

STATE OF NEW MEXICO

**Valley**  
*Water & Sanitation District*

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

JUNE 30, 2018



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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
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**YEAR ENDED JUNE 30, 2018**

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**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OFFICIAL ROSTER**  
**YEAR ENDED JUNE 30, 2018**

<u>Name</u>		<u>Title</u>
	<u>District Board</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

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**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

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

Mr. Wayne Johnson  
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, 2018 and the District's revenues, expenditures, and budget for the year ended June 30, 2018. 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, 2017 to June 30, 2018 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. 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 2017 through June 2018. 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 four months for review – October, January, April, and May. 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 \$394,509 were \$38,096 less than final budgeted revenues, or 8.8% 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 one revenue category of the seven it tracks which varied by more than 10% and \$5,000 from budget. Maintenance reimbursements came in \$6,171 and 33.4% less than the budget. This was due to Central Consolidated School District purchasing fewer chemicals than projected. The largest variation identified related to monthly service sales which was \$28,396 short of budget, or 8.7% below budget. Construction on Harper Valley acquisition took longer than projected leading to less revenue being collected than anticipated.
- 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 2017, September 2017, November 2017, January 2018, March 2018, and May 2018 – 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 \$296,604 of which \$168,802 were tested, 56.9% 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 – July 2017, September 2017, November 2017, January 2018, March 2018, and May 2018 – 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 \$84,471 of which \$38,758 was tested, or 45.9% of the total. No exceptions were noted.
  - iii. Engineering Revenue – The District charges customers for engineering services required for line construction connections. There was only a single billing for engineering services. It was selected and we reviewed the relating supporting documentation. We reviewed the invoice, payment, deposit, and recording to the general ledger for this payment. All items were properly supported and recorded. The total engineering fees for the year were \$1,105.
  - iv. Maintenance Income – The local school district purchases supplies from the District for its lift station which is tied to the sewer system. We tested both purchases for the year which amounted to \$12,329 and no issues were identified.
- c. Total revenues tested amounted to \$266,706 or 69.3% 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 (20) and randomly selected 15 additional selections from the remaining 109 disbursements made for the year. Therefore, 35 of 129 disbursements were tested. Total disbursements were \$459,109 and the 35 items selected accounted for \$342,589.08, or 74.6% 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, 2017 through June 30, 2018. 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, 2017 through October 9, 2018 (the final minutes being in draft form) and identified that the budget for the 2018 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 2018 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 10.

## **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, 2018 and the District's revenue, expenditures, and budget for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. 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 30, 2018

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**SUPPLEMENTARY INFORMATION**



**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, 2018**

	<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	\$ 88,000	\$ 84,471	\$ (3,529)
Monthly service sales	325,000	325,000	296,604	(28,396)
Construction/engineering fees	-	1,105	1,105	-
Other fees	15,000	18,500	13,513	(4,987)
<i>Total revenues</i>	<u>400,000</u>	<u>432,605</u>	<u>395,693</u>	<u>(36,912)</u>
<i>Expenses:</i>				
Engineering costs	15,000	5,000	4,454	546
Operations maintenance costs	150,000	155,000	157,269	(2,269)
Cleaning/inspection services	4,000	4,000	-	4,000
Pre-treatment (chemicals)	60,000	79,000	78,334	666
City of Farmington collection	60,000	69,000	70,757	(1,757)
Billing services	2,400	3,300	3,300	-
Professional/accountant	4,500	4,500	4,262	238
Rent or lease expense	2,700	2,700	2,623	77
Maintenance & repairs expense	30,000	55,000	47,760	7,240
Utilities expense	20,000	20,000	18,274	1,726
Office supplies expense	100	1,250	1,224	26
Secretarial expense	8,400	8,400	8,400	-
One-call expense	6,000	7,800	7,394	406
Insurance expense	11,000	11,044	11,044	-
Debt payments	8,600	8,600	8,600	-
<i>Total expenses</i>	<u>382,700</u>	<u>434,594</u>	<u>423,695</u>	<u>10,899</u>
<i>Excess (deficiency) of revenues</i> <i>over (under) expenditures</i>	<u>17,300</u>	<u>(1,989)</u>	<u>(28,002)</u>	<u>(26,013)</u>
<i>Net change in fund balance</i>	17,300	(1,989)	(28,002)	(26,013)
<i>Cash - beginning of year</i>	<u>209,959</u>	<u>209,959</u>	<u>209,959</u>	<u>-</u>
<i>Cash - end of year</i>	<u>\$ 227,259</u>	<u>\$ 207,970</u>	<u>\$ 181,957</u>	<u>\$ (26,013)</u>
<i>Reconciliation to GAAP Basis:</i>				
Change in net position (cash basis)			\$ (28,002)	
Adjustments to revenues			739	
Adjustments to expenditures			<u>10,865</u>	
Change in net position (GAAP basis)			<u>\$ (113,943)</u>	

