

El Valle de Los Ranchos  
Water & Sanitation District

Financial Statements  
For the Year Ended June 30, 2018



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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 June 30, 2018  
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**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Official Roster  
June 30, 2018

<u>Name</u>		<u>Title</u>
	<u>Governing Board</u>	
F.R. "Bob" Romero		Chairman
Gabriel Romero		Vice Chairman
Meliton Struck		Board Secretary
Anselmo "Chemo" Valerio		Treasurer
Delfino "Del" Torres		Board Member
	<u>Administrative Officials</u>	
Melene Montaña		Business Manager

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## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Management  
El Valle de Los Ranchos Water & Sanitation District  
Wayne Johnson  
New Mexico State Auditor  
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, 2018, and the related notes to the financial statements which collectively comprise the District's 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 misstatement, whether due to fraud or error.

### Auditors' 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. 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 of the 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, 2018, and the respective changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison of the District for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

## **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 14 through 18 and Schedules A-1 and A-2 notes to the Required Supplementary Information on pages 46 through 48 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 auditing standards generally accepted in the United States of America, which consisted of inquires 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the Supporting Schedules I through II 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 Supporting Schedules I through II required by 2.2.2 NMAC are the responsibility of management and were derived from and relate 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 statements 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 Supporting Schedules I through II required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC  
Albuquerque, New Mexico  
September 1, 2018

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**El Valle de Los Ranchos Water & Sanitation District**  
**Management's Discussion and Analysis**  
June 30, 2018

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, 2018. 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 \$8,250,694 (*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 \$141,415 during the fiscal year. The change is due to an increase in operating services and a decrease in operating expenses.
- The District's total debt decreased by \$164,342 through principal payments made during the fiscal year.

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

This management 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) Basic 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.

### **Basic Financial Statements.**

Our basic financial statements are prepared using a business-type model that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows, budget to actual schedule, followed by notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information pertaining to the schedule of proportionate share of the net pension liability, schedule of contributions, and notes to the required supplementary information.

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.

Over time, increases or decreases in net position may serve as a useful indication of whether the District's financial position is improving or deteriorating. The statement of revenues, expenses, and changes in net position reports the operating revenues and expenses, and non-operating revenues and expenses of the District for the fiscal year with the difference - the net income or loss - being combined with any capital grants to determine the net change in assets for the fiscal year. That change, combined with the net position at the end of the previous year, totals to the net position at the end of the current fiscal year.

### **Statement of Cash Flows**

The statement of cash flows reports cash activities for the fiscal year resulting from operating activities, non-capital financing, investing, and capital and related financing activities. The net result of these activities, added to the beginning of the year cash balance, totals to the cash and cash equivalent balance at the end of the current fiscal year.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 26-44 of this report.

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

June 30, 2018

**BASIC FINANCIAL ANALYSIS**

**Analysis of Net Position**

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of El Valle de Los Ranchos Water & Sanitation District, assets exceeded liabilities by \$8,250,694 at the close of the current fiscal year.

	<b>2018 Business-type Activities</b>	<b>2017 Business-type Activities</b>
<b>Assets</b>		
Current and other assets	\$ 725,913	\$ 899,981
Fixed assets, net of accumulated depreciation	11,242,962	11,091,623
Deferred outflows of resources	65,554	70,371
Total Assets	12,034,429	12,061,975
<b>Liabilities</b>		
Long-term liabilities outstanding	3,420,634	3,595,965
Other liabilities	345,620	347,638
Total liabilities	3,766,254	3,943,603
Deferred inflows of resources	17,074	9,093
<b>Net Position</b>		
Invested in fixed assets, net of related debt	7,780,422	7,462,400
Unrestricted	470,679	646,879
Total Net Position	8,251,101	8,109,279
<b>Total Liabilities, Deferred Inflows of resources, and Net Position</b>	<b>\$ 12,034,429</b>	<b>\$ 12,061,975</b>

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.

As of June 30, 2018, El Valle had current assets of \$725,913, a decrease of \$174,068 over the prior year balance of \$899,981. Capital assets, net of accumulated depreciation, increased over the prior year due to additions in utility plant in service (net of accumulated depreciation). The increase was \$151,339 for an end of year balance of \$11,242,962.

Long term liabilities decreased by \$175,331 which was the net amount of new debt less principal payments made during the year. Other liabilities decreased by \$2,018 with an ending balance of \$345,620. At June 30, 2018, the net position of El Valle totaled \$8,251,101, which was an increase of \$141,822 over prior year net position of \$8,109,279.

