

STATE OF NEW MEXICO  
EL PRADO WATER & SANITATION DISTRICT  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2013

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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, 2013

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STATE OF NEW MEXICO  
EL PRADO WATER & SANITATION DISTRICT  
OFFICIAL ROSTER  
June 30, 2013

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

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of El Prado Water & Sanitation District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise El Prado Water & Sanitation 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to El Prado Water & Sanitation District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness El Prado Water & Sanitation District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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### Basis for Qualified Opinions

The District was unable to provide a capital asset listing with depreciation expense for the year ended June 30, 2013. 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.

### Qualified Opinions

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of El Prado Water & Sanitation District as of June 30, 2013, and the results of its operations and its cash flows for the years then ended 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 13-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on El Prado Water & Sanitation District's financial statements and the budgetary comparison. The other schedules as required by 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The other schedules required by 2.2.2 NMAC are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

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records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules as required by 2.2.2 NMAC is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

A handwritten signature in cursive script that reads "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, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements of the District and additional information provided.

### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,673,157 (*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 \$54,376 during the fiscal year. The majority of this is due to an increase in intergovernmental grants and consequently capital outlay.
- The District's total debt decreased by \$85,967 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 *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the District's Net Position changed during the most recent fiscal year.

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

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

**El 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 29-47 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Analysis of Net Position**

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of El Prado Water & Sanitation District, assets exceeded liabilities by \$3,673,157 at the close of the current fiscal year.

|   | <b>2013 Business-type</b> | <b>2012 Business-type</b> |
|---|---------------------------|---------------------------|
| <b>Assets</b>                                   |                           |                           |
| Current and other assets                        | \$ 211,377                | \$ 249,635                |
| Capital assets, net of accumulated depreciation | 4,564,804                 | 4,564,804                 |
| Total Assets                                    | 4,776,181                 | 4,814,439                 |
| <b>Liabilities</b>                              |                           |                           |
| Long-term liabilities outstanding               | 985,230                   | 1,074,048                 |
| Other liabilities                               | 117,794                   | 121,610                   |
| Total Liabilities                               | 1,103,024                 | 1,195,658                 |
| <b>Net Position</b>                             |                           |                           |
| Invested in capital assets, net of related debt | 3,222,598                 | 3,322,598                 |
| Unrestricted                                    | 450,559                   | 396,183                   |
| Total Net Position                              | \$ 3,673,157              | \$ 3,618,781              |

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

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

As of June 30, 2013, El Prado had current and other assets of \$211,377, a decrease of \$38,258 over the prior year balance of \$249,635.

**Changes in Net Position**

|                                     | 2013 Business-type Activities | 2012 Business-type Activities |
|-------------------------------------|-------------------------------|-------------------------------|
| <b>Revenues</b>                     |                               |                               |
| Operation revenues:                 |                               |                               |
| Charges for services                | \$ 261,473                    | \$ 291,231                    |
| Gross Receipt Tax                   | 32,874                        | 31,962                        |
| Miscellaneous                       | 23,846                        | 19,950                        |
| Non-operating revenues:             |                               |                               |
| Property taxes                      | 100,237                       | 108,400                       |
| Intergovernmental                   | 619,641                       | 29,227                        |
| Interest income                     | 101                           | 103                           |
| Total revenues                      | 1,038,172                     | 480,873                       |
| <b>Expenses</b>                     |                               |                               |
| Administration fees                 | 4,687                         | 1,385                         |
| Advertising                         | 1,549                         | 578                           |
| Books, dues & registration          | 1,418                         | 1,064                         |
| Depreciation                        | -                             | -                             |
| Employee salaries                   | 73,932                        | 70,893                        |
| Field supplies                      | 3,873                         | 1,065                         |
| Insurance                           | 11,140                        | 10,734                        |
| Legal fees                          | 10,900                        | 8,596                         |
| Mileage and per diem                | 8,486                         | 1,926                         |
| Miscellaneous expense               | 1,013                         | 2,004                         |
| Office expenses                     | 21,348                        | 20,896                        |
| Other contractual services          | 57,032                        | 27,830                        |
| Payroll related expenses            | 56,219                        | 46,827                        |
| Postage & freight                   | 138                           | 138                           |
| Rent                                | -                             | -                             |
| Repair & maintenance                | 714,890                       | 138,861                       |
| Service fees                        | 11,082                        | 10,815                        |
| Utilities                           | 6,089                         | 5,896                         |
| Total expenses                      | 983,796                       | 349,508                       |
| Increase (Decrease) in Net Position | 54,376                        | 131,365                       |
| Net Position, beginning of year     | \$3,618,781                   | \$3,487,416                   |
| Ending Net Position                 | \$3,673,157                   | \$3,618,781                   |

