

STATE OF NEW MEXICO

Valley
Water & Sanitation District

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

JUNE 30, 2017



(This page intentionally left blank.)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents	i
Official Roster	ii
FINANCIAL SECTION	
Independent Accountant's Report on Applying Agreed-Upon Procedures	1
SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Budgetary Basis)	8
Year-end Report to Department of Finance and Administration (DFA)	9
Schedule of Findings and Responses	14
Other Disclosures	15

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2017

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Jacqueline Foutz		Chairman
Tom Wethington		Vice Chairman
William L. Flack		Secretary/Treasurer
Brian Mack		Member
Peter H. Emery		Member
	<u>Administration</u>	
Jody Rico		Bookkeeper

(This page intentionally left blank.)

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, 2017 and the District's revenues, expenditures, and budget for the year ended June 30, 2017. 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, 2016 to June 30, 2017 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 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. Test at least 30% 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 2016 through June 2017. All reconciliations were completed within 10 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 four months for review – September, December, March, 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.

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 has a loan from San Juan County. The District made the proper monthly payments related to the loan during the year, and all payments were made on a timely basis.

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 equal to at least 30% of the total dollar amount 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 of \$381,844 were \$4,144 more than final budgeted revenues, or 1.1% different from budget. We had determined to obtain explanations on revenue categories which varied from budget by 10% and by \$5,000 or more. The District had no revenue categories of the seven it tracks which varied by more than 10% and \$5,000 from budget. The largest variation identified related to gross receipts tax which was \$3,854 short of budget, or 3.8% below budget.
- 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 2016, September 2016, November 2016, January 2017, March 2017, and May 2017 – 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 \$234,438 of which \$116,853 were tested, 49.8% 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 2016, October 2016, December 2016, February 2017, April 2017, and June 2017 – 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 \$98,146 of which \$51,376 was tested, or 52.3% 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 two largest billings 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 \$13,462 of which 81.0% were tested.
 - iv. Connection/Tap Fee Sales – A fee is charged for connection to the District. Total connection/tap fees were \$19,493 of which \$9,675 were tested, 49.6% of total. We reviewed the invoice, payment, deposit, and recording to the general ledger for this payment from three customers. All items were proper.
- c. Total revenues tested amounted to \$188,807 or 49.4% 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 equal to at least 30% of the total dollar amount 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 selected all disbursements over \$10,000 (15) and randomly selected 10 additional selections from the remaining 111 disbursements made for the year. Therefore, 25 of 126 disbursements were tested. Total disbursements were \$374,889, and the 25 items selected accounted for \$246,451, or 65.7% 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, other than utility charges, 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. Additionally, no travel reimbursements were provided during the year.

7. Journal Entries

Procedures:

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger 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, 2016 through June 30, 2017. 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.

- 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 the answer is yes, 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, 2016 through November 14, 2017 (the final minutes being in draft form) and identified that the budget for the 2017 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 2017 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 7.

9. Capital Outlay Appropriations

Procedures:

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations of the New Mexico Legislature that meet Tier 6 criteria. 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 that meet the Tier 6 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- 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.

10. 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 detailed in Section 2.2.2.10(L) NMAC.

Results:

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

11. Reports

Procedures:

Prepare and submit to the Office of the State Auditor an agreed-upon procedures report and a compilation report that comply with AT-C Section 215 and AR-C Section 80, respectively.

At a minimum, the compilation report shall include fund financial statements on the GAAP basis of accounting, for each individual fund (for all fund types) that the local public body has, consisting of:

- a) Balance Sheets – governmental funds, and/or Statements of Net Position – proprietary funds, and/or Statements of Net Position- fiduciary funds, for each individual fund.
- b) Statements of Revenues, Expenditures, and Changes in Fund Balances – governmental funds, and/or Statements of Revenues, Expenses, and Changes in Net Position - proprietary funds, and/or Statements of Changes in Net Position - fiduciary funds, for each individual fund.
- c) Notes related to the statements required in a) and b) above.
- d) An explanatory paragraph(s) for the departure from GAAP for the omission of the Government- Wide Financial Statements, the Statements of Cash Flows- proprietary funds, the related note disclosures, and any other departures from GAAP where modification of the standard report is considered by the IPA to be adequate to disclose the departure (AR-C 80).

