

STATE OF NEW MEXICO  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2012

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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, 2012

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STATE OF NEW MEXICO  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
OFFICIAL ROSTER  
June 30, 2012

Name

Title

GOVERNING BOARD

F. R. "Bob" Romero

Chairman

Mario Barela

Vice-Chairman

Meliton Struck

Secretary

Anselmo "Chemo" Valerio

Treasurer

Gabriel Romero

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, 2012, 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. 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 previously 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, 2012, and the respective change in financial position, thereof and the cash flows thereof and the budgetary comparison for the operating fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 4, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the governmental Accounting Standards Board who considers it to be an essential part of the financial

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reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements and budgetary comparisons. The accompanying schedule of cash accounts and pledged collateral, listed as "Other Supplemental Information" in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United states of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Precision Accounting LLC*

Precision Accounting, LLC  
Albuquerque, New Mexico  
September 4, 2012

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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, 2012. 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 \$5,907,596 (*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 \$11,855 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 decreased by \$50,307 during the current fiscal year. The District repaid \$54,000 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 \$51,460 on a loan payable which was issued to finance the acquisition of water rights.

### **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 \$5,907,596 at the close of the current fiscal year.

|   | <u>2012 Business-type</u> | <u>2011 Business-type</u> |
|---|---------------------------|---------------------------|
| <b>Assets</b>                                   |                           |                           |
| Current and other assets                        | \$ 619,720                | \$ 496,065                |
| Capital assets, net of accumulated depreciation | 7,630,041                 | 7,776,919                 |
| Total Assets                                    | <u>8,249,761</u>          | <u>8,272,984</u>          |
| <b>Liabilities</b>                              |                           |                           |
| Long-term liabilities outstanding               | \$ 2,212,899              | \$ 2,263,206              |
| Other liabilities                               | 129,266                   | 61,527                    |
| Total Liabilities                               | <u>2,342,165</u>          | <u>2,324,733</u>          |
| <b>Net Assets</b>                               |                           |                           |
| Invested in capital assets, net of related debt | 5,419,107                 | 5,513,713                 |
| Reserved for capital projects                   | 488,489                   | 434,538                   |
| Total Net Assets                                | 5,907,596                 | 5,948,251                 |
| Restatement (Note 16)                           | -                         | (28,800)                  |
| Total Net Assets, restated                      | <u>\$ 5,907,596</u>       | <u>\$ 5,919,451</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.



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

As of June 30, 2012, El Valle had current and other assets of \$619,720, an increase of \$123,655 over the prior year balance of \$496,065. Capital assets, net of accumulated depreciation, decreased over the prior year due to additions to accumulated depreciation. The decrease was \$146,878 for an end of year balance of \$7,630,041.