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

Long term liabilities decreased by \$88,818. Other liabilities decreased by \$3,816, with an ending balance of \$117,794. At June 30, 2013, the Net Position of El Prado Water and Sanitation District totaled \$3,673,157 which was an increase of \$54,376 over prior year Net Position of \$3,618,781.

Revenues for the year ending June 30, 2013 were more than the prior year by \$557,299. The main area of increase was intergovernmental revenues, which decreased by \$590,414. Total expenditures increased by \$634,288.

### **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 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, 2013 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, 2013 and 2012

|   | 2013 Business-type | 2012 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 38 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 \$1,074,048. The debt consists of eight loans payable.

|                                | 2013 Business -type | 2012 Business-type |
|--------------------------------|---------------------|--------------------|
| USDA 4.25% (A)                 | \$ 225,629          | \$ 228,982         |
| USDA 4.25% (B)                 | 46,213              | 46,830             |
| NMFA Loan 0% (C)               | 45,888              | 50,923             |
| NMFA Loan 0% (H)               | 34,557              | 38,349             |
| Centinel (D) Feb 2007          | 238,103             | 279,924            |
| NMFA-WTB Loan 0% (E) June 2007 | 33,398              | 35,922             |
| NMFA Loan                      | 307,117             | 327,185            |
| NMFA Loan                      | 143,143             | 151,900            |
|                                | \$                  | \$ 1,160,015       |

See note 7 on pages 39-43 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 2012-2013.

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 Position  
June 30, 2013

Exhibit A-1

**ASSETS**

**Current assets:**

|  |    |         |
|--|----|---------|
| Cash and cash equivalents                | \$ | 110,713 |
| Investments                              |    | 34,553  |
| Accounts receivable-customers            |    | 50,326  |
| Accounts receivable-property taxes       |    | 9,408   |
| Accounts receivable-grants               |    | -       |
| Accounts receivable-gross receipts taxes |    | 6,181   |
| Prepaid expenses                         |    | 196     |
| Total current assets                     |    | 211,377 |

**Capital assets:**

|                               |        |               |
|-------------------------------|--------|---------------|
| Utility plant in service      |        | 5,844,467     |
| Less accumulated depreciation |        | (1,279,663)   |
| Net capital assets            |        | 4,564,804     |
| <br>Total Assets              | <br>\$ | <br>4,776,181 |

**LIABILITIES**

**Current liabilities:**

|                                   |    |         |
|-----------------------------------|----|---------|
| Accounts payable                  | \$ | 20,031  |
| Accrued interest                  |    | 1,409   |
| Payroll liabilities               |    | 6,365   |
| Accrued compensated absences      |    | 1,171   |
| Current portion of long-term debt |    | 88,818  |
| Total Current Liabilities         |    | 117,794 |

**Non-current liabilities:**

|                             |  |         |
|-----------------------------|--|---------|
| Bonds payable               |  | 985,230 |
| Total long-term liabilities |  | 985,230 |

**Total liabilities** 1,103,024

**NET POSITION**

|                                  |    |           |
|----------------------------------|----|-----------|
| Net Investment in Capital Assets |    | 3,222,598 |
| Unrestricted                     |    | 450,559   |
| Total net position               |    | 3,673,157 |
| Liabilities and Net Position     | \$ | 4,776,181 |