Additionally, the agreed-upon procedures report shall include:

- a) Table of Contents.
- b) Official Roster.
- c) The capital outlay amount awarded, amount received, amount expended, the remaining balance, and the actual legislation and effective dates for each capital outlay appropriation for which there were expenditures during the fiscal year that meet the Tier 6 criteria.*
- d) The procedures performed and the results of those procedures.
- e) For each individual fund, a Schedule of Revenues and Expenditures – Budget and Actual. Each budgetary comparison must show the original and final appropriated budget (same as final budget approved by DFA), the actual amounts on the budgetary basis, and a column with the variance between the final budget and the actual amounts. The budgetary comparisons shall include the amount of prior-year cash balance required to balance the budget.
- f) A copy of the year-end financial report submitted to DFA.
- g) Schedule of Findings and Responses.
- h) Exit conference information (Section 2.2.2.16(E)(3) NMAC).
- i) Summary of Findings form (Section 2.2.2.16(E)(4) NMAC). The Summary of Findings form must be submitted electronically in a separate Excel file in addition to being included with the final report.

Results:

See reports.

We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the District's cash and capital assets as of June 30, 2017 and the District's revenue, expenditures, and budget for the year ended June 30, 2017. 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 28, 2017

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, 2017

	<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	\$ 60,000	\$ 102,000	\$ 98,146	\$ (3,854)
Monthly service sales	225,000	232,000	234,438	2,438
Construction/engineering fees	-	11,000	13,462	2,462
Tap fees sales	-	16,000	19,493	3,493
Other fees	15,000	16,700	16,305	(395)
<i>Total revenues</i>	<u>300,000</u>	<u>377,700</u>	<u>381,844</u>	<u>4,144</u>
<i>Expenses:</i>				
Engineering costs	25,000	15,000	12,392	2,608
Construction inspection costs	5,000	1,500	-	1,500
Service line construction costs	-	2,660	2,559	101
Operations maintenance costs	74,000	130,000	127,788	2,212
Cleaning/inspection services	4,000	4,000	-	4,000
Court/clerk fees	800	400	543	(143)
Pre-treatment (chemicals)	45,000	60,000	60,853	(853)
City of Farmington collection	50,000	50,000	44,430	5,570
Billing services	2,600	2,400	2,400	-
Professional/accountant	20,000	4,500	4,766	(266)
Rent or lease expense	2,600	2,600	2,546	54
Maintenance & repairs expense	30,000	55,000	50,283	4,717
Supplies expense	600	-	-	-
Small tools expense	700	-	-	-
Utilities expense	20,000	18,500	16,448	2,052
Office supplies expense	200	52	52	-
Secretarial expense	4,000	5,625	5,625	-
One-call expense	5,000	12,000	10,697	1,303
Insurance expense	6,000	11,000	10,571	429
Debt payments	-	8,600	8,600	-
<i>Total expenses</i>	<u>295,500</u>	<u>383,837</u>	<u>360,553</u>	<u>23,284</u>
<i>Excess (deficiency) of revenues</i> <i>over (under) expenditures</i>	<u>4,500</u>	<u>(6,137)</u>	<u>21,291</u>	<u>27,428</u>
<i>Net change in fund balance</i>	4,500	(6,137)	21,291	27,428
<i>Cash - beginning of year</i>	<u>188,668</u>	<u>188,668</u>	<u>188,668</u>	<u>-</u>
<i>Cash - end of year</i>	<u>\$ 193,168</u>	<u>\$ 182,531</u>	<u>\$ 209,959</u>	<u>\$ 27,428</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in net position (cash basis)			\$ 21,291	
Adjustments to revenues			(14,574)	
Adjustments to expenditures			(83,593)	
Change in net position (GAAP basis)			<u>\$ (76,876)</u>	

