

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2013

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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, 2013

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		1
Official Roster		3
FINANCIAL SECTION		
Independent Auditors' Report		7 - 9
Management's Discussion and Analysis		11-16
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements:		
Statement of Net Position	A-1	19
Statement of Revenues, Expenditures, and Changes in Net Position	A-2	21
Statement of Cash Flows	A-3	23
Schedule of Revenues, Expense and Changes in Fund Balance – Budget and Actual	A-4	25
Notes to Financial Statements	Schedule	27-43
OTHER SUPPLEMENTAL INFORMATION		
Schedule of Pledged Collateral	I	47
Schedule of Deposits & Investments	II	49
Cash Reconciliation	III	51
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		53-55
Schedule of Findings and Responses	IV	57
Other disclosures	V	59

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
OFFICIAL ROSTER
June 30, 2013

Name

Title

GOVERNING BOARD

Mario Barela

Chairman

Gabriel Romero

Vice-Chairman

Meliton Struck

Secretary

Anselmo "Chemo" Valerio

Treasurer

F. R. "Bob" 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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of El Valle de Los Ranchos Water & Sanitation District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise El Valle de Los Ranchos Water & Sanitation District basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to El Valle de Los Ranchos Water & Sanitation District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness El Valle de Los Ranchos Water & Sanitation District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of El Valle de Los Ranchos Water & Sanitation District, as of June 30, 2013, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 13-17 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the 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 us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on El Valle de Los Ranchos Water & Sanitation District financial statements and the budgetary comparisons. The other schedules as required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The other schedules required by 2.2.2 NMAC are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules as required by 2.2.2 NMAC is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of the El Valle de Los Ranchos Water & Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering El Valle de Los Ranchos Water & Sanitation District's internal control over financial reporting and compliance.



Precision Accounting, LLC
Albuquerque, New Mexico
September 23, 2013

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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, 2013. 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 \$6,292,414 (*net position*). 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 position increased by \$384,818 during the fiscal year. The majority of this increase is due to an increase in intergovernmental grants.
- The District's total debt increased by \$321,360 during the current fiscal year. The District repaid \$108,750 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 \$430,000 on a bond 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 position*. Over time, increases or decreases in net position 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 position* presents information showing how the District's net position 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 27-43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

As noted earlier, net position 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 \$6,292,414 at the close of the current fiscal year.

	2013 Business-type	2012 Business-type
Assets		
Current and other assets	\$ 756,855	\$ 619,720
Capital assets, net of accumulated depreciation	8,274,936	7,630,041
Total Assets	9,031,791	8,249,761
Liabilities		
Long-term liabilities outstanding	\$ 2,417,088	\$ 2,212,899
Other liabilities	322,289	129,266
Total Liabilities	2,739,377	2,342,165
Net Position		
Invested in capital assets, net of related debt	5,742,753	5,419,107
Reserved for capital projects	549,661	488,489
Total Net Position	6,292,414	5,907,596

All of the District's Net Position 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, 2013, El Valle had current and other assets of \$756,855, an increase of \$137,135 over the prior year balance of \$619,720. Capital assets, net of accumulated depreciation, increased over the prior year due to additions in utility plant in service and vehicles (net of accumulated depreciation). The increase was \$644,895 for an end of year balance of \$8,274,936.

	2013 Business-type Activities	2012 Business-type Activities
Revenues		
Operation revenues:		
Charges for services	\$ 228,887	\$ 219,052
Non-operating revenues:		
Property taxes	587,958	543,928
Intergovernmental	383,924	9,244
Interest income	7,321	7,692
Gross receipts tax	36,964	31,128
Total revenues	1,245,054	811,044
Expenses		
Administration fees	5,834	5,445
Advertising	4,776	4,400
Books, dues & registration	4,694	2,565
Depreciation	304,258	272,113
Employee salaries	109,252	102,798
Field supplies	2,821	6,489
Insurance	6,177	4,820
Interest	87,852	92,005
Legal fees	-	38,256
Mileage and per diem	15,738	16,314
Miscellaneous expense	5,818	1,405
Office expenses	5,178	5,066
Other contractual services	76,952	45,637
Payroll related expenses	40,722	35,617
Postage & freight	5,049	4,947
Rent	2,759	2,889
Repair & maintenance	1,907	4,339
Service fees	171,806	170,317
Utilities	8,643	7,477
Total expenses	860,236	822,899
Increase in net position	384,818	(11,855)
Net position, beginning of year	5,907,596	5,948,251
Ending net position	\$ 6,292,414	\$ 5,907,596

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

Long term liabilities decreased by \$351,376 which was the net amount of new debt less principal payments made during the year. Other liabilities increased by \$748,588, with an ending balance of \$322,289. At June 30, 2013, the net position of El Valle totaled \$6,292,414, which was an increase of \$384,818 over prior year net position of \$5,907,596.