SUSANA MARTINEZ  
GOVERNOR



DUFFY RODRIGUEZ  
CABINET SECRETARY

RICK LOPEZ  
DIRECTOR

JOLENE SLOWEN  
DEPUTY DIRECTOR

STATE OF NEW MEXICO  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
LOCAL GOVERNMENT DIVISION  
Bataan Memorial Building ♦ 407 Galisteo St. ♦ Suite 202 ♦ Santa Fe, NM 87501  
PHONE (505) 827-4950 ♦ FAX (505) 827-4948

July 12, 2018

Jacqueline Foutz  
Madam Chair  
Valley WSD  
P.O. Box 3015  
4286 US Highway 64  
Kirtland, NM 87417

Dear Ms. Foutz:

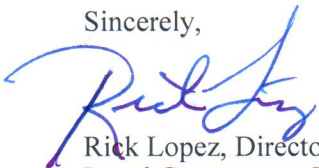
The final budget for your local government entity for Fiscal Year 2018-19, as approved by your governing body, has been examined and reviewed. The Department of Finance and Administration, Local Government Division (LGD) finds it has been developed in accordance with applicable statutes and budgeting guidelines, and sufficient resources appear to be available to cover budgeted expenditures. In addition, the Budget Certification of Local Public Bodies rule, 2.2.3 NMAC, requires that your entity's audit The Tiered System rule, 2.2.2.16 NMAC, requires that your entity's "Agreed Upon Procedures" for Fiscal Year 2016-2017 should have been submitted to the Office of the State Auditor as of this time. The LGD's information indicates that you are in compliance with this requirement. Therefore, in accordance with Section 6-6-2(E) NMSA 1978, the LGD certifies your entity's final Fiscal Year 2018-19 budget.

Budgets approved by the LGD are required to be made a part of the minutes of your governing body in compliance with Section 6-6-5 NMSA 1978. In addition, Section 6-6-6 NMSA 1978 provides that the approved budget is binding on local officials and governing authorities, and any official or governing authority approving claims or paying warrants in excess of the approved budget or available funds will be liable for the excess amounts. Furthermore, state statute requires all revenue sources be expended only for public purposes, and if applicable, in accordance with the Procurement Code, Chapter 13, Article 1, NMSA 1978. Use of public revenue is also governed by Article 9, Section 14 of the Constitution of the State of New Mexico, commonly referred to as the anti-donation clause.

**Finally, as required by Section 6-6-2(H), NMSA 1978, LGD is required to approve all budget increases and transfers between funds not included in the final approved budget.**

If you have any questions regarding this matter, please call Eric Luchetti of my staff at [eric.luchetti@state.nm.us](mailto:eric.luchetti@state.nm.us).

Sincerely,

  
Rick Lopez, Director  
Local Government Division

xc: file

FUND TITLE	FUND NUMBER	UNAUDITED BEGINNING CASH BALANCE @ JULY 1 (OR JAN. 1)	INVESTMENTS	BUDGETED REVENUES	BUDGETED TRANSFERS	BUDGETED EXPENDITURES	ESTIMATED ENDING CASH BALANCE	(OPTIONAL)* LOCAL RESERVE	ADJUSTED ENDING CASH BALANCE
GENERAL FUND - Operating (GF)	101	181,957	-	473,224	-	470,670	184,510	-	184,510
INTERGOVERNMENTAL GRANTS	218	-	-	-	-	-	-	-	-
OTHER	299	-	-	-	-	-	-	-	-
DEBT SERVICE	400	-	-	-	-	-	-	-	-
Grand Total		\$ 181,957	\$ -	\$ 473,224	\$ -	\$ 470,670	\$ 184,510	\$ -	\$ 184,510

Check if this form is a re-submission: \_\_\_\_\_ Re-submission No: \_\_\_\_\_ Resubmission Date: \_\_\_\_\_

\*Column used for additional funding set aside as a reserve approved by action of the governing body.

