budgetary comparisons of the District for the year ended June 30, 2011.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 5, 2011, 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.

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The management's discussion and analysis on pages 11 to 16 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 management's discussion and analysis. However, we did not audit the information and do not express an opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements and budgetary comparisons. The accompanying schedule of cash accounts and pledged collateral is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This 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.

Precision Accounting, LLC
Albuquerque, New Mexico
September 5, 2011

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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, 2011. 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 \$5,939,883 (*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 decreased by \$57,298 during the fiscal year. The majority of this decrease is due to the depreciation of utility plant in service and a decrease intergovernmental grants.
- The District's total debt increased by \$286,130 during the current fiscal year. The District repaid \$52,000 in funds from issuance of revenue bonds, which were issued to continue with the design and construction of the system. The District also incurred debt of \$464,600 on a loan payable which were issued to finance the construction of the new office building.

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 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 *statements 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, maintains only one enterprise fund for its operations.

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

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. 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.

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 27-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 \$5,948,251 at the close of the current fiscal year.

	2011 Business-type	2010 Business-type
Assets		
Current and other assets	\$ 496,065	\$ 703,106
Capital assets, net of accumulated depreciation	7,776,919	7,332,678
Total Assets	8,272,984	8,035,784
Liabilities		
Long-term liabilities outstanding	\$ 2,263,206	\$ 1,873,981
Other liabilities	61,527	164,622
Total Liabilities	2,324,733	2,038,603
Net Assets		
Invested in capital assets, net of related debt	5,513,713	5,455,302
Reserved for capital projects	434,538	541,879
Total Net Assets	5,948,251	5,997,181
Restatement	-	(76,599)
Total Net Assets, restated	\$ 5,948,251	\$ 5,920,582

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.

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

As of June 30, 2011, El Valle had current and other assets of \$496,065, an decrease of \$207,041 over the prior year balance of \$703,106. Capital assets, net of accumulated depreciation, also increased over the prior year due to additions to the utility plant in service. The increase was \$444,241 for an end of year balance of \$7,776,919.

Changes in Net Assets

	2011 Business-type Activities	2010 Business-type Activities
Revenues		
Operation revenues:		
Charges for services	\$ 218,160	\$ 232,715
Non-operating revenues:		
Property taxes	540,242	517,266
Intergovernmental	110,756	340,209
Interest income	10,556	16,188
Gross receipts tax	31,702	22,671
Total revenues	<u>911,416</u>	<u>1,129,049</u>
Expenses		
Administration fees	5,319	5,209
Advertising	5,729	4,748
Books, dues & registration	3,795	5,004
Depreciation	269,071	244,015
Employee salaries	150,505	169,002
Field supplies	346	2,673
Insurance	3,311	2,224
Interest	92,010	80,847
Legal fees		0
Mileage and per diem	15,280	16,119
Miscellaneous expense	1,164	918
Office expenses	8,435	5,332
Other contractual services	71,093	100,578
Payroll related expenses	50,896	52,158
Postage & freight	4,416	7,493
Rent	6,304	10,349
Repair & maintenance	24,379	558
Service fees	163,510	143,375
Utilities	8,184	5,644
Total expenses	<u>883,747</u>	<u>856,246</u>
Increase in net assets	27,669	272,803
Net assets, beginning of year	5,997,181	5,724,378
Restatement	(76,599)	-
Net assets, beginning of year-	<u>5,920,582</u>	<u>5,724,378</u>
Ending net assets	<u>\$ 5,948,251</u>	<u>\$ 5,997,181</u>

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

Long term liabilities increased by \$389,225 which was the net amount of new debt less principal payments made during the year. Other liabilities decreased by \$103,095, with an ending balance of \$61,527. At June 30, 2011, the net assets of El Valle totaled \$5,939,883 which was an decrease of \$57,298 over prior year net assets of \$5,997,181.

Revenues for the year ending June 30, 2011 were less than the prior year by \$217,633. The main area of decrease was intergovernmental revenues, which decreased by \$229,453. Total expenditures increased by \$27,501 Most expenditure categories increased, but the largest increases were depreciation expense (\$25,056 increase), employee salaries plus related items of insurance and payroll related items decreased (\$94,772 decrease) and service fees (\$20,135 increase).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

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

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

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. The total budget did change by approximately \$107,730.

