

STATE OF NEW MEXICO

**Valley**  
*Water & Sanitation District*

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 2016



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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
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**YEAR ENDED JUNE 30, 2016**

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**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OFFICIAL ROSTER**  
**YEAR ENDED JUNE 30, 2016**

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Jacqueline Foutz		Chairman
Joel Foutz		Vice-Chairman
William L. Flack		Secretary/Treasurer
Brian Mack		Member
Brad Duncan		Member
	<u>Administration</u>	
Jody Rico		Bookkeeper

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**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Timothy Keller  
New Mexico State Auditor  
and  
Members of the Board  
Valley Water and Sanitation District  
Kirtland, New Mexico

We have performed the procedures enumerated below, which were agreed to by the State of New Mexico and Valley Water and Sanitation District (District), solely to assist you with respect to the District's compliance for a Tier 6 engagement of the Audit Act (Section 12-6-1 NMSA 1978 et seq.) with respect to the District's cash and capital assets as of June 30, 2016 and the District's revenues, expenditures, and budget for the year ended June 30, 2016. The District's management is responsible for the company's accounting records and financial information. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. The procedures were agreed to by the District through the NM Office of the State Auditor. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were engaged to perform the following agreed-upon procedures for the period July 01, 2015 to June 30, 2016 and our procedures and results are as follow:

**1. Tiered System Reporting**

**Procedures:**

Verify the local public body's revenue calculation and tier determination documented on the form provided at [www.osanm.org](http://www.osanm.org) under "Tiered System Reporting Main Page."

**Results:**

We reviewed the public body's revenue calculations and tier determination and determined that the District is subject to a Tier 6 engagement.

**2. Cash**

**Procedures:**

- a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b. Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.



- c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

**Results:**

- a. We obtained copies of all bank reconciliations from July 2015 through June 2016. All reconciliations were completed within 15 days of month's end and were on-hand. Additionally, the reconciliations do indicate that they have been reviewed by a member of the Board and the entire Board in monthly meetings.
- b. We randomly selected three months for review – October, February, and June. We traced reconciled items for those months to determine that they were properly cleared. We inspected all cancelled check images and deposit slips returned with the bank statements to compare actual names and amounts with the general ledger. We traced ending balances to the general ledger and the year-end financial report submitted to DFA-Local Government Division. No exceptions were noted in these procedures.
- c. We reviewed balances at each month end to determine if sufficient pledged collateral had been provided on all uninsured funds. No balances exceeded the FDIC coverage limit of \$250,000 during the year, so no exceptions were noted in these procedures.

**3. Capital Assets**

**Procedures:**

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

**Results:**

The District did complete a yearly inventory of its capital assets and those fixed assets are included and approved at each board meeting in the treasurer's report. All capital assets of the District are the sewer lines and pumping stations, one metal building, and some land for right-of-way.

However, during review of those fixed assets we identified that the District had capitalized \$1,345,000 of land improvements which had not yet been transferred from San Juan County to the District. Additionally, the District had not capitalized \$20,647 of a sewer line extension that should have been capitalized. See Finding FS 2016-001 – Improper Recording and Maintenance of Fixed Asset Records.

**4. Debt**

**Procedures:**

If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

**Results:**

The District has an outstanding debt for future sewer taps which will be provided when the holder connects to the system. No connections were made related to this debt during the current year.

The District also assumed a loan from San Juan County during the current year. The District made the proper monthly payments related to loan subsequently to assuming the loan.

**5. Revenue**

**Procedures:**

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues based on auditor judgment and test using the following attributes:

- b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

**Results:**

- a. We identified the nature and sources of revenue and performed an analytical review of those revenue sources, comparing them to the budgeted amounts for each classification of revenue. Total revenues fell \$21,186 short of budgeted revenues. We reviewed revenue categories which varied from budget by 10% and by \$5,000 or more. The only category which varied by more than the criteria was Construction/Engineering which fell short of the budgeted amount by \$14,419 and varied by 15.2%. The District didn't have quite as many new customers that required construction/engineering costs as was anticipated during the year as each individual's costs may vary depending on the location and other factors related to their property. Revenue variations were reasonable.
- b. We tested the following revenue sources on a cash basis which is how the District maintains its records:
  - i. Monthly Service Sales – The District receives one monthly check from Lower Valley Water Users Association (LVWUA) who provides domestic water services to all of the District's sewer customers. LVWUA bills sewer services with its water bills and then remits the sewer district collections to the District for the cost of \$200 per month. Six months of distributions – July 2015, September 2015, November 2015, January 2016, March 2016, and May 2016 – from LVWUA were traced to supporting documentation, to the bank statement, and to the general ledger. No exceptions were noted and all revenues were properly categorized and recorded. Total collections on Monthly Service Sales for the year amounted to \$181,896 of which \$89,148 were tested, 49.0% of total service revenues. No exceptions were noted.
  - ii. New Mexico Gross Receipts Tax – Local businesses within the sewer district's boundaries collect a 0.25% gross receipts tax which is distributed to the District by San Juan County. A direct deposit is made to the District's account for this gross receipts distribution. We selected six months – August 2015, October 2015, December 2015, February 2016, April 2016, and June 2016 – to verify that amounts were properly deposited into the District's bank account and that it was properly and timely recorded into the general ledger. Total amounts collected through the County amounted to \$65,369 of which \$36,358 was tested, or 55.6% of the total. No exceptions were noted.
  - iii. Engineering Revenue – The District charges customers for engineering services required for line construction connections. We selected the three largest customers for the year and reviewed the relating supporting documentation. We reviewed the invoice, payment, deposit, and recording to the general ledger for these payments. All items were properly supported and recorded. The total engineering fees for the year were \$80,581 of which 70.3% were tested.
  - iv. Connection/Tap Fee Sales – A fee is charged for connection to the District. Total connection/tap fees were \$93,739 of which \$68,750 were tested related to one admission, 73.3% of total. We reviewed the invoice, payment, deposit, and recording to the general ledger for this payment from San Juan County related to the connection of the Lagoon area residents. All items were proper.
- c. Total revenues tested amounted to \$250,922 or 49.7% of total revenues reported by the District. All classifications were proper, the amounts agreed to supporting documentation and bank statements, and amounts agreed to general ledger amounts and were recorded in the proper periods. No exceptions were noted.

