

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

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INTRODUCTORY SECTION

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

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
OFFICIAL ROSTER
June 30, 2011

Name

Title

GOVERNING BOARD

Telesfor R. Gonzales

Chairman

Cris J. Cisneros

Vice-Chairman

Elaine Trujillo

Secretary/Treasurer

John S. Painter

Member

Bernadine de Herrera

Member

Administrative Official

Christine Martinez

General 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 Prado Water & Sanitation District
El Prado, New Mexico

We have audited the accompanying financial statements of the business-type activities and the budgetary comparisons of the State of New Mexico, El Prado Water & Sanitation District (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District was unable to provide a capital asset listing with depreciation expense for the year ended June 30, 2011. We were not able to apply other auditing procedures to provide evidence to verify the fairness of presentation of the capital assets and depreciation expense.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding capital assets, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the El Prado Water & Sanitation District as of June 30, 2011, and the respective change in financial position, thereof and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the District for the year ended June 30, 2011.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 5, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 11 to 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the management's discussion and analysis. However, we did not audit the information and do not express an opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements and budgetary comparisons. The accompanying schedule of cash accounts and pledged collateral is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Precision Accounting, LLC

Precision Accounting, LLC
Albuquerque, New Mexico
September 5, 2013

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El Prado Water & Sanitation District Management's Discussion and Analysis

As management of El Prado Water & Sanitation District ("District") we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements of the District and additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,487,416 (*net assets*). This entire amount is to be used to meet the District's ongoing obligations to citizens and creditors and construct the water and wastewater systems.
- The District's total net assets decreased by \$65,279 during the fiscal year. The majority of this is due to an increase in intergovernmental grants.
- The District's total debt decreased by \$100,555 during the current fiscal year.

Overview of the Financial Statements

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

Government-Wide Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statements of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, maintains only one enterprise fund for its operations.

**El Prado 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 Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of El Prado Water & Sanitation District, assets exceeded liabilities by \$3,487,416 at the close of the current fiscal year.

	<u>2011 Business-type</u>	<u>2010 Business-type</u>
Assets		
Current and other assets	\$ 198,229	\$ 356,534
Capital assets, net of accumulated depreciation	4,564,804	4,564,804
Total Assets	<u>4,763,033</u>	<u>4,821,338</u>
Liabilities		
Long-term liabilities outstanding	1,158,012	1,261,121
Other liabilities	117,605	107,552
Total Liabilities	<u>1,275,617</u>	<u>1,368,643</u>
Net Assets		
Invested in capital assets, net of related debt	3,222,598	3,322,598
Unrestricted	264,818	330,097
	<u>\$ 3,487,416</u>	<u>\$ 3,552,695</u>

All of the District's net assets represent resources that are subject to restrictions. The restrictions are reserved to construct the water and sanitation system.

**El Prado Water & Sanitation District
Management's Discussion and Analysis**

As of June 30, 2011, El Prado had current and other assets of \$198,229, a decrease of \$158,305 over the prior year balance of \$356,534.

Changes in Net Assets

	2011 Business-type Activities	2010 Business-type Activities
Revenues		
Operation revenues:		
Charges for services	\$ 253,703	\$ 273,571
Gross Receipt Tax	40,127	25,983
Miscellaneous	31,582	16,012
Non-operating revenues:		
Property taxes	103,735	109,137
Intergovernmental	1,224,018	329,297
Interest income	195	484
Total revenues	1,653,360	754,484
Expenses		
Administration fees	909	1,068
Advertising	1,534	884
Books, dues & registration	601	1,094
Depreciation	-	-
Employee salaries	75,337	87,143
Field supplies	1,526	6,964
Insurance	10,595	6,012
Legal fees	7,654	-
Mileage and per diem	2,773	14,421
Miscellaneous expense	23,481	4,197
Office expenses	12,652	2,943
Other contractual services	7,386	16,131
Payroll related expenses	67,979	7,257
Postage & freight	138	74,841
Rent	13,300	17,500
Repair & maintenance	1,476,587	777,352
Service fees	10,715	138
Utilities	5,472	10,718
Operating Expenses	-	5,400
Total expenses	1,718,639	1,034,063
Increase (Decrease) in net assets	(65,279)	(279,579)
Net assets, beginning of year	3,552,695	3,832,214
Ending net assets	\$3,487,416	\$3,552,635

El Prado Water & Sanitation District Management's Discussion and Analysis

Long term liabilities decreased by \$8,725. Other liabilities increased by \$10,008, with an ending balance of \$117,530. At June 30, 2011, the net assets of El Prado Water and Sanitation District totaled \$3,487,416 which was a decrease of \$65,279 over prior year net assets of \$3,552,695.

