

STATE OF NEW MEXICO  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2014

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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, 2014

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STATE OF NEW MEXICO  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
OFFICIAL ROSTER  
June 30, 2014

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 and the budgetary comparison of El Valle de Los Ranchos Water & Sanitation District (the "District") as of and for the year ended June 30, 2014, 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 and the budgetary comparison of El Valle de Los Ranchos Water & Sanitation District, as of June 30, 2014, 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 11-16 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 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's 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 are 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 August 13, 2014 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  
August 13, 2014

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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 (the "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, 2014. 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 \$6,380,778 (*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 \$88,364 during the fiscal year. The change is due to an increase in operating services and a decrease in intergovernmental grants.
- The District's total debt increased by \$28,951 during the current fiscal year. The District repaid \$117,401 in funds from issuance of revenue bonds, which were issued to continue with the design and construction of the system.

### **Overview of the Financial Statements**

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

**Government-Wide 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 \$6,380,778 at the close of the current fiscal year.

	<b>2014 Business-type</b>	<b>2013 Business-type</b>
<b>Assets</b>		
Current and other assets	\$ 653,199	\$ 756,855
Capital assets, net of accumulated depreciation	8,495,907	8,274,936
Total Assets	9,149,106	9,031,791
<b>Liabilities</b>		
Long-term liabilities outstanding	\$ 2,517,991	\$ 2,417,088
Other liabilities	250,337	322,289
Total Liabilities	2,768,328	2,739,377
<b>Net Position</b>		
Invested in capital assets, net of related debt	5,824,343	5,742,753
Reserved for capital projects	556,435	549,661
Total Net Position	6,380,778	6,292,414

All of the District's Net Position represents 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, 2014, El Valle had current assets of \$653,199, a decrease of \$103,656 over the prior year balance of \$756,855. Capital assets, net of accumulated depreciation, increased over the prior year due to additions in utility plant in service and water rights (net of accumulated depreciation). The increase was \$220,971 for an end of year balance of \$8,495,907.

	2014 Business-type Activities	2013 Business-type Activities
<b>Revenues</b>		
Operation revenues:		
Charges for services	\$ 312,808	\$ 228,887
Non-operating revenues:		
Property taxes	571,616	587,958
Intergovernmental	96,076	383,924
Interest income	6,633	7,321
Gross receipts tax	33,783	36,964
Total revenues	1,020,916	1,245,054
<b>Expenses</b>		
Administration fees	5,718	5,834
Advertising	5,305	4,776
Books, dues & registration	2,935	4,694
Depreciation	308,318	304,258
Employee salaries	117,117	109,252
Field supplies	3,898	2,821
Insurance	6,843	6,177
Interest	105,478	87,852
Mileage and per diem	16,024	15,738
Miscellaneous expense	2,882	5,818
Office expenses	6,351	5,178
Other contractual services	108,444	76,952
Payroll related expenses	40,216	40,722
Postage & freight	4,273	5,049
Rent	3,340	2,759
Repair & maintenance	3,718	1,907
Service fees	182,131	171,806
Utilities	9,561	8,643
Total expenses	932,552	860,236
Increase in net position	88,364	384,818
Net position, beginning of year	6,292,414	5,907,596
Ending net position	\$ 6,380,778	\$ 6,292,414

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

Long term liabilities increased by \$100,903 which was the net amount of new debt less principal payments made during the year. Other liabilities decreased by \$71,952, with an ending balance of \$250,337. At June 30, 2014, the net position of El Valle totaled \$6,380,778, which was an increase of \$88,364 over prior year net position of \$6,292,414.

Revenues for the year ending June 30, 2014 were less than the prior year by \$224,138. The change was in fees and charges revenues, which increased by \$83,921, however, intergovernmental grants had decreased by \$239,092. Total expenditures increased by \$72,316. Most expenditure categories increased, specifically in the areas of interest expense by \$17,626 to pay down liabilities and contractual fees by \$31,492.

### **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 \$18,680.

During the year, actual operating revenues were lower than budgetary estimates by \$42,174. This is a difference of 15.6%, 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, 2014 amount to \$8,495,907 (net of accumulated depreciation). Capital assets include furniture, fixture & equipment, vehicles, utility plant in service, and water rights. The total increase in the District's capital assets (excluding accumulated depreciation) for the current fiscal year was \$529,289, which consisted of additions to the utility plant in service and water rights.