Revenues for the year ending June 30, 2013 were more than the prior year by \$434,010. The main area of increase was intergovernmental revenues, which increased by \$374,680. Total expenditures increased by \$37,337. Most expenditure categories increased, specifically in the areas of depreciation by \$32,145 and contractual fees by \$31,315.

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 \$23,818.

During the year, actual operating revenues were lower than budgetary estimates by \$16,552. This is a difference of 6.7%, 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 business-type activities as of June 30, 2013 amount to \$8,274,936 (net of accumulated depreciation). Capital assets include furniture, fixture & equipment, vehicles, and utility plant in service. The total increase in the District's capital assets (excluding accumulated depreciation) for the current fiscal year was \$949,153, which consisted of additions to the utility plan in service and vehicles.

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

Capital Assets, Net of Depreciation
June 30, 2013 and 2012

	2013 Business-type Activities	2012 Business-type Activities
Land	\$ 100,000	\$ 100,000
Furniture, fixtures & equipment	17,249	17,249
Buildings	637,911	637,911
Vehicles	22,178	-
Utility plant in service	9,231,225	8,304,250
Total capital assets	10,008,563	9,059,410
Accumulated Depreciation	(1,733,627)	(1,429,369)
 Capital assets, net of accumulated depreciation	 <u>\$ 8,274,936</u>	 <u>\$ 7,630,041</u>

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 \$2,534,768. The debt consists of revenue bonds along with four loans payable, and long-term accrued compensated absences. Changes to long term debt during the year included principal payments of \$108,750.

	2013 Business-type Activities	2012 Business-type Activities
General obligation bonds	\$ 878,680	\$ 877,000
Loan payable-NMED	122,669	127,411
Loan payable-USDA	375,409	446,114
Loan payable-Water Trust Board	8,040	9,023
RUS Bonds payable	430,000	751,386
Accrued Compensated absence (long-term)	2,585	-
	<u>\$ 2,534,768</u>	<u>\$ 2,210,934</u>

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

**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 2012-2013.

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 Position
 June 30, 2013

Exhibit A-1

ASSETS

Current assets:

Cash and cash equivalents	\$	24,534
Investments		407,887
Accounts receivable-customers		39,341
Accounts receivable-property taxes		29,411
Accounts receivable-grants		239,092
Accounts receivable-other		7,590
Prepaid expenses		9,000
Total current assets		756,855

Capital assets:

Land		100,000
Building		637,911
Equipment		39,427
Utility plant in service		9,231,225
Total capital assets		10,008,563
Less accumulated depreciation		(1,733,627)
Net capital assets		8,274,936

<i>Total Assets</i>	\$	9,031,791
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LIABILITIES

Current liabilities:

Accounts payable	\$	143,355
Accrued interest		16,074
Payroll liabilities		14,982
Unearned revenue		30,000
Accrued compensated absences		198
Current portion of long-term debt		117,680
		117,680

<i>Total Current Liabilities</i>		322,289
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Non-current liabilities:

Accrued compensated absences-long-term		2,585
Bonds payable		2,414,503
Total long-term liabilities		2,417,088

<i>Total liabilities</i>		2,739,377
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NET POSITION

Net investment in capital assets		5,742,753
Unrestricted		549,661
		549,661

<i>Total net position</i>		6,292,414
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Liabilities and Net Position	\$	9,031,791
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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 Position
Year Ended June 30, 2013

Exhibit A-2

Operating revenues:	
Fees and charges	\$ 228,199
Miscellaneous operating income	688
<i>Total operating revenues</i>	228,887
 Operating expenses:	
Administration fees	5,834
Advertising	4,776
Books, dues & registration	4,694
Depreciation	304,258
Employee salaries	109,252
Field supplies	2,821
Insurance	6,177
Interest	87,852
Miscellaneous expense	5,818
Mileage & per diem	15,738
Office expenses	5,178
Other contractual services	76,952
Payroll related expenses	40,722
Rent	2,759
Repairs & maintenance	1,907
Postage & freight	5,049
Service fees	171,806
Utilities	8,643
<i>Total operating expenses</i>	860,236
 <i>Operating income (loss)</i>	 (631,349)
 Non-operating revenues:	
Gross receipts taxes	36,964
Property taxes	587,958
Intergovernmental grants-federal passed through the state	383,924
Interest income	7,321
 Non-operating revenue	 1,016,167
 Net income	 384,818
 Net position, beginning of year	 5,907,596
 Net position, at end of year	 \$ 6,292,414