**El Valle de Los Ranchos Water & Sanitation District**  
**Management's Discussion and Analysis**  
June 30, 2018

**Changes in Net Position**

	2018 Business-type Activities	2017 Business-type Activities
<b>Revenues</b>		
Operating revenues:		
Fees and charges	\$ 392,101	\$ 381,686
Non-operating revenues:		
Gross receipts taxes	45,083	42,889
Property taxes	831,316	814,509
Interest income	6,779	6,233
Capital grants	70,823	372,920
Total Revenues	1,346,102	1,618,237
<b>Expenses</b>		
Advertising	7,435	6,481
Books, dues & registration	4,975	4,209
Depreciation	435,498	422,150
Employee salaries	148,242	129,996
Field supplies	9,887	8,509
Insurance	8,922	9,233
Miscellaneous expense	3,168	2,975
Mileage and per diem	14,176	13,728
Office expenses	-	13,033
Other contractual services	355,984	316,983
Payroll related expenses	64,808	73,243
Rent	2,973	3,440
Repairs and maintenance	6,617	9,018
Postage & freight	5,650	6,524
Utilities	11,154	11,292
Interest expense	124,791	86,209
Total Expenses	1,204,280	1,117,023
Increase in net position	141,822	501,214
Net position, beginning of year	8,109,279	7,412,644
Restatement	-	195,421
Ending net position	\$ 8,251,101	\$ 8,109,279

Revenues for the year ending June 30, 2018 were less than the prior year by \$272,135. The majority of the change was a decrease in capital grants by \$302,097. Total expenses increased by \$91,695 compared to prior year's expenses mainly due to contractual and interest expenses.

**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.



**El Valle de Los Ranchos Water & Sanitation District**  
**Management's Discussion and Analysis**  
June 30, 2018

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.

During the year, actual operating revenues were higher than budgetary estimates by \$67,034. This is a difference of 21%, due to an increase in customers.

**Fixed Asset and Debt Administration**

**Fixed assets.** El Valle de Los Ranchos Water & Sanitation District's fixed assets for its business-type activities as of June 30, 2018, amount to \$11,242,962 (net of accumulated depreciation). Fixed assets include land, water rights, buildings, equipment and furniture, vehicles, and utility plant in service. The total increase in the District's fixed assets (excluding accumulated depreciation) for the current fiscal year was \$151,339 which consisted of additions to the utility plant in service.

**Fixed Assets, Net of Depreciation**

	2018 Business-type Activities	2017 Business-type Activities
Land	\$ 100,000	\$ 100,000
Water rights	379,758	379,758
Buildings	641,308	641,308
Equipment and furniture	17,249	17,249
Vehicles	22,178	22,178
Utility plant in service	13,730,113	13,143,276
Total fixed assets	14,890,606	14,303,769
Accumulated depreciation	(3,647,644)	(3,212,146)
Fixed assets, net of accumulated depreciation	<u>\$ 11,242,962</u>	<u>\$ 11,091,623</u>

**Debt Administration.** At the end of the current fiscal year, the District had total debt obligations outstanding of \$3,469,212. The debt consists of bonds, loans, and accrued compensated absences. Changes to long term debt during the year included principal payments of \$185,531.

**Long-Term Debt**

	2018 Business-type Activities	2017 Business-type Activities
Revenue bonds	\$ 497,000	\$ 567,000
RUS/UNM bonds	524,033	566,069
Bonds payable-USDA	330,996	352,199
Bonds payable-NMED Ph. 2B	357,058	375,839
Loan payable-NMED	320,631	336,074
Loan payable-water trust	6,060	6,557
Loan payable-NMFA water line	89,972	95,477
Loan payable-NMED CWSR	1,213,852	1,200,000
Loan payable-3B water line	122,938	130,009
Accrued compensated absences	6,672	4,330
Total long-term debt	<u>\$ 3,469,212</u>	<u>\$ 3,633,554</u>

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

June 30, 2018

See note 6 in the accompanying Notes to the Financial Statements for further information regarding El Valle de Los Ranchos Water & Sanitation District's long-term debt.

**FUTURE TRENDS**

The El Valle de Los Ranchos Water & Sanitation District Board of Directors and its staff continue to dedicate themselves to the citizens of the El Valle District by honestly representing an accurate and fairly stated set of financial records. We recognize and strive to keep water and sewer fees as low as possible. In addition, we pledge to continually have the District's best interest at heart while expanding our water and sewer services at the lowest cost for our customers.

The District continues to seek grant funds to improve its water and sewer lines. Projects to improve the water and sewer system continue as long as funding is available.

**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 Melene Montano, Business Manager, El Valle de Los Ranchos Water & Sanitation District, P.O. Box 2797, Ranchos de Taos, New Mexico 87557; (575) 751-1700.

**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Statement of Net Position  
June 30, 2018

**Assets**

<i>Current assets</i>	
Cash	\$ 281,091
Investments	147,997
Accounts receivable, net	<u>296,825</u>
<i>Total current assets</i>	<u>725,913</u>
 <i>Noncurrent assets</i>	
Non-depreciable fixed assets	479,758
Depreciable fixed assets	14,410,848
Less: accumulated depreciation	<u>(3,647,644)</u>
<i>Total noncurrent assets</i>	<u>11,242,962</u>
 <i>Total assets</i>	 <u>11,968,875</u>
 <b>Deferred outflows of resources</b>	
 Deferred outflows- pension	 <u>65,554</u>
 <i>Total deferred outflows of resources</i>	 <u>65,554</u>
 <i>Total assets and deferred outflows of resources</i>	 <u>\$ 12,034,429</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Statement of Net Position  
 June 30, 2018