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

Capital Assets, Net of Depreciation  
June 30, 2014 and 2013

	2014 Business-type Activities	2013 Business-type Activities
Land	\$ 100,000	\$ 100,000
Water Rights	379,758	-
Furniture, fixtures & equipment	17,249	17,249
Buildings	637,911	637,911
Vehicles	22,178	22,178
Utility plant in service	9,380,756	9,231,225
Total capital assets	10,546,852	10,008,563
Accumulated Depreciation	(2,041,945)	(1,733,627)
Capital assets, net of accumulated depreciation	<u>\$ 8,495,907</u>	<u>\$ 8,274,936</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 debt obligations outstanding of \$2,674,614. 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 \$112,966.

	2014 Business-type Activities	2013 Business-type Activities
General obligation bonds	\$ 761,000	\$ 820,000
Loan payable-NMED	379,758	127,411
Loan payable-USDA	410,855	428,855
Loan payable-Water Trust Board	8,040	8,532
RUS Bonds payable	681,911	717,386
Loan payable-NMED Ph. 2B	430,000	430,000
Accrued Compensated absence (long-term)	3,049	2,585
	<u>\$ 2,674,614</u>	<u>\$ 2,534,769</u>

See note 8 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 2013-2014.

**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, 2014

Exhibit A-1

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$	557,044
Investments		20,753
Accounts receivable-customers, net of allowance of uncollectible accounts \$3,506		47,195
Accounts receivable-property taxes		17,970
Accounts receivable-other		5,155
Prepaid expenses		5,082
Total current assets		653,199

**Capital assets:**

Land		100,000
Water Rights		379,758
Building		637,911
Equipment & Vehicles		39,427
Utility plant in service		9,380,756
Total capital assets		10,537,852
Less accumulated depreciation		(2,041,945)
Net capital assets		8,495,907

<i>Total Assets</i>	\$	9,149,106
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**LIABILITIES**

**Current liabilities:**

Accounts payable	\$	39,462
Accrued interest		14,918
Payroll liabilities		10,407
Unearned revenue		28,400
Accrued compensated absences		528
Current portion of long-term debt		156,622
Total Current Liabilities		250,337

**Non-current liabilities:**

Accrued compensated absences-long-term		3,049
Note payable		1,171,044
Bonds payable		1,343,898
Total long-term liabilities		2,517,991
<i>Total liabilities</i>		2,768,328

**NET POSITION**

Net investment in capital assets		5,824,343
Unrestricted		556,435
<i>Total net position</i>		6,380,778

<i>Liabilities and Net Position</i>	\$	9,149,106
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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, 2014

Exhibit A-2

<b>Operating revenues:</b>	
Fees and charges	\$ 295,282
Miscellaneous operating income	17,526
<i>Total operating revenues</i>	312,808
 <b>Operating expenses:</b>	
Administration fees	5,718
Advertising	5,305
Books, dues & registration	2,935
Depreciation	308,318
Employee salaries	117,117
Field supplies	3,898
Insurance	6,843
Interest	105,478
Miscellaneous expense	2,882
Mileage & per diem	16,024
Office expenses	6,351
Other contractual services	108,444
Payroll related expenses	40,216
Rent	3,340
Repairs & maintenance	3,718
Postage & freight	4,273
Service fees	182,131
Utilities	9,561
<i>Total operating expenses</i>	932,552
 <i>Operating income (loss)</i>	 (619,744)
 <b>Non-operating revenues:</b>	
Gross receipts taxes	33,783
Property taxes	571,616
Intergovernmental grants-federal passed through the state	96,076
Interest income	6,633
 Non-operating revenue	 708,108
 Net income	 88,364
 Net position, beginning of year	 6,292,414
 Net position, at end of year	 \$ 6,380,778

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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, 2014