**Changes in Net Assets**

|                                | 2012 Business-type Activities | 2011 Business-type Activities |
|--------------------------------|-------------------------------|-------------------------------|
| <b>Revenues</b>                |                               |                               |
| Operation revenues:            |                               |                               |
| Charges for services           | \$ 219,052                    | \$ 218,160                    |
| Non-operating revenues:        |                               |                               |
| Property taxes                 | 543,928                       | 540,242                       |
| Intergovernmental              | 9,244                         | 110,756                       |
| Interest income                | 7,692                         | 10,556                        |
| Gross receipts tax             | 31,128                        | 31,702                        |
| Total revenues                 | <u>811,044</u>                | <u>911,416</u>                |
| <b>Expenses</b>                |                               |                               |
| Administration fees            | 5,445                         | 5,319                         |
| Advertising                    | 4,400                         | 5,729                         |
| Books, dues & registration     | 2,565                         | 3,795                         |
| Depreciation                   | 272,113                       | 269,071                       |
| Employee salaries              | 102,798                       | 150,505                       |
| Field supplies                 | 6,489                         | 346                           |
| Insurance                      | 4,820                         | 3,311                         |
| Interest                       | 92,005                        | 92,010                        |
| Legal fees                     | 38,256                        | 58,788                        |
| Mileage and per diem           | 16,314                        | 15,280                        |
| Miscellaneous expense          | 1,405                         | 1,164                         |
| Office expenses                | 5,066                         | 8,435                         |
| Other contractual services     | 45,637                        | 12,305                        |
| Payroll related expenses       | 35,617                        | 50,896                        |
| Postage & freight              | 4,947                         | 4,416                         |
| Rent                           | 2,889                         | 6,304                         |
| Repair & maintenance           | 4,339                         | 24,379                        |
| Service fees                   | 170,317                       | 163,510                       |
| Utilities                      | 7,477                         | 8,184                         |
| Total expenses                 | <u>822,899</u>                | <u>883,747</u>                |
| Increase in net assets         | (11,855)                      | 27,669                        |
| Net assets, beginning of year  | 5,948,251                     | 5,997,181                     |
| Restatement (Note 16)          | ( 28,800)                     | (76,599)                      |
| Net assets, beginning of year- | <u>5,919,451</u>              | <u>5,920,582</u>              |
| Ending net assets              | <u>\$ 5,907,596</u>           | <u>\$ 5,948,251</u>           |

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

Long term liabilities decreased by \$50,307 which was the net amount of new debt less principal payments made during the year. Other liabilities increased by \$67,739, with an ending balance of \$129,266. At June 30, 2012, the net assets of El Valle totaled \$5,907,596 which was a decrease of \$40,655 over prior year net assets of \$5,948,251.

Revenues for the year ending June 30, 2012 were less than the prior year by \$100,372. The main area of decrease was intergovernmental revenues, which decreased by \$101,512. Total expenditures decreased by \$60,848. Most expenditure categories decreased, but the largest decreases were employee salaries plus related items of insurance and payroll related items decreased (\$62,986 decrease) and service fees (\$6,807 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 \$16,960.

During the year, actual operating revenues were lower than budgetary estimates by \$94,164. This is a difference of 10.4%, which 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, 2012 amount to \$7,630,041 (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 \$125,235, which consisted of additions to the utility plant 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, 2012 and 2011

|   | 2012 Business -type | 2011 Business-type |
|---|---------------------|--------------------|
| Land  | \$ 100,000          | \$ 100,000         |
| Furniture, fixtures & equipment                 | 17,249              | 17,249             |
| Buildings                                       | 637,911             | 637,911            |
| Utility plant in service                        | 8,304,250           | 8,179,015          |
| Total capital assets                            | 9,059,410           | 8,934,175          |
| Accumulated Depreciation                        | (1,429,369)         | (1,157,256)        |
| Capital assets, net of accumulated depreciation | \$ 7,630,041        | \$ 7,776,919       |

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 \$2,210,934. The debt consists of revenue bonds along with four loans payable. Changes to long term debt during the year included principal payments of \$51,640.

|                                | 2012 Business -type | 2011 Business-type Activities |
|--------------------------------|---------------------|-------------------------------|
| General obligation bonds       | \$ 877,000          | \$ 931,000                    |
| Loan payable-NMED              | 127,411             | 75,771                        |
| Loan payable-USDA              | 446,114             | 462,690                       |
| Loan payable-Water Trust Board | 9,023               | 9,512                         |
| RUS Bonds payable              | 751,386             | 784,233                       |
|                                | \$ 2,210,934        | \$ 2,263,206                  |

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 2011-2012.