## 6. Expenditures

### **Procedures:**

Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

### **Results:**

We randomly selected 25 of the 118 total disbursements made for the year. We also selected an additional 12 large disbursements selected by auditor judgement. Therefore, 37 of 118 disbursements were tested. Total disbursements were \$363,402, and the 37 items selected accounted for \$304,220, or 83.7% of total disbursements.

- a. We tested each disbursement to ascertain the following:
  - Vendor invoice is clerically accurate
  - Purchase order (P.O.) is clerically accurate and initiated by purchasing agent prior to commitment of funds
  - Amount and payee per check agree to P.O. and invoice
  - P.O. is supported by proper quote or bid documentation as required by State Purchasing Requirements
  - Traced to general ledger
  - Does not violate Anti-Donation Laws
  - Receiving documents identify items received and when and who received them and that items are OK to pay

We tested all disbursement according to the above criteria. The items had proper documentation and amounts, payees, dates and descriptions agreed to supporting documentation without exception.

- b. All invoices had a board member's signature and the checks were signed by a member of the Board and were thus authorized for disbursement and were legal disbursements of the District. All expenditures were within authorized budget constraints.
- c. During our review of procedures related to the Procurement Code, we noted no exceptions to the bidding process as all purchases requiring quotations or bids had proper bids in the current year or proposals which were still in effect this year.

## 7. Journal Entries

### **Procedures:**

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- a. Journal entries appear reasonable and have supporting documentation.
- b. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

### **Results:**

- a. We obtained all manual journal entries for the period July 01, 2015 through June 30, 2016. We reviewed the journal entries for non-routine entries, such as adjustments or reclassifications which were posted to the general ledger. All entries were reasonable and had proper supporting

documentation except for the entry recording \$1,345,000 of land improvements which relates to Finding FS 2016-001.

- b. Most journal entries are routine for recording monthly depreciation expense or recording New Mexico Gross Receipts Taxes received through direct deposit to the checking account. All journal entries are provided to the Board on a monthly basis where they are approved by the Board.

## **8. Budget**

### **Procedures:**

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

### **Results:**

- a. We obtained the original budget and all minutes for the period of July 01, 2015 through November 9, 2016 and identified that the budget for the 2016 fiscal year was properly approved by the Board and DFA-LGD. We also noted that a mid-year budget modification was approved by the Board in April 2016 and submitted and accepted by DFA-LGD.
- b. We reviewed all expenditures and determined that the District did not exceed its budgetary level of control and was in compliance with State guidelines.
- c. We have prepared a Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis) which was prepared on the cash basis which is the basis used by the District in preparing its financial statements. This schedule is included in this report on page 1.

## **9. Capital Outlay Appropriations**

### **Procedures:**

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year. Test all capital outlay expenditures during the fiscal year to:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.

- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient.  
Determine whether the costs were paid by the local public body prior to the request for reimbursement.

**Results:**

We reviewed all relevant documentation and interviewed Board members and the bookkeeper regarding any state-funded capital outlay awards. The District received no such awards and had no such expenditures during the year under review. As such, no further procedures were performed in this area.

**Other**

**Procedures:**

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

**Results:**

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud or illegal acts.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's cash and capital assets as of June 30, 2016 and the District's revenue, expenditures, and budget for the year ended June 30, 2016. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management, others within the District, the State Auditor, and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Manning Accounting and Consulting Services, LLC*

Manning Accounting and Consulting Services, LLC  
Kirtland, New Mexico  
November 29, 2016