Revenues for the year ending June 30, 2011 were greater than the prior year by \$898,876. The main area of decrease was intergovernmental revenues, which increased by \$894,721. Total expenditures increased by \$684,576.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

As noted earlier, El Prado Water & Sanitation District uses fund accounting to ensure and demonstrate 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 Prado Water and Sanitation District 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 not change.

Capital Asset and Debt Administration

Capital assets. El Prado Water & Sanitation District's capital assets for its governmental and business-type activities as of June 30, 2011 amount to \$4,564,804 (net of accumulated depreciation). Capital assets include furniture, fixture & equipment and utility plant in service.

**El Prado Water & Sanitation District
Management's Discussion and Analysis**

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

	2011 Business -type	2010 Business -type
Land	\$ 440,522	\$ 440,522
Water Rights	1,571,200	1,571,200
Construction in Progress	910,975	910,975
Utility plant in service	2,921,770	2,921,770
Total capital assets	5,844,467	5,844,467
Accumulated Depreciation	(1,279,663)	(1,279,663)
Capital assets, net of accumulated depreciation	\$ 4,564,804	\$ 4,564,804

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date. See Note 6 on page 36 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

Debt Administration. At the end of the current fiscal year, the District had total long-term obligations outstanding of \$1,261,196. The debt consists of eight loans payable.

	2011 Business -type	2010 Business-
USDA 4.25% (A)	\$ 232,196	\$ 235,120
USDA 4.25% (B)	47,453	48,160
NMFA Loan 0% (C)	55,946	60,956
NMFA Loan 0% (H)	42,131	45,904
Centinel (D) Feb 2007	317,212	374,295
NMFA-WTB Loan 0% (E) June 2007	38,440	40,952
NMFA Loan	347,202	367,169
NMFA Loan	160,636	169,350
	\$ 1,241,216	\$ 1,341,906

See note 7 on pages 37-40 in the accompanying Notes to the Financial Statements for further information regarding El Prado Water & Sanitation District's long-term debt.

**El Prado Water & Sanitation District
Management's Discussion and Analysis**

FUTURE TRENDS

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

The El Prado Water and Sanitation District Board of Directors and its staff continue to dedicate themselves to the citizens of the El Prado Community 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 and hopes that the mil levy will eventually be something of the past.

In addition we pledge to continually have the community's best interest at heart while expanding our water and sewer services at the lowest cost for our customers.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of El Prado 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 Prado Water & Sanitation District, P.O. Box 1110, El Prado, NM 87529.

BASIC FINANCIAL STATEMENTS

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STATE OF NEW MEXICO
 El Prado
 Water and Sanitation District
 Statement of Net Assets
 June 30, 2011

Exhibit A-1

ASSETS

Current assets:

Cash and cash equivalents	\$	102,154
Investments		34,349
Accounts receivable-customers		50,326
Accounts receivable-property taxes		5,972
Accounts receivable-gross receipts taxes		4,993
Prepaid expenses		435
Total current assets		198,229

Capital assets:

Utility plant in service		5,844,467
Less accumulated depreciation		(1,279,663)
Net capital assets		4,564,804

Total Assets	\$	4,763,033
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LIABILITIES

Current liabilities:

Accounts payable	\$	20,794
Accrued interest		2,021
Payroll liabilities		7,146
Accrued compensated absences		4,365
Current portion of long-term debt		83,279
Total Current Liabilities		117,605

Non-current liabilities:

Bonds payable		1,158,012
Total long-term liabilities		1,158,012

Total liabilities		1,275,617
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NET ASSETS

Invested in capital assets less related debt		3,222,598
Unrestricted		264,818
		3,487,416

Total net assets		3,487,416
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Liabilities and Net Assets	\$	4,763,033
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STATE OF NEW MEXICO
El Prado
Water and Sanitation District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

Exhibit A-2

Operating revenues:	
Fees and charges	\$ 253,703
Miscellaneous operating income	31,582
<i>Total operating revenues</i>	285,285
 Operating expenses:	
Administration fees	909
Advertising	1,534
Books, dues & registration	601
Depreciation	-
Employee salaries	75,337
Field supplies	1,526
Insurance	10,595
Legal Fees	7,654
Miscellaneous expense	23,481
Mileage & per diem	2,773
Office expenses	12,652
Other contractual services	7,386
Payroll related expenses	67,979
Rent	13,300
Repairs & maintenance	1,476,587
Postage & freight	138
Service fees	10,715
Utilities	5,472
<i>Total operating expenses</i>	1,718,639
 <i>Operating income (loss)</i>	 (1,433,354)
 Non-operating revenues:	
Property taxes	103,735
Gross Receipts tax revenues	40,127
Intergovernmental grants	1,224,018
Interest income	195
Non-operating revenue	1,368,075
 Net Income	 (65,279)
 Net assets, beginning of year	 3,552,695
 Net assets, at end of year	 \$ 3,487,416