**Liabilities**

<i>Current liabilities</i>	
Accounts payable	\$ 49,156
Payroll liabilities	11,423
Unearned revenue	27,600
Current portion of accrued compensated absences	4,417
Accrued interest	9,620
Current maturity of long-term debt	243,404
<i>Total current liabilities</i>	345,620
 <i>Noncurrent liabilities</i>	
Accrued compensated absences	2,255
Note payable	1,670,379
Bonds payable	1,548,757
Net pension liability	199,243
<i>Total noncurrent liabilities</i>	3,420,634
<i>Total liabilities</i>	3,766,254
 <b>Deferred inflows of resources</b>	
Deferred inflows- pension	17,074
<i>Total deferred inflows of resources</i>	17,074
 <b>Net position</b>	
Net investment in capital assets	7,780,422
Unrestricted	470,679
<i>Total net position</i>	8,251,101
<i>Total liabilities, deferred inflows and net position</i>	\$ 12,034,429

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Statement of Revenues, Expenses, and Changes in Net Position  
 For the Year Ended June 30, 2018

<i>Operating revenues</i>	
Fees and charges	\$ 392,101
<i>Total operating revenues</i>	<u>392,101</u>
 <i>Operating expenses</i>	
Advertising	7,435
Books, dues & registration	4,975
Depreciation	435,498
Employee salaries	148,242
Field supplies	9,887
Insurance	8,922
Miscellaneous expense	3,168
Mileage and per diem	14,176
Other contractual services	355,984
Payroll related expenses	64,808
Rent	2,973
Repairs and maintenance	6,617
Postage & freight	5,650
Utilities	<u>11,154</u>
<i>Total operating expenses</i>	<u>1,079,489</u>
<i>Operating income (loss)</i>	<u>(687,388)</u>
 <i>Non-operating revenues (expenses)</i>	
Gross receipts taxes	45,083
Property taxes	831,316
Interest expense	(124,791)
Interest income	<u>6,779</u>
<i>Total non-operating revenues (expenses)</i>	<u>758,387</u>
 <i>Income before contributions and transfers</i>	
Capital grants	<u>70,823</u>
<i>Change in net position</i>	141,822
Net position, beginning of year as restated (Note 12)	<u>8,109,279</u>
Net position, end of year	<u>\$ 8,251,101</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Statement of Cash Flows  
 For the Year Ended June 30, 2018

<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 391,237
Cash payments to employees for services	(202,280)
Cash payments to suppliers for goods and services	(438,614)
<i>Net cash provided (used) by operating activities</i>	<u>(249,657)</u>
<i>Cash flows from noncapital financing activities:</i>	
Non-exchange taxes assessed	847,556
<i>Net cash provided by noncapital financing activities</i>	<u>847,556</u>
<i>Cash flows from investing activities:</i>	
Purchase of investments	(127,073)
Interest on investments	6,779
<i>Net cash provided (used) by investing activities</i>	<u>(120,294)</u>
<i>Cash flows from capital and related financing activities:</i>	
Capital grants income	107,609
Interest paid	(126,355)
Acquisition of capital assets	(586,837)
Proceeds from issuance of long-term debt	13,852
Principal payments on long term debt	(180,536)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(772,267)</u>
<i>Net increase (decrease) in cash</i>	(294,662)
<i>Cash - beginning of year</i>	<u>575,753</u>
<i>Cash - end of year</i>	<u>\$ 281,091</u>
<i>Reconciliation of operating loss to</i>	
<i>net cash provided (used) by operating activities:</i>	
Operating loss	\$ (687,388)
Adjustments to reconcile operating (loss) to	
net cash provided (used) by operating activities:	
Depreciation	435,498
Net pension expense	12,333
Changes in assets and liabilities:	
Receivables	(1,464)
Accounts payable	(7,673)
Accrued payroll expenses	(3,905)
Unearned revenue	600
Accrued compensated absences	2,342
<i>Net cash provided (used) by operating activities</i>	<u>\$ (249,657)</u>

The accompanying notes are an integral part of these financial statements.

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**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Statement of Revenues, Expenses, and Changes in  
 Net Position - Budget and Actual (Budgetary Basis)  
 For the Year Ended June 30, 2018

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<i>Revenues</i>				
Fees and charges	\$ 324,567	\$ 324,567	\$ 392,101	\$ 67,534
Miscellaneous operating income	500	500	-	(500)
<b>Total revenues</b>	<b>325,067</b>	<b>325,067</b>	<b>392,101</b>	<b>67,034</b>
<i>Expenses</i>				
Current:				
Advertising	9,500	9,500	7,435	2,065
Books, dues & registration	6,060	6,060	4,975	1,085
Employee salaries	142,549	148,549	148,242	307
Field supplies	11,700	11,700	9,887	1,813
Insurance	9,500	9,500	8,922	578
Miscellaneous expense	4,000	4,000	3,168	832
Mileage & per diem	16,267	16,267	14,176	2,091
Other contractual services	376,167	376,167	355,984	20,183
Payroll related expenses	72,627	66,627	64,808	1,819
Rent	3,800	3,800	2,973	827
Repairs and maintenance	7,100	7,100	6,617	483
Postage and freight	9,000	9,000	5,650	3,350
Capital outlay	653,100	653,100	586,837	66,263
Utilities	13,600	13,600	11,154	2,446
<b>Total expenses</b>	<b>1,334,970</b>	<b>1,334,970</b>	<b>1,230,828</b>	<b>104,142</b>
Operating income	(1,009,903)	(1,009,903)	(838,727)	171,176
<i>Non-operating revenues</i>				
Gross receipts taxes	40,000	40,000	45,083	5,083
Property taxes	820,641	820,641	831,316	10,675
Interest expense	(154,559)	(154,559)	(124,791)	29,768
Interest income	6,000	6,000	6,779	779
<b>Income before contributions</b>	<b>712,082</b>	<b>712,082</b>	<b>758,387</b>	<b>46,305</b>
Capital grants	-	-	70,823	70,823
<b>Change in Net Position (Budgetary Basis)</b>	<b>\$ (297,821)</b>	<b>\$ (297,821)</b>	<b>\$ (9,517)</b>	<b>\$ 288,304</b>