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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, 2013

Cash flows from operating activities:	
Cash received from grantors and customers	\$ 379,421
Cash paid to suppliers and employees	(860,236)
Non-exchange taxes assessed	1,008,846
Other revenues	<u>7,321</u>
Net cash flows provided by operating activities	<u>\$ 535,352</u>
Cash flows from investing activities:	
Increase in plant in service	<u>(949,153)</u>
Net cash flows used by investing activities	<u>(949,153)</u>
Cash flows from financing activities:	
Borrowings on long term debt	430,000
Payments on long-term debt	<u>(108,131)</u>
Net cash flows used by financing activities	<u>321,869</u>
Net increase in cash and cash equivalents	(91,932)
Cash and cash equivalents, beginning of year	<u>524,353</u>
Cash and cash equivalents, end of year	<u><u>\$ 432,421</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Operating income (loss)	\$ (631,349)
Adjustment to reconcile change in net position to net cash provided by operating activities:	
Gross receipts taxes	36,964
Property taxes	587,958
Intergovernmental grants	383,924
Interest earned	7,321
Depreciation	304,258
Decrease (Increase) in:	
Accounts receivable	19,025
Grants Receivable	(239,092)
Prepaid assets	(9,000)
Increase (Decrease) in:	
Accounts payable	105,408
Unearned revenue	(33,944)
Payroll liabilities	5,398
Accrued expenses	<u>(1,519)</u>
Net cash provided by operating activities	<u><u>\$ 535,352</u></u>

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STATE OF NEW MEXICO
El Valle de Los Ranchos Water & Sanitation District
Proprietary Fund
Statement of Revenues and Expenditures
Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	(Unfavorable) Favorable Final to Actual
<i>Revenues:</i>				
Fees and charges	\$ 233,439	\$ 233,439	\$ 228,199	\$ (5,240)
Miscellaneous	12,000	12,000	688	(11,312)
<i>Total revenues</i>	<u>245,439</u>	<u>245,439</u>	<u>228,887</u>	<u>(16,552)</u>
<i>Expenditures:</i>				
Current:				
Administration fees	5,426	5,993	5,834	159
Advertising	6,000	6,000	4,776	1,224
Books, dues & registration	5,160	7,772	4,694	3,078
Depreciation	500,736	565,701	304,258	261,443
Employee salaries	131,560	108,404	109,252	(848)
Field supplies	2,200	2,791	2,821	(30)
Insurance	5,000	6,500	6,177	323
Interest	-	-	87,852	(87,852)
Miscellaneous expense	2,000	2,000	5,818	(3,818)
Mileage & per diem	18,331	18,331	15,738	2,593
Office expenses	6,750	6,750	5,178	1,572
Other contractual services	117,400	88,024	76,952	11,072
Payroll related expenses	47,490	47,490	40,722	6,768
Postage and freight	8,000	8,000	5,049	2,951
Rent	4,460	4,460	2,759	1,701
Repairs & maintenance	5,000	5,000	1,907	3,093
Utilities	12,300	12,300	8,643	3,657
Service fees	170,322	176,437	171,806	4,631
<i>Total expenditures</i>	<u>1,048,135</u>	<u>1,071,953</u>	<u>860,236</u>	<u>211,717</u>
Operating income	<u>(802,696)</u>	<u>(826,514)</u>	<u>(631,349)</u>	<u>195,165</u>
Non-operating revenues:				
Gross receipts taxes	30,000	30,000	36,964	6,964
Property taxes	542,595	542,595	587,958	45,363
Intergovernmental	1,282,589	1,282,589	383,924	(898,665)
Interest income	6,500	6,500	7,321	821
Non-operating income	1,861,684	1,861,684	1,016,167	(845,517)
Change in Net Position	<u>\$ 1,058,988</u>	<u>\$ 1,035,170</u>	<u>\$ 384,818</u>	<u>\$ (650,352)</u>

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

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 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-62.

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, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. Reporting Entity (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.

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, 2013.