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STATE OF NEW MEXICO  
El Prado  
Water and Sanitation District  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2013

Exhibit A-2

|                                     |                                |
|-------------------------------------|--------------------------------|
| <b>Operating revenues:</b>          |                                |
| Fees and charges                    | \$ 261,473                     |
| Miscellaneous operating income      | 23,846                         |
| <i>Total operating revenues</i>     | <u>285,319</u>                 |
| <br><b>Operating expenses:</b>      |                                |
| Administration fees                 | 4,687                          |
| Advertising                         | 1,549                          |
| Books, dues & registration          | 1,418                          |
| Depreciation                        | -                              |
| Employee salaries                   | 73,932                         |
| Field supplies                      | 3,873                          |
| Insurance                           | 11,140                         |
| Legal Fees                          | 10,900                         |
| Miscellaneous expense               | 1,013                          |
| Mileage & per diem                  | 8,486                          |
| Office expenses                     | 21,348                         |
| Other contractual services          | 57,032                         |
| Payroll related expenses            | 56,219                         |
| Rent                                | -                              |
| Repairs & maintenance               | 714,890                        |
| Postage & freight                   | 138                            |
| Service fees                        | 11,082                         |
| Utilities                           | 6,089                          |
|                                     | <u>983,796</u>                 |
| <i>Total operating expenses</i>     | <u>983,796</u>                 |
| <br><i>Operating income (loss)</i>  | <br>(698,477)                  |
| <br><b>Non-operating revenues:</b>  |                                |
| Property taxes                      | 100,237                        |
| Gross Receipts tax revenues         | 32,874                         |
| Intergovernmental grants            | 619,641                        |
| Interest income                     | 101                            |
|                                     | <u>752,853</u>                 |
| Non-operating revenue               | <u>752,853</u>                 |
| <br>Net Income                      | <br>54,376                     |
| <br>Net Position, beginning of year | <br><u>3,618,781</u>           |
| <br>Net Position, at end of year    | <br><u><u>\$ 3,673,157</u></u> |

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El Prado Water and Sanitation District  
Statement of Cash Flows  
For the Year Ended June 30, 2013

|  |                |                          |
|--|----------------|--------------------------|
| Cash flows from operating activities:  |                |                          |
| Cash received from customers   | \$ 913,988     |                          |
| Cash paid to suppliers and employees   | (979,228)      |                          |
| Other income   | 23,947         |                          |
| Non-exchange taxes assessed  | <u>100,237</u> |                          |
| Net cash flows used by operating activities  |                | <u>\$ 58,944</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  | (85,967)       |                          |
| Issuance of long-term debt   | <u>-</u>       |                          |
| Net cash flows provided by financing activities  |                | <u>(85,967)</u>          |
| Net decrease in cash and cash equivalents  |                | (27,023)                 |
| Cash and cash equivalents, beginning of year   |                | <u>172,289</u>           |
| Cash and cash equivalents, end of year   |                | <u><u>\$ 145,266</u></u> |
| Reconciliation of change in net assets to net cash provided by operating activities:       |                |                          |
| Operating income (loss)  |                | \$ (698,477)             |
| Adjustment to reconcile change in net income to net cash provided by operating activities: |                |                          |
| Property taxes   |                | 100,237                  |
| Gross Receipts taxes   |                | 32,874                   |
| Interest received  |                | 101                      |
| Intergovernmental grants   |                | 619,641                  |
| Depreciation   |                | -                        |
| (Decrease) Increase in:  |                |                          |
| Accounts receivable  |                | 10,931                   |
| Grants receivable  |                | -                        |
| Prepaid expenses   |                | 304                      |
| Increase (Decrease) in:  |                |                          |
| Accounts payable   |                | (6,599)                  |
| Accrued expenses   |                | <u>(68)</u>              |
| Net cash provided by operating activities  |                | <u><u>\$ 58,944</u></u>  |