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El Prado Water and Sanitation District
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from customers	\$ 1,640,449
Cash paid to suppliers and employees	(1,648,117)
Other income	31,777
Non-exchange taxes assessed	<u>40,127</u>
Net cash flows used by operating activities	<u>\$ 64,236</u>
Cash flows from investing activities:	
Increase in plant in service	<u>-</u>
Net cash flows used by investing activities	<u>-</u>
Cash flows from financing activities:	
Principal Pmts on LTD	(100,555)
Issuance of long-term debt	<u>-</u>
Net cash flows provided by financing activities	<u>(100,555)</u>
Net decrease in cash and cash equivalents	(36,319)
Cash and cash equivalents, beginning of year	<u>172,822</u>
Cash and cash equivalents, end of year	<u><u>\$ 136,503</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Operating income (loss)	\$ (1,433,354)
Adjustment to reconcile change in net income to net cash provided by operating activities:	
Property taxes	103,735
Gross Receipts taxes	40,127
Interest received	195
Intergovernmental grants	1,224,018
Depreciation	-
Decrease (Increase) in:	
Accounts receivable	13,030
Grants receivable	108,911
Prepaid expenses	45
Increase (Decrease) in:	
Accounts payable	12,294
Accrued expenses	<u>(4,765)</u>
Net cash provided by operating activities	<u><u>\$ 64,236</u></u>

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STATE OF NEW MEXICO
 2011 El Prado Water & Sanitation District
 Enterprise Fund
 Statement of Revenues and Expenditures
 Budget and Actual (Non-GAAP Basis)
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Fees and charges	\$ 309,700	\$ 309,700	\$ 268,013	\$ (41,687)
Miscellaneous	-	-	18,811	18,811
<i>Total revenues</i>	<u>309,700</u>	<u>309,700</u>	<u>286,824</u>	<u>(22,876)</u>
<i>Expenditures:</i>				
Current:				
Administration fees	200	200	75	125
Advertising	1,000	1,000	1,534	(534)
Books, dues & registration	460	460	466	(6)
Depreciation	-	-	-	-
Employee salaries	87,000	87,000	80,639	6,361
Field supplies	8,000	8,000	7,184	816
Insurance	6,000	6,000	10,550	(4,550)
Interest	-	-	-	-
Miscellaneous expense	3,000	3,000	25,218	(22,218)
Mileage & per diem	2,500	2,500	1,068	1,432
Office expenses	8,500	8,500	4,896	3,604
Other contractual services	30,000	30,000	23,733	6,267
Payroll related expenses	75,335	75,335	68,744	6,591
Postage and freight	38	38	38	-
Rent	16,898	16,898	13,400	3,498
Repairs & maintenance	1,500	1,500	16,291	(14,791)
Sewer Services	1,915,232	1,915,232	1,550,562	364,670
Utilities	7,300	7,300	7,222	78
<i>Total expenditures</i>	<u>2,162,963</u>	<u>2,162,963</u>	<u>1,811,620</u>	<u>351,343</u>
Operating income	<u>(1,853,263)</u>	<u>(1,853,263)</u>	<u>(1,524,796)</u>	<u>328,467</u>
Non-operating revenues:				
Beginning cash balance	(7,236)	46,437	-	(46,437)
Gross receipts taxes	27,000	27,000	40,388	13,388
Property taxes	94,050	94,050	102,194	8,144
Intergovernmental	1,712,770	1,712,770	1,345,700	(367,070)
Interest income	500	500	195	(305)
Non-operating income	<u>1,827,084</u>	<u>1,880,757</u>	<u>1,488,477</u>	<u>(392,280)</u>
Change in Net assets (Non-GAAP basis)	<u>\$ (26,179)</u>	<u>\$ 27,494</u>	<u>\$ (36,319)</u>	<u>\$ (63,813)</u>
Adjustment expenditures for payables, payroll taxes, prepaid expenses and other accruals			93,026	
Adjustment for revenues for tax accruals, earnings on investments, and other deferrals and accruals			<u>(121,986)</u>	
Net Income (GAAP basis)			<u>\$ (65,279)</u>	

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

El Prado 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 on August 12, 1981.

The District is engaged in the development of a water and sanitation district for the El Prado area in Northern New Mexico. The District serves approximately 370 units, providing drinking water and sewer services to the local people in the rural, non-Indian communities of Taos County.

The Board consists of five members elected by the qualified voters for six 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 Prado 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-14.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organization if its officials appoint a voting majority of an organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government:

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

1. Is entitled to the organization's resources;
2. Is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization; or
3. Is obligated in some manner for the debt of the organization.

A. Reporting Entity

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government 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 Prado Water & Sanitation District did not have any component units during the fiscal year ended June 30, 2011.