**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET**  
**AND ACTUAL (NON - GAAP BUDGETARY BASIS)**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDING JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
San Juan County gross receipts tax	\$ 45,000	\$ 60,000	\$ 65,369	\$ 5,369
Monthly service sales	180,000	200,000	196,728	(3,272)
Construction/engineering fees	385,000	95,000	80,581	(14,419)
Tap fees sales	83,500	100,000	93,739	(6,261)
Town of Kirtland	-	-	36,261	36,261
Other fees	10,200	35,050	31,703	(3,347)
<i>Total revenues</i>	<u>703,700</u>	<u>490,050</u>	<u>504,381</u>	<u>14,331</u>
<i>Expenses:</i>				
Engineering costs	25,000	40,000	28,964	11,036
Construction inspection costs	5,000	5,000	4,604	396
Service line construction costs	380,000	90,000	18,121	71,879
Operations maintenance costs	74,000	100,000	106,291	(6,291)
Cleaning/inspection services	4,000	4,000	-	4,000
Court/clerk fees	800	3,300	2,969	331
Pre-treatment (chemicals)	45,000	45,000	49,491	(4,491)
City of Farmington collection	50,000	50,000	41,097	8,903
Billing services	2,600	2,600	2,400	200
Professional/accountant	20,000	4,500	4,366	134
Rent or lease expense	2,600	2,600	2,522	78
Maintenance & repairs expense	30,000	40,000	30,140	9,860
Supplies expense	600	600	-	600
Small tools expense	700	700	-	700
Utilities expense	20,000	16,000	15,818	182
Office supplies expense	200	200	283	(83)
Secretarial expense	4,000	6,500	6,350	150
One-call expense	5,000	20,000	14,368	5,632
Insurance expense	6,000	11,000	10,671	329
Capital outlay	-	-	20,647	(20,647)
Debt payments	-	-	4,300	(4,300)
<i>Total expenses</i>	<u>675,500</u>	<u>442,000</u>	<u>363,402</u>	<u>78,598</u>
<i>Excess (deficiency) of revenues</i> <i>over (under) expenditures</i>	<u>28,200</u>	<u>48,050</u>	<u>140,979</u>	<u>92,929</u>
<i>Net change in fund balance</i>	28,200	48,050	140,979	92,929
<i>Cash - beginning of year</i>	<u>47,689</u>	<u>47,689</u>	<u>47,689</u>	<u>-</u>
<i>Cash - end of year</i>	<u>\$ 75,889</u>	<u>\$ 95,739</u>	<u>\$ 188,668</u>	<u>\$ 92,929</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in net position (cash basis)			\$ 140,979	
Adjustments to revenues			(14,852)	
Adjustments to expenditures			(55,178)	
Change in net position (GAAP basis)			<u>\$ 70,949</u>	



**Valley Water and Sanitation District - Quarterly Report**  
**4th Quarter Ended June 30, 2016**

	<u>Approved Budget</u>	<u>Adjusted Approved Budget</u>	<u>Year-to-Date Actuals</u>	<u>Amount Over Budget</u>	<u>% of Budget</u>
<b>Beginning Cash Balance on July 1, 2014:</b>	\$ 47,689.33	\$ 47,689.33	\$ 47,689.33		
<b>Revenue</b>					
Monthly Service Sales	\$ 180,000.00	\$ 200,000.00	\$ 197,471.99	\$ (2,528.01)	99%
San Juan County Gross Receipts Tax	\$ 45,000.00	\$ 60,000.00	\$ 65,368.86	\$ 5,368.86	109%
Connection/Tap Fee Sales	\$ 83,500.00	\$ 100,000.00	\$ 93,739.28	\$ (6,260.72)	94%
Application Fee Sales	\$ 1,250.00	\$ 550.00	\$ 458.59	\$ (91.41)	83%
Admission Fee Sales	\$ 1,450.00	\$ 8,500.00	\$ 7,284.41	\$ (1,215.59)	86%
Construction/Engineering Sales	\$ 385,000.00	\$ 95,000.00	\$ 80,581.31	\$ (14,418.69)	85%
Maintenance Reimbursements	\$ 7,500.00	\$ 26,000.00	\$ 23,959.72	\$ (2,040.28)	92%
<i>Subtotal Revenue</i>	<i>\$703,700.00</i>	<i>\$490,050.00</i>	<i>\$ 468,864.16</i>	<i>\$ (21,185.84)</i>	<i>96%</i>
NM GRT Collected			\$ 20,205.20		
<b>Total Revenue</b>			<b>\$ 489,069.36</b>		
<b>Expenditures</b>					
Engineering Loan Payment	\$ -	\$ 4,300.00	\$ 4,300.02	\$ 0.02	100%
Land Improvements	\$ 380,000.00	\$ 90,000.00	\$ 38,767.75	\$ (51,232.25)	43%
Engineering Services	\$ 25,000.00	\$ 40,000.00	\$ 28,963.65	\$ 3,963.65	72%
Construction Inspection Services	\$ 5,000.00	\$ 5,000.00	\$ 4,603.56	\$ (396.44)	92%
Operations Maintenance Services	\$ 74,000.00	\$ 100,000.00	\$ 106,291.37	\$ 32,291.37	106%
Cleaning/Inspection Services	\$ 4,000.00	\$ 4,000.00		\$ (4,000.00)	0%
Admission Court/Clerk Services	\$ 800.00	\$ 3,300.00	\$ 2,969.18	\$ 2,169.18	90%
Pre-Treatment Services (Chemicals)	\$ 45,000.00	\$ 45,000.00	\$ 49,491.35	\$ 4,491.35	110%
City of Farmington Collection Services	\$ 50,000.00	\$ 50,000.00	\$ 41,097.51	\$ (8,902.49)	82%
Billing Services	\$ 2,600.00	\$ 2,600.00	\$ 2,400.00	\$ (200.00)	92%
Professional/Accountant Services	\$ 20,000.00	\$ 4,500.00	\$ 4,366.53	\$ (15,633.47)	97%
Rent or Lease Expense	\$ 2,600.00	\$ 2,600.00	\$ 2,522.00	\$ (78.00)	97%
System Repairs Expense	\$ 30,000.00	\$ 40,000.00	\$ 30,140.25	\$ 140.25	75%
Supplies Expense	\$ 600.00	\$ 600.00		\$ (600.00)	0%
Small Tools Expense	\$ 700.00	\$ 700.00		\$ (700.00)	0%
Utilities Expense	\$ 20,000.00	\$ 16,000.00	\$ 15,818.40	\$ (4,181.60)	99%
Office Expense	\$ 200.00	\$ 200.00	\$ 282.68	\$ 82.68	141%
Secretarial Expense	\$ 4,000.00	\$ 6,500.00	\$ 6,350.00	\$ 2,350.00	98%
One-Call Locate Expense	\$ 5,000.00	\$ 20,000.00	\$ 14,367.59	\$ 9,367.59	72%
Insurance Expense	\$ 6,000.00	\$ 11,000.00	\$ 10,671.00	\$ 4,671.00	97%
<i>Subtotal Expenditures</i>	<i>\$675,500.00</i>	<i>\$442,000.00</i>	<i>\$ 363,402.84</i>	<i>\$ (312,097.16)</i>	<i>82%</i>
NM GRT Actually Paid			\$ 20,948.81		
Town of Kirtland Accounts Receivable 2015/2016			\$ (36,261.29)		
<b>Total Expenditures</b>			<b>\$ 348,090.36</b>		
<b>Estimated Ending Cash Balance on June 30, 2015:</b>	<b>\$75,889.33</b>	<b>\$95,739.33</b>	<b>\$ 188,668.33</b>		