During the year, actual operating revenues were lower than budgetary estimates by \$10,283. This is a difference of 4.95%, which is was expected in the budget process.

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, 2011 amount to \$7,776,919 (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 \$709,779, which consisted of additions to the utility plan in service and furniture and equipment.

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

Capital Assets, Net of Depreciation
June 30, 2011 and 2010

	2011 Business -type	2010 Business-type
Land	\$ 100,000	\$ 100,000
Furniture, fixtures & equipment	17,249	22,290
Buildings	637,911	111,998
Utility plant in service	8,179,015	7,990,108
Total capital assets	8,934,175	8,224,396
Accumulated Depreciation	(1,157,256)	(891,718)
Capital assets, net of accumulated depreciation	\$ 7,776,919	\$ 7,332,678

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. 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 \$2,263,206. The debt consists of revenue bonds along with three loans payable. Changes to long word debt during the year included principal payments of \$85,375.

	2011 Business -type	2010 Business-type
General obligation bonds	\$ 931,000	\$ 983,000
Loan payable-NMED	75,771	75,771
Loan payable-USDA	462,690	-
Loan payable-Water Trust Board	9,512	-
RUS Bonds payable	784,233	815,210
	\$ 2,263,206	\$ 1,873,981

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.

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

FUTURE TRENDS

The District has fully expended all grants from the State of New Mexico by the end of FY 2010-2011.

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.

BASIC FINANCIAL STATEMENTS

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STATE OF NEW MEXICO
 El Valle De Los Ranchos
 Water and Sanitation District
 Statement of Net Assets
 June 30, 2011

Exhibit A-1

ASSETS

Current assets:

Cash and cash equivalents	\$	406,419
Investments		20,701
Accounts receivable-customers		33,745
Accounts receivable-property taxes		23,948
Accounts receivable-grants		6,804
Accounts receivable-other		4,448
Total current assets		496,065

Capital assets:

Land		100,000
Building		637,911
Equipment		17,249
Utility plant in service		8,179,015
Total capital assets		8,934,175
Less accumulated depreciation		(1,157,256)
Net capital assets		7,776,919

Total Assets	\$	8,272,984
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LIABILITIES

Current liabilities:

Accounts payable	\$	31,706
Accrued interest		18,250
Payroll liabilities		9,880
Accrued compensated absences		1,691
Current portion of long-term debt		103,542
		165,069

Total Current Liabilities		165,069
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Non-current liabilities:

Bonds payable		2,159,664
Total long-term liabilities		2,159,664

Total liabilities		2,324,733
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NET ASSETS

Invested in capital assets less related debt		5,513,713
Unrestricted		434,538
		5,948,251

Total net assets		5,948,251
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Liabilities and Net Assets	\$	8,272,984
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STATE OF NEW MEXICO
El Valle de Los Ranchos
Water and Sanitation District
Statement of Revenues, Expenses - and Changes in Net Assets
Year Ended June 30, 2011

Exhibit A-2

Operating revenues:	
Fees and charges	\$ 216,391
Miscellaneous operating income	1,769
<i>Total operating revenues</i>	218,160
 Operating expenses:	
Administration fees	5,319
Advertising	5,729
Books, dues & registration	3,795
Depreciation	269,071
Employee salaries	150,505
Field supplies	346
Insurance	3,311
Interest	92,010
Miscellaneous expense	1,164
Mileage & per diem	15,280
Office expenses	8,435
Other contractual services	71,093
Payroll related expenses	50,896
Rent	6,304
Repairs & maintenance	24,379
Postage & freight	4,416
Service fees	163,510
Utilities	8,184
<i>Total operating expenses</i>	883,747
 <i>Operating income (loss)</i>	 (665,587)
 Non-operating revenues:	
Gross receipts taxes	31,702
Property taxes	540,242
Intergovernmental grants	110,756
Interest income	10,556
	693,256
Non-operating revenue	693,256
 Net income	 27,669
 Net assets, beginning of year	 5,997,181
Restatement- Note 15	(76,599)
Net assets, beginning of year-restated	5,920,582
 Net assets, at end of year	 \$ 5,948,251