B. Business-Type Activities

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segments 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 PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Property taxes are recognized as revenues in the year for which they are levied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred. Billed water and sanitation services receivable are recorded at year-end once operations begin.

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

Amounts reported as program revenues are charges to customers who purchase or use or directly benefit from the goods or services provided by the District.

The proprietary fund is accounted for on a cost of services of “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and net assets components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent standards subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The District reports its proprietary fund as a major governmental fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

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

ongoing operations. The principal operating revenue of the District's enterprise fund is charged 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.

D. Assets, Liabilities and Net Assets or Equity

Cash and Temporary Investments: The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures in order to reserve that portion of the applicable appropriation, is not employed.

Accounts Receivable: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The receivables due at June 30, 2009 consist of customer water and sewer fees, and property taxes collected by Taos County and other receivables. All receivables are considered current and collectible. Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. The taxes are an enforceable lien on the property.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and proprietary financial statements.

Capital Assets: Capital assets, which include property, plant, computer software, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
 Notes to Financial Statements
 June 30, 2011

D. Assets, Liabilities and Net Assets or Equity, continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Permanent Buildings	40
Land Improvements	40
Furniture & Equipment	7
Utility Plant in Service	40

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. Upon termination, employees will be paid for accrued annual leave, but not for sick leave.

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In prior years, substantially all of the related expenditures have been liquidated by the general fund. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide statement of net assets.

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for all of the above risks. There have been no claims for the past five years.

F. Advertising

Advertising costs are expenses as incurred. Advertising costs for the year ended June 30, 2011 were \$1,534.

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

Actual expenditure may not exceed the budget on a per fund basis, i.e., total budgeted expenditure must be within total budgeted amounts. Budgets may be amended in one way. 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 PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed state investment requirements as of June 30, 2011.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by an agency, District or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The Dodd Frank Act of 2010 requires that all funds in a non-interest bearing bank account be fully insured by the F.D.I.C. through December 31, 2012. El Prado Water and Sanitation District's deposits are in interest bearing accounts and therefore, are not subject to the Dodd Frank Act.

All of the investments of El Prado Water & Sanitation District at June 30, 2011, were in short-term investments with a maturity date within a year of the date acquired by the District or in the State Treasurer's pooled investments. The investments are stated at cost, which also approximates market value.

The District's practice is to limit deposits and investments to insured and collateralized time accounts and certificates of deposit with a maturity of less than one year.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

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>Centinel Bank</u>	<u>1st State Bank</u>
Total amounts of deposits	\$ 204,322	\$ 28,319
FDIC coverage	(204,322)	(28,319)
Total uninsured public funds	<u>\$ -</u>	<u>-</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -
Pledged Collateral held by pledging bank's trust department or agent but not in the agency's name	<u>-</u>	<u>-</u>
Total under (over) collateralized	<u>\$ -</u>	<u>-</u>
Custodial credit risk-Uninsured deposits	<u>\$ -</u>	<u>-</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk, other than following states statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2011, none of the District's bank balance of \$232,641 was exposed to custodial credit risk because none was uninsured due to the Dodd-Frank Act of 2011 as reflected on page 49. At June 30, 2011, the carrying amount of these deposits was \$232,641 as shown on the next page.

Investments

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>Less than 1 Year</u>
Certificate of Deposit	\$ 34,349	\$ 34,349

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS, continued

Reconciliation of Cash and Temporary Investments	
Business-type funds - Balance Sheet	
Cash and cash equivalents per Exhibit A-1	102,154
Add outstanding checks and other reconciling items	130,687
	<u>232,841</u>
Less petty cash	(200)
	<u>(200)</u>
Bank balance of deposits	\$ 232,641
	<u><u>232,641</u></u>

NOTE 4. RECEIVABLES

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

Property taxes	\$ 5,972
Customer Receivables	50,326
Grants Receivables	-
Gross Receipts Taxes Receivables	4,993
	<u>4,993</u>
Total	<u><u>61,291</u></u>

The above receivables are deemed 100% collectible.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 20101

NOTE 5. PREPAID EXPENSES

The District has insurance policies that are paid in advance and are expensed monthly. There was \$435 of prepaid insurance at June 30, 2011.

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Land	\$ 440,522	\$ -	\$ -	\$ 440,522
Construction in progress	910,975	-	-	910,975
Water Rights	1,571,200	-	-	1,571,200
Utility plant in service	2,921,770	-	-	2,921,770
Total Capital Assets	<u>5,844,467</u>	<u>-</u>	<u>-</u>	<u>5,844,467</u>
Less accumulated depreciation				
Utility plant in service	<u>(1,279,663)</u>	<u>-</u>	<u>-</u>	<u>(1,279,663)</u>
Total capital assets, net	<u>\$ 4,564,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,564,804</u>

The District, did not record depreciation expense for the year ended June 30, 2011.