**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, 2012

Exhibit A-1

**ASSETS**

**Current assets:**

|                                    |    |         |
|------------------------------------|----|---------|
| Cash and cash equivalents          | \$ | 15,048  |
| Investments                        |    | 509,305 |
| Accounts receivable-customers      |    | 38,260  |
| Accounts receivable-property taxes |    | 52,532  |
| Accounts receivable-other          |    | 4,575   |
| Total current assets               |    | 619,720 |

**Capital assets:**

|                               |  |             |
|-------------------------------|--|-------------|
| Land                          |  | 100,000     |
| Building                      |  | 637,911     |
| Equipment                     |  | 17,249      |
| Utility plant in service      |  | 8,304,250   |
| Total capital assets          |  | 9,059,410   |
| Less accumulated depreciation |  | (1,429,369) |
| Net capital assets            |  | 7,630,041   |

|                     |    |           |
|---------------------|----|-----------|
| <i>Total Assets</i> | \$ | 8,249,761 |
|---------------------|----|-----------|

**LIABILITIES**

**Current liabilities:**

|                                   |    |         |
|-----------------------------------|----|---------|
| Accounts payable                  | \$ | 37,947  |
| Accrued interest                  |    | 17,083  |
| Payroll liabilities               |    | 9,584   |
| Deferred revenue                  |    | 63,944  |
| Accrued compensated absences      |    | 708     |
| Current portion of long-term debt |    | 248,693 |
| Total Current Liabilities         |    | 377,959 |

**Non-current liabilities:**

|  |  |           |
|--|--|-----------|
| Accrued compensated absences-long-term |  | 1,965     |
| Bonds payable                          |  | 1,962,241 |
| Total long-term liabilities            |  | 1,964,206 |

|                          |  |           |
|--------------------------|--|-----------|
| <i>Total liabilities</i> |  | 2,342,165 |
|--------------------------|--|-----------|

**NET ASSETS**

|  |  |           |
|--|--|-----------|
| Invested in capital assets less related debt |  | 5,419,107 |
| Unrestricted                                 |  | 488,489   |
| Total net assets                             |  | 5,907,596 |

|                                   |           |                  |
|-----------------------------------|-----------|------------------|
| <b>Liabilities and Net Assets</b> | <b>\$</b> | <b>8,249,761</b> |
|-----------------------------------|-----------|------------------|

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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, 2012

Exhibit A-2

|  |                         |
|--|-------------------------|
| <b>Operating revenues:</b>             |                         |
| Fees and charges                       | \$ 216,575              |
| Miscellaneous operating income         | 2,477                   |
| <i>Total operating revenues</i>        | <u>219,052</u>          |
| <br><b>Operating expenses:</b>         |                         |
| Administration fees                    | 5,445                   |
| Advertising                            | 4,400                   |
| Books, dues & registration             | 2,565                   |
| Depreciation                           | 272,113                 |
| Employee salaries                      | 102,798                 |
| Field supplies                         | 6,489                   |
| Insurance                              | 4,820                   |
| Interest                               | 92,005                  |
| Miscellaneous expense                  | 1,405                   |
| Mileage & per diem                     | 16,314                  |
| Office expenses                        | 5,066                   |
| Other contractual services             | 83,893                  |
| Payroll related expenses               | 35,617                  |
| Rent                                   | 2,889                   |
| Repairs & maintenance                  | 4,339                   |
| Postage & freight                      | 4,947                   |
| Service fees                           | 170,317                 |
| Utilities                              | 7,477                   |
| <i>Total operating expenses</i>        | <u>822,899</u>          |
| <br><i>Operating income (loss)</i>     | <br>(603,847)           |
| <br><b>Non-operating revenues:</b>     |                         |
| Gross receipts taxes                   | 31,128                  |
| Property taxes                         | 543,928                 |
| Intergovernmental grants               | 9,244                   |
| Interest income                        | 7,692                   |
|  | <u>591,992</u>          |
| <br>Non-operating revenue              | <br>591,992             |
| <br>Net income                         | <br>(11,855)            |
| <br>Net assets, beginning of year      | <br>5,948,251           |
| Restatement - Note 16                  | (28,800)                |
| Net assets, beginning of year-restated | <u>5,919,451</u>        |
| <br>Net assets, at end of year         | <br><u>\$ 5,907,596</u> |