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**STATE OF NEW MEXICO**  
 2013 El Prado Water & Sanitation District  
 Enterprise Fund  
 Statement of Revenues and Expenditures  
 Budget and Actual (Non-GAAP Basis)  
 For the Year Ended June 30, 2013

|   | Budgeted Amounts   |                  | Actual              | Variances                                     |
|---|--------------------|------------------|---------------------|---|
|   | Original           | Final            | (Non-GAAP<br>Basis) | Favorable<br>(Unfavorable)<br>Final to Actual |
| <i>Revenues:</i>  |                    |                  |                     |   |
| Fees and charges  | \$ 288,000         | \$ 288,000       | \$ 275,848          | \$ (12,152)                                   |
| Miscellaneous   | -                  | -                | 10,298              | 10,298  |
| <i>Total revenues</i>   | <u>288,000</u>     | <u>288,000</u>   | <u>286,146</u>      | <u>(1,854)</u>                                |
| <i>Expenditures:</i>  |                    |                  |                     |   |
| Current:  |                    |                  |                     |   |
| Administration fees   | 200                | 200              | 3,788               | (3,588)                                       |
| Advertising   | 2,000              | 2,000            | 1,549               | 451   |
| Books, dues & registration  | 480                | 480              | 479                 | 1   |
| Depreciation  | -                  | -                | -                   | -   |
| Employee salaries   | 88,000             | 88,000           | 73,533              | 14,467  |
| Field supplies  | 8,000              | 8,000            | 7,176               | 824   |
| Insurance   | 12,000             | 12,000           | 10,836              | 1,164   |
| Interest  | -                  | -                | -                   | -   |
| Miscellaneous expense   | 2,500              | 2,500            | 8,485               | (5,985)                                       |
| Mileage & per diem  | 500                | 500              | 1,014               | (514)   |
| Office expenses   | 7,300              | 7,300            | 8,761               | (1,461)                                       |
| Other contractual services  | 85,450             | 85,450           | 49,909              | 35,541  |
| Payroll related expenses  | 66,850             | 66,850           | 56,187              | 10,663  |
| Postage and freight   | 38                 | 38               | 38                  | -   |
| Rent  | 120                | 120              | 100                 | 20  |
| Repairs & maintenance   | 1,000              | 1,000            | 2,020               | (1,020)                                       |
| Sewer Services  | 871,200            | 871,200          | 841,809             | 29,391  |
| Utilities   | 11,725             | 11,725           | 12,439              | (714)   |
| <i>Total expenditures</i>   | <u>1,157,363</u>   | <u>1,157,363</u> | <u>1,078,123</u>    | <u>79,240</u>                                 |
| Operating income  | <u>(869,363)</u>   | <u>(869,363)</u> | <u>(791,977)</u>    | <u>77,386</u>                                 |
| Non-operating revenues:   |                    |                  |                     |   |
| Beginning cash balance  | (7,236)            | 46,437           | -                   | (46,437)                                      |
| Gross receipts taxes  | 32,000             | 32,000           | 33,087              | 1,087   |
| Property taxes  | 99,000             | 99,000           | 98,577              | (423)   |
| Intergovernmental   | 710,296            | 710,296          | 633,189             | (77,107)                                      |
| Interest income   | 110                | 110              | 101                 | (9)   |
| Non-operating income  | <u>834,170</u>     | <u>887,843</u>   | <u>764,954</u>      | <u>(122,889)</u>                              |
| Change in Net assets (Non-GAAP basis)   | <u>\$ (35,193)</u> | <u>\$ 18,480</u> | <u>\$ (27,023)</u>  | <u>\$ (45,503)</u>                            |
| Adjustment expenditures for payables,<br>payroll taxes, prepaid expenses and other<br>accruals            |                    |                  | 92,634              |   |
| Adjustment for revenues for tax accruals,<br>earnings on investments, and other deferrals<br>and accruals |                    |                  | <u>(11,235)</u>     |   |
| Net Income (GAAP basis)   |                    |                  | <u>\$ 54,376</u>    |   |

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**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**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 380 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, 2013

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

***A. Reporting Entity (continued)***

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

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The El Prado Water & Sanitation District did not have any component units during the fiscal year ended June 30, 2013.