**Reconciliation of change in net position (budgetary basis)  
to change in net position (GAAP basis)**

Change in net position budgetary basis	\$ (9,517)
Capitalized expenditures	586,837
Depreciation	(435,498)
<b>Change in net position financial statements</b>	<b>\$ 141,822</b>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Notes to Financial Statements  
June 30, 2018

**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 6 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.

During the year ended June 30, 2018, the District adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, No. 81, *Irrevocable Split-Interest Agreements*, No. 85, *Omnibus 2017*, No. 86 *Certain Debt Extinguishment Issues*, none of which had a material effect on the District.

*A. Financial Reporting Entity*

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39 and GASB No.61. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate the potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the District does not have any component units as described in the following paragraphs, and is not a component unit of another governmental agency.

*B. Measurement focus, basis of accounting, and financial statement presentation*

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.

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Notes to Financial Statements  
June 30, 2018

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*B. Measurement focus, basis of accounting, and financial statement presentation (continued)*

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue 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 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.

*C. Assets, Liabilities and Net Position or Equity*

**Cash and 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. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of June 30, 2018, there are no items that are required to be valued using valuation techniques.

**STATE OF NEW MEXICO**  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Assets, Liabilities and Net Position or Equity (Continued)*

**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, 2018 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. The allowance for doubtful accounts is determined on a case by case basis, if the District determines that an account will not be collected, it will be brought to the attention of the Board who will then approve it to be allowed for.

**Capital Assets:** Capital assets, which include property, plant, computer software, and equipment are reported in the statement of net position. 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:

Assets	Years
Buildings	45
Equipment & furniture	5-10
Vehicles	5
Utility plant in service	33

**Unearned Revenues:** The District has unearned revenue that is comprised of prepaid connection deposits.

**Deferred Inflows/Outflows of Resources:** GASB 63 amended previous guidance on deferred revenues in the Statement of Net Position to include deferred outflow of resources, which is the consumption of net position of the District that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net position by the District 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 expense. 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 statement of Net Position.

**STATE OF NEW MEXICO**  
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**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Assets, Liabilities and Net Position or Equity (Continued)*

**Long-term Obligations:** In the statement of net position, long-term debt and other long-term obligations are reported as liabilities in the 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 straight-line method, the difference between the straight-line method and the effective interest method is inconsequential. Bonds payable are reported net of the applicable bond premium or discount.

**Net Position:** Equity is classified as net position and displayed in three components:

a. Net Investment in Capital Assets: Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted Net Position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted Net Position: All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**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.

**Pensions:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2. Stewardship, Compliance and Accountability**

***Budgets and Budgetary Accounting***

The budget for the Enterprise Fund is prepared by management and is approved by the Board of Directors.

These budgets are prepared on the non-GAAP budgetary 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.

**STATE OF NEW MEXICO**  
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June 30, 2018

**NOTE 2. Stewardship, Compliance and Accountability (continued)**

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.

**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, 2018.

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 II 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, 2018, 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 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 Statements  
 June 30, 2018

**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.

	<b>Hilcrest Bank</b>
Amount of deposits	\$ 286,912
FDIC Coverage	(250,000)
Total uninsured public funds	36,912
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	36,912
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured funds)	\$ 18,456
Pledged Collateral	287,469
Over (Under) collateralized	\$ 269,013

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than the following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978.) At June 30, 2018, \$36,912 of the District's deposits of \$286,912 was exposed to custodial credit risk. \$36,912 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the District's name. As of June 30, 2018, the carrying amount of these deposits was \$281,091; total amount of deposits of \$286,912 less outstanding items of \$5,821. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for a least one half of the amount on deposit with the institution. The schedule listed above will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

Reconciliation to the Statement of Net Position:

Cash and cash equivalents- Statement of Net Position	\$ 281,091
Plus: reconciling items	6,121
Less: petty cash	(300)
Bank balance of deposits	\$ 286,912

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
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**NOTE 3. Deposits and Investments (continued)**

**Investments:**

As of June 30, 2018, the District had the following short-term investments and maturities:

<u>Short-term Investment Types</u>	<u>Fair Value</u>	<u>Short-term Investments Maturities Less than 1 year</u>
Local Government Investment Pool	\$ 147,997	\$ 147,997
AAAm 50-day WAM (R) 100-day (F)		

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.