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STATE OF NEW MEXICO  
 El Valle de Los Ranchos Water and Sanitation District  
 Statement of Cash Flows  
 For the Year Ended June 30, 2012

|  |                          |
|--|--------------------------|
| Cash flows from operating activities:  |                          |
| Cash received from grantors and customers  | \$ 237,018               |
| Cash paid to suppliers and employees   | (545,026)                |
| Non-exchange taxes assessed  | <u>575,056</u>           |
| Net cash flows provided by operating activities  | <u>\$ 267,048</u>        |
| Cash flows from investing activities:  |                          |
| Interest received  | 7,692                    |
| Increase in plant in service   | <u>(125,235)</u>         |
| Net cash flows used by investing activities  | <u>(117,543)</u>         |
| Cash flows from financing activities:  |                          |
| Payments on long-term debt   | <u>(52,272)</u>          |
| Net cash flows used by financing activities  | <u>(52,272)</u>          |
| Net increase in cash and cash equivalents  | 97,233                   |
| Cash and cash equivalents, beginning of year   | <u>427,120</u>           |
| Cash and cash equivalents, end of year   | <u><u>\$ 524,353</u></u> |
| Reconciliation of change in net assets to net cash provided by operating activities:       |                          |
| Operating income (loss)  | \$ (603,847)             |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: |                          |
| Gross receipts taxes   | 31,128                   |
| Property taxes   | 543,928                  |
| Intergovernmental grants   | 9,244                    |
| Interest earned  | -                        |
| Depreciation   | 272,113                  |
| Decrease (Increase) in:  |                          |
| Accounts receivable  | 7,522                    |
| Increase (Decrease) in:  |                          |
| Accounts payable   | 5,117                    |
| Deferred revenue   | 1,200                    |
| Payroll liabilities  | 1,810                    |
| Accrued expenses   | <u>(1,167)</u>           |
| Net cash provided by operating activities  | <u><u>\$ 267,048</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, 2012

|                            | Budgeted Amounts |                  | Actual             | Variances                                     |
|----------------------------|------------------|------------------|--------------------|---|
|                            | Original         | Final            | (GAAP Basis)       | Favorable<br>(Unfavorable)<br>Final to Actual |
| <i>Revenues:</i>           |                  |                  |                    |   |
| Fees and charges           | \$ 199,285       | \$ 211,775       | \$ 216,575         | \$ 4,800                                      |
| Miscellaneous              | -                | 2,477            | 2,477              | -   |
| <i>Total revenues</i>      | <u>199,285</u>   | <u>214,252</u>   | <u>219,052</u>     | <u>4,800</u>                                  |
| <i>Expenditures:</i>       |                  |                  |                    |   |
| Current:                   |                  |                  |                    |   |
| Administration fees        | 5,450            | 5,450            | 5,445              | 5   |
| Advertising                | 6,000            | 6,000            | 4,400              | 1,600   |
| Books, dues & registration | 5,160            | 5,160            | 2,565              | 2,595   |
| Depreciation               | 365,000          | 365,000          | 272,113            | 92,887  |
| Employee salaries          | 126,702          | 127,456          | 102,798            | 24,658  |
| Field supplies             | 2,200            | 2,200            | 6,489              | (4,289)                                       |
| Insurance                  | 5,000            | 5,000            | 4,820              | 180   |
| Interest                   | -                | -                | 92,005             | (92,005)                                      |
| Miscellaneous expense      | 1,800            | 1,800            | 1,405              | 395   |
| Mileage & per diem         | 18,318           | 18,318           | 16,314             | 2,004   |
| Office expenses            | 6,750            | 6,750            | 5,066              | 1,684   |
| Other contractual services | 115,100          | 116,450          | 83,893             | 32,557  |
| Payroll related expenses   | 41,294           | 42,843           | 35,617             | 7,226   |
| Postage and freight        | 8,000            | 8,000            | 4,947              | 3,053   |
| Rent                       | 4,360            | 4,360            | 2,889              | 1,471   |
| Repairs & maintenance      | 3,000            | 4,339            | 4,339              | -   |
| Utilities                  | 13,500           | 13,500           | 7,477              | 6,023   |
| Service fees               | 160,614          | 172,582          | 170,317            | 2,265   |
| <i>Total expenditures</i>  | <u>888,248</u>   | <u>905,208</u>   | <u>822,899</u>     | <u>82,309</u>                                 |
| Operating income           | <u>(688,963)</u> | <u>(690,956)</u> | <u>(603,847)</u>   | <u>87,109</u>                                 |
| Non-operating revenues:    |                  |                  |                    |   |
| Gross receipts taxes       | 35,000           | 35,000           | 31,128             | (3,872)                                       |
| Property taxes             | 545,011          | 545,011          | 543,928            | (1,083)                                       |
| Intergovernmental          | 103,252          | 103,252          | 9,244              | (94,008)                                      |
| Interest income            | 5,700            | 7,693            | 7,692              | (1)   |
| Non-operating income       | 688,963          | 690,956          | 591,992            | (98,964)                                      |
| Change in Net assets       | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ (11,855)</u> | <u>\$ (11,855)</u>                            |