***B. Business-Type Activities***

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

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

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segments is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

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

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

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue items 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 Position components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

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

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

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

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

***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 Position or Equity***

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

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

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

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

***Accounts Receivable:*** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The receivables due at June 30, 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 10<sup>th</sup> and April 10<sup>th</sup>. The taxes are an enforceable lien on the property.

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

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

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

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

***D. Assets, Liabilities and Net Position 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 Position.

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

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

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

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

***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, 2013 were \$1,549.

**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, 2013

**NOTE 3. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed state investment requirements as of June 30, 2013.

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

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

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

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

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

All of the investments of El Prado Water & Sanitation District at June 30, 2013, were in short-term investments with a maturity date within a year of the date acquired by the District or in the State Treasurer's pooled investments. The investments are stated at cost, which also approximates market value.

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

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
 Notes to Financial Statements  
 June 30, 2013

**NOTE 3. DEPOSITS AND INVESTMENTS, continued**

**Deposits**

New Mexico state statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipts be issued, to the District for a least one half of the uninsured amount on deposit with the institution. The schedule listed below will meet the State of New Mexico, Office of the State Auditor's requirements in reporting the insured portion of the deposits.

|  | <u>Centinel Bank</u> | <u>US Bank</u> |
|--|----------------------|----------------|
| Total amounts of deposits  | \$ 97,780            | \$ 14,960      |
| FDIC coverage  | (97,780)             | (14,960)       |
| Total uninsured public funds   | <u>\$ -</u>          | <u>-</u>       |
| Collateral requirement (50%<br>of uninsured public funds)  | \$ -                 | \$ -           |
| Pledged Collateral held by pledging bank's trust<br>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, 2013, none of the District's bank balance of \$112,740 was exposed to custodial credit risk because none was uninsured due to FDIC coverage. At June 30, 2013, the carrying amount of these deposits was \$110,513 as shown on the next page.

**Investments**

As of June 30, 2013, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> |
|------------------------|-------------------|------------------------------|
|                        |                   | <u>Less than 1 Year</u>      |
| Certificate of Deposit | \$ 34,553         | \$ 34,553                    |



**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**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          | 110,713           |
| <br>   |                   |
| Add outstanding checks and other reconciling items | 2,227             |
|  | <u>112,940</u>    |
| Less petty cash                                    | <u>(200)</u>      |
| <br>   |                   |
| Bank balance of deposits                           | <u>\$ 112,740</u> |

**NOTE 4. RECEIVABLES**

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

|                                  |               |
|----------------------------------|---------------|
| Property taxes                   | \$ 9,408      |
| Customer Receivables             | 50,326        |
| Grants Receivables               | -             |
| Gross Receipts Taxes Receivables | <u>6,181</u>  |
| <br>                             |               |
| Total                            | <u>65,915</u> |

The above receivables are deemed 100% collectible.

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 5. PREPAID EXPENSES**

The District has insurance policies that are paid in advance and are expensed monthly. There was \$196 of prepaid insurance at June 30, 2013.