Valley Water and Sanitation District  
Balance Sheet  
June 30, 2016

ASSETS

Current Assets		
Checking Account	\$	<u>188,668.33</u>
Total Current Assets		188,668.33
Property and Equipment		
Land	33,200.00	
Land Improvements	4,841,999.00	
Buildings	1,859.52	
Accumulated Depreciation	<u>(304,477.00)</u>	
Total Property and Equipment		4,572,581.52
Other Assets		
Total Other Assets		<u>0.00</u>
Total Assets	\$	<u><u>4,761,249.85</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
Total Current Liabilities		0.00
Long-Term Liabilities		
N/P Whipple Taps	\$	11,500.00
N/P SJC Lagoons Loan	<u>54,466.52</u>	
Total Long-Term Liabilities		<u>65,966.52</u>
Total Liabilities		65,966.52
Capital		
Fund Balance - Fixed Assets	4,601,179.98	
Fund Balance - Operating	71,707.01	
Net Income	<u>22,396.34</u>	
Total Capital		<u>4,695,283.33</u>
Total Liabilities & Capital	\$	<u><u>4,761,249.85</u></u>

Valley Water and Sanitation District  
Income Statement  
For the Twelve Months Ending June 30, 2016

	Year to Date
Revenues	
Construction/Engineering Sales	\$ 80,581.31
Application Fee Sales	458.59
Connection/Tap Fee Sales	93,739.28
Monthly Service Sales	197,471.99
Admission Fee Sales	7,284.41
Maintenance Income	23,959.72
San Juan County GRT	<u>65,368.86</u>
 Total Revenues	 <u>468,864.16</u>
 Cost of Sales	
Engineering Costs	28,963.65
Construction Inspection Costs	4,603.56
Service Line Construction Cost	38,767.75
Operations Maintenance Costs	106,291.37
Admission Court/Clerk Fees	2,969.18
Pre-Treatment (Chemicals)	49,491.35
City of Farmington Collection	<u>41,097.51</u>
 Total Cost of Sales	 <u>272,184.37</u>
 Gross Profit	 <u>196,679.79</u>
 Expenses	
Billing Services	2,400.00
Professional/Accountant	4,366.53
Rent or Lease Expense	2,522.00
System Maintenance & Repairs	30,140.25
Utilities Expense	15,818.40
Office Expense	282.68
Secretarial Expense	6,350.00
One-Call Locate	14,367.59
Insurance Expense	10,671.00
Depreciation Expense	<u>87,365.00</u>
 Total Expenses	 <u>174,283.45</u>
 Net Income	 <u><u>\$ 22,396.34</u></u>

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**FS 2016-01 – Improper Recording and Maintenance of Fixed Asset Records (Material Weakness)**

