OFFICE OF THE STATE AUDITOR

Timothy M Keller

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2014

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COMPLIANCE SECTION (CONT'D)

OTHER DISCLOSURES

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
OFFICIAL ROSTER
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Board of Directors

Ramon Romero, President

Rudy Martinez, Vice President

Gil Tercero, Treasurer

Dion Montoya, Secretary

Henry Chavez, Board Member

Administrative Staff

Ana Berry, Accounts Manager

Frank Leyba, Contract Water Operator

Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

INDEPENDENT AUDITORS' REPORT

Board of Directors
Agua Fria Community Water System Association
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Agua Fria Community Water System Association (the Association), as of and for the year ended December 31, 2014 and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison, presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended December 31, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence on the value of the Association's capital assets specifically the water rights, accumulated depreciation, and beginning net position due to the Association not having recorded approximately 42.3 acre feet of water rights that were adjudicated in previous fiscal years.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Association as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Association's basic financial statements and budgetary comparison. The other schedules required by Section 2.2.2 NMAC are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by Section 2.2.2 NMAC is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by Section 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
June 24, 2015

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
STATEMENT OF NET POSITION
DECEMBER 31, 2014

ASSETS

		2014
Assets:		
Current assets:		
Cash and cash equivalents	$	197,604
Accounts receivable		20,472
Due from state government		14,116
Inventory		4,629
Total current assets		236,821
Noncurrent assets:		
Capital assets, net		2,010,993
Total Assets	$	2,247,814

LIABILITIES AND NET POSITION

Liabilities:		
Current liabilities:		
Accrued payroll	$	1,820
Sales tax payable		1,248
Loan payable		16,134
Total current liabilities		19,202
Non-current liabilities:		
Hook ups deposits		21,500
Membership deposits		102,200
Loan payable		280,525
Total non-current liabilities		404,225
Total Liabilities	$	423,427
Net Position:		
Net investment in capital assets	$	1,714,334
Unrestricted		110,053
Total Net Position	$	1,824,387
Total Liabilities and Net Position	$	2,247,814

The notes to the financial statements are an integral part of this statement.

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

	2014
Operating revenues:	
Charges for services	$ 141,860
Memberships	16,422
Miscellaneous	423
Total operating revenues	158,705
Operating expenses:	
Salaries	27,783
Training and travel	1,026
Dues, fees, permits and licenses	309
Equipment rental and supplies	6,507
Insurance	6,180
Office and administrative expense	11,277
Professional fees	26,404
Repairs and maintenance	3,452
Taxes	1,374
Utilities	30,301
Other operating expenses	7,986
Water conservation fees	235
Depreciation	73,743
Total operating expenses	196,577
Operating loss	(37,872)
Non-operating revenues (expenses):	
Capital grant - state	414,299
Special appropriation	180,000
New waterline service revenue	27,710
Interest expense and fiscal fees	(782)
Loss on sale of capital asset	(1,834)
Investment income	110
Total non-operating revenues (expenses)	619,503
Change in net position	581,631
Net position, beginning of year	$ 1,491,286
Restatement (see NOTE 10)	(248,530)
Net position, beginning of year, as restated	1,242,756
Net position, end of year	$ 1,824,387

The notes to the financial statements are an integral part of this statement.

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

	2014
Cash flows from operating activities:	
Receipts from customers and users	$ 129,310
Payments to employees for services	(27,958)
Payments to suppliers and contractors	(92,296)
Net cash provided by operating activities	9,056
Cash flows from investing activities:	
Investment income	110
Net cash provided by investment activities	110
Cash flows from capital and financing activities:	
Acquisition of capital assets	(447,228)
Capital grant - state	414,299
Special appropriation	165,884
Principal paid on loan payable	(16,093)
Interest and fiscal charges on loan payable	(782)
Net cash provided by capital and financing activities	116,080
Net increase in cash and cash equivalents	125,246
Cash and cash equivalents, beginning of year	72,358
Cash and cash equivalents, end of year	$ 197,604

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$ (37,872)
Adjustments to reconcile operating income to net cash provided by/(used for) operating activities:	
Depreciation	73,743
Decrease (increase) in accounts receivable	(7,415)
Decrease (increase) in due from state government	(14,116)
Decrease (increase) in inventory	(4,180)
Increase (decrease) in sales tax payable	(79)
Increase (decrease) in accrued payroll	175
Increase (decrease) in hook-up deposits	(1,200)
Net cash provided by operating activities	$ 9,056

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Agua Fria Community Water System Association (the Association) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Association's accounting policies are described below.