**Valley Water and Sanitation District - Quarterly Report**  
**4th Quarter Ended June 30, 2018**

	<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, 2017:</b>	\$ 209,958.88	\$ 209,958.88	\$ 209,958.88		
<b>Revenue</b>					
Monthly Service Sales	\$ 325,000.00	\$ 325,000.00	\$ 286,006.20	\$ (38,993.80)	88%
San Juan County Gross Receipts Tax	\$ 60,000.00	\$ 88,000.00	\$ 84,471.01	\$ (3,528.99)	96%
Connection/Tap Fee Sales				\$ -	#DIV/0!
Application Fee Sales					
Admission Fee Sales				\$ -	#DIV/0!
Construction/Engineering Sales		\$ 1,105.00	\$ 1,104.60	\$ (0.40)	100%
Maintenance Reimbursements	\$ 15,000.00	\$ 18,500.00	\$ 16,814.76	\$ (1,685.24)	91%
<b>Total Revenue</b>	<b>\$400,000.00</b>	<b>\$432,605.00</b>	<b>\$ 388,396.57</b>	<b>\$ (44,208.43)</b>	<b>90%</b>
			<b>\$ 388,396.57</b>		
<b>Expenditures</b>					
Engineering Loan Payment	\$8,600.04	\$8,600.04	\$ 8,600.04	\$ -	100%
Service Line Construction/Land Improvements				\$ -	100%
Engineering Services	\$ 15,000.00	\$ 5,000.00	\$ 4,453.96	\$ (546.04)	89%
Construction Inspection Services				\$ -	
Operations Maintenance Services	\$ 150,000.00	\$ 155,000.00	\$ 157,268.75	\$ 2,268.75	101%
Cleaning/Inspection Services	\$ 4,000.00	\$ 4,000.00	\$ -	\$ (4,000.00)	0%
Admission Court/Clerk Services				\$ -	
Pre-Treatment Services (Chemicals)	\$ 60,000.00	\$ 79,000.00	\$ 78,334.15	\$ (665.85)	99%
City of Farmington Collection Services	\$ 60,000.00	\$ 69,000.00	\$ 70,756.77	\$ 1,756.77	103%
Billing Services	\$ 2,400.00	\$ 3,300.00	\$ 3,300.00	\$ -	100%
Professional/Accountant Services	\$ 4,500.00	\$ 4,500.00	\$ 4,262.50	\$ (237.50)	95%
Rent or Lease Expense	\$ 2,700.00	\$ 2,700.00	\$ 2,623.00	\$ (77.00)	97%
System Repairs Expense	\$ 30,000.00	\$ 55,000.00	\$ 47,759.60	\$ (7,240.40)	87%
Supplies Expense				\$ -	
Small Tools Expense				\$ -	
Utilities Expense	\$ 20,000.00	\$ 20,000.00	\$ 18,273.66	\$ (1,726.34)	91%
Office Expense	\$ 100.00	\$ 1,250.00	\$ 1,224.06	\$ (25.94)	98%
Secretarial Expense	\$ 8,400.00	\$ 8,400.00	\$ 8,400.00	\$ -	100%
One-Call Locate Expense	\$ 6,000.00	\$ 7,800.00	\$ 7,394.45	\$ (405.55)	95%
Insurance Expense	\$ 11,000.00	\$ 11,044.00	\$ 11,044.00	\$ -	100%
<b>Total Expenditures</b>	<b>\$382,700.04</b>	<b>\$434,594.04</b>	<b>\$ 423,694.94</b>	<b>\$ (10,899.10)</b>	<b>97%</b>
Lagoons Loan Current (2016/2017 Error)			\$ 7,296.01		
<b>Estimated Ending Cash Balance on June 30, 2018:</b>	<b>\$227,258.84</b>	<b>\$207,969.84</b>	<b>\$181,956.52</b>		