**Criteria: 2.20.1.8 NMAC 1978 FIXED ASSET ACCOUNTING SYSTEM:**

- A. **Agencies should implement systematic and well-documented methods for accounting for their fixed assets.** A computerized system is recommended, with appropriate controls on access and authorization of transactions.
- B. The information to be recorded and maintained on its fixed assets, must include at a minimum the following:
  - 1. agency name or commonly used initials used to identify the agency;
  - 2. fixed asset number or fixed asset number plus component number;
  - 3. a description using words meaningful for identification;
  - 4. location, specifically a building and room number. If the asset is movable, the name and location of the fixed asset coordinator should be used;
  - 5. manufacturer name (NOT the vendor's name, unless vendor is the manufacturer);
  - 6. model number or model name;
  - 7. serial number, or vehicle identification number (VIN) for vehicles in agency's use & possession. If the fixed asset has no serial number, e.g., a custom-built asset, absence should be acknowledged by coding this as "none";
  - 8. estimated useful life or units expected to be produced;
  - 9. date acquired (month and year)
  - 10. cost (according to the valuation methods described in section 10 [now 2.20.1.10 NMAC];
  - 11. fund and organization that purchased the asset, or to which it was transferred.
- C. The system must be capable of generating lists of fixed assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation (if needed), betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

**Condition:** During our review of fixed asset detail we noted that the District had capitalized \$1,345,000 of land improvements related to the pumping station and sewer lines of the Lagoon area. The District had begun depreciating these assets as well. However, while the District had taken over operations and maintenance of the pumping station and related sewer line San Juan County had not yet officially transferred the assets to the District.

Additionally, we identified that the District had not capitalized \$20,647 of a sewer line extension to the local fire department.

**Cause:** The District was responsible for obtaining insurance for the value of the pumping station and related sewer lines as the District had taken over operational and maintenance responsibilities for the Lagoon system. The County was also in the process of transferring these assets to the District. As such, the District assumed that it should capitalize these assets onto the books of the District. The District just overlooked the one line extension that should have been capitalized during the year.

**Effect:** Fixed assets are materially misstated in the financial statements since the capitalization of those assets. Additionally, the depreciation expense is overstated since those assets began being depreciated.

**Auditors' Recommendation:** We recommend that the District wait until the land, pumping station, and related sewer lines have been officially and legally transferred to it before capitalizing and depreciating these assets on the official books of the District. Additionally, we recommend that the District review line extensions when completed to see if those assets should be properly capitalized and added to the fixed asset records of the District or whether they should be expensed in the current period.

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**FS 2016-01 – Improper Recording and Maintenance of Fixed Asset Records (Material Weakness)**

*Responsible official's view:*

- Specific corrective action plan for finding:  
**The district is currently changing the depreciation schedule to reflect the error in capital assets and will immediately make journal entries to correct all capital assets. Moving forward the district will book capital assets only after any property has been officially transferred.**
  
- Timeline for completion of corrective action plan:  
**The district will make necessary adjustments immediately.**
  
- Employee position(s) responsible for meeting the timeline:  
**Jody Rico - Bookkeeper**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Prior Year Findings:**

2013-003 [2013-03] – Purchase Orders – Resolved

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OTHER DISCLOSURES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Exit Conference**

The contents of this report were discussed on November 29, 2016. The following individuals were in attendance.

**Valley Water and Sanitation District**

Jacqueline Foutz, Board Chairman  
William L. Flack, Board Secretary/Treasurer  
Jody Rico, Bookkeeper

**Manning Accounting and Consulting Services, LLC**

Byron R. Manning, CPA





STATE OF NEW MEXICO

**Valley**  
*Water & Sanitation District*

**COMPILATION REPORT OF INDEPENDENT  
ACCOUNTANTS AND FINANCIAL STATEMENTS**

JUNE 30, 2016



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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
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**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OFFICIAL ROSTER**  
**YEAR ENDED JUNE 30, 2016**

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Jacqueline Foutz		Chairman
Joel Foutz		Vice-Chairman
William L. Flack		Secretary/Treasurer
Brian Mack		Member
Brad Duncan		Member
	<u>Administration</u>	
Jody Rico		Bookkeeper

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**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

## INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Mr. Timothy Keller  
New Mexico State Auditor  
and  
Members of the Board  
Valley Water and Sanitation District  
Kirtland, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Valley Water and Sanitation District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

### Required Supplementary Information

Management has omitted the *Management's Discussion and Analysis* that governmental accounting principles accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. This information is the representation of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

*Manning Accounting and Consulting Services, LLC*

Manning Accounting and Consulting Services, LLC  
Kirtland, New Mexico  
November 29, 2016



## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2016**

Exhibit A-1

**ASSETS**

*Current Assets*

Cash and cash equivalents	\$	188,668
Receivables (net of allowance for uncollectibles):		
Monthly service revenues		58,792
Lagoon assessment		6,816
		6,816

*Total current assets* 254,276

*Noncurrent assets*

Lagoon assessment - noncurrent		51,363
Capital assets (net of accumulated depreciation):		
Land		33,200
Land improvements		3,517,646
Buildings and building improvements		1,860
Less: accumulated depreciation		(290,586)
		(290,586)

*Total noncurrent assets* 3,313,483

*Total assets* \$ 3,567,759

**LIABILITIES**

*Current liabilities*

Accounts payable	\$	16,673
Loan payable - San Juan County		8,600
		8,600

*Total current liabilities* 25,273

*Noncurrent liabilities*

Loan payable - San Juan County		46,583
Note payable - Whipple taps		11,500
		11,500

*Total noncurrent liabilities* 58,083

**NET POSITION**

Invested in capital assets		3,262,120
Unrestricted net assets		222,283
		222,283

*Total net position* 3,484,403

*Total liabilities and net position* \$ 3,567,759

See accompanying notes and independent accountant's compilation report.