**Valley Water and Sanitation District - Quarterly Report
4th Quarter Ended June 30, 2017**

	<u>Approved Budget</u>	<u>Adjusted Approved Budget</u>	<u>Year-to-Date Actuals</u>	<u>Amount Over Budget</u>	<u>% of Budget</u>
Beginning Cash Balance on July 1, 2014:	\$ 188,668.33	\$ 188,668.33	\$ 188,668.33		
Revenue					
Monthly Service Sales	\$ 225,000.00	\$ 232,000.00	\$ 234,438.25	\$ 2,438.25	101%
San Juan County Gross Receipts Tax	\$ 60,000.00	\$ 102,000.00	\$ 98,145.92	\$(3,854.08)	96%
Connection/Tap Fee Sales	\$ -	\$ 16,000.00	\$ 19,943.46	\$ 3,943.46	125%
Application Fee Sales	\$ -	\$ -	\$ -	\$ -	
Admission Fee Sales	\$ -	\$ 1,700.00	\$ 1,665.73	\$(34.27)	98%
Construction/Engineering Sales	\$ -	\$ 11,000.00	\$ 13,462.37	\$ 2,462.37	122%
Maintenance Reimbursements	\$ 15,000.00	\$ 15,000.00	\$ 14,188.70	\$(811.30)	95%
Subtotal Revenue	\$300,000.00	\$377,700.00	\$381,844.43	\$4,144.43	101%
NM GRT Collected					
Total Revenue			\$ 381,844.43		
Expenditures					
Engineering Loan Payment	\$ -	\$ -	\$ -	\$ -	
Service Line Construction/Improvements	\$ 25,000.00	\$ 8,600.00	\$ 8,600.04	\$ (100.51)	100%
Engineering Services	\$ 5,000.00	\$ 2,559.49	\$ 2,559.49	\$ -	96%
Construction Inspection Services	\$ 74,000.00	\$ 15,000.00	\$ 12,392.39	\$(2,607.61)	83%
Operations Maintenance Services	\$ 4,000.00	\$ 1,500.00	\$ -	\$(1,500.00)	0%
Cleaning/Inspection Services	\$ 4,000.00	\$ 130,000.00	\$ 127,787.82	\$(2,212.18)	98%
Admission Court/Clerk Services	\$ 800.00	\$ 4,000.00	\$ -	\$(4,000.00)	0%
Pre-Treatment Services (Chemicals)	\$ 45,000.00	\$ 400.00	\$ 543.63	\$ 143.63	136%
City of Farmington Collection Services	\$ 50,000.00	\$ 60,000.00	\$ 60,852.59	\$ 852.59	101%
Billing Services	\$ 2,600.00	\$ 2,400.00	\$ 44,430.11	\$ (5,569.89)	89%
Professional/Accountant Services	\$ 20,000.00	\$ 2,400.00	\$ 2,400.00	\$ -	100%
Rent or Lease Expense	\$ 2,600.00	\$ 4,500.00	\$ 4,765.65	\$ 265.65	106%
System Repairs Expense	\$ 30,000.00	\$ 2,600.00	\$ 2,546.00	\$(54.00)	98%
Supplies Expense	\$ 600.00	\$ 55,000.00	\$ 50,282.93	\$(4,717.07)	91%
Small Tools Expense	\$ 700.00	\$ -	\$ -	\$ -	
Utilities Expense	\$ 20,000.00	\$ 18,500.00	\$ 16,447.86	\$(2,052.14)	89%
Office Expense	\$ 200.00	\$ 52.00	\$ 52.00	\$ -	100%
Secretarial Expense	\$ 4,000.00	\$ 5,625.00	\$ 5,625.00	\$ -	100%
One-Call Locate Expense	\$ 5,000.00	\$ 12,000.00	\$ 10,697.36	\$(1,302.64)	89%
Insurance Expense	\$ 6,000.00	\$ 11,000.00	\$ 10,571.00	\$(429.00)	96%
Subtotal Expenditures	\$295,500.00	\$383,837.04	\$360,553.87	\$(23,283.17)	94%
GRT Tax Payable Difference with Fraction of Cents			\$ 0.01		
Total Expenditures			\$ 360,553.88		
Estimated Ending Cash Balance on June 30, 2017:	\$193,168.33	\$182,531.29	\$ 209,958.88		

17-18-01

STATE OF NEW MEXICO
SPECIAL DISTRICT OF
VALLEY WATER AND SANITATION DISTRICT

RESOLUTION TO APPROVE
JUNE 30, 2017 YEAR END
FINANCIAL REPORT

WHEREAS, the Board of Directors ("Board") of Valley Water and Sanitation District ("District") approves the financial statements for the year ending on June 30, 2017.:

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Valley Water and Sanitation District that the financial statements for the year ending on June 30, 2017 are approved