Utility Plant	<u>\$ -</u>
Total Depreciation Expense	<u>\$ -</u>

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 7. LONG-TERM DEBT

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

	Balance	Additions	Retirements	Balance	Amount Due Within
USDA/RUS 4.25%	\$ 48,160	\$ -	\$ 707	\$ 47,453	\$ 590
USDA/RUS 4.25%	235,060	-	2,864	232,196	3,214
NMFA Loan 0%	60,956	-	5,010	55,946	5,023
NMFA Loan 0%	45,904	-	3,773	42,131	3,782
Centinel Bank	374,295	-	57,083	317,212	39,391
Centinel Bank	169,350	-	8,714	160,636	8,736
NMFA-WTB Loan 0%	40,952	-	2,512	38,440	2,518
NMFA WTB Loan	367,169	-	19,967	347,202	20,017
Total Long-Term Debt	\$ 1,341,846	\$ -	\$ 100,630	\$ 1,241,216	\$ 83,271

The annual requirements to amortize the USDA/RUS, 4.25% as of June 30, 2011, including interest are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 590	\$ 2,011	\$ 2,601
2013	617	1,986	2,603
2014	643	1,959	2,602
2015	671	1,931	2,602
2016	700	1,902	2,602
2017-2021	3,981	9,209	13,010
2022-2026	4,920	8,087	13,007
2027-2031	6,084	6,926	13,010
2032-2036	7,522	5,487	13,009
2037-2041	9,298	3,709	13,007
2042-2046	11,495	1,512	13,007
2047 and after	932	11	943
Total	\$ 47,453	\$ 44,550	\$ 92,004

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the USDA/RUS, 4.25% as of June 30, 2011, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 3,214	\$ 9,795	\$ 13,009
2013	3,353	9,656	13,009
2014	3,498	9,510	13,008
2015	3,650	9,359	13,009
2016	3,808	9,201	13,009
2017-2021	21,663	43,379	65,042
2022-2026	26,883	38,261	65,094
2027-2031	33,112	31,932	65,044
2032-2036	40,937	24,107	65,044
2037-2041	50,610	14,434	65,044
2042-2046	41,518	3,144	44,662
Total	\$ 232,196	\$ 202,778	\$ 434,974

The annual requirements to amortize the NMFA, 0% as of June 30, 2011, including admin fees are as follows:

Fiscal Year	Principal	Admin Fee	Total
2012	\$ 5,023	\$ 140	\$ 5,163
2013	5,035	127	5,162
2014	5,048	115	5,163
2015	5,060	102	5,162
2016	5,073	89	5,162
2017-2021	25,557	256	25,813
2022-2026	5,150	13	5,163
Total	\$ 55,946	\$ 842	\$ 56,788

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the NMFA, 0% as of June 30, 2011, including admin fees are as follows:

Fiscal Year	Principal	Admin Fee	Total
2012	\$ 3,782	\$ 96	\$ 3,878
2013	3,792	86	3,878
2014	3,801	77	3,878
2015	3,811	67	3,878
2016	3,820	58	3,878
2017-2021	19,247	164	19,411
2022-2026	3,878	10	3,888
Total	\$ 42,131	\$ 567	\$ 42,698

The annual requirements to amortize the Centinel Bank, 6% as of June 30, 2011, including interest payments are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 39,391	\$ 19,160	\$ 58,551
2013	41,821	16,730	58,551
2014	44,400	14,151	58,551
2015	47,138	11,413	58,551
2016	50,046	8,505	58,551
2017-2021	94,416	7,560	101,976
Total	317,212	\$ 77,519	\$ 394,731

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the NMFA- Water Trust Board Loan, 0%, as of June 30, 2011 are as follows:

Fiscal Year	Principal
2012	\$ 2,518
2013	2,524
2014	2,531
2015	2,537
2016	2,543
2017-2021	12,813
2022-2026	12,974
Total	\$ 38,440

The annual requirements to amortize the NMFA Loan, 0%, as of June 30, 2011 are as follows:

Fiscal Year	Principal
2012	\$ 20,017
2013	20,068
2014	20,118
2015	20,168
2016	20,219
2017-2021	101,856
2022-2026	103,139
2027-2031	41,617
Total	\$ 347,202

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements

NOTE 7. LONG-TERM DEBT, continued

The annual requirements to amortize the NMFA Loan, 0%, as of June 30, 2011 are as follows:

Fiscal Year	Principal
2012	\$ 8,736
2013	8,757
2014	8,779
2015	8,801
2016	8,824
2017-2021	44,451
2022-2026	45,010
2027-2031	27,278
Total	\$ 160,636

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 8. RISK MANAGEMENT

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

NOTE 9. LITIGATION

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

NOTE 10. SURETY BOND

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

NOTE 11. PENSION PLAN- PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of El Prado Water and Sanitation District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 9.15% of gross salary. El Prado Water and Sanitation District is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the El Prado Water and Sanitation District are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the year ended June 30, 2011, 2010 and 2009 were \$19,687, \$19,448, and \$17,880 respectively.