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION -**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDING JUNE 30, 2016**

Exhibit A-2

<i>Operating revenues:</i>	
San Juan County gross receipts tax	\$ 72,815
Monthly service sales	210,691
Construction/engineering fees	80,581
Tap fees sales	93,739
Other fees	31,703
	489,529
 <i>Total operating revenues</i>	
 <i>Operating expenses:</i>	
Engineering costs	4,604
Construction inspection costs	28,964
Service line construction costs	18,121
Operations maintenance costs	116,963
Court/clerk fees	2,969
Pre-treatment (chemicals)	49,491
City of Farmington collection	41,444
Billing services	2,600
Professional/accountant	4,366
Rent or lease expense	2,522
Maintenance & repairs expense	24,197
Utilities expense	15,852
Office supplies expense	283
Secretarial expense	6,175
One-call expense	15,884
Insurance expense	10,671
Depreciation	73,474
	418,580
 <i>Total operating expenses</i>	
 <i>Operating income</i>	
	70,949
 <i>Change in net position</i>	
	70,949
 <i>Net position, beginning of year</i>	
	3,413,454
 <i>Net position - end of year</i>	
	\$ 3,484,403

See accompanying notes and independent accountant's compilation report.

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from gross receipts taxes	\$ 65,369
Cash received from customers	439,012
Cash payments for supplies and maintenance	(338,455)
<i>Net cash provided (used) by operating activities</i>	165,926
 <i>Cash flows from investing activities</i>	
Purchase of capital assets	(20,647)
<i>Net cash provided (used) by investing activities</i>	(20,647)
 <i>Cash flows from financing activities:</i>	
Loan principal payments	(4,300)
Loan interest payments	-
<i>Net cash provided (used) by financing activities</i>	(4,300)
 <i>Net increase (decrease) in cash and cash equivalents</i>	140,979
 <i>Cash and cash equivalents - beginning of year</i>	47,689
 <i>Cash and cash equivalents - end of year</i>	\$ 188,668
 <i>Reconciliation of operating income (loss) to</i>	
<i>net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 70,948
Adjustments to reconcile operating income (loss) to	
net cash provided (used) by operating activities:	
Depreciation	73,474
Changes in assets and liabilities	
Receivables	(43,887)
Payables	65,391
<i>Net cash provided (used) by operating activities:</i>	\$ 165,926

See accompanying notes and independent accountant's compilation report.

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND**  
**BALANCE - BUDGET (NON - GAAP BUDGETARY BASIS) AND ACTUAL**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDING JUNE 30, 2016**

Exhibit A-4

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<i>Revenues:</i>				
San Juan County gross receipts tax	\$ 45,000	\$ 60,000	\$ 65,369	\$ 5,369
Monthly service sales	180,000	200,000	196,728	(3,272)
Construction/engineering fees	385,000	95,000	80,581	(14,419)
Tap fees sales	83,500	100,000	93,739	(6,261)
Town of Kirtland	-	-	36,261	36,261
Other fees	10,200	35,050	31,703	(3,347)
<i>Total revenues</i>	<u>703,700</u>	<u>490,050</u>	<u>504,381</u>	<u>14,331</u>
<i>Expenses:</i>				
Engineering costs	25,000	40,000	28,964	11,036
Construction inspection costs	5,000	5,000	4,604	396
Service line construction costs	380,000	90,000	18,121	71,879
Operations maintenance costs	74,000	100,000	106,291	(6,291)
Cleaning/inspection services	4,000	4,000	-	4,000
Court/clerk fees	800	3,300	2,969	331
Pre-treatment (chemicals)	45,000	45,000	49,491	(4,491)
City of Farmington collection	50,000	50,000	41,097	8,903
Billing services	2,600	2,600	2,400	200
Professional/accountant	20,000	4,500	4,366	134
Rent or lease expense	2,600	2,600	2,522	78
Maintenance & repairs expense	30,000	40,000	30,140	9,860
Supplies expense	600	600	-	600
Small tools expense	700	700	-	700
Utilities expense	20,000	16,000	15,818	182
Office supplies expense	200	200	283	(83)
Secretarial expense	4,000	6,500	6,350	150
One-call expense	5,000	20,000	14,368	5,632
Insurance expense	6,000	11,000	10,671	329
Capital outlay	-	-	20,647	(20,647)
Debt payments	-	-	4,300	(4,300)
<i>Total expenses</i>	<u>675,500</u>	<u>442,000</u>	<u>363,402</u>	<u>78,598</u>
<i>Excess (deficiency) of revenues</i> <i>over (under) expenditures</i>	<u>28,200</u>	<u>48,050</u>	<u>140,979</u>	<u>92,929</u>
<i>Net change in fund balance</i>	28,200	48,050	140,979	92,929
<i>Cash - beginning of year</i>	<u>47,689</u>	<u>47,689</u>	<u>47,689</u>	<u>-</u>
<i>Cash - end of year</i>	<u>\$ 75,889</u>	<u>\$ 95,739</u>	<u>\$ 188,668</u>	<u>\$ 92,929</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in net position (cash basis)			\$ 140,979	
Adjustments to revenues			(14,852)	
Adjustments to expenditures			(55,178)	
Change in net position (GAAP basis)			<u>\$ 70,949</u>	