**NOTE 4. Receivables**

Receivables as of June 30, 2018 are as follows:

Gross receipts tax receivables	\$ 3,254
Property tax receivables	244,289
Customer receivables	45,380
Other receivables	<u>3,902</u>
	<u>\$ 296,825</u>

The accounts receivable are net of an estimated allowance for uncollectible accounts of \$3,270 due to the District’s ordinance permitting liens on the property for any past due accounts. Other receivables consist of court and lien costs billed to delinquent customers.



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June 30, 2018

**NOTE 5. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2018 follows.

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Adjustments</u>	<u>Balance June 30, 2018</u>
Capital assets not depreciated					
Land	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Water rights	379,758	-	-	-	379,758
Total assets not depreciated	<u>479,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>479,758</u>
Capital assets depreciated					
Buildings	641,308	-	-	-	641,308
Equipment and furniture	17,249	-	-	-	17,249
Vehicles	22,178	-	-	-	22,178
Utility plant in service	13,143,276	586,837	-	-	13,730,113
Total assets depreciated	<u>13,824,011</u>	<u>586,837</u>	<u>-</u>	<u>-</u>	<u>14,410,848</u>
Total assets	<u>14,303,769</u>	<u>586,837</u>	<u>-</u>	<u>-</u>	<u>14,890,606</u>
Less accumulated depreciation for:					
Buildings	135,623	19,434	-	-	155,057
Equipment and furniture	17,249	-	-	-	17,249
Vehicles	22,931	-	-	(753)	22,178
Utility plant in service	3,036,343	416,064	-	753	3,453,160
Total accumulated depreciation	<u>3,212,146</u>	<u>435,498</u>	<u>-</u>	<u>-</u>	<u>3,647,644</u>
<b>Net capital assets</b>	<u>\$ 11,091,623</u>	<u>\$ 151,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,242,962</u>

Depreciation expense for the year ended June 30, 2018 was charged to business-type activities in the amount of \$435,498.

**STATE OF NEW MEXICO**  
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**NOTE 6. Long-Term Debt**

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the statement of net position:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Revenue Bonds	\$ 567,000	\$ -	\$ 70,000	\$ 497,000	\$ 74,000
RUS/UNM Bonds	566,069	-	42,036	524,033	43,854
Bonds Payable-USDA	352,199	-	21,203	330,996	22,100
Bonds Payable-NMED Ph. 2B	375,839	-	18,781	357,058	20,376
Loan Payable-NM ED	336,074	-	15,443	320,631	15,907
Loan Payable-Water Trust	6,557	-	497	6,060	498
Loan Payable-NMFA Water Line	95,477	-	5,505	89,972	5,519
Loan Payable-NMED CWSR	1,200,000	13,852	-	1,213,852	54,062
Loan Payable-3B Water Line	130,009	-	7,071	122,938	7,088
Compensated Absences	4,330	7,337	4,995	6,672	4,417
Total long-term debt	<u>\$ 3,633,554</u>	<u>\$ 21,189</u>	<u>\$ 185,531</u>	<u>\$ 3,469,212</u>	<u>\$ 247,821</u>

The annual requirements to amortize the revenue bonds as of June 30, 2018, including interest payments are as follows:

**Revenue Bonds**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 74,000	\$ 22,400	\$ 96,400
2020	77,000	19,100	96,100
2021	80,000	15,600	95,600
2022	84,000	12,000	96,000
2023	88,000	8,200	96,200
2024-2028	<u>94,000</u>	<u>4,300</u>	<u>98,300</u>
	<u>\$ 497,000</u>	<u>\$ 81,600</u>	<u>\$ 578,600</u>

Bonds outstanding at June 30, 2018, 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%

\$ 497,000

During the fiscal year, the District made a principal payment of \$70,000 during the year bringing the balance to \$497,000. 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.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
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**NOTE 6. Long-Term Debt (continued)**

**RUS/UNM Bonds:**

The annual requirements to amortize the RUS/UNM Bonds payable as of June 30, 2018, including interest payments are as follows:

**RUS/UNM Bonds**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 43,854	\$ 21,426	\$ 65,280
2020	45,702	19,578	65,280
2021	43,706	17,545	61,251
2022	49,625	15,476	65,101
2023	51,775	13,318	65,093
2024-2028	289,371	30,848	320,219
	<u>\$ 524,033</u>	<u>\$ 118,191</u>	<u>\$ 642,224</u>

**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. The loan payable as of June 30, 2018, including interest payments are as follows:

**Bonds Payable-USDA**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 22,100	\$ 13,252	\$ 35,352
2020	23,030	12,322	35,352
2021	23,999	11,353	35,352
2022	25,010	10,342	35,352
2023	26,062	9,290	35,352
2024-2028	147,720	29,040	176,760
2029-2033	63,075	2,538	65,613
	<u>\$ 330,996</u>	<u>\$ 88,137</u>	<u>\$ 419,133</u>

**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 1.2% per annum and is payable over a period of 20 years beginning one year from the completion of the project.