NOTE 12. RETIREE HEALTH CARE

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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 13. JOINT POWERS AGREEMENT

Town of Taos

Purpose

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

Participants

El Prado Water & Sanitation District and the Town of Taos

Responsibility Party for Operation and Audit

None

Beginning and Ending Date of Agreement

Operating month to month until new operating agreement reached.

Total Estimated Amount of Project and Actual Amount Contributed

Unknown

NOTE 14. FEDERAL AND STATE GRANTS

In the normal course of operations, the District receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 15. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS

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

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 15. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS, continued

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

The GASB issued Statement No. 65, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District is reviewing the effects of the implementation of this statement.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 15. SUBSEQUENT ACCOUNTING STANDARDS PRONOUNCEMENTS, continued

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

NOTE 16. SUBSEQUENT EVENTS

Since June 30, 2011, the District has continued to purchase water rights as funding became available. As a part of the Abeyta settlement reached in 2010, the State and Federal governments will contribute funding towards new infrastructure for the parties involved. All parties involved in the lawsuit will receive an allocated portion, not to exceed their specific project cost. The maximum amount for El Prado Water and Sanitation District is determined to be approximately \$15 million. The funding will not be available until 2017.

In 2011, the District paid out a \$4,000 fine to the Federal EPA for illegal release of treated water into a stream, which was shared equally between the District and the contractor.

In 2011, a contractor to the District has filed its intent to sue the District for \$680,000 for alleged misappropriation of assets in the construction of a water line. The District believes that this claim is unfounded. A review of the supporting documents did not indicate a misappropriation of assets.

In September 2012, the District, in an attempt to settle with the contractor, offered an amount that has not been accepted.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
 Schedule of Collateral Pledged by Depository
 June 30, 2011

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Fair/Par Market Value June 30, 2011</u>	<u>Name and Location of Safekeeper</u>
Centinel Bank	No Pledged Collateral as of June 30, 2011	\$ -	
		<u>\$ -</u>	

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
 Schedule of Deposits and Investments
 June 30, 2011

Schedule II

<u>Bank Account Type/Name</u>	<u>Centinel Bank</u>	<u>1st State Bank</u>	<u>Totals</u>
Checking	\$ 204,322	\$ 28,319	\$ 232,641
CD	34,349	-	34,349
Total On Deposit	<u>\$ 238,671</u>	<u>\$ 28,319</u>	<u>\$ 266,990</u>
Reconciling Items			(130,687)
Petty Cash			<u>200</u>
Reconciled Cash and Investments, June 30, 2011			<u>\$ 136,503</u>

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STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Cash Reconciliation
June 30, 2011

Schedule III

	<u>Centinel Bank</u>	<u>1st State Bank</u>	<u>Total</u>
Bank balance end of year	\$ 204,322	\$ 28,319	\$ 232,641
Deposits in transit	-	-	-
Outstanding checks	<u>(130,687)</u>	<u>-</u>	<u>(130,687)</u>
Cash, June 30, 2011	<u>\$ 73,635</u>	<u>\$ 28,319</u>	101,954
Petty Cash			<u>200</u>
Total Cash, June 30, 2011			<u>\$ 102,154</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*

Board of Directors
Hector Balderas
New Mexico State Auditor and

We have audited the accompanying financial statements of the business-type activities and the budgetary comparisons of the State of New Mexico, El Prado Water & Sanitation District (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our qualified report thereon dated September 5, 2013. We also have audited the financial statements of each of the District's budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2011 as listed in the table of contents. Except as noted in our report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings as FS 2007-02 and FS 2007-03 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings at FS 2006-03, FS 2006-04 and FS 2011-01 to be material weaknesses in internal control over financial reporting.

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 disclosed seven instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We consider the deficiencies described in the accompanying schedule of findings at FS 2006-03, FS 2007-02, and FS 2007-03 to be compliance matters.

El Prado Water and Sanitation District's responses to the findings are identified in our audit and are described in the accompanying schedule of findings and responses. We did not audit the District's responses and accordingly, we do not express an opinion on them.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Office of the State Auditor, New Mexico Legislature, New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Precision Accounting, LLC

September 5, 2013

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

Schedule IV

Section I – Prior year findings:

FS-06-03 Audit Report- Repeated and Revised

FS-06-04 Reconciliation of Capital Asset Inventory-Repeated and Revised

FS-06-05 Pledged Collateral-Resolved

FS-07-01 Missing I-9's-Repeated and Revised

FS-07-02 Overtime Compliance with FLSA-Repeated and Revised

FS-07-03 Travel and Per Diem Act-Repeated and Revised

FS 2006-03 Late Audit Report (repeated and revised) (Material Weakness)

CONDITION: The annual financial and compliance audit for the year ending June 30, 2011 was not conducted or submitted on or before December 1, 2011.