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El Valle de Los Ranchos Water and Sanitation District
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from grantors and customers	\$ 440,563
Cash paid to suppliers and employees	(719,278)
Non-exchange taxes assessed	<u>531,874</u>
Net cash flows provided by operating activities	<u>\$ 253,159</u>
Cash flows from investing activities:	
Interest received	10,556
Increase in plant in service	<u>(713,313)</u>
Net cash flows used by investing activities	<u>(702,757)</u>
Cash flows from financing activities:	
Issuance of long-term debt	389,225
Reclassification of grant income to loan	<u>(76,598)</u>
Net cash flows provided by financing activities	<u>312,627</u>
Net decrease in cash and cash equivalents	(136,971)
Cash and cash equivalents, beginning of year	<u>564,091</u>
Cash and cash equivalents, end of year	<u><u>\$ 427,120</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Increase in unrestricted net assets	\$ 27,669
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Interest received	(10,556)
Depreciation	269,071
Decrease (Increase) in:	
Accounts receivable	(6,774)
Grants receivable	76,844
Increase (Decrease) in:	
Accounts payable	(99,317)
Accrued expenses	<u>(3,778)</u>
Net cash provided by operating activities	<u><u>\$ 253,159</u></u>

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STATE OF NEW MEXICO
 El Valle de Los Ranchos Water & Sanitation District
 General Fund
 Statement of Revenues and Expenditures
 Budget and Actual (GAAP Basis)
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	(Unfavorable) Favorable Final to Actual
<i>Revenues:</i>				
Fees and charges	\$ 231,516	\$ 204,600	\$ 216,391	\$ 11,791
Miscellaneous	1,170	3,277	1,769	(1,508)
<i>Total revenues</i>	<u>232,686</u>	<u>207,877</u>	<u>218,160</u>	<u>10,283</u>
<i>Expenditures:</i>				
Current:				
Administration fees	5,023	5,023	5,319	(296)
Advertising	6,000	6,000	5,729	271
Books, dues & registration	4,860	4,860	3,795	1,065
Depreciation	212,500	281,293	269,071	12,222
Employee salaries	159,187	151,606	150,505	1,101
Field supplies	24,500	17,200	346	16,854
Insurance	3,000	5,000	3,311	1,689
Interest	93,000	98,000	92,010	5,990
Miscellaneous expense	1,000	1,000	1,164	(164)
Mileage & per diem	18,041	18,041	15,280	2,761
Office expenses	6,750	11,750	8,435	3,315
Other contractual services	62,500	131,627	71,093	60,534
Payroll related expenses	55,305	54,092	50,896	3,196
Postage and freight	9,500	9,500	4,416	5,084
Rent	12,020	12,020	6,304	5,716
Repairs & maintenance	1,000	282,293	24,379	257,914
Utilities	11,600	11,900	8,184	3,716
Service fees	148,769	127,373	163,510	(36,137)
<i>Total expenditures</i>	<u>834,555</u>	<u>1,228,578</u>	<u>883,747</u>	<u>344,831</u>
Operating income	<u>(601,869)</u>	<u>(1,020,701)</u>	<u>(665,587)</u>	<u>355,114</u>
Non-operating revenues:				
Beginning cash balance	8,532	455,954	-	(455,954)
Gross receipts taxes	22,671	28,000	31,702	3,702
Property taxes	502,292	530,000	540,242	10,242
Intergovernmental	52,186	(3,619)	110,756	114,375
Interest income	16,188	10,366	10,556	190
Non-operating income	601,869	1,020,701	693,256	(327,445)
Change in Net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,669</u>	<u>\$ 27,669</u>

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

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 is in 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 and presently has about 500 customers.

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 one 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 organization if its officials appoint a voting majority of an 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:

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

A. Reporting Entity

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 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, 2011.

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 expense 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 requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 receivable are recorded at year-end once operations begin.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue items 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 standards 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 fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

ongoing operations. The principal operating revenue of the District's enterprise fund is charges for wastewater services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. 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.