PASSED, APPROVED AND ADOPTED THIS 11 DAY OF July, 2017

BOARD OF DIRECTORS
VALLEY WATER AND SANITATION DISTRICT

Attest: Brian A. Mad
Director

Jacqueline Foutz
Jacqueline Foutz, Chairman

June 1, 2017
Income Statement
For the Twelve Months Ending June 30, 2017

	4th Quarter 2017		Year to Date	
Revenues				
Construction/Engineering Sales	\$ 0.00	0.00	\$ 13,462.37	3.53
Application Fee Sales	0.00	0.00	450.00	0.12
Connection/Tap Fee Sales	3,725.00	4.56	19,493.46	5.11
Monthly Service Sales	60,117.75	73.53	234,438.25	61.40
Admission Fee Sales	0.00	0.00	1,665.73	0.44
Maintenance Income	0.00	0.00	14,188.70	3.72
San Juan County GRT	17,914.39	21.91	98,145.92	25.70
Total Revenues	81,757.14	100.00	381,844.43	100.00
Cost of Sales				
Engineering Costs	507.11	0.62	12,392.39	3.25
Service Line Construction Cost	0.00	0.00	2,559.49	0.67
Operations Maintenance Costs	30,871.14	37.76	127,787.82	33.47
Admission Court/Clerk Fees	375.92	0.46	543.63	0.14
Pre-Treatment (Chemicals)	15,504.44	18.96	60,852.59	15.94
City of Farmington Collection	11,386.85	13.93	44,430.11	11.64
Total Cost of Sales	58,645.46	71.73	248,566.03	65.10
Gross Profit	23,111.68	28.27	133,278.40	34.90
Expenses				
Billing Services	600.00	0.73	2,400.00	0.63
Professional/Accountant	395.52	0.48	4,765.65	1.25
Rent or Lease Expense	0.00	0.00	2,546.00	0.67
System Maintenance & Repairs	10,428.83	12.76	50,282.93	13.17
Utilities Expense	3,589.22	4.39	16,447.86	4.31
Office Expense	0.00	0.00	52.00	0.01
Secretarial Expense	2,100.00	2.57	5,625.00	1.47
One-Call Locate	1,991.74	2.44	10,697.36	2.80
Insurance Expense	0.00	0.00	10,571.00	2.77
Depreciation Expense	56,770.72	69.44	97,545.00	25.55
Total Expenses	75,876.03	92.81	200,932.80	52.62
Net Income	\$ (52,764.35)	(64.54)	\$ (67,654.40)	(17.72)

248,566.03

200,932.80

449,498.83

Difference is explained in email.

Valley Water and Sanitation District
Balance Sheet
June 30, 2017

ASSETS

Current Assets		
Checking Account	\$	209,958.88
Total Current Assets		209,958.88
Property and Equipment		
Land		33,200.00
Land Improvements		4,862,646.00
Buildings		1,859.52
Accumulated Depreciation		(402,022.00)
Total Property and Equipment		4,495,683.52
Other Assets		
Total Other Assets		0.00
Total Assets		\$ 4,705,642.40

LIABILITIES AND CAPITAL

Current Liabilities		
Sales Tax Payable	\$	(0.01)
Total Current Liabilities		(0.01)
Long-Term Liabilities		
N/P Whipple Taps		11,500.00
N/P SJC Lagoons Loan		46,583.15
Total Long-Term Liabilities		58,083.15
Total Liabilities		58,083.14
Capital		
Fund Balance - Fixed Assets		4,621,110.31
Fund Balance - Operating		94,103.35
Net Income		(67,654.40)
Total Capital		4,647,559.26
Total Liabilities & Capital		\$ 4,705,642.40

Unaudited - For Management Purposes Only

Shah, Manoj, DFA

From: Valley Water and Sanitation District <vwsd@comcast.net>
Sent: Monday, July 17, 2017 10:44 AM
To: Shah, Manoj, DFA
Subject: RE: Income statement showing total Actual expenditures of \$449,498.83 vs. 4th quarter Year To Date report showing total actual expenses of \$360,553.87

Manoji,

The discrepancy of \$88,944.96 between the two balances is for depreciation that is not listed on the excel sheet and payments made towards a loan (\$46,583.15) which is listed on the balance sheet.

Depreciation \$97,545.00

Loan Payment (\$8,600.04)

Thank you,

Jody

From: Shah, Manoj, DFA [mailto:Manoj.Shah@state.nm.us]
Sent: Monday, July 17, 2017 9:58 AM
To: Valley Water and Sanitation District
Cc: Suazo-Giles, Brenda, DFA
Subject: Income statement showing total Actual expenditures of \$449,498.83 vs. 4th quarter Year To Date report showing total actual expenses of \$360,553.87

Jody,

I am processing your entity's final budget but I have one question:

Your entity's income statement for FY 2016-17 is showing total Actual expenditures of \$449,498.83 (total cost of sales \$248,566.03 and total expenses \$200,932.80) whereas your entity's 4th quarter Year To Date report is showing total actual expenses of \$360,553.87. I guess I am missing something here.