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1**            **Summary of Significant Accounting Policies**

Valley Water and Sanitation District (the “District”) is a political subdivision of the State of New Mexico established and regulated by the constitution of the State of New Mexico. The District was incorporated for the purpose of constructing, maintaining, and operating a waste water system for its members. The District is governed by an elected five-member Board of Directors and has approximately 120 members served in the Kirtland community in San Juan County.

This summary of significant accounting policies of the District is presented to assist in the understanding of the District’s financial statements. The financial statements and notes are the representation of the District’s management that is responsible for the financial statements. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

During the year ended June 30, 2016, the District adopted GASB Statement No. 71 *Fair Value Measurement and Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. The provisions of GASB No. 71 provide guidance for determining a fair value measurement for financial reporting purposes to enhance comparability of financial statements among governments. The provisions of GASB No. 76 identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP) which supersedes Statement No. 55. The Provisions of GASB No. 79 address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These pronouncements are not expected to have a material effect on the District.

The more significant of the government’s accounting policies are described below.

A.            *Financial Reporting Entity*

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

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

**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1      Summary of Significant Accounting Policies (Continued)**

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The District's proprietary (enterprise) fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net Position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, restricted, and unrestricted components.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges for services for the District's waste water services. Operating expenses for enterprise funds include 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.

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.

The District reports the following major proprietary fund:

The *Proprietary Fund* accounts for a waste water transportation system for its members, including constructing, maintaining, and operating the system.

*C.      Assets, Liabilities, and Net Position*

**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.

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.

**Receivables and Payables:** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

**Capital Assets:** Capital assets, which include property, plant, 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 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.

**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1      Summary of Significant Accounting Policies (Continued)**

*C.      Assets, Liabilities, and Net Position*

Information Technology Equipment, including software, is being capitalized and included in furniture and equipment in accordance with NMAC 2.20.1.9 C (5).

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction during the year ended June 30, 2016.

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>
Land improvements	20-80 years
Buildings/building improvements	10 years

**Long-term Obligations:** In the financial statements, long-term debt and other long-term obligations are reported as liabilities.

**Net Position:** Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

In the government-wide financial statements, fund equity is classified as net position and is displayed in three components:

*Net investment in capital assets:* Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

*Unrestricted Net Position:* All other net position that does not meet the definition of “restricted” or “invested in capital assets.”

**Reclassifications:** Certain amounts included in the financial statements have been reclassified to conform to the current year presentation.

**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 financials include management’s estimate of the useful lives of capital assets and the allowance for uncollectible accounts.



**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2      Stewardship, Compliance and Accountability**

*D.      Budgetary Information*

Annual budgets of the District are prepared prior to June 1 and must be approved by resolution of the Board Members and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Board Members and the Department of Finance and Administration. Line items within each budget may be over-expended; however, it is not legally permissible to over expend any budget in total at the fund level.

These budgets are prepared on the non-GAAP cash basis. The budget secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

**NOTE 3      Cash and Cash Equivalents**

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, 2016.

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 collateralized as required by the statute.

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 types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any 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.

**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 Cash and Cash Equivalents (Continued)**

**Deposits**

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution in excess of federal deposit insurance. 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.

	Bank of the Southwest
Total amounts of deposits	\$ 205,194
FDIC coverage	205,194
Total uninsured public funds	-
Collateral requirement (50% of uninsured public funds)	-
Pledged security	-
Total over (under) collateralized	\$ -

The funds are maintained in a non-interest bearing checking account in Bank of the Southwest.

The types of collateral allowed are limited by the section 6-10-16, NMSA 1978.

*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 state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

Deposits – The risk exists when a portion of the District's deposits are not covered by depository insurance and are:

1. Uncollateralized;
2. Collateralized with securities held by the pledging financial institution; or
3. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's (District's) name.

At June 30, 2016, none of the District's bank balance of \$205,194 was exposed to custodial credit risk as it was below the FDIC insurance coverage level.

The carrying amount of deposits and investments shown above are included in the District's Statement of Net Position as follows:

Reconciliation to Statement of Net Position

Cash and cash equivalents per Exhibit A-1	\$ 188,668
Add outstanding checks and other reconciling items	16,526
Bank balance of deposits	\$ 205,194

**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4      Receivables**

Receivables as of June 30, 2016 are as follows:

	Total
New Mexico gross receipts tax	\$ 16,617
Monthly service fees	42,175
Lagoon assessment	58,179
Total receivables	\$ 116,971

The above receivables are deemed 100% collectible.

**NOTE 5      Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2016 follows. Land and construction in progress is not subject to depreciation.