*(Revenue - see 7/12/18 email)*



**Luchetti, Eric, DFA**

---



**From:** vwsd@comcast.net  
**Sent:** Thursday, July 12, 2018 1:11 PM  
**To:** Luchetti, Eric, DFA  
**Subject:** RE: Budget

After our audit for the 2016/2017 year, we had a general entry that moved that amount from sales and placed it into a account. The money is collected from customers then turned around and paid against a loan for their sewer construction. I had been treating it as sales and then an expense, but now it is considered a passthrough. That amount was actually collected and reported in 2016/2017 but the adjusted entry was not made until the 2017/2018 year. Please call me if I can further explain.

Sincerely,  
Jody Rico  
325-1853

*\$7,296.01 add to Revenue*

---

**From:** Luchetti, Eric, DFA <Eric.Luchetti@state.nm.us>  
**Sent:** Thursday, July 12, 2018 11:05 AM  
**To:** vwsd@comcast.net  
**Subject:** Budget

On the attached picture. Where does this amount come from and what is it? Expenditure?

Eric Luchetti Budget Analyst  
Local Governement Division  
407 Galisteo St, Suite 201  
Santa Fe, NM, 87501

18-19-01

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

RESOLUTION TO APPROVE  
JUNE 30, 2018 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, 2018.

**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, 2018 are approved

PASSED, APPROVED AND ADOPTED THIS 10<sup>th</sup> DAY OF July, 2018

BOARD OF DIRECTORS  
VALLEY WATER AND SANITATION DISTRICT

Attest: Thomas [Signature]  
Director

Jacqueline Foutz [Signature]  
Jacqueline Foutz, Chairman

**Valley Water and Sanitation District - Quarterly Report**  
**4th Quarter Ended June 30, 2018**

	<u>Approved Budget</u>	<u>Adjusted</u> <u>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, 2017:</b>	\$ 209,958.88	\$ 209,958.88	\$ 209,958.88		
<b>Revenue</b>					
Monthly Service Sales	\$ 325,000.00	\$ 325,000.00	\$ 286,006.20	\$ (38,993.80)	88%
San Juan County Gross Receipts Tax	\$ 60,000.00	\$ 88,000.00	\$ 84,471.01	\$ (3,528.99)	96%
Connection/Tap Fee Sales				\$ -	#DIV/0!
Application Fee Sales					
Admission Fee Sales				\$ -	#DIV/0!
Construction/Engineering Sales		\$ 1,105.00	\$ 1,104.60	\$ (0.40)	100%
Maintenance Reimbursements	\$ 15,000.00	\$ 18,500.00	\$ 16,814.76	\$ (1,685.24)	91%
<b>Total Revenue</b>	<b>\$400,000.00</b>	<b>\$432,605.00</b>	<b>\$ 388,396.57</b>	<b>\$ (44,208.43)</b>	<b>90%</b>
			<b>\$ 388,396.57</b>		
<b>Expenditures</b>					
Engineering Loan Payment	\$8,600.04	\$8,600.04	\$ 8,600.04	\$ -	100%
Service Line Construction/Land Improvements				\$ -	100%
Engineering Services	\$ 15,000.00	\$ 5,000.00	\$ 4,453.96	\$ (546.04)	89%
Construction Inspection Services				\$ -	
Operations Maintenance Services	\$ 150,000.00	\$ 155,000.00	\$ 157,268.75	\$ 2,268.75	101%
Cleaning/Inspection Services	\$ 4,000.00	\$ 4,000.00	\$ -	\$ (4,000.00)	0%
Admission Court/Clerk Services				\$ -	
Pre-Treatment Services (Chemicals)	\$ 60,000.00	\$ 79,000.00	\$ 78,334.15	\$ (665.85)	99%
City of Farmington Collection Services	\$ 60,000.00	\$ 69,000.00	\$ 70,756.77	\$ 1,756.77	103%
Billing Services	\$ 2,400.00	\$ 3,300.00	\$ 3,300.00	\$ -	100%
Professional/Accountant Services	\$ 4,500.00	\$ 4,500.00	\$ 4,262.50	\$ (237.50)	95%
Rent or Lease Expense	\$ 2,700.00	\$ 2,700.00	\$ 2,623.00	\$ (77.00)	97%
System Repairs Expense	\$ 30,000.00	\$ 55,000.00	\$ 47,759.60	\$ (7,240.40)	87%
Supplies Expense				\$ -	
Small Tools Expense				\$ -	
Utilities Expense	\$ 20,000.00	\$ 20,000.00	\$ 18,273.66	\$ (1,726.34)	91%
Office Expense	\$ 100.00	\$ 1,250.00	\$ 1,224.06	\$ (25.94)	98%
Secretarial Expense	\$ 8,400.00	\$ 8,400.00	\$ 8,400.00	\$ -	100%
One-Call Locate Expense	\$ 6,000.00	\$ 7,800.00	\$ 7,394.45	\$ (405.55)	95%
Insurance Expense	\$ 11,000.00	\$ 11,044.00	\$ 11,044.00	\$ -	100%
<b>Total Expenditures</b>	<b>\$382,700.04</b>	<b>\$434,594.04</b>	<b>\$ 423,694.94</b>	<b>\$ (10,899.10)</b>	<b>97%</b>
Lagoons Loan Current (2016/2017 Error)			\$ 7,296.01		
<b>Estimated Ending Cash Balance on June 30, 2018:</b>	<b>\$227,258.84</b>	<b>\$207,969.84</b>	<b>\$181,956.52</b>		