Cash flows from operating activities:	
Cash received from grantors and customers	\$ 451,410
Cash paid to suppliers and employees	(932,552)
Non-exchange taxes assessed	612,032
Other revenues	<u>96,076</u>
Net cash flows provided by operating activities	<u>\$ 226,966</u>
Cash flows from investing activities:	
Increase in plant in service, net	<u>(220,971)</u>
Net cash flows used by investing activities	<u>(220,971)</u>
Cash flows from financing activities:	
Borrowings on long term debt	252,347
Payments on long-term debt	<u>(112,966)</u>
Net cash flows provided by financing activities	<u>139,381</u>
Net increase in cash and cash equivalents	145,376
Cash and cash equivalents, beginning of year	<u>432,421</u>
Cash and cash equivalents, end of year	<u><u>\$ 577,797</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Operating income (loss)	\$ (619,744)
Adjustment to reconcile change in net position to net cash provided by operating activities:	
Gross receipts taxes	33,783
Property taxes	571,616
Intergovernmental grants	96,076
Interest income	<u>6,633</u>
Net Income	88,364
Decrease (Increase) in:	
Accounts receivable	6,022
Grants Receivable	239,092
Prepaid assets	3,918
Increase (Decrease) in:	
Accounts payable	(104,942)
Unearned revenue	(1,600)
Payroll liabilities	(3,526)
Accrued expenses	<u>(362)</u>
Net cash provided by operating activities	<u><u>\$ 226,966</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, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Fees and charges	\$ 258,634	\$ 258,634	\$ 295,282	\$ 36,648
Miscellaneous	12,000	12,000	17,526	5,526
<i>Total revenues</i>	<u>270,634</u>	<u>270,634</u>	<u>312,808</u>	<u>42,174</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Administration fees	5,720	6,720	5,718	1,002
Advertising	6,000	6,000	5,305	695
Books, dues & registration	4,760	4,160	2,935	1,225
Depreciation	561,614	561,614	308,318	253,296
Employee salaries	130,060	120,000	117,117	2,883
Field supplies	2,200	2,200	1,755	445
Insurance	7,000	7,000	6,843	157
Interest	-	-	105,478	(105,478)
Miscellaneous expense	3,000	3,000	2,882	118
Mileage & per diem	17,239	17,239	16,024	1,215
Office expenses	5,500	6,500	6,351	149
Other contractual services	108,650	113,650	108,444	5,206
Payroll related expenses	48,898	49,507	40,216	9,291
Postage and freight	7,000	7,000	4,273	2,727
Rent	3,800	3,300	3,340	(40)
Repairs & maintenance	6,300	4,000	5,861	(1,861)
Utilities	10,800	10,800	9,561	1,239
Service fees	180,949	183,500	182,131	1,369
<i>Total expenditures</i>	<u>1,109,490</u>	<u>1,106,190</u>	<u>932,552</u>	<u>173,638</u>
Operating income	<u>(838,856)</u>	<u>(835,556)</u>	<u>(619,744)</u>	<u>215,812</u>
<i>Non-operating revenues:</i>				
Gross receipts taxes	30,000	30,000	33,783	3,783
Property taxes	603,806	603,806	571,616	(32,190)
Intergovernmental	-	-	96,076	96,076
Interest income	7,000	7,000	6,633	(367)
Non-operating income	640,806	640,806	708,108	67,302
Change in Net Position	<u>\$ (198,050)</u>	<u>\$ (194,750)</u>	<u>\$ 88,364</u>	<u>\$ 283,114</u>

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**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 680 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 statement no. 61.

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, 2014

**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 if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The El Valle de Los Ranchos Water & Sanitation District did not have any component units during the fiscal year ended June 30, 2014.

***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, 2014

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

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

The 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 are now included in GASB guidance from the Accounting Codification Standards.

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, 2014

***D. 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.

***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, 2014 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 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.

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

**STATE OF NEW MEXICO**  
EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT  
Notes to Financial Statement  
June 30, 2014

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

***Unearned Revenues:*** The District recognizes grant revenue at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as unearned revenues. Amounts receivable from the property taxes levied for the current year that are not considered to be “available” under the current financial resources measurement focus are reported as unearned revenues in the governmental fund financial statements.

***Deferred Inflows/Outflows of Resources:*** GASB 63 amended previous guidance on deferred revenues in the Government-Wide Financial Statements to include deferred outflow of resources, which is the consumption of net assets by the government that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net assets by the government that is applicable to a future reporting period.

***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.

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

***E. Advertising***

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2014 were \$5,305.

**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, 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, 2014

**NOTE 3. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of District's 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, 2014.