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, 2011 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 November 10th and April 10th. The taxes are an enforceable lien on the property.

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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

F. Assets, Liabilities and Net Assets or Equity (continued)

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 eighty (80) hours of annual leave per year 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.

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

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

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

G. 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.

H. Advertising

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2011 were \$5,729.

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 GAAP accrual basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Actual expenditure may not exceed the budget on a per fund basis, i.e., total budgeted expenditure must be within total budgeted amounts. Budgets may be amended in 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 Statement
June 30, 2011

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, 2011.

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 an 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 \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The Dodd Frank Act of 2010 required that all funds in a non-interest bearing bank account be fully insured by the F.D.I.C. through December 31, 2012. El Valle de Los Ranchos Water and Sanitation District's deposits are in interest bearing accounts and therefore, are not subject to the Dodd Frank Act.

All of the investments of El Valle de Los Ranchos Water & Sanitation District at June 30, 2011, 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.

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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS- (continued)

Deposits

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipts be issued, to the District for a least one half of the uninsured 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</u>
Total amounts of deposits	\$ 409,191
FDIC coverage	(256,856)
Total uninsured public funds	<u>\$ 152,335</u>
Collateral requirement (50% of uninsured public funds)	\$ 76,167
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	<u>142,332</u>
Total under (over) collateralized	<u>\$ (66,165)</u>
Custodial credit risk-Uninsured deposits	<u>\$ 152,335</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 states statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2011, \$152,335 of the District's bank balance of \$409,191 was exposed to custodial credit risk because \$152,335 was uninsured and the collateral was held by the pledging bank's trust department, not in the District's name. At June 30, 2011, the carrying amount of these deposits was \$406,419 as shown on the next page.

Investments

As of June 30, 2011, 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	\$ 20,701	\$ 20,701

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
 Notes to Financial Statement
 June 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

The New MexiGrow Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC Registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Section 6-10-10-I through 6-10-10-P and Section 6-10-10-1 A and E NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1 F, NMSA 1978, as of the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the pool is voluntary.

Interest Rate Risk and Credit Rating-Investment in State Treasurer's LGIP

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. The District's investment at June 30, 2011 include the following:

State Treasurer's Local Government Investment Pool AAAM, 36-day WAM \$20,701.

Reconciliation of Cash and Temporary Investments

Business-type funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 427,120
Less investment with State of New Mexico Treasurer	(20,701)
	406,419
Add outstanding checks and other reconciling items	3,072
	409,491
Less petty cash	(300)
	\$ 409,191

NOTE 4. RECEIVABLES

Receivables as of June 30, 2011, are as follows:

Property taxes	\$ 23,948
Customer Receivables	35,260
Grants Receivables	6,804
Other Receivables	2,933
	\$ 68,945
Total	\$ 68,945

The above receivables are deemed 100% collectible. Other receivables consist of court costs billed to delinquent customers.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 5. PREPAID EXPENSES

The District has insurance policies that are paid in advance and are expensed monthly. There was no prepaid insurance at June 30, 2011.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Deletions and</u>	<u>Balance</u>
Land	100,000	\$ -	\$ -	\$ 100,000
Construction in progress	111,998	-	(111,998)	-
Buildings		637,911	-	637,911
Furniture, fixtures & equipment	22,290	-	(5,041)	17,249
Utility plant in service	7,990,108	188,907	-	8,179,015
Total Capital Assets	<u>8,224,396</u>	<u>826,818</u>	<u>(117,039)</u>	<u>8,934,175</u>
Less accumulated depreciation				
Utility plant in service	(874,254)	(257,515)	-	(1,131,769)
Buildings	-	(10,419)	-	(10,419)
Furniture, fixtures & equipment	(17,464)	(1,138)	3,534	(15,068)
Total accumulated depreciation	<u>(891,718)</u>	<u>(269,072)</u>	<u>3,534</u>	<u>(1,157,256)</u>
Total capital assets, net	<u>\$ 7,332,678</u>	<u>\$ 557,746</u>	<u>\$ (113,505)</u>	<u>\$ 7,776,919</u>

Depreciation expense for the year ended June 30, 2011 was charged to business-type activities as follows:

Water & Sewer - Administration	<u>\$ 269,072</u>
Total Depreciation Expense	<u><u>\$ 269,072</u></u>

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 7. LONG-TERM DEBT

During the year ended June 30, 2011, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance	Additions	Retirements	Balance	Amount Due
Revenue Bonds	\$ 983,000	\$ -	\$ 52,000	\$ 931,000	\$ 54,000
Loan Payable- NM ED	75,771	-	-	75,771	-
RUS/UNM Bonds	815,210	-	30,977	784,233	32,499
Loan payable-USDA	-	464,600	1,910	462,690	16,554
Loan payable-Water Trust	-	10,000	488	9,512	489
Total Long-Term Debt	\$ 1,873,981	\$ 474,600	\$ 85,375	\$ 2,263,206	\$ 103,542

The annual requirements to amortize the bonds as of June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 54,000	\$ 41,900	\$ 95,900
2012	57,000	39,500	96,500
2013	59,000	36,900	95,900
2014	62,000	34,300	96,300
2015	65,000	31,500	96,500
2016-2020	368,000	111,300	479,300
2021-2025	266,000	24,500	290,500
Total	\$ 931,000	\$ 319,900	\$ 1,250,900

Bonds outstanding at June 30, 2011, consisted of the following issues:

Revenue Bonds:

2004 Sewer Revenue Bonds, dated January 22, 2004,
principal due January 22, 2005 through 2024 having an
approximately yield of 4.50%

\$ 931,000

Total Bonds

\$ 931,000

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 7. LONG-TERM DEBT (continued)

During the fiscal year, the District made a principal payment of \$52,000 during the year bringing the balance to \$931,000. 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.

RUS/UNM Bonds:

The annual requirements to amortize the RUS/UNM Bonds payable as of June 30, 2011, payments are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 32,499	\$ 32,780	\$ 65,279
2013	33,997	31,283	65,280
2014	35,471	29,809	65,280
2015	37,008	28,272	65,280
2016	38,539	26,741	65,280
2017-2021	219,584	106,816	326,400
2022-2026	271,496	54,904	326,400
2027-2029	115,639	4,526	120,165
Total	<u>\$ 784,233</u>	<u>\$ 315,131</u>	<u>\$ 1,099,364</u>

Loans outstanding at June 30, 2011, consisted of the following loans:

Loans:

New Mexico Environmental Department Loan,
20 Year, 3.00% interest.

\$ 75,771

There are no interest or principal payments due on the New Mexico Environmental Department

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 7. LONG-TERM DEBT (continued)

United States Department of Agriculture Loan:

The USDA loan, dated May 10, 2010 with principal and interest due monthly from June 10, 2011 till May 10, 2031. The monthly payment of \$2,946 including interest at 4.125% and is secured by the office building.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 16,554	\$ 18,798	\$ 35,352
2013	17,249	18,103	35,352
2014	17,975	17,377	35,352
2015	18,730	16,622	35,352
2016	19,518	15,834	35,352
2017-2021	110,607	66,153	176,760
2022-2026	135,895	40,865	176,760
2027-2030	<u>126,723</u>	<u>10,623</u>	<u>137,346</u>
Total	\$ <u>463,251</u>	\$ <u>204,375</u>	\$ <u>667,626</u>

New Mexico Finance Authority-Water Trust Board Loan:

The New Mexico Finance Authority and the Water Trust Board loaned El Valle de Los Ranchos Water and Sanitation district \$10,000 on April 27, 2011 for the purpose of planning, design and engineering of a water utility system. The annual payments of \$513 include interest at .25%.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 489	\$ 24	\$ 513
2013	491	22	513
2014	492	21	513
2015	493	20	513
2016	494	19	513
2017-2021	2,491	76	2,567
2022-2026	2,517	50	2,567
2027-2030	<u>2,045</u>	<u>19</u>	<u>2,064</u>
Total	\$ <u>9,512</u>	\$ <u>251</u>	\$ <u>9,763</u>

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 8. 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 9. 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 10. 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 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7% of gross salary. El Valle de Los Ranchos is required to contribute 7% of the gross covered salary. The contribution requirements of plan members and the El Valle de Los Ranchos Water and Sanitation district are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the year ended June 30, 2011, 2010 and 2009 were \$11,473, \$8,365, and \$8,800 respectively.