B. Business-Type Activities

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities and Changes in Net Position) 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 Position 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 is 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, 2013

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 position) is segregated into contributed capital and net position components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Private-sector standards of accounting and financial reporting under FASB and AICPA guidance are now included in GASB guidance by GASB 62.

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 ongoing operations. The principal operating revenue of the District’s enterprise fund is charges for water and 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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

E. Assets, Liabilities and Net Position 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, 2013 consist of customer water and 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.

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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

E. Assets, Liabilities and Net Position or Equity (continued)

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 Position.

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 Position. 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 Position: In the fund financial statements, governmental funds report reservations of Net Position that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of Net Position 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.

F. Advertising

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2013 were \$4,776.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

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, 2013

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, 2013.

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.

All of the investments of El Valle de Los Ranchos Water & Sanitation District at June 30, 2013, 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, 2013

NOTE 3. DEPOSITS AND INVESTMENTS, continued

Deposits

New Mexico 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	\$ 414,059
FDIC coverage	(250,000)
Total uninsured public funds	<u>\$ 164,059</u>
Collateral requirement (50% of uninsured public funds)	\$ 82,029
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	<u>57,900</u>
Total under (over) collateralized	<u>\$ 24,129</u>
Custodial credit risk-Uninsured deposits	<u>\$ 164,059</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, 2013, \$164,059 of the District's bank balance of \$414,059 was exposed to custodial credit risk because \$164,059 was uninsured and the collateral was held by the pledging bank's trust department, not in the District's name. At June 30, 2013, the carrying amount of these deposits was \$414,059 as shown on the next page.

Investments

As of June 30, 2013, 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	\$ 20,731	\$ 20,731

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
 Notes to Financial Statement
 June 30, 2013

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, 2013 includes the following:

State Treasurer's Local Government Investment Pool AAAM, 58-day WAM \$20,731.

Reconciliation of Cash and Temporary Investments

Business-type funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 432,421
Less investment with State of New Mexico Treasurer	(20,731)
	411,690
Add outstanding checks and other reconciling items	2,669
	414,359
Less petty cash	(300)
	\$ 414,059

NOTE 4. RECEIVABLES

Receivables as of June 30, 2013, are as follows:

Property taxes	\$ 29,411
Customer Receivables	39,341
Grants Receivables	239,092
Other Receivables	7,590
	315,434
Total	\$ 315,434

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 4. RECEIVABLES, continued

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

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, 2013.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	-	-	-	-
Buildings	637,911	-	-	637,911
Furniture, fixtures & equipment	17,249	-	-	17,249
Vehicles	-	22,178	-	22,178
Utility plant in service	8,304,250	926,975	-	9,231,225
Total Capital Assets	<u>9,059,410</u>	<u>949,153</u>	<u>-</u>	<u>10,008,563</u>
Less accumulated depreciation				
Utility plant in service	(1,383,413)	(279,734)	-	(1,663,147)
Buildings	(29,750)	(19,331)	-	(49,801)
Furniture, fixtures & equipment	(16,206)	(757)	-	(16,963)
Vehicles	-	(4,436)	-	(4,436)
Total accumulated depreciation	<u>(1,429,369)</u>	<u>(272,113)</u>	<u>-</u>	<u>(1,733,627)</u>
Total capital assets, net	<u>\$ 7,630,041</u>	<u>\$ 644,895</u>	<u>\$ -</u>	<u>\$ 8,274,936</u>

Depreciation expense for the year ended June 30, 2013 was charged to business-type activities as follows:

Water & Sewer - Administration	<u>\$ 304,258</u>
Total Depreciation Expense	<u>\$ 304,258</u>

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 7. LONG-TERM DEBT

During the year ended June 30, 2013, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance		Balance		Amount Due
	June 30, 2012	Additions	Retirements	June 30, 2013	Within One Year
Revenue Bonds	\$ 877,000	\$ -	\$ 57,000	\$ 820,000	\$ 59,000
Loan Payable- NM ED	127,411	-	-	127,411	4,742
RUS/UNM Bonds	751,386	-	34,000	717,386	35,471
Loan payable-USDA	446,114	-	17,259	428,855	17,975
Loan payable-NMED Ph. 2B	-	430,000	-	430,000	-
Loan payable-Water Trust	9,023	-	491	8,532	492
Accrued compensated absences	2,673	4,311	4,201	2,783	198
Total Long-Term Debt	\$ 2,213,607	\$ 434,311	\$ 112,951	\$ 2,534,967	\$ 117,878

The annual requirements to amortize the bonds as of June 30, 2013, are as follows:

Fiscal Year	Principal	Interest	Total
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	70,000	25,600	95,600
2019-2023	403,000	77,300	480,300
2024-2028	94,000	4,300	98,300
Total	\$ 820,000	\$ 238,500	\$ 1,058,500

Bonds outstanding at June 30, 2013, 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%

\$ 820,000

Total Bonds

\$ 820,000

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 7. LONG-TERM DEBT, continued

During the fiscal year, the District made a principal payment of \$57,000 during the year bringing the balance to \$820,000. 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, 2013, payments are as follows:

Fiscal Year	Principal	Interest	Total
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	42,028	24,998	67,026
2019-2023	239,029	101,899	340,928
2024-2028	285,030	53,934	338,964
2029-2033	-	4,997	4,997
Total	<u>\$ 717,386</u>	<u>\$ 295,648</u>	<u>\$ 1,013,034</u>

Loans outstanding at June 30, 2013, 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 began in 2013. The District may borrow up to \$500,000 to purchase water rights until June 30, 2013.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

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>
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
2018	21,193	15,014	36,207
2019-2023	120,103	61,503	181,606
2024-2028	147,561	35,152	182,713
2029-2033	<u>63,437</u>	<u>-</u>	<u>63,437</u>
Total	\$ <u>428,855</u>	\$ <u>176,517</u>	\$ <u>605,372</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>
2014	\$ 492	\$ 21	\$ 513
2015	493	20	513
2016	494	19	513
2017	494	19	513
2018	497	16	513
2019-2023	2,503	63	2,566
2024-2028	2,535	32	2,567
2029-2033	<u>1,024</u>	<u>4</u>	<u>1,028</u>
Total	\$ <u>8,532</u>	\$ <u>194</u>	\$ <u>8,726</u>

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 7. LONG-TERM DEBT, continued

NMED Ph. 2B Loan:

New Mexico Environment Department entered into an agreement with El Valle de Los Ranchos Water and Sanitation District 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.

Fiscal Year	Principal	Interest	Total
2014	\$ -	\$ -	\$ -
2015	4,586	21,711	26,297
2016	17,789	8,508	26,297
2017	18,145	8,152	26,297
2018	18,508	7,790	26,297
2019-2023	98,242	33,245	131,487
2024-2028	108,467	23,020	131,487
2029-2033	119,756	11,731	131,487
Thereafter	44,507	1,272	45,779
Total	\$ <u>430,000</u>	\$ <u>115,430</u>	\$ <u>545,430</u>

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.

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

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. Effective July 1, 2013, plan members are required by statute to contribute 9.15% 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 9.15% 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, 2013, 2012 and 2011 were \$8,690, \$7,158, and \$11,473 respectively, which equal the required contributions for each year.

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

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 13. JOINT POWERS AGREEMENT, continued

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.

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 Position by the government that is applicable to a future reporting period, and an acquisition of Net Position 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 Position 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 asset. 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, 2013. 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

STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Notes to Financial Statement
June 30, 2013

NOTE 14. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS, continued

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 has implemented this statement.

NOTE 15. SUBSEQUENT EVENTS REVIEW

El Valle de Los Ranchos Water & Sanitation District has evaluated subsequent events through September 23, 2013, which is the date the financial statements were dated.

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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, 2013

Schedule I

Name of Depository	Description of Pledged Collateral	Fair/Par Value June 30, 2013	Name and Location of Safekeeper
Peoples Bank	FNR 2007-74 VE 31396WQ41, 5.5%, due 07/25/2018	\$ 6,722	Federal Reserve Bank Kansas City, KS
Peoples Bank	FNMA MBS 15 yr 735052 31402QTH4, 5.%, due 01/01/2019	15,783	Federal Reserve Bank Kansas City, KS
Peoples Bank	Mastr 2003-10 3A1 55265KT41, 5.5%, due 11/25/2033	<u>35,395</u>	Federal Reserve Bank Kansas City, KS
		<u>\$ 57,900</u>	

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Schedule of Deposits and Investments
June 30, 2013

Schedule II

Bank Account Type/Name	People's Bank	NM State Treasurer	Totals
Checking	\$ 26,903	\$ -	\$ 26,903
Money Market	387,156	-	387,156
State Treasurer's Pool	<u>-</u>	<u>20,731</u>	<u>20,731</u>
 Total On Deposit	 <u>\$ 414,059</u>	 <u>\$ 20,731</u>	 <u>\$ 434,790</u>
 Reconciling Items			 (2,669)
Petty Cash			<u>300</u>
Reconciled Cash and Investments, June 30, 2013			<u>\$ 432,421</u>