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, 2014, 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, 2014

**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	\$ 555,413
FDIC coverage	(250,000)
Total uninsured public funds	<u>\$ 305,413</u>
Collateral requirement (50% of uninsured public funds)	\$ 152,707
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	<u>176,194</u>
Total under (over) collateralized	<u>\$ (23,488)</u>
Custodial credit risk-Uninsured deposits	<u>\$ 305,413</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, 2014, \$305,413 of the District's bank balance of \$555,413 was exposed to custodial credit risk because \$305,413 was uninsured and the collateral was held by the pledging bank's trust department, not in the District's name. At June 30, 2014, the carrying amount of these deposits was \$555,413 as shown on the next page.

**Investments**

As of June 30, 2014, 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	\$ 20,753	\$ 20,753

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**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, 2014 includes the following:

State Treasurer's Local Government Investment Pool AAAM, 59-day WAM (R) \$20,753.

Reconciliation of Cash and Temporary Investments

Business-type funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	\$ 577,797
Less investment with State of New Mexico Treasurer	(20,753)
	557,044
Add outstanding checks and other reconciling items	(1,331)
	555,713
Less petty cash	(300)
	\$ 555,413
Bank balance of deposits	\$ 555,413

**NOTE 4. RECEIVABLES**

Receivables as of June 30, 2014, are as follows:

Property taxes	\$ 17,970
Customer Receivables	47,195
Grants Receivables	-
Other Receivables	5,155
	5,155
Total	\$ 70,320

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 4. RECEIVABLES**

The above receivables are deemed 100% collectible. The accounts receivable is net of an estimated allowance for uncollectible accounts of \$3,506 due to the District's ordinance permitting liens on the property for any past due accounts. Other receivables consist of court costs billed to delinquent customers.

**NOTE 5. PREPAID EXPENSES**

The District has an escrow account held by the 8<sup>th</sup> Judicial Court in the amount \$5,082 for a condemnation of property case. This is a prepaid asset for the District at June 30, 2014.

**NOTE 6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2013	Additions	Adjustment	Deletions	Balance June 30, 2014
Land	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Water Rights	-	191,045	188,713	-	379,758
Buildings	637,911	-	-	-	637,911
Furniture, fixtures & equipment	17,249	-	-	-	17,249
Vehicles	22,178	-	-	-	22,178
Utility plant in service	9,231,225	338,244	(188,713)	-	9,380,756
Total Capital Assets	<u>10,008,563</u>	<u>529,289</u>	<u>-</u>	<u>-</u>	<u>10,537,852</u>
Less accumulated depreciation					
Utility plant in service	(1,663,147)	(284,266)	-	-	(1,947,413)
Buildings	(49,081)	(19,331)	-	-	(68,412)
Furniture, fixtures & equipment	(16,963)	(285)	-	-	(17,248)
Vehicles	(4,436)	(4,436)	-	-	(8,872)
Total accumulated depreciation	<u>(1,733,627)</u>	<u>(308,318)</u>	<u>-</u>	<u>-</u>	<u>(2,041,945)</u>
Total capital assets, net	<u>\$ 8,274,936</u>	<u>\$ 220,971</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 8,495,907</u>

Depreciation expense for the year ended June 30, 2014 was charged to business-type activities as follows:

Water & Sewer - Administration	<u>\$ 308,318</u>
Total Depreciation Expense	<u>\$ 308,318</u>

**NOTE 7. UNEARNED REVENUE**

The District has unearned revenue of \$28,400 that is comprised of prepaid connection deposits.



**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 8. LONG-TERM DEBT**

During the year ended June 30, 2014, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount Due Within One Year
Revenue Bonds	\$ 820,000	\$ -	\$ 59,000	\$ 761,000	\$ 62,000
Loan Payable- NM ED	127,411	252,347	-	379,758	14,133
RUS/UNM Bonds	717,386	-	35,475	681,911	37,013
Loan payable-USDA	428,855	-	17,999	410,856	25,286
Loan payable-NMED Ph. 2B	430,000	-	-	430,000	17,697
Loan payable-Water Trust	8,532	-	492	8,040	493
Accrued compensated absences	2,783	5,229	4,435	3,577	528
<b>Total Long-Term Debt</b>	<b>\$ 2,534,967</b>	<b>\$ 257,576</b>	<b>\$ 117,401</b>	<b>\$ 2,675,141</b>	<b>\$ 157,150</b>

The annual requirements to amortize the bonds as of June 30, 2014, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
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	74,000	22,400	96,400
2020-2024	423,000	59,200	482,200
2025-2029	-	-	-
<b>Total</b>	<b>\$ 761,000</b>	<b>\$ 201,600</b>	<b>\$ 962,600</b>

Bonds outstanding at June 30, 2014, 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% \$ 761,000

*Total Bonds* \$ 761,000

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 8. LONG-TERM DEBT, continued**

During the fiscal year, the District made a principal payment of \$59,000 during the year bringing the balance to \$761,000. 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 (RUS) at face value.