**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, 2013.

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

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 7. LONG-TERM DEBT**

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

|                             | Balance             | Additions   | Retirements      | Balance             | Due w/in one year |
|-----------------------------|---------------------|-------------|------------------|---------------------|-------------------|
| USDA/RUS 4.25%              | \$ 46,830           | \$ -        | \$ 617           | \$ 46,213           | \$ 643            |
| USDA/RUS 4.25%              | 228,982             | -           | 3,353            | 225,629             | 3,498             |
| NMFA Loan 0%                | 50,923              | -           | 5,035            | 45,888              | 5,048             |
| NMFA Loan 0%                | 38,349              | -           | 3,792            | 34,557              | 3,801             |
| Centinel Bank               | 279,924             | -           | 41,821           | 238,103             | 44,400            |
| Centinel Bank               | 151,900             | -           | 8,757            | 143,143             | 8,779             |
| NMFA-WTB Loan 0%            | 35,922              | -           | 2,524            | 33,398              | 2,531             |
| NMFA WTb Loan               | 347,202             | -           | 20,068           | 307,117             | 20,118            |
| <b>Total Long-Term Debt</b> | <b>\$ 1,160,015</b> | <b>\$ -</b> | <b>\$ 85,967</b> | <b>\$ 1,074,048</b> | <b>\$ 88,818</b>  |

The annual requirements to amortize the USDA/RUS, 4.25% as of June 30, 2013, including interest payments are as follows:

| Fiscal Year  | Principal        | Interest         | Total            |
|--------------|------------------|------------------|------------------|
| 2014         | \$ 643           | \$ 1,959         | \$ 2,602         |
| 2015         | 671              | 1,931            | 2,602            |
| 2016         | 700              | 1,902            | 2,602            |
| 2017         | 730              | 1,872            | 2,602            |
| 2018         | 762              | 1,840            | 2,602            |
| 2019-2023    | 4,333            | 8,676            | 13,009           |
| 2024-2028    | 5,356            | 7,652            | 13,008           |
| 2029-2033    | 6,622            | 6,387            | 13,009           |
| 2034-2038    | 8,188            | 4,820            | 13,008           |
| 2039-2043    | 10,122           | 2,886            | 13,008           |
| 2044-2048    | 8,086            | 628              | 8,714            |
| <b>Total</b> | <b>\$ 46,213</b> | <b>\$ 40,553</b> | <b>\$ 86,766</b> |

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 7. LONG-TERM DEBT, continued**

The annual requirements to amortize the USDA/RUS, 4.25% as of June 30, 2013, including interest payments are as follows:

| Fiscal Year  | Principal         | Interest          | Total             |
|--------------|-------------------|-------------------|-------------------|
| 2014         | \$ 3,498          | \$ 9,510          | \$ 13,008         |
| 2015         | 3,650             | 9,359             | 13,009            |
| 2016         | 3,808             | 9,201             | 13,009            |
| 2017         | 3,973             | 9,035             | 13,008            |
| 2018         | 4,145             | 8,863             | 13,008            |
| 2019-2023    | 23,582            | 41,462            | 65,044            |
| 2024-2028    | 29,205            | 35,889            | 65,094            |
| 2029-2033    | 36,044            | 29,000            | 65,044            |
| 2034-2038    | 44,562            | 20,482            | 65,044            |
| 2039-2043    | 55,091            | 9,952             | 65,043            |
| 2044-2048    | 18,071            | 574               | 18,645            |
| <b>Total</b> | <b>\$ 225,629</b> | <b>\$ 183,327</b> | <b>\$ 408,956</b> |

The annual requirements to amortize the NMFA, 0% as of June 30, 2013, including admin fees are as follows:

| Fiscal Year  | Principal        | Admin Fee     | Total            |
|--------------|------------------|---------------|------------------|
| 2014         | \$ 5,048         | \$ 115        | \$ 5,163         |
| 2015         | 5,060            | 102           | 5,162            |
| 2016         | 5,073            | 89            | 5,162            |
| 2017         | 5,086            | 77            | 5,163            |
| 2018         | 5,099            | 64            | 5,163            |
| 2019-2023    | 20,522           | 128           | 20,650           |
| <b>Total</b> | <b>\$ 45,888</b> | <b>\$ 576</b> | <b>\$ 46,463</b> |

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 7. LONG-TERM DEBT, continued**