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Cash Reconciliation
June 30, 2013

Schedule III

	<u>Checking</u>	<u>Money Market</u>	<u>Total</u>
Bank balance end of year	\$ 26,903	\$ 387,156	\$ 414,059
Deposits in transit	184	-	184
Reconciling items	<u>(2,853)</u>	<u>-</u>	<u>(2,853)</u>
Cash, June 30, 2013	<u>\$ 24,234</u>	<u>\$ 387,156</u>	\$ 411,390
State Treasurer's Pool			20,731
Petty Cash			<u>300</u>
			<u>\$ 432,4321</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, in accordance with the 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, the financial statements of the business-type activities of El Valle de Los Ranchos Water & Sanitation District as of and for the year ended June 30, 2013, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Valle de Los Ranchos Water & Sanitation District's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of El Valle de Los Ranchos Water & Sanitation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the El Valle de Los Ranchos Water & Sanitation District's internal control.

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 function, 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies as items FS 2013-01 and FS 2013-02.

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS 2013-01 and FS 2013-02.

El Valle de Los Ranchos Water & Sanitation District's Response to Findings

El Valle de Los Ranchos Water & Sanitation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. El Valle de Los Ranchos Water & Sanitation District's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of El Valle de Los Ranchos Water & Sanitation District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering El Valle de Los Ranchos Water & Sanitation District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Precision Accounting LLC".

Precision Accounting, LLC
Albuquerque, NM
September 23, 2013

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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, 2013

Schedule IV

Section I – Prior year findings:

None

Section II – Current year findings:

FS 2013-01 Non-compliance in Travel & Per Diem (Significant Deficiency)

CONDITION: Meal purchased in the amount of \$23 (rounded) was reimbursed to an employee for in-state travel that occurred within working hours of business (approximately 6 hours travelled with co-worker), which does not comply with NMAC travel and per diem rules and IRS regulations on fringe benefits. Only one frequency was found on the travel and per diem non-compliance out of 75 samples tested across Disbursement and SAC Compliance/Travel & Per Diem tests, where in total disbursements were \$616,223.95.

CRITERIA: Procedures are not followed as per policy. The Organization does not appear to be compliant with State and DFA regulations, specifically, NMAC 2.42.2, section on travel and per diem. This issue also is not in compliance with IRS regulations on fringe benefits, which would require the meal reimbursement to be added to the employee's W2.

CAUSE: Although the organization's board had approved the meal reimbursement and travel for the employees, the organization did not follow state and DFA regulations or IRS regulations on fringe benefits.

EFFECT: The meal reimbursement was an overpayment of \$23.22 to the requestor, and does not adhere to policy on meal reimbursements as per travel and per diem rules. Also this meal reimbursement would classify as a fringe benefit and was not appropriately added to W2 as required by IRS regulations.

RECOMMENDATION: The Organization should re-train all employees and board members on meal reimbursement policy and procedures.

CLIENT RESPONSE: We will watch the meal reimbursement more closely and wouldn't do it again. It was a one-time thing.

FS 2013-02 Pledged Collateral (Significant Deficiency)

CONDITION: Peoples Bank pledged collaterals included a bond from Leavenworth County, Kansas, which does not meet the State Statutes on pledged collateral requirements in which all collateral pledged must be either US government backed or a political entity of the State of NM.

CRITERIA: NMSA 2.60.4. section – Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements, in which all pledged collaterals on public funds must be secured by the US government or a political entity of the State of NM.

CAUSE: The bank pledged collateral of a bond that did not meet the requirements of NMSA 2.60.4 and the district did not catch it.

EFFECT: Upon the removal of the ineligible pledged collateral, the district did not have adequate pledged collateral to cover 50% of the amount on deposit as required by state law.

RECOMMENDATION: We recommend that the District immediately contact the bank to insure replacement of eligible collateral. In addition, we recommend that the District review the bank's pledged collateral at least once a month.

CLIENT RESPONSE: We have contacted the bank and request that they pledge additional collateral in order to comply with state law on pledged collateral. Additionally, we will review the collateral monthly in order to monitor and prevent reoccurrence of the same issue from happening in the future.

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STATE OF NEW MEXICO
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT
Other Disclosures
For the Year Ended June 30, 2013

Schedule V

Section IV – Exit Conference

An exit conference was conducted on August 29, 2013, with the following individuals:

EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT

Mario Barela, 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.