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**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, 2012

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

***A. Reporting Entity***

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.

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, 2012.

***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, 2012

**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, 2012

***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, 2012 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 10<sup>th</sup> and April 10<sup>th</sup>. 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, 2012

***E. 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.

***Ad-valorem taxes:*** Property taxes are assessed on January 1 of each year and are based on the assessed value of property and are due in two equal payments by November 10<sup>th</sup> of the year in which the tax bill is prepared and April 10<sup>th</sup> of the following year. Property taxes uncollected thirty days after November 10<sup>th</sup>

**STATE OF NEW MEXICO**  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
Notes to Financial Statement  
June 30, 2012

**Ad-valorem taxes (continued)**

and April 10<sup>th</sup> are considered delinquent and the District may assess penalties and interest. The taxes are an enforceable lien on the property. Taos county bills, collects, and remits the district's share of property taxes.

***F. 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.

***G. Advertising***

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2012 were \$4,400.

**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.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
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***Budgets and Budgetary Accounting (continued)***

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.

**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, 2012.

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, 2012, 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  
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**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 Bank</u> |
| Total amounts of deposits  | \$ 504,449           |
| FDIC coverage  | <u>(265,843)</u>     |
| Total uninsured public funds   | <u>\$ 238,606</u>    |
| <br>   |                      |
| Collateral requirement (50%<br>of uninsured public funds)  | \$ 119,303           |
| <br>   |                      |
| Pledged Collateral held by pledging bank's trust<br>department or agent but not in the agency's name | <u>226,781</u>       |
| <br>   |                      |
| Total under (over) collateralized  | <u>\$ (107,478)</u>  |
| <br>   |                      |
| Custodial credit risk-Uninsured deposits   | <u>\$ 238,606</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, 2012, \$238,606 of the District's bank balance of \$504,449 was exposed to custodial credit risk because \$238,606 was uninsured and the collateral was held by the pledging bank's trust department, not in the District's name. At June 30, 2012, the carrying amount of these deposits was \$503,354 as shown on the next page.

**Investments**

As of June 30, 2012, 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  | \$ 20,699         | \$ 20,699                    |

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**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, 2012 include the following:

State Treasurer's Local Government Investment Pool AA-Am, 60-day WAM \$20,699.