**STATE OF NEW MEXICO**  
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**NOTE 6. Long-Term Debt (continued)**

**Bonds Payable-NMED Ph. 2B**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 20,376	\$ 4,285	\$ 24,661
2020	20,620	4,040	24,660
2021	20,867	3,793	24,660
2022	21,118	3,542	24,660
2023	21,371	3,289	24,660
2024-2028	110,766	12,534	123,300
2029-2033	117,572	5,728	123,300
2034-2038	24,368	293	24,661
	<u>\$ 357,058</u>	<u>\$ 37,504</u>	<u>\$ 394,562</u>

**NMED Loan:**

The New Mexico Education Department loaned El Valle de Los Ranchos Water and Sanitation District \$379,758 on October 9, 2014. The annual payments of \$25,526 include interest at 3.0%.

**Loan Payable-NMED**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 15,907	\$ 9,619	\$ 25,526
2020	16,384	9,142	25,526
2021	16,875	8,650	25,525
2022	17,382	8,144	25,526
2023	17,903	7,622	25,525
2024-2028	97,902	29,725	127,627
2029-2033	113,495	14,132	127,627
2034-2038	24,783	743	25,526
	<u>\$ 320,631</u>	<u>\$ 87,777</u>	<u>\$ 408,408</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, 2010 for the purpose of planning, design and engineering of a water utility system. The annual payments of include interest at 0.25%.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
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**NOTE 6. Long-Term Debt (continued)**

**Loan Payable-Water Trust**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 498	\$ 15	\$ 513
2020	499	14	513
2021	501	13	514
2022	502	11	513
2023	503	10	513
2024-2028	2,534	31	2,565
2029-2033	1,023	3	1,026
	<u>\$ 6,060</u>	<u>\$ 97</u>	<u>\$ 6,157</u>

**NMFA Water Line Loan:**

NM Finance Authority and NM Water Trust Board entered into an agreement on August 1, 2014 with El Valle de Los Ranchos Water and Sanitation District for a water line construction loan of \$111,000 and a grant of \$999,000. The loan/grant is on a reimbursable basis for the construction of water line construction. The loan bears interest at 0% per annum, administrative fee of 0.25% and is payable over a period of 20 years beginning one year from the completion of the project.

**Loan Payable-NMFA Water Line**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 5,519	\$ 225	\$ 5,744
2020	5,532	211	5,743
2021	5,546	197	5,743
2022	5,560	183	5,743
2023	5,574	170	5,744
2024-2028	28,080	639	28,719
2029-2033	28,432	285	28,717
2034-2038	5,729	14	5,743
	<u>\$ 89,972</u>	<u>\$ 1,924</u>	<u>\$ 91,896</u>

**NMED CWSR Loan:**

NM Environmental Department entered into an agreement on November 21, 2014 with El Valle de Los Ranchos Water and Sanitation District for a water line construction loan of \$1,200,000 and a grant of \$343,444. The loan/grant is on a reimbursable basis for the construction of water line construction. On February 13, 2018, the loan was restructured with New Mexico Environment Department with interest going from 2% per annum to 1.2% payable over a period of 20 years beginning in January 2019 through January of 2038 with a refinance fee of 2%.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 6. Long-Term Debt (continued)**

**Loan Payable-NMED CWSR**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 54,062	\$ 14,566	\$ 68,628
2020	54,711	13,917	68,628
2021	55,368	13,261	68,629
2022	56,032	12,597	68,629
2023	56,704	11,924	68,628
2024-2028	293,893	49,249	343,142
2029-2033	311,954	31,187	343,141
2034-2038	331,128	12,017	343,145
	<u>\$ 1,213,852</u>	<u>\$ 158,718</u>	<u>\$ 1,372,570</u>

**NMFA Water Line Loan:**

NM Finance Authority and the Water Trust Board entered into an agreement on March 25, 2016 with El Valle de Los Ranchos Water and Sanitation District for a water line construction loan of \$138,354 and a grant of \$1,245,187. The loan/grant is on a reimbursable basis for the construction of water lines. The loan bears interest at 0% per annum, administrative fee of 0.25% and is payable over a period of 20 years beginning one year from the completion of the project.

**Loan Payable-3B Water Line**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 7,088	\$ 307	\$ 7,395
2020	7,106	290	7,396
2021	7,124	272	7,396
2022	7,141	254	7,395
2023	7,159	236	7,395
2024-2028	36,065	910	36,975
2029-2033	36,519	458	36,977
2034-2038	14,736	55	14,791
	<u>\$ 122,938</u>	<u>\$ 2,782</u>	<u>\$ 125,720</u>

**NOTE 7. 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. As of June 30, 2018, there have been no claims that have exceeded insurance coverage.

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Notes to Financial Statements  
June 30, 2018

**Note 8. Pension Plan – Public Employee Retirement Association of NM**

*Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

**Benefits Provided** – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

**TIER II**

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 8. Pension Plan – Public Employee Retirement Association of NM (continued)**

**Contributions** – See PERA’s compressive annual financial report for Contribution provided description.

<b>PERA Contribution Rates and Pension Factors as of July 1, 2016</b>						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
State Plan 3	7.42 %	8.92 %	16.99 %	3.0 %	2.5 %	90 %
Municipal Plan 1 (plan open to new employers)	7.0 %	8.5 %	7.4 %	2.0 %	2.0 %	90 %
Municipal Plan 2 (plan open to new employers)	9.15 %	10.65 %	9.55 %	2.5 %	2.0 %	90 %
Municipal Plan 3 (plan closed to new employers 6/95)	13.15 %	14.65 %	9.55 %	3.0 %	2.5 %	90 %
Municipal Plan 4 (plan closed to new employers 6/00)	15.65 %	17.15 %	12.05 %	3.0 %	2.5 %	90 %
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.90%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
State Police and Adult Correctional Officer Plan 1	7.60%	9.10%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –***

At June 30, 2018, the District reported a liability of \$199,243 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017.