**RUS/UNM Bonds:**

The annual requirements to amortize the RUS/UNM Bonds payable as of June 30, 2014, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 37,013	\$ 28,267	\$ 65,280
2016	38,543	26,737	65,280
2017	40,286	24,994	65,280
2018	42,032	23,248	66,280
2019	43,854	21,426	65,280
2020-2024	244,798	81,602	326,400
2025-2029	235,385	15,164	250,549
2030-2033	-	-	-
Total	<u>\$ 681,911</u>	<u>\$ 221,438</u>	<u>\$ 903,349</u>

Loans outstanding at June 30, 2014, consisted of the following loans:

*Loans:*

New Mexico Environmental Department Loan, 20 Year, 3.00% interest.	<u>\$ 379,758</u>
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Payments began in 2013. The District may borrow up to \$500,000 to purchase water rights until June 30, 2014.

Fiscal Year	Principal	Interest	Total
2015	\$ 14,133	\$ 11,393	\$ 25,526
2016	14,557	10,969	25,526
2017	14,994	10,532	25,526
2018	15,443	10,082	25,525
2019	15,907	9,619	25,526
2020-2024	86,985	40,644	127,629
2025-2029	100,839	26,789	127,628
2030-2033	116,900	10,728	127,628
Total	<u>\$ 379,758</u>	<u>\$ 130,756</u>	<u>\$ 510,514</u>

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 8. 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>
2015	\$ 25,286	\$ 10,066	\$ 35,352
2016	26,333	9,019	35,352
2017	26,800	8,552	35,352
2018	27,287	8,065	35,352
2019	27,795	7,557	35,352
2020-2024	147,363	29,397	176,760
2025-2029	114,067	11,535	125,602
2030-2033	<u>15,925</u>	<u>-</u>	<u>15,925</u>
Total	\$ <u>410,856</u>	\$ <u>84,191</u>	\$ <u>495,047</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>
2015	\$ 493	\$ 20	\$ 513
2016	494	19	513
2017	496	18	514
2018	497	16	513
2019	498	16	514
2020-2024	2,509	57	2,566
2025-2029	2,541	26	2,567
2030-2033	<u>512</u>	<u>1</u>	<u>513</u>
Total	\$ <u>8,040</u>	\$ <u>173</u>	\$ <u>8,213</u>

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 8. 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
2015	\$ 17,697	\$ 8,600	\$ 26,297
2016	18,052	8,246	26,298
2017	18,413	7,885	26,298
2018	18,781	7,517	26,298
2019	19,156	7,141	26,297
2020-2024	101,683	30,403	132,086
2025-2029	112,266	19,220	131,486
2030-2034	<u>123,952</u>	<u>7,536</u>	<u>131,488</u>
Total	\$ <u>430,000</u>	\$ <u>96,548</u>	\$ <u>526,548</u>

**NOTE 9. RISK MANAGEMENT**

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

**NOTE 10. LITIGATION**

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

**NOTE 11. SURETY BOND**

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

**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Notes to Financial Statement  
June 30, 2014

**NOTE 12. 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, 2013, plan members are required by statute to contribute 8.5% 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 8.5% of their salary. El Valle de Los Ranchos is required to contribute 7.0% of the gross covered salary for employees earning \$20,000 or less, and 7.0% 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, 2014, 2013 and 2012 were \$9,237, \$8,690, and \$7,158 respectively, which equal the required contributions for each year.

**NOTE 13. RETIREE HEALTH CARE**

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

**NOTE 14. 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, 2014

**NOTE 14. 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 15. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS**

Statement No. 67, Financial Reporting for Pension Plans. This statement also amends Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trust or equivalent arrangements. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for the fiscal years beginning after June 15, 2013 with earlier application encouraged. The District has reviewed the statement and has determined that this does not apply to the District.