Thank you.

Manoj
505-827-8062

From: Valley Water and Sanitation District [mailto:vwsd@comcast.net]
Sent: Monday, July 17, 2017 8:37 AM
To: Shah, Manoj, DFA <Manoj.Shah@state.nm.us>
Subject: RE: Reminder

I apologize. I will make note on my folder of your information.

I have attached the bank statement for June 2017. Please let me know if there is anything further needed.

Sincerely,

Jody

From: Shah, Manoj, DFA [mailto:Manoj.Shah@state.nm.us]
Sent: Thursday, July 13, 2017 3:04 PM
To: vwsd@comcast.net

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Current Year Findings:

None identified for reporting

Prior Year Findings:

2016-001 – Purchase Orders – Resolved

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2017

Exit Conference

The contents of this report were discussed on November 28, 2017. 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, 2017



(This page intentionally left blank.)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		i
Official Roster		ii
FINANCIAL SECTION		
Independent Accountant's Compilation Report		1
BASIC FINANCIAL STATEMENTS		
Statement of Net Position	A-1	2
Statement of Revenues, Expenses, and Change in Net Position	A-2	3
Statement of Cash Flows	A-3	4
Notes to the Financial Statements		5

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2017

<u>Name</u>	<u>District Board</u>	<u>Title</u>
Jacqueline Foutz		Chairman
Tom Wethington		Vice Chairman
William L. Flack		Secretary/Treasurer
Brian Mack		Member
Peter H. Emery		Member
	<u>Administration</u>	
Jody Rico		Bookkeeper

(This page intentionally left blank.)

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, 2017, 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 28, 2017

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

Exhibit A-1

ASSETS

Current Assets

Cash and cash equivalents	\$	209,959
Receivables (net of allowance for uncollectibles):		
Monthly service revenues		35,846
New Mexico gross receipts taxes		15,668
Lagoon assessment		7,296
		268,769

Total current assets

268,769

Noncurrent assets

Lagoon assessment - noncurrent		43,587
Capital assets (net of accumulated depreciation):		
Land		33,200
Land improvements		4,862,646
Buildings and building improvements		1,860
Less: accumulated depreciation		(376,182)
		4,565,111

Total noncurrent assets

4,565,111

Total assets

\$ 4,833,880

LIABILITIES

Current liabilities

Accounts payable	\$	23,270
Loan payable - San Juan County		8,600
		31,870

Total current liabilities

31,870

Noncurrent liabilities

Loan payable - San Juan County		37,983
Note payable - Whipple taps		11,500
		49,483

Total noncurrent liabilities

49,483

NET POSITION

Invested in capital assets		4,474,941
Restricted for debt service		46,583
Unrestricted net assets		231,003
		4,752,527

Total net position

4,752,527

Total liabilities and net position

\$ 4,833,880

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, 2017

Exhibit A-2

<i>Operating revenues:</i>	
San Juan County gross receipts tax	\$ 97,197
Monthly service sales	220,813
Construction/engineering fees	13,462
Tap fees sales	19,493
Other fees	16,305
	<hr/>
<i>Total operating revenues</i>	<u>367,270</u>
 <i>Operating expenses:</i>	
Construction inspection costs	12,392
Service line construction costs	2,559
Operations maintenance costs	132,514
Court/clerk fees	543
Pre-treatment (chemicals)	60,853
City of Farmington collection	45,852
Billing services	2,552
Professional/accountant	4,766
Rent or lease expense	2,546
Maintenance & repairs expense	50,283
Utilities expense	16,704
Office supplies expense	52
Secretarial expense	6,325
One-call expense	10,038
Insurance expense	10,571
Depreciation	85,596
	<hr/>
<i>Total operating expenses</i>	<u>444,146</u>
 <i>Operating income</i>	 <u>(76,876)</u>
 <i>Non-operating income</i>	
Lagoon asset donation	1,345,000
	<hr/>
<i>Total non-operating income</i>	<u>1,345,000</u>
 <i>Change in net position</i>	 1,268,124
 <i>Net position, beginning of year</i>	 <u>3,484,403</u>
 <i>Net position - end of year</i>	 <u><u>\$ 4,752,527</u></u>