**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 8. Pension Plan – Public Employee Retirement Association of NM (continued)**

The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the District’s proportion was 0.0145%, which was an increase of 0.002% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$16,351. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between expected and actual experience	\$ 7,829	\$ 10,205
Net difference between expected and actual investments on pension plan investments	16,347	-
Change in assumptions	9,188	2,059
Change in proportion	20,470	4,810
District’s contributions subsequent to the measurement date	11,720	-
Total	\$ 65,554	\$ 17,074

\$11,720 reported as deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pensions expense as follows:

2019	\$	12,115
2020		21,802
2021		7,621
2022		(4,778)
2023		-
Thereafter		-

*Actuarial assumptions.* The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 8. Pension Plan – Public Employee Retirement Association of NM (continued)**

PERA FUND

<b>PERA</b>	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
<b>Actuarial Assumptions:</b>	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll Growth	2.75% for first 9 years, then 3.254% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 9 years
	2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets	<u>20.00</u>	7.35
<b>Total</b>	<b>100.00%</b>	

*Discount rate.* A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 8. Pension Plan – Public Employee Retirement Association of NM (continued)**

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

	<b>1% Decrease (6.51%)</b>	<b>Current Discount Rate (7.51%)</b>	<b>1% Increase (8.51%)</b>
District's proportionate share of the net pension liability	\$ 312,279	\$ 199,243	\$ 105,237

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

**NOTE 9. Joint Power Agreements**

**Town of Taos**

*Purpose*

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

*Participants*

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

*Responsibility Party for Operation and Audit*

None

*Beginning and Ending Date of Agreement*

October 28, 2002 to October 27, 2022

*Total Estimated Amount of Project and Actual Amount Contributed*

\$23.25 per residential customer

**Llano Quemado Mutual Domestic Water Association**

*Purpose*

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

*Participants*

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

*Responsible Party for Operation and Audit*

Shared responsibility

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Notes to Financial Statements  
 June 30, 2018

**NOTE 9. Joint Power Agreements (continued)**

*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 10. Contingent Liabilities**

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

**NOTE 11. Surety Bond**

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

**NOTE 12. Prior Period Adjustment**

The District recorded property tax receivables and unearned revenue incorrectly in the prior year. The financial statements presented property tax receivables that were not expected to be collected after 60 days as deferred inflows of resources instead of correctly recording it as property tax receivables. The method presented did not correctly comply with generally accepted accounting principles (GAAP) as it relates to business-type (proprietary) funds.

*Net position*

Net position, July 1, 2017 as previously reported	\$	7,913,858
Adjustment to correct prior year deferred inflows		335,930
Adjustment to correct prior year accounts receivable-property taxes		(140,509)
		(140,509)
Net position, July 1, 2017, as restated	\$	8,109,279

**NOTE 13. Subsequent Events**

El Valle de Los Ranchos Water & Sanitation District has evaluated subsequent events through September 1, 2018 which is the date of the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**

Schedule A-1

El Valle de Los Ranchos Water & Sanitation District  
 Schedule of Proportionate Share of the Net Pension Liability  
 Public Employees Retirement Association (PERA) Plan  
 Last 10 Fiscal Years\*

	<b>2018 Measurement Date (As of and for the Year Ended June 30, 2017)</b>	<b>2017 Measurement Date (As of and for the Year Ended June 30, 2016)</b>	<b>2016 Measurement Date (As of and for the Year Ended June 30, 2015)</b>	<b>2015 Measurement Date (As of and for the Year Ended June 30, 2014)</b>
El Valle de Los Ranchos Water & Sanitation District's proportion of the net pension liability (asset)	0.01450%	0.01250%	0.01340%	0.01230%
El Valle de Los Ranchos Water & Sanitation District's proportionate share of the net pension liability (asset)	\$ 199,243	\$ 199,708	\$ 136,625	\$ 95,953
El Valle de Los Ranchos Water & Sanitation District's covered-payroll	161,261	138,354	147,409	131,957
El Valle de Los Ranchos Water & Sanitation District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	123.55%	144.35%	92.68%	72.72%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

\* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, El Valle de Los Ranchos Water & Sanitation District's will present information for those years for which information is available. Complete information for El Valle de Los Ranchos Water & Sanitation District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.  
 See notes to required supplementary information.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Schedule of Contributions  
 Public Employees Retirement Association (PERA) Plan  
 Last 10 Fiscal Years\*

Schedule A-2

	<u>As of and for the Year Ended June 30, 2018</u>	<u>As of and for the Year Ended June 30, 2017</u>	<u>As of and for the Year Ended June 30, 2016</u>	<u>As of and for the Year Ended June 30, 2015</u>
Contractually required contribution	\$ 11,720	\$ 11,933	\$ 10,238	\$ 10,872
Contributions in relation to the contractually required contribution	<u>11,720</u>	<u>11,933</u>	<u>10,238</u>	<u>10,872</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
El Valle de Los Ranchos Water & Sanitation District's covered-payroll	158,372	161,261	138,354	147,409
Contribution as a percentage of covered-payroll	7.40%	7.40%	7.40%	7.38%

\* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, El Valle de Los Ranchos Water & Sanitation District will present information for those years for which information is available. Complete information for El Valle de Los Ranchos Water & Sanitation District is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.  
 See notes to required supplementary information.