Valley Water and Sanitation District  
Balance Sheet  
June 30, 2018

ASSETS

Current Assets		
Checking Account	\$	181,956.52
Lagoons Loan - Current		7,296.00
Lagoons Loan - Noncurrent		43,587.00
		<u>232,839.52</u>
Total Current Assets		
		232,839.52
Property and Equipment		
Land		33,200.00
Land Improvements		4,862,646.00
Buildings		1,859.52
Accumulated Depreciation		(447,887.00)
		<u>4,449,818.52</u>
Total Property and Equipment		
		4,449,818.52
Other Assets		
		<u>0.00</u>
Total Other Assets		
		0.00
Total Assets		
	\$	<u>4,682,658.04</u>

LIABILITIES AND CAPITAL

Current Liabilities		
		<u>0.00</u>
Total Current Liabilities		
		0.00
Long-Term Liabilities		
N/P Whipple Taps	\$	11,500.00
N/P SJC Lagoons Loan		37,983.11
		<u>49,483.11</u>
Total Long-Term Liabilities		
		49,483.11
Total Liabilities		
		49,483.11
Capital		
Fund Balance - Fixed Assets		4,607,119.31
Fund Balance - Operating		112,509.95
Net Income		(86,454.33)
		<u>4,633,174.93</u>
Total Capital		
		4,633,174.93
Total Liabilities & Capital		
	\$	<u>4,682,658.04</u>

Unaudited - For Management Purposes Only



Valley Water and Sanitation District  
Income Statement  
For the Twelve Months Ending June 30, 2018