Reconciliation of Cash and Temporary Investments

|  |            |
|--|------------|
| Business-type funds - Balance Sheet                |            |
| Cash and cash equivalents per Exhibit A-1          | \$ 524,353 |
| Less investment with State of New Mexico Treasurer | (20,699)   |
|  | 503,654    |
| Add outstanding checks and other reconciling items | 1,095      |
|  | 504,749    |
| Less petty cash                                    | (300)      |
|  | \$ 504,449 |

**NOTE 4. RECEIVABLES**

Receivables as of June 30, 2012, are as follows:

|                      |           |
|----------------------|-----------|
| Property taxes       | \$ 52,532 |
| Customer Receivables | 38,260    |
| Other Receivables    | 4,575     |
|                      | \$ 95,367 |
| Total                | \$ 95,367 |

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, 2012

**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, 2012.

**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

|                                 | <u>Balance</u>      | <u>Additions</u>    | <u>Deletions</u> | <u>Balance</u>      |
|---------------------------------|---------------------|---------------------|------------------|---------------------|
| Land                            | \$ 100,000          | \$ -                | \$ -             | \$ 100,000          |
| Construction in progress        | -                   | -                   | -                | -                   |
| Buildings                       | 637,911             | -                   | -                | 637,911             |
| Furniture, fixtures & equipment | 17,249              | -                   | -                | 17,249              |
| Utility plant in service        | 8,179,015           | 125,235             | -                | 8,304,250           |
| Total Capital Assets            | <u>8,934,175</u>    | <u>125,235</u>      | <u>-</u>         | <u>9,059,410</u>    |
| Less accumulated depreciation   |                     |                     |                  |                     |
| Utility plant in service        | (1,131,769)         | (251,644)           | -                | (1,383,413)         |
| Buildings                       | (10,419)            | (19,331)            | -                | (29,750)            |
| Furniture, fixtures & equipment | (15,068)            | (1,138)             | -                | (16,206)            |
| Total accumulated depreciation  | <u>(1,157,256)</u>  | <u>(272,113)</u>    | <u>-</u>         | <u>(1,429,369)</u>  |
| Total capital assets, net       | <u>\$ 7,776,919</u> | <u>\$ (146,878)</u> | <u>\$ -</u>      | <u>\$ 7,630,041</u> |

Depreciation expense for the year ended June 30, 2012 was charged to business-type activities as follows:

|                                |                   |
|--------------------------------|-------------------|
| Water & Sewer - Administration | <u>\$ 272,113</u> |
| Total Depreciation Expense     | <u>\$ 272,113</u> |



**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**NOTE 7. LONG-TERM DEBT**

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

|                              | Balance<br>June 30, 2011 | Additions        | Retirements       | Balance<br>June 30, 2012 | Amount Due<br>Within One Year |
|------------------------------|--------------------------|------------------|-------------------|--------------------------|-------------------------------|
| Revenue Bonds                | \$ 931,000               | \$ -             | \$ 54,000         | \$ 877,000               | \$ 57,000                     |
| Loan Payable- NM ED          | 75,771                   | 51,640           | -                 | 127,411                  | 4,742                         |
| RUS/UNM Bonds                | 784,771                  | -                | 32,847            | 751,386                  | 33,997                        |
| Loan payable-USDA            | 462,690                  | -                | 16,576            | 446,114                  | 17,249                        |
| Loan payable-Water Trust     | 9,512                    | -                | -                 | 9,023                    | 491                           |
| Accrued compensated absences | -                        | 3,184            | 511               | 2,663                    | 708                           |
| <b>Total Long-Term Debt</b>  | <b>\$ 2,263,206</b>      | <b>\$ 54,824</b> | <b>\$ 104,423</b> | <b>\$ 2,213,607</b>      | <b>\$ 114,187</b>             |

The annual requirements to amortize the bonds as of June 30, 2012, are as follows:

| Fiscal Year  | Principal         | Interest          | Total               |
|--------------|-------------------|-------------------|---------------------|
| 2013         | \$ 57,000         | \$ 39,500         | \$ 96,500           |
| 2014         | 59,000            | 36,900            | 95,900              |
| 2015         | 62,000            | 34,300            | 96,300              |
| 2016         | 65,000            | 31,500            | 96,500              |
| 2017         | 67,000            | 28,600            | 95,600              |
| 2018-2022    | 385,000           | 94,700            | 479,700             |
| 2023-2028    | 182,000           | 12,500            | 194,500             |
| <b>Total</b> | <b>\$ 877,000</b> | <b>\$ 278,000</b> | <b>\$ 1,155,000</b> |