NOTE 12. 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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 13. JOINT POWERS AGREEMENT

Town of Taos

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

Responsibility 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

Llano Quemado Mutual Domestic Water Association

Purpose

To share in the development of water distribution system and share water wells.

Participants

Llano Quemado Mutual Domestic Water Association and the El Valle de Los Ranchos Water & Sanitation District

Responsible Party for Operation and Audit

Shared responsibility

Beginning and Ending Date of Agreement

February 27, 2009 until terminated

Total Estimated Amount of Project and Actual Amount of Contribution

Total cost unknown and none contributed during the year.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2011

NOTE 14. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The District is reviewing the effects of the implementation of this statement.

In June 2011, the GASB issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District is reviewing the effects of the implementation of this statement.

Note 15. RESTATEMENT

In the prior year, the District was awarded a grant/loan combination from the USDA. The amount of \$76,599 was recorded erroneously as a grant when in fact it was a loan.

Net assets, beginning	\$ 5,997,181
Restatement	<u> (76,599)</u>
Net assets, restated	<u>\$ 5,920,582</u>

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, 2011

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Fair/Par Market Value June 30, 2011</u>	<u>Name and Location of Safekeeper</u>
Peoples Bank	FNMA 2008 94-A 31397MM46 6.50%, Due 02-25-2037	\$ 37,527	Federal Reserve Bank Kansas City, KS
Peoples Bank	FHLMC Gold Pool 3128MCWD3 3.00% Due 1/1/2026	78,235	Federal Reserve Bank Kansas City, KS
Peoples Bank	GNMA 2009 8-BL 38374TFW9 4.0%, Due 04-20-2033	26,570	Federal Reserve Bank Kansas City, KS
		<u>\$ 142,332</u>	

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
 Schedule of Deposits and Investments
 June 30, 2011

Schedule II

<u>Bank Account Type/Name</u>	<u>People's Bank</u>	<u>NM State Treasurer</u>	<u>Totals</u>
Checking	\$ 6,856	\$ -	\$ 6,856
Money Market	402,335	-	402,335
State Treasurer's Pool	-	20,701	20,701
	<u>\$ 409,191</u>	<u>\$ 20,701</u>	<u>\$ 429,892</u>
Total On Deposit			
Reconciling Items			(3,072)
Petty Cash			300
Reconciled Cash and Investments, June 30, 2011			<u>\$ 427,120</u>

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Cash Reconciliation
June 30, 2011

Schedule III

	<u>Checking</u>	<u>Money Market</u>	<u>Total</u>
Bank balance end of year	\$ 6,856	\$ 402,335	\$ 409,191
Deposits in transit	-	-	-
Outstanding checks	<u>(3,072)</u>	<u>-</u>	<u>(3,072)</u>
Cash, June 30, 2011	<u>\$ 3,784</u>	<u>\$ 402,335</u>	406,119
State Treasurer's Pool			20,701
Petty Cash			300
			<u>\$ 427,120</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements consisting of the business-type activities and the budgetary comparisons of the general fund of El Valle de Los Ranchos Water & Sanitation District as of and for the year ended June 30, 2011, and have issued our report thereon dated September 5, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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*.

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.

Precision Accounting, LLC

September 5, 2011

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2011

Schedule IV

Section I – Prior year findings:

None

Section II – Current year findings:

None

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Other Disclosures
For the Year Ended June 30, 2011

Schedule V

Section IV – Exit Conference

An exit conference was conducted on August 30, 2011, with the following individuals:

EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT

F.R. Bob Romero, Chairman

Mario Barela, Vice-Chairman

Melene Montano, Business Manager

Uvaldo Mondragon, Financial Consultant

Precision Accounting LLC

C Jack Emmons, CPA, CFE

Section V – Financial Statements

El Valle de Los Ranchos Water and sanitation District has the capability of preparing, understanding and accepting the responsibility for its own GAAP-basis financial statements. The District contracts with a contract accountant who is an integral part of their internal control system and he assists in the preparation of the financial statements.