	Current Month		Year to Date	
<b>Revenues</b>				
Construction/Engineering Sales	\$ 0.00	0.00	\$ 1,104.60	0.28
Application Fee Sales	0.00	0.00	0.00	0.00
Connection/Tap Fee Sales	0.00	0.00	0.00	0.00
Monthly Service Sales	79,107.69	94.12	286,006.20	73.64
Standby Charge	0.00	0.00	0.00	0.00
Admission Fee Sales	0.00	0.00	0.00	0.00
Maintenance Income	0.00	0.00	12,329.06	3.17
Lagoon Loan Repayment	0.00	0.00	0.00	0.00
Harper Valley Loan Repayment	(16,508.50)	(19.64)	3,301.70	0.85
Lagoon's Loan Repayment	1,184.00	1.41	1,184.00	0.30
Harper Valley HOA Reimb	0.00	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00	0.00
San Juan County GRT	20,268.08	24.11	84,471.01	21.75
San Juan County GRT Unishare	0.00	0.00	0.00	0.00
Disconnect/Reconnect Fee	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00
Late Fee	0.00	0.00	0.00	0.00
Sales/Fees Discounts	0.00	0.00	0.00	0.00
<b>Total Revenues</b>	<b>84,051.27</b>	<b>100.00</b>	<b>388,396.57</b>	<b>100.00</b>
<b>Cost of Sales</b>				
Engineering Costs	0.00	0.00	4,453.96	1.15
Construction Inspection Costs	0.00	0.00	0.00	0.00
Service Line Construction Cost	0.00	0.00	0.00	0.00
Operations Maintenance Costs	37,005.64	44.03	157,268.75	40.49
Cleanin/Inspections Services	0.00	0.00	0.00	0.00
Admission Court/Clerk Fees	0.00	0.00	0.00	0.00
Pre-Treatment (Chemicals)	16,159.25	19.23	78,334.15	20.17
Meter Reads	0.00	0.00	0.00	0.00
City of Farmington Collection	19,051.93	22.67	70,756.77	18.22
Cost of Sales	0.00	0.00	0.00	0.00
Inventory Adjustments	0.00	0.00	0.00	0.00
<b>Total Cost of Sales</b>	<b>72,216.82</b>	<b>85.92</b>	<b>310,813.63</b>	<b>80.02</b>
<b>Gross Profit</b>	<b>11,834.45</b>	<b>14.08</b>	<b>77,582.94</b>	<b>19.98</b>
<b>Expenses</b>				
Advertising	0.00	0.00	0.00	0.00
Billing Services	825.00	0.98	3,300.00	0.85
Payroll Tax Expense	0.00	0.00	0.00	0.00
Bad Debt Expense	0.00	0.00	0.00	0.00
Harper Valley HOA Fees	0.00	0.00	0.00	0.00
Income Tax Expense	0.00	0.00	0.00	0.00
Legal Services	0.00	0.00	0.00	0.00
Other Taxes Expense	0.00	0.00	0.00	0.00
Professional/Accountant	0.00	0.00	4,262.50	1.10
Rent or Lease Expense	0.00	0.00	2,623.00	0.68
Penalties/Interest Charged	0.00	0.00	0.00	0.00
Fuel/Oil	0.00	0.00	0.00	0.00
System Maintenance & Repairs	2,660.71	3.17	47,759.60	12.30
Supplies Expense	0.00	0.00	0.00	0.00
Small Tools Expense	0.00	0.00	0.00	0.00
Town of Kirtland	0.00	0.00	0.00	0.00
Utilities Expense	5,731.02	6.82	18,273.66	4.70
Office Expense	0.00	0.00	1,224.06	0.32

For Management Purposes Only

Valley Water and Sanitation District  
Income Statement  
For the Twelve Months Ending June 30, 2018

	Current Month		Year to Date	
Telephone Expense	0.00	0.00	0.00	0.00
Secretarial Expense	2,100.00	2.50	8,400.00	2.16
Interest Expense - N/P Whipple	0.00	0.00	0.00	0.00
Training Expense	0.00	0.00	0.00	0.00
Misc. Expenses	0.00	0.00	0.00	0.00
One-Call Locate	1,683.21	2.00	7,394.45	1.90
Permit/Application Fees	0.00	0.00	0.00	0.00
Service Charge Expense	0.00	0.00	0.00	0.00
Purchase Disc-Expense Items	0.00	0.00	0.00	0.00
Insurance Expense	0.00	0.00	11,044.00	2.84
Depreciation Expense	17,039.72	20.27	59,756.00	15.39
Gain/Loss - Sale of Assets Exp	0.00	0.00	0.00	0.00
	<u>30,039.66</u>	<u>35.74</u>	<u>164,037.27</u>	<u>42.23</u>
Total Expenses				
Net Income	\$ (18,205.21)	(21.66)	\$ (86,454.33)	(22.26)

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Current Year Findings:**

None identified for reporting

**Prior Year Findings:**

None identified for reporting

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OTHER DISCLOSURES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**Exit Conference**