The annual requirements to amortize the NMFA, 0% as of June 30, 2013, including admin fees are as follows:

| Fiscal Year  | Principal        | Admin Fee     | Total            |
|--------------|------------------|---------------|------------------|
| 2014         | \$ 3,801         | \$ 77         | \$ 3,878         |
| 2015         | 3,811            | 67            | 3,878            |
| 2016         | 3,820            | 58            | 3,878            |
| 2017         | 3,830            | 48            | 3,878            |
| 2018         | 3,840            | 39            | 3,879            |
| 2019-2023    | 15,455           | 87            | 15,542           |
| <b>Total</b> | <b>\$ 34,557</b> | <b>\$ 376</b> | <b>\$ 34,933</b> |

The annual requirements to amortize the Centinel Bank, 6% as of June 30, 2013, including interest payments are as follows:

| Fiscal Year  | Principal         | Interest         | Total             |
|--------------|-------------------|------------------|-------------------|
| 2014         | \$ 44,400         | \$ 14,151        | \$ 58,551         |
| 2015         | 47,138            | 11,413           | 58,551            |
| 2016         | 50,046            | 8,505            | 58,551            |
| 2017         | 53,133            | 5,418            | 58,551            |
| 2018         | 43,386            | 2,141            | 45,527            |
| <b>Total</b> | <b>\$ 238,103</b> | <b>\$ 41,629</b> | <b>\$ 279,731</b> |

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 7. LONG-TERM DEBT, continued**

The annual requirements to amortize the NMFA- Water Trust Board Loan, 0%, as of June 30, 2013 are as follows:

| Fiscal Year |    | Principal |
|-------------|----|-----------|
| 2014        | \$ | 2,531     |
| 2015        |    | 2,537     |
| 2016        |    | 2,543     |
| 2017        |    | 2,550     |
| 2018        |    | 2,556     |
| 2019-2023   |    | 12,877    |
| 2024-2028   |    | 7,804     |
| Total       | \$ | 33,398    |

The annual requirements to amortize the NMFA Loan, 0%, as of June 30, 2013 are as follows:

| Fiscal Year |    | Principal |
|-------------|----|-----------|
| 2014        | \$ | 20,118    |
| 2015        |    | 20,168    |
| 2016        |    | 20,219    |
| 2017        |    | 20,270    |
| 2018        |    | 20,320    |
| 2019-2023   |    | 102,367   |
| 2024-2028   |    | 103,655   |
| Total       | \$ | 307,117   |

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 7. LONG-TERM DEBT, continued**

The annual requirements to amortize the NMFA Loan, 0%, as of June 30, 2013 are as follows:

| Fiscal Year | Principal  |
|-------------|------------|
| 2014        | \$ 8,779   |
| 2015        | 8,801      |
| 2016        | 8,824      |
| 2017        | 8,846      |
| 2018        | 8,868      |
| 2019-2023   | 44,673     |
| 2024-2028   | 45,237     |
| 2029-2033   | 9,115      |
| Total       | \$ 143,143 |

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**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](http://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, 2013, 2012 and 2011 were \$10,970, \$1970, and \$19,687 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, 2013

**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**

The GASB issued Statement No. 65, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position* which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net 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 has implemented this statement.

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**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, 2013. Earlier application is encouraged. The objective of this statement is to amend Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, government would base their decisions about governmental fund type usage for risk financing activities on the definitions in State 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and that principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Schedule Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales of Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The District has implemented this statement.

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Notes to Financial Statements  
June 30, 2013

**NOTE 16. SUBSEQUENT EVENTS**

Since June 30, 2013, 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.