Bonds outstanding at June 30, 2012, 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% \$ 877,000

*Total Bonds* \$ 877,000

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
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**NOTE 7. LONG-TERM DEBT (continued)**

During the fiscal year, the District made a principal payment of \$54,000 during the year bringing the balance to \$877,000. 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, 2012, payments are as follows:

| Fiscal Year | Principal         | Interest          | Total               |
|-------------|-------------------|-------------------|---------------------|
| 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        | 40,281            | 24,998            | 65,279              |
| 2018-2022   | 208,647           | 101,899           | 310,546             |
| 2023-2027   | 261,875           | 53,934            | 315,809             |
| 2028-2032   | 95,568            | 4,997             | 100,565             |
| Total       | <u>\$ 751,386</u> | <u>\$ 301,933</u> | <u>\$ 1,053,319</u> |

Loans outstanding at June 30, 2012, consisted of the following loans:

*Loans:*

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

\$ 127,411

There are no interest or principal payments due on the New Mexico Environmental Department. Payments are scheduled to begin in 2013. The District may borrow up to \$500,000 to purchase water rights until June 30, 2012.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**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>      |
|--------------------|-------------------|-------------------|-------------------|
| 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               | 20,338            | 15,014            | 35,352            |
| 2017-2021          | 115,257           | 61,503            | 176,760           |
| 2022-2026          | 141,607           | 35,153            | 176,760           |
| 2027-2030          | <u>95,440</u>     | <u>5,972</u>      | <u>101,412</u>    |
| Total              | \$ <u>446,114</u> | \$ <u>185,578</u> | \$ <u>631,692</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>    |
|--------------------|------------------|-----------------|-----------------|
| 2013               | \$ 491           | \$ 22           | \$ 513          |
| 2014               | 492              | 21              | 513             |
| 2015               | 493              | 20              | 513             |
| 2016               | 494              | 19              | 513             |
| 2017               | 494              | 19              | 513             |
| 2018-2022          | 2,491            | 76              | 2,567           |
| 2023-2027          | 2,517            | 45              | 2,562           |
| 2028-2030          | <u>1,551</u>     | <u>9</u>        | <u>1,560</u>    |
| Total              | \$ <u>9,023</u>  | \$ <u>231</u>   | \$ <u>9,254</u> |

**STATE OF NEW MEXICO**  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
Notes to Financial Statement  
June 30, 2012

**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](http://www.pera.state.nm.us).

*Funding Policy.* Effective July 1, 2012, plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually are required to contribute 11.15% of their salary. El Valle de Los Ranchos is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary of employees earning more than \$20,000 annually. The contribution requirements of plan members and the El Valle de Los Ranchos Water and Sanitation District are established in State statute under Chapter 22, 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, 2012, 2011 and 2010 were \$7,158, \$11,473, and \$8,365 respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**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.

**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, 2012

**NOTE 14. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS**

The GASB issued Statement No. 65, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net 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.

The GASB issued Statement No. 66, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to amend Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government’s risk financing activities to the general fund and the internal service fund type. As a result, government would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and that principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Schedule Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales of Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The District is reviewing the effects of the implementation of this statement.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2012

**NOTE 15. SUBSEQUENT EVENTS REVIEW**

El Valle de Los Ranchos Water & Sanitation District has evaluated subsequent events through September 4, 2012, which is the date the financial statements were dated.

The district has entered into an agreement with the New Mexico Environment Department for a construction loan of \$430,000 and a grant of \$430,000. The loan/grant is on a reimbursable basis for the construction of sewer lines extensions and waste water system improvements. The loan bears interest at 2% per annum and is payable over a period of 20 years beginning one year from the completion of the project.

The District also received a capital appropriation project award from the Department of Environment for work on the design of the water system.