Statement No. 68, Accounting and Financial Reporting for Pensions. The statement replaces the requirements of GASBS 27, Accounting for Pensions by State and Local Governmental Employers, and the requirements of GASBS 50 Pension Disclosures, as they related to pensions that are provided through pension plans administered as trusts. The requirements of Statements 27 and 50 remain applicable for pensions that are covered by GASBS 68. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. 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, 2014

**NOTE 15. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS, continued**

Statement No. 69, Government Combinations and Disposals of Government Operations. This statement establishes accounting and financial reporting standards related to government mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. The District has reviewed the statement and has determined that this does not apply to the District.

Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees. This statement establishes accounting and financial reporting standards for financial guarantees that are non-exchange transactions extended or received by a state or local government. A non-exchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. This statement is effective for financial statements for reporting periods beginning after June 15, 2013. The District has reviewed the statement and has determined that this does not apply to the District.

**NOTE 16. RELATED PARTY TRANSACTIONS**

The District paid \$31,889 in legal expenses to Barela-Guiterrez Law Offices which is owned by the daughter of a board member.

**NOTE 17. SUBSEQUENT EVENTS REVIEW**

El Valle de Los Ranchos Water & Sanitation District has evaluated subsequent events through July 22, 2014, noting that the amount reflected as prepaid on a condemnation of property will be reverted back to the District due to a court ruling.

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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, 2014

Schedule I

Name of Depository	Description of Pledged Collateral	Fair/Par Value June 30, 2014	Name and Location of Safekeeper
Peoples Bank	FHLMC Other 3132G5AS8, 2.50%, due 05/01/2028	\$ 93,646	Federal Reserve Bank
Peoples Bank	FNMA 15-Yr 31402QTH4, 5.00%, due 01/01/2019	9,383	Federal Reserve Bank Kansas City, KS
Peoples Bank	FHLMC 20-Yr 31335HVE0, 5.00%, due 01/01/2023	73,165	Federal Reserve Bank Kansas City, KS
		\$ 176,194	

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
**Schedule of Deposits and Investments**  
**June 30, 2014**

Schedule II

Bank Account Type/Name	People's Bank	NM State Treasurer	Totals
Checking	\$ 20,273	\$ -	\$ 20,273
Money Market	535,140	-	535,140
State Treasurer's Pool	<u>-</u>	<u>20,753</u>	<u>20,753</u>
 Total On Deposit	 <u>\$ 555,413</u>	 <u>\$ 20,753</u>	 <u>\$ 576,166</u>
 Reconciling Items			1,331
Petty Cash			<u>300</u>
Reconciled Cash and Investments, June 30, 2014			<u>\$ 577,797</u>

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
**Cash Reconciliation**  
**June 30, 2014**

Schedule III

	<u>Checking</u>	<u>Money Market</u>	<u>Total</u>
Bank balance end of year	\$ 20,273	\$ 535,140	\$ 555,413
Deposits in transit	1,780	-	1,780
Reconciling items	<u>(449)</u>	<u>-</u>	<u>(449)</u>
Cash, June 30, 2014	<u>\$ 21,604</u>	<u>\$ 535,140</u>	\$ 556,744
State Treasurer's Pool			20,753
Petty Cash			<u>300</u>
Total cash and investments at June 30, 2014			<u>\$ 577,797</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, 2014, and have issued our report thereon dated August 13, 2014.

**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 not identify certain deficiencies in internal control that we consider to be significant deficiencies.

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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.

### **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  
August 13, 2014

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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, 2014

Schedule IV

**Section I – Prior year findings:**

FS2013-01 - Non-compliance in Travel & Per Diem (Significant Deficiency) – Resolved

FS2013-02 - Pledged Collateral (Significant Deficiency) - Resolved

**Section II – Current year findings:**

None.

Note: For traceability purposes, the audit finding reference numbers reported in prior year audit reports are presented in brackets, and where applicable, have been renumbered to comply with reporting standards.

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**STATE OF NEW MEXICO**  
**EL VALLE DE LOS RANCHOS WATER & SANITATION DISTRICT**  
Other Disclosures  
For the Year Ended June 30, 2014

Schedule V

**Section V – Financial Statements**

The 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 prepares the District's basic financial statements. However, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

**Section IV – Exit Conference**

An exit conference was conducted on August 13, 2014, 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

Melissa R. Santistevan, CPA, CFE, CGMA, CICA

Mei Y. To, CPA

Joy S. Emmons, Staff Accountant

Michele Jaramillo, Staff Accountant