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Notes to Required Supplementary Information  
June 30, 2018

*Changes of benefit terms:* The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>.

*Assumptions:* The Public Employee Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org>.

See independent auditors' report.



## **SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Schedule of Deposits and Investments  
 June 30, 2018

Schedule I

<u>Bank Account Type/ Name</u>	<u>Hillcrest Bank</u>	<u>NM State Treasurer</u>	<u>Total</u>
Checking	\$ 38,403	\$ -	\$ 38,403
Money market	248,509	-	248,509
Total Cash Deposits	<u>286,912</u>	-	<u>286,912</u>
Investments:			
State treasurer's pool	-	147,997	147,997
Total Investments	<u>-</u>	<u>147,997</u>	<u>147,997</u>
Total Deposits and Investments	<u>\$ 286,912</u>	<u>\$ 147,997</u>	<u>434,909</u>
Reconciling items			(6,121)
Plus: Cash on hand			<u>300</u>
<i>Reconciled balance June 30, 2018</i>			<u><u>\$ 429,088</u></u>

See independent auditors' report.

**STATE OF NEW MEXICO**  
 El Valle de Los Ranchos Water & Sanitation District  
 Schedule of Collateral Pledged by Depository for Public Funds  
 June 30, 2018

Schedule II

<b>Description of Pledged Collateral</b>	<b>Maturity</b>	<b>CUSIP Number</b>	<b>Fair Market June 30, 2018</b>
FNM17099 PA	10/25/2042	3136AY3N1	\$ 287,469
Collateral for deposit accounts			<u>287,469</u>
<i>Total collateral pledged</i>			<u><u>\$ 287,469</u></u>

Name and location of safekeeper for above pledged collateral:

National Bank Holdings Corp., 7800 East Orchard Rd. Suite 300, Greenwood Village, CO

See independent auditors' report.

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

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Management  
El Valle De Los Ranchos Water & Sanitation District  
Wayne Johnson  
New Mexico State Auditor  
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 and budgetary statement of El Valle de Los Ranchos Water & Sanitation District ("the District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a 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 was for the limited purpose described on the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness as item 2018-001.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **District's Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the 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 the 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 the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC  
Albuquerque, NM  
September 1, 2018

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

Schedule III

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Unmodified |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weaknesses identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted?                     | None noted |

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

Schedule III

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**FS 2018-001 Financial Statement Preparation (Material Weakness)**

*Condition:* During our audit, we noted that in prior years the District was not recording property taxes revenue in accordance with GASB Statement No. 33. The financial statements presented property tax receivable amounts that were not expected to be collected after 60 days to be a deferred inflow of resources. This method of accounting does not comply with generally accepted accounting principles (GAAP) as it relates to business-type (proprietary) funds.

*Criteria:* Preparation of the financial statements must be presented in accordance with generally accepted accounting principles (GASB Statement No. 33), this ensures that timely, accurate and useful information is available to management and those charged with governance.

*Cause:* There was confusion as to the presentation of the property taxes revenue on the financial statements in prior years.

*Effect:* The financial statements in prior years were not presented in accordance with generally accepted accounting principles which resulted in a combined prior period adjustment to net position for the current year in the amount of \$195,421.

*Auditors' Recommendations:* After the prior period adjustment is accounted for and the change of the presentation for the current year is implemented, the District will be presenting their financial statements in accordance with generally accepted accounting principles and should continue to present them accordingly in future years.

*Agency Response:* After reviewing the auditors' recommendation, we agree with the recommendation to present the financial statements in accordance with generally accepted accounting principles and will continue to present them accordingly in future years.



**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

Schedule III

**SECTION III. PRIOR YEAR AUDIT FINDINGS**

**None**

**STATE OF NEW MEXICO**  
El Valle de Los Ranchos Water & Sanitation District  
Other Disclosures  
June 30, 2018

**OTHER DISCLOSURES**

**Exit Conference**

An exit conference was held on August 31, 2018. In attendance were the following:

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

F.R. "Bob" Romero – Chairman  
Delfino "Del" Torres – Board Member  
Melene Montaña – Business Manager  
Johnny Valerio – Consultant  
Uvaldo Mondragon – Consultant

**Representing Cordova CPAs LLC:**

Robert Cordova, CPA – Principal  
Rufino Rodriguez, CPA – Senior Manager

**Auditor Prepared Financial Statements**

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of El Valle de Los Ranchos Water & Sanitation District from the original books and records asserted by management. The responsibility for the financial statements remains with El Valle de Los Ranchos Water & Sanitation District.