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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, 2013

Schedule I

| <u>Name of Depository</u> | <u>Description of Pledged Collateral</u>        | <u>Fair/Par Market Value June 30, 2013</u> | <u>Name and Location of Safekeeper</u> |
|---------------------------|---|--|--|
| Centinel Bank             | No Pledged Collateral<br>adequate FDIC coverage | \$ -                                       |  |
|                           |   | <u>\$ -</u>                                |  |

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**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
 Schedule of Deposits and Investments  
 June 30, 2013

Schedule II

| <u>Bank Account Type/Name</u>                  | <u>Centinel Bank</u> | <u>US Bank</u>   | <u>Totals</u>     |
|--|----------------------|------------------|-------------------|
| Checking, interest bearing                     | \$ 97,780            | \$ 14,960        | \$ 112,740        |
| CD   | 34,553               | -                | 34,553            |
| Total On Deposit                               | <u>\$ 132,333</u>    | <u>\$ 14,960</u> | <u>\$ 147,293</u> |
| Reconciling Items                              |                      |                  | (2,227)           |
| Petty Cash                                     |                      |                  | <u>200</u>        |
| Reconciled Cash and Investments, June 30, 2013 |                      |                  | <u>\$ 145,266</u> |

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**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
**Cash Reconciliation**  
**June 30, 2013**

Schedule III

|                           | <u>Centinel Bank</u> | <u>US Bank</u>   | <u>Total</u>      |
|---------------------------|----------------------|------------------|-------------------|
| Bank balance end of year  | \$ 97,780            | \$ 14,960        | \$ 112,740        |
| Deposits in transit       | -                    | -                | -                 |
| Outstanding checks        | <u>(2,227)</u>       | <u>-</u>         | <u>(2,227)</u>    |
| <br>                      |                      |                  |                   |
| Cash, June 30, 2013       | <u>\$ 95,553</u>     | <u>\$ 14,960</u> | 110,513           |
| <br>                      |                      |                  |                   |
| Petty Cash                |                      |                  | 200               |
| Total Cash, June 30, 2013 |                      |                  | <u>\$ 110,713</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  
The Governing Board  
El Prado Water & Sanitation District  
El Prado, NM

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of El Prado Water & Sanitation District as of and for the year ended June 30, 2013, and have issued our report thereon dated September 5, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. The material weaknesses are described as FS 2006-04, and FS 2011-01.

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. We consider the

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deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. The significant deficiency is described as FS 2013-01.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether El Prado Water & Sanitation District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as item FS 2013-01.

### **El Prado Water & Sanitation District's Response to Findings**

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

### **Purpose of this Report**

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



Precision Accounting, LLC

Albuquerque, NM

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, 2013

Schedule IV

**Section I – Prior year findings:**

FS-06-03 Late Audit Report- Cleared

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

FS-07-03 Travel and Per Diem Act-Cleared

FS 2011-01 General Ledger Disbursements- Repeated and Revised

**Section II – Current year findings:**

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

**EFFECT OF CONDITION:** 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, 2013

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 were coded to the wrong line item. If projected to the entire population, it may result in a misstatement of approximately \$1,464 or 0.001%.

**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 item was 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.

**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.

**FS-2013-01 Non-compliance with State Audit Rule (Significant Deficiency)**

**CONDITION:** We noted that the District had not met the June 1, 2013 deadline to have their auditor selection submitted to the State Auditor.

**CRITERIA:** NMAC 2.2.2 states that each Water and Sanitation District must have their auditor selection submitted to the State Auditor by no later than June 1, 2013.

**CAUSE:** The District was behind on the 2011, 2012 and 2013 audits and was trying to accumulate funding and solicit bids to be able to have all three audits completed in 2013. As a result, the District did not meet the deadline of June 1, 2013 to have their auditor selection submitted.

**EFFECT:** The district is not compliant with the State Audit Rule.

**RECOMMENDATION:** We recommend that the District comply with the State Audit Rule and meet all required deadlines set forth within.

**CLIENT RESPONSE:** The District will be caught up with all audits in September 2013 and will do everything possible to comply with the requirements of the State Auditor.

**STATE OF NEW MEXICO**  
**EL PRADO WATER & SANITATION DISTRICT**  
Other Disclosures  
For the Year Ended June 30, 2013

Schedule V

**Section IV – Exit Conference**

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

EL PRADO WATER & SANITATION DISTRICT

Elaine Trujillo, 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.