The contents of this report were discussed on November 30, 2018. 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, 2018



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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
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**YEAR ENDED JUNE 30, 2018**

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<b>BASIC FINANCIAL STATEMENTS</b>		
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**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**OFFICIAL ROSTER**  
**YEAR ENDED JUNE 30, 2018**

<u>Name</u>		<u>Title</u>
	<u>District Board</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

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**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

## INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Mr. Wayne Johnson  
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 of Valley Water and Sanitation District (the "District") which comprise the Statement of Net Position – Proprietary Fund, as of the year ended June 30, 2018, and the related Statement of Revenues, Expenses, and Change in Net Position – Proprietary Fund, and Statement of Cash Flows – Proprietary Fund for the year then ended, and the related notes to the financial statements 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 30, 2018

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**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2018**

Exhibit A-1

**ASSETS**

*Current Assets*

Cash and cash equivalents	\$	181,957
Receivables (net of allowance for uncollectibles):		
Monthly service revenues		50,485
New Mexico gross receipts taxes		12,174
Lagoon assessment		7,104
		7,104
<i>Total current assets</i>		251,720

*Noncurrent assets*

Lagoon assessment - noncurrent		36,675
Capital assets (net of accumulated depreciation):		
Land		33,200
Land improvements		4,862,646
Buildings and building improvements		1,860
Less: accumulated depreciation		(473,727)
		(473,727)
<i>Total noncurrent assets</i>		4,460,654
<i>Total assets</i>	\$	4,712,374

**LIABILITIES**

*Current liabilities*

Accounts payable	\$	21,005
Harper Valley loan passthrough		3,302
Loan payable - San Juan County		8,600
		8,600
<i>Total current liabilities</i>		32,907

*Noncurrent liabilities*

Loan payable - San Juan County		29,383
Note payable - Whipple taps		11,500
		11,500
<i>Total noncurrent liabilities</i>		40,883

**NET POSITION**

Invested in capital assets		4,385,996
Restricted for debt service		37,983
Unrestricted net assets		214,605
		214,605
<i>Total net position</i>		4,638,584
<i>Total liabilities and net position</i>	\$	4,712,374

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, 2018**

Exhibit A-2

<i>Operating revenues:</i>	
San Juan County gross receipts tax	\$ 80,977
Monthly service sales	302,021
Construction/engineering fees	1,105
Other fees	12,329
	396,432
<i>Total operating revenues</i>	396,432
 <i>Operating expenses:</i>	
Construction inspection costs	4,454
Operations maintenance costs	153,973
Pre-treatment (chemicals)	78,334
City of Farmington collection	72,637
Billing services	3,223
Professional/accountant	4,262
Rent or lease expense	2,623
Maintenance & repairs expense	47,760
Utilities expense	18,236
Office supplies expense	1,224
Secretarial expense	7,700
One-call expense	7,360
Insurance expense	11,044
Depreciation	97,545
	510,375
<i>Total operating expenses</i>	510,375
<i>Operating income</i>	(113,943)
<i>Change in net position</i>	(113,943)
<i>Net position, beginning of year</i>	4,752,527
<i>Adjusted fund balance - beginning of year</i>	4,752,527
<i>Net position - end of year</i>	\$ 4,638,584

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, 2018**

Exhibit A-3

***Cash flows from operating activities:***

Cash received from gross receipts taxes	\$ 84,471
Cash received from customers	300,816
Cash payments for supplies and maintenance	(415,095)
<i>Net cash provided (used) by operating activities</i>	(29,808)

***Cash flows from capital and related investing activities***

Receipts from Lagoon assessments	7,104
<i>Net cash provided (used) by capital and related investing activities</i>	7,104

***Cash flows from financing activities:***

Loan principal payments	(8,600)
Amounts collected on Harper Valley passthrough loan	3,302
<i>Net cash provided (used) by financing activities</i>	(5,298)

*Net increase (decrease) in cash and cash equivalents* (28,002)