CRITERIA: NMAC 2.2.2.9 requires that the financial and compliance audit of a water and sanitation district be completed and submitted to the New Mexico State Auditor on or before December 1 of the same year.

CAUSE OF CONDITION: The District did not have the funding for an audit of its books.

EFFECT OF CONDITION: The District is in violation of NMAC 2.2.2.9 having failed to submit their annual audit by the required date which could jeopardize the District's eligibility for funding from the State Legislature and Federal agencies.

RECOMMENDATION: We recommend that the District comply with the regulatory requirements regarding the completion of the financial and compliance.

CLIENT RESPONSE: The District recognizes the need for timely completion of annual audits and has, as of September 2013 completed the audits for Fiscal years ending June 30, 2011, 2012, and 2013. The District will make it a top priority to comply.

AUDITOR RESPONSE: The District will have the 2011 audit submitted by September 5, 2013.

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

Schedule IV

FS 2006-04 Capital Assets (repeated and revised) (Material Weakness)

CONDITION: The District does not maintain a depreciation schedule detailing all of the capital assets of the District.

CRITERIA: A depreciation schedule with corresponding depreciation expense accrual is required by Generally Accepted Accounting Principles. In addition, control over the District's capital assets is exercised thru the maintenance of a detail capital asset schedule.

CAUSE: The District personnel were short staffed resulting in the lack of maintenance of a capital asset schedule with depreciation.

EFFECT: The financial statements of the District do not reflect the annual depreciation expense and the balance sheet does not reflect an accurate capital asset costs and related accumulated depreciation amounts.

RECOMMENDATION: We recommend that the District implement procedures to maintain the schedules as the District moves forward.

CLIENT RESPONSE: The General Manager and staff of the El Prado Water and Sanitation District will begin immediately to gather all information since the Districts inception, detailing all of the Districts Capital Assets in order to comply with an up-to-date Depreciation Schedule.

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

Schedule IV

FS 2007-02 Overtime-Compliance with FLSA (repeated and revised) (Significant Deficiency)

CONDITION: While reviewing personnel files, we found that the District is not complying with the Fair Labor Standards Act (29 CFR 778) with respect to over-time payments for non-exempt personnel and hours worked over forty during a seven day period. It appears that those 3 employees were underpaid \$315 out of \$10,289 or 2.88% of the total payroll tested. Applying that percentage to the entire payroll, the projected error would be an underpayment of \$1,915. If the General Manager were classified as exempt, the underpayment is \$201 or 1.84%. Applied to the total population, the projected error would be \$1,224. This issue was rectified in December 2011.

CRITERIA: The Fair Labor Standards Act (29 CFR 778) requires that non-exempt employees be compensated for all hours worked over 40 either by over-time pay at time and one-half or by compensatory time off.

CAUSE: 3 employees (including the General Manager) were paid for hours worked over 40 at straight time not at time and one-half due to a misunderstanding of the laws.

EFFECT: The District could be held liable for back over time pay for all eligible employees for the 3 previous years. All payments due to employees were paid in December 2011.

RECOMMENDATION: The District needs to review their overtime policies and procedures to insure that they are complying with the Fair Labor Standards Act and their own personnel policy. They need to determine the employment status for the General Manager as an exempt or non-exempt position and put that determination in a job description. The District need to start paying overtime for hours worked over 40 per work week or establish a compensatory time policy. They should review prior time records to pay the ½ time due for hours worked over 40. All payments due to employees were paid in December 2011.

CLIENT RESPONSE: The Board of Directors of the District will amend and/or adopt the Overtime Policies and Procedures to insure that the District staff is compensated at time and one-half for all hours worked over forty hours during a seven day period or by Compensatory time off beginning immediately.

The General Manager also will immediately begin to implement the 1 1/2 time overtime pay schedule or calculate compensatory time.

In addition the Secretary/Treasurer has volunteered to compute all hours worked over a 40 hour work were less compensatory time from 2009 - 2011 in order to comply with the Fair Labor Standards Act and arrive at the amount the District needs to compensate its non-exempt personnel.

AUDITOR RESPONSE: After the 2007 audit conducted in October 2011, the District came into compliance with the Fair Labor Standards Act by reconstructing overtime for the previous years and making retribution to its employees effective November 2011.

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

Schedule IV

FS-2007-03 Travel and Per Diem Act (repeated and revised) (Significant Deficiency)

CONDITION: While reviewing travel and mileage reimbursements it was noted that the District was not complying with the State Travel and Per Diem Act with respect to six instances of mileage rates, one instance of actual expense maximums and five instances of lack of required supporting documentation. These instances of non-compliance were estimated to be approximately \$510.