	Balance June 30, 2015	Additions	Deletions	Adjustments	Balance June 30, 2016
Capital assets used in governmental activities:					
Capital assets not being depreciated:					
Land	\$ 33,200	\$ -	\$ -	\$ -	\$ 33,200
Total capital assets not being depreciated	33,200	-	-	-	33,200
Capital assets being depreciated:					
Land improvements	3,496,999	20,647	-	-	3,517,646
Buildings and building improvements	1,860	-	-	-	1,860
Total capital assets being depreciated	3,498,859	20,647	-	-	3,519,506
Less accumulated depreciation:					
Land improvements	216,600	73,288	-	-	289,888
Buildings and building improvements	512	186	-	-	698
Total accumulated depreciation	217,112	73,474	-	-	290,586
Total capital assets, net of depreciation	\$ 3,314,947	\$ (52,827)	\$ -	\$ -	\$ 3,262,120

Depreciation expense for the year ended June 30, 2016 was \$73,474.

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**NOTE 6 Long-Term Debt**

During the year ended June 30, 2016, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance at 06/30/15	Additions	Deletions	Balance at 06/30/16	Due Within One Year
Loan	\$ -	\$ 59,483	\$ 4,300	\$ 55,183	\$ 8,600
Note payable	11,500	-	-	11,500	-
<b>Total</b>	<b>\$ 11,500</b>	<b>\$ 59,483</b>	<b>\$ 4,300</b>	<b>\$ 66,683</b>	<b>\$ 8,600</b>

General information related to the outstanding loan and note payable is as follows:

Issue Date	2015 San Juan County Loan 12/1/2015	2009 Note payable - Whipple Taps 12/4/2009
Original Issue	\$59,483	\$11,600
Maturity Date	11/15/2022	Undetermined
Principal	Monthly	None
Interest Rate	0.00%	0.00%
Principal	Monthly	None
Interest	N/A	None

The District obtained approximately one acre of land for one of its lift stations. In exchange for the land, the District gave the property owner some cash at the time and future waste water connections. The District owes the property owner two commercial connections and nine residential connections which the property owner may take at any time in the future.

San Juan County obtained grants for the installation of sewer lines and a lift station for an area of the Kirtland community which will be referred to as the Lagoon area. The grant didn't cover the cost of the engineering of the system which was \$86,000. The residents of the Lagoon area were assessed a monthly fee of \$8.00 to pay the County back the engineering costs. The Lagoon system was connected to the District's waste water collection system and in December 2015 the District agreed to take over maintenance and operation of the Lagoon system. The District assumed responsibility for repayment of the remaining loan balance and began collecting the monthly fee assessment from the residents. The balance of the note at the time the District assumed responsibility was \$59,483 and requires monthly payments of \$716.67 through November 2022.

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**NOTE 6 Long-Term Debt (Continued)**

The annual requirements to amortize the note as of June 30, 2016 are as follows:

Fiscal Year Ending June 30,	Total Loans		Total Debt Service
	Principal	Interest	
2017	\$ 8,600	\$ -	\$ 8,600
2018	8,600	-	8,600
2019	8,600	-	8,600
2020	8,600	-	8,600
2021	8,600	-	8,600
2022-2023	12,183	-	12,183
Totals	<u>\$ 55,183</u>	<u>\$ -</u>	<u>\$ 55,183</u>

**NOTE 7 Joint Powers Agreements**

The District does not have any formal Joint Powers Agreements at June 30, 2016. However, the District is working on an agreement with San Juan County whereby the District will operate the waste water system, accepting all operating costs associated with the new extension and all revenues associated with approximately 70 new members. In 2017, the County will transfer the assets over to the District at which time the District will own the sewer line extension, lift station, and land.

**NOTE 8 Contingent Liabilities**

There is no pending litigation that would warrant disclosure in the notes to the financial statements.

**NOTE 9 Subsequent Accounting Standard Pronouncements**

In June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, were issued. Effective Date: The provisions of this Statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68 in financial reporting periods beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for addressing accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

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**NOTE 9**            **Subsequent Accounting Standard Pronouncements (Continued)**

In August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement require governments that enter into tax abatement agreements to disclose relevant information about those agreements and are effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In December 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued. Effective Date: The provisions of this Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a costsharing multiple-employer defined benefit pension plans and is effective for fiscal years beginning after December 15, 2015. The District is still evaluating how this standard will affect the District.

In January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, was issued. Effective Date: The provisions of this Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and is effective for reporting periods beginning after June 15, 2016. The District is still evaluating how this standard will affect the District.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued. Effective Date: The provisions of this Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period and is effective for reporting periods beginning after December 15, 2016. The District is still evaluating how this standard will affect the District.

In March 2016, GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued. Effective Date: The provisions of this Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions and is effective for reporting periods after June 15, 2016. The District is still evaluating how this standard will affect the District.

**NOTE 10**            **Subsequent Events**

Subsequent to June 30, 2016, the District entered into an agreement with San Juan County to finance a loan of up to \$750,000 to finance the construction costs related to connecting the Harper Valley Home Owners Association's (HVHOA) current waste water system to the District's system. The connection of the HVHOA system will add 137 homes to the District's system. The loan will be financed for 20 years with an interest rate of 2.00%. Residents of the HVHOA will be assessed a monthly fee of up to \$27.69 to pay for the repayment of the loan.