***Cash and cash equivalents - beginning of year*** 209,959

***Cash and cash equivalents - end of year*** \$ 181,957

***Reconciliation of operating income (loss) to***

<i>net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (113,943)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	97,545
(Increase) decrease in operating assets:	
Monthly service revenues	(14,639)
New Mexico gross receipts taxes	3,494
Lagoon assessment	7,104
Increase (decrease) in operating liabilities:	
Accounts payable	(2,265)
Harper Valley loan passthrough	3,302
Note payable - San Juan County	(8,600)
<i>Net cash provided (used) by operating activities:</i>	\$ (28,002)

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, 2018**

**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, 2018, the District adopted the following GASB Statements.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. 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.
- GASB Statement No. 85 *Omnibus 2017*. 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.
- GASB Statement No. 86 *Certain Debt Extinguishment Issues*. 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.

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

**STATE OF NEW MEXICO**  
**VALLEY WATER AND SANITATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

A.      *Financial Reporting Entity (Continued)*

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.

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.

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

*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.

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, 2018.

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.

**STATE OF NEW MEXICO  
VALLEY WATER AND SANITATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

*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.

**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, 2018. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by 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  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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	\$ 183,649
FDIC coverage	183,649
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, 2018, none of the District's bank balance of \$183,649 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	\$ 181,957
Add outstanding checks and other reconciling items	1,692
Bank balance of deposits	\$ 183,649

**STATE OF NEW MEXICO  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4      Receivables**

Receivables as of June 30, 2018 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, 2018 follows. Land and construction in progress is not subject to depreciation.

	Balance June 30, 2017	Additions	Deletions	Adjustments	Balance June 30, 2018
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	4,862,646	-	-	-	4,862,646
Buildings and building improvements	1,860	-	-	-	1,860
Total capital assets being depreciated	4,864,506	-	-	-	4,864,506
Less accumulated depreciation:					
Land improvements	375,484	97,359	-	-	472,843
Buildings and building improvements	698	186	-	-	884
Total accumulated depreciation	376,182	97,545	-	-	473,727
Total capital assets, net of depreciation	\$ 4,521,524	\$ (97,545)	\$ -	\$ -	\$ 4,423,979

Depreciation expense for the year ended June 30, 2018 was \$97,545.

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

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance at 06/30/17	Additions	Deletions	Balance at 06/30/18	Due Within One Year
Loan	\$ 46,583	\$ -	\$ 8,600	\$ 37,983	\$ 8,600
Note payable	11,500	-	-	11,500	-
<b>Total</b>	<b>\$ 58,083</b>	<b>\$ -</b>	<b>\$ 8,600</b>	<b>\$ 49,483</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 did not 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  
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JUNE 30, 2018**

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

The annual requirements to amortize the note as of June 30, 2018 are as follows:

Fiscal Year Ending June 30,	Total Loans		Total Debt Service
	Principal	Interest	
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>\$ 37,983</u>	<u>\$ -</u>	<u>\$ 37,983</u>

**NOTE 7 Joint Powers Agreements**

The District does not have any formal Joint Powers Agreements at June 30, 2018. 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 Tax Abatement Disclosures**

GASB Statement No. 77 requires government agencies to identify any tax abatement agreements that affect the government agency and disclose the amount of tax which was abated. There are no reported tax abatements affecting the District.

**NOTE 10 Subsequent Accounting Standard Pronouncements**

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.

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**NOTE 10**      **Subsequent Accounting Standard Pronouncements (Continued)**

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.

In April 2018, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* was issued. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. 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 June 2018, GASB Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is still evaluating how this standard will affect the District.

In August 2018, GASB Statement No. 90 *Majority Equity Interests – An Amendment of GASB Statement No. 14 and No. 61*, was issued. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. 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.

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**NOTE 11      Subsequent Events**

Subsequent to June 30, 2018, the District entered into a loan agreement with San Juan County in the amount of \$660,736 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 19 years with an interest rate of 1.20%. Residents of the HVHOA will be assessed a monthly fee of up to \$27.69 to pay for the repayment of the loan. The District made an initial lump sum payment of \$13,206.80 and will make 221 payments of \$3,307.70 per month and a final payment of \$1,201.48. The agreement was finalized and signed by the District in October 2018, but has not yet been signed by the County.