**NOTE 16. RESTATEMENT**

In the prior year, the District has received payments from customers to prepay the connection fee. These payments were often on an installment basis and were paid in advance of connecting service. The amount of \$28,800 was recorded erroneously as revenue when in fact it was deferred revenue until the connection service is completed. The prepayment is not refundable to the customer.

|                       |                     |
|-----------------------|---------------------|
| Net assets, beginning | \$ 5,948,251        |
| Restatement           | <u>(28,800)</u>     |
| Net assets, restated  | <u>\$ 5,919,451</u> |

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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 for Public Funds**  
**June 30, 2012**

Schedule I

| <u>Name of Depository</u> | <u>Description of Pledged Collateral</u>               | <u>Fair/Par Value<br/>June 30, 2012</u> | <u>Name and Location<br/>of Safekeeper</u> |
|---------------------------|--|---|--|
| Peoples Bank              | FNR 2007-74 VE<br>31396WQ41, 5.5%, Due 07-25-2018      | \$ 98,166                               | Federal Reserve Bank<br>Kansas City, KS    |
| Peoples Bank              | FNMA MBS 15 yr 735052<br>31402QTH4, 5.0% Due 1/01/2019 | 24,018                                  | Federal Reserve Bank<br>Kansas City, KS    |
| Peoples Bank              | Mastr 2003-10 3A1<br>55265KT41, 5.5% Due 11/25/2033    | 56,186                                  | Federal Reserve Bank<br>Kansas City, KS    |
| Peoples Bank              | FHR 2683 UE<br>31394JFL6, 5.5%, Due 01-15-2032         | <u>48,411</u>                           | Federal Reserve Bank<br>Kansas City, KS    |
|                           |  | <u>\$ 226,781</u>                       |  |

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## STATE OF NEW MEXICO

Schedule II

EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
 Schedule of Deposits and Investments  
 June 30, 2012

| <u>Bank Account Type/Name</u>                  | <u>People's Bank</u> | <u>NM State<br/>Treasurer</u> | <u>Totals</u>     |
|--|----------------------|-------------------------------|-------------------|
| Checking                                       | \$ 15,843            | \$ -                          | \$ 15,843         |
| Money Market                                   | 488,606              | -                             | 488,606           |
| State Treasurer's Pool                         | -                    | 20,699                        | 20,699            |
|  | <u>\$ 504,449</u>    | <u>\$ 20,699</u>              | <u>\$ 525,148</u> |
| Total On Deposit                               |                      |                               |                   |
| Reconciling Items                              |                      |                               | (1,095)           |
| Petty Cash                                     |                      |                               | 300               |
| Reconciled Cash and Investments, June 30, 2012 |                      |                               | <u>\$ 524,353</u> |

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
**Cash Reconciliation**  
**June 30, 2012**

Schedule III

|                          | <u>Checking</u>  | <u>Money Market</u> | <u>Total</u>      |
|--------------------------|------------------|---------------------|-------------------|
| Bank balance end of year | \$ 15,843        | \$ 488,606          | \$ 504,449        |
| Deposits in transit      | -                | -                   | -                 |
| Reconciling items        | <u>(1,095)</u>   | <u>-</u>            | <u>(1,095)</u>    |
| Cash, June 30, 2012      | <u>\$ 14,748</u> | <u>\$ 488,606</u>   | 503,354           |
| State Treasurer's Pool   |                  |                     | 20,699            |
| Petty Cash               |                  |                     | <u>300</u>        |
|                          |                  |                     | <u>\$ 524,353</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, 2012, and have issued our report thereon dated September 4, 2012. 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

Management of El Valle de Los Ranchos Water & Sanitation District is responsible for establishing and maintaining effective 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*

Precision Accounting, LLC

September 4, 2012

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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, 2012

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, 2012

Schedule V

**Section IV – Exit Conference**

An exit conference was conducted on August 30, 2012, 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 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.