CRITERIA: 2-42-2 NMAC Chapter 42 Regulations over Travel and Per Diem 2.42.2.11.B (1) – Mileage-Private Conveyance, reimbursement rate for privately owned automobiles, 32 cents, 2.42.2.11.D (2) mileage is reimbursed pursuant to actual mileage if the beginning and ending odometer reading is certified as true and correct by the traveler, 2.42.2.11. G Additional mileage provision: Mileage accrued while on official business shall be reimbursed for travel on official business. An agency head may authorize by memorandum reimbursement for mileage from a point of origin farther from the destination than the designated post of duty in appropriate circumstances. The memorandum must accompany the payment voucher. If official business is transacted while commuting from home to post of duty or from post of duty to home, mileage shall not be paid for the number of miles between post of duty and home. Odometer readings showing additional miles accrued for official business must be provided to the agency for payments. 2.42.2.9 Reimbursement of Actual Expenses in lieu of per diem rates: (A) Upon written request of a public officer or an employee, agency heads may grant written approval for a public office of that agency or local public body to reimburse actual expenses in lieu of the per diem where overnight travel is required. (2) Actual reimbursement for meals: Actual expenses for meals are limited by Section 10-8-4(KX2) NMSA 1978 to a maximum of \$30.00 for in-state travel for a 24 hour period. 2.42.2.8 B. Per Diem rates shall be paid to public officers and employees only in accordance with the provisions of this section. Partial Per Diem rate computations: 2.42.2.8.B (1) depending on the number of hours extending over the regular work day.

CAUSE: All mileage reimbursements were reimbursed at the IRS rate of 44.5 or 48.5 cents per mile when state maximum was 32 cents per mile. All mileage reimbursements used a distance greater than map mileage without beginning and ending odometer readings .There was no memorandum attached to the voucher approving additional mileage. There were reimbursements for meals without receipts or business purposes being noted that exceeded the \$30 per day maximum. There were not any beginning and ending date and time for travel noted so partial day per diem could be calculated. Actual meals were reimbursed without an accompanying overnight stay. There were no travel vouchers attached to any of the 10 payment vouchers.

EFFECT: The District has over-reimbursed their board or employees in 2010-2011. Meals were reimbursed without attached receipts and without accompanying overnight stay.

RECOMMENDATION: The District must comply with the State Travel and Per Diem Act and all of its various requirements. The District needs to develop a travel policy that would select either actual or per diem reimbursements and a travel voucher that would meet all the requirements of the Travel and Per Diem act such as beginning and ending travel dates and times and beginning and ending odometer readings. The District must train the Board and the employees on the Travel and Per Diem Act requirements.

CLIENT RESPONSE: The Board of the El Prado Water and Sanitation District at its next special meeting will amend and adopt a Travel Policy to comply with the State Travel and Per Diem Act requirements to become effective immediately.

AUDITOR RESPONSE: After the 2007 audit conducted in October 2011, the District came into compliance with the Travel and Per Diem Act.

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

Schedule IV

FS-2011-01 General Ledger (Material Weakness)

CONDITION: During our test work of cash disbursements we noted that the organization was not following internal procedures regarding posting to the proper line item to checks and out of forty (40) disbursements tested, there was one (1) instance where the check was coded to the wrong line item and one (1) instance where the amount paid was greater than the amount allowable.

2 exceptions out of 40 tested 0.08%

If projected to the entire population, it may result in a misstatement of \$2,156.

CRITERIA: Section 13-1 to 199, NMSA 1978 states that expenditures should be properly authorized, processed and recorded and should have adequate supporting documentation for the disbursement

CAUSE: The general ledger is maintained on an excel spreadsheet and the items were input into the wrong line item.

EFFECT: The organization appears to have recorded the payments to the incorrect accounts which could result in excess expenditures by line item code and thus could potentially make a payment without authorization.

RECOMMENDATION: We recommend that management take more care when inputting the data into the general ledger and also to make sure that the disbursements paid agree to the invoice.

CLIENT RESPONSE: Management will be more careful when entering data into the manual general ledger. We are in the process of going to a software program for accounting, but do not have it fully implemented.

STATE OF NEW MEXICO
EL PRADO WATER & SANITATION DISTRICT
Other Disclosures
For the Year Ended June 30, 2011

Schedule V

Section IV – Exit Conference

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

EL PRADO WATER & SANITATION DISTRICT

Elaine Trujillo, Secretary/Treasurer

Christine Martinez, General Manager

John Painter, Member

Precision Accounting LLC

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

Section V – Financial Statements

El Prado Water and Sanitation District has the capability of understanding and accepting the responsibility for its own GAAP-basis financial statements but has delegated the preparation of the financial statements to the auditors under the contract.