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, 2017

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from gross receipts taxes	\$ 98,146
Cash received from customers	283,698
Cash payments for supplies and maintenance	(351,953)
<i>Net cash provided (used) by operating activities</i>	29,891
 <i>Cash flows from financing activities:</i>	
Loan principal payments	(8,600)
<i>Net cash provided (used) by financing activities</i>	(8,600)
<i>Net increase (decrease) in cash and cash equivalents</i>	21,291
<i>Cash and cash equivalents - beginning of year</i>	188,668
<i>Cash and cash equivalents - end of year</i>	\$ 209,959
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (76,876)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	85,596
Changes in assets and liabilities	
Receivables	14,574
Payables	6,597
<i>Net cash provided (used) by operating activities:</i>	\$ 29,891

See accompanying notes and independent accountant's compilation report.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, the District adopted 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*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of GASB No. 73 established requirements for defined benefit pensions that are not within the scope of Statement No. 68. The provisions of GASB No. 74 improve the usefulness of information about 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 making decisions and assessing accountability. The provisions of GASB No. 77 are intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The provisions of GASB No. 78 address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. These pronouncement 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.

**STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

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.

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.

**STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position

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.

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, 2017.

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.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

C. Assets, Liabilities, and Net Position (Continued)

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.

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, 2017.

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, 2017**

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	\$ 211,235
FDIC coverage	211,235
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, 2017, none of the District's bank balance of \$211,235 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	\$ 209,959
Add outstanding checks and other reconciling items	1,276
Bank balance of deposits	\$ 211,235

**STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 Receivables

Receivables as of June 30, 2017 are as follows:

	Total
New Mexico gross receipts tax	\$ 15,668
Monthly service fees	35,846.00
Lagoon assessment	50,883
Total receivables	\$ 102,397

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, 2017 follows. Land and construction in progress is not subject to depreciation.

	Balance June 30, 2016	Additions	Deletions	Adjustments	Balance June 30, 2017
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	3,517,646	1,345,000	-	-	4,862,646
Buildings and building improvements	1,860	-	-	-	1,860
Total capital assets being depreciated	3,519,506	1,345,000	-	-	4,864,506
Less accumulated depreciation:					
Land improvements	289,888	85,410	-	-	375,298
Buildings and building improvements	698	186	-	-	884
Total accumulated depreciation	290,586	85,596	-	-	376,182
Total capital assets, net of depreciation	\$ 3,262,120	\$ 1,259,404	\$ -	\$ -	\$ 4,521,524

Depreciation expense for the year ended June 30, 2017 was \$85,596.

During 2017, San Juan County transferred the infrastructure for the lagoon area to the District. This resulted in an increase in fixed assets of \$1,345,000 during the current year.

**STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 Long-Term Debt

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance at 06/30/16	Additions	Deletions	Balance at 06/30/17	Due Within One Year
Loan	\$ 55,183	\$ -	\$ 8,600	\$ 46,583	\$ 8,600
Note payable	11,500	-	-	11,500	-
Total	<u>\$ 66,683</u>	<u>\$ -</u>	<u>\$ 8,600</u>	<u>\$ 58,083</u>	<u>\$ 8,600</u>

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.

**STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 Long-Term Debt (Continued)

The annual requirements to amortize the note as of June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Total Loans		Total Debt Service
	Principal	Interest	
2018	\$ 8,600	\$ -	\$ 8,600
2019	8,600	-	8,600
2020	8,600	-	8,600
2021	8,600	-	8,600
2022	8,600	-	8,600
2023	3,583	-	3,583
Totals	<u>\$ 46,583</u>	<u>\$ -</u>	<u>\$ 46,583</u>

NOTE 7 Joint Powers Agreements

The District does not have any formal Joint Powers Agreements at June 30, 2017. 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 137 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. 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. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

STATE OF NEW MEXICO
VALLEY WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In January 2017, GASB Statement No. 84 *Fiduciary Activities*, was issued. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In March 2017, GASB Statement No. 85 *Omnibus 2017*, was issued. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In May 2017, GASB Statement No. 86 *Certain Debt Extinguishment Issues*, was issued. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

In June 2017, GASB Statement No. 87 *Leases*, was issued. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this standard will affect the District.

NOTE 10 **Subsequent Events**

Subsequent to June 30, 2017, 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.