A. Reporting Entity

The Agua Fria Community Water System Association (the Association) is a not-for-profit mutual domestic water consumers associations (MDWCA), incorporated under the provisions of the Sanitary Projects Act (SPA) of the State of New Mexico on February 26, 1958. It was established for the purpose of constructing, maintaining and operating a water and wastewater system for the members of the Association in Agua Fria Village, New Mexico. The business and affairs of the Association are conducted and managed by a Board. Members of the Board consist of five directors elected by the membership. Bona fide occupants and residents within and in the vicinity of the community of Agua Fria Village, New Mexico, may apply to become members of the Association by payment of a $1,250, refundable membership fee. New member applicants must be approved by the Board. The rights, privileges, and obligations of the members are equal. No capital stock is authorized nor issued.

Mutual domestic water consumers associations created pursuant to the Sanitary Projects Act (Section 3-29-1 NMSA 1978) are defined as local public bodies subject to audit pursuant to the Audit Act Section 12-6-3, NMSA 1978 and State Audit Rule 2.2.2.16 NMAC. In April 2006, Attorney General (AG) Patricia Madrid issued AG Opinion 06-02 that indicated New Mexico's water associations: are a public body/political subdivision; have revenues generated from water fees and other sources that are "public moneys" because the purpose of those funds is to provide sanitary domestic water facilities that serve entire rural unincorporated communities; are subject to the Open Meeting Act, the Inspection of Public Records Act, the Procurement Code and the Per Diem and Mileage Act. These facts about AG Opinion 06-02 were publicized in the Albuquerque Journal on Tuesday April 18, 2006.

The Office sent a memorandum dated October 13, 2006 to all the known Mutual Domestic Water Association (MDWAs) informing them: of the above facts regarding AG Opinion 06-02; and that "due to the fact that MDWA's have officially been determined to be governmental nonprofit organizations, their financial statements must follow the government format (GASBS 34), not the nonprofit format for the fiscal year ended June 30, 2007 and thereafter.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Association is considered to be a special purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No. 14. The Association is not a component unit of a governmental entity nor does it have any component units. This conclusion was reached because the Association was converted from a cooperative to an MDWCA, pursuant to Section 3-29-20 NMSA 1978, by a vote of the Board of Directors rather than through legislative action or action by the entire membership; it does not have the ability to levy taxes but it does have the ability to set and change rates for service, it continues to file not-for-profit tax returns, and it is not a subdivision of any governmental entity.

B. Business-Type Activities, Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Pursuant to GASB Statement No. 34, governments engaged only in business-type activities present only the financial statements for enterprise funds. For these governments, basic financial statements consist of: (a) enterprise fund financial statements consisting of the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows; and (b) notes to the financial statements.

The accounts of the Association are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Association's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The transactions of the Association are accounted for on a flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. With this measurement focus, net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted; and unrestricted components.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. The revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset is used. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash and Investments

Cash and cash equivalents include amounts in demand deposits. For the purpose of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity date of three months or less are considered to be cash equivalents.

Concentrations of Credit Risk

The Association grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame.

Receivables

Substantially all of the Association's outstanding receivables are from its customers for water sales. Collateral is generally not required on receivables. Accounts receivable are shown net of an allowance for uncollectible.

Inventory

The inventory held by the Association consists of water meters and is recorded at cost, with cost being determined on the first-in, first-out basis.

Capital Assets

Capital assets are recorded at original costs, or fair value if donated. The Association's capitalization policy for moveable equipment includes all items with a unit cost of $5,000 or more, and an estimated useful life of greater than one year. This total cost is depreciated over the useful life of the equipment. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is calculated using the straight-line or double-declining balance methods over the estimated useful life as follows.

Buildings	18 to 25 years
Furniture and fixtures	10 years
Improvements	18 to 25 years
Machinery and equipment	7 to 10 years

Compensated Absences/Retirement Plans

Association employees are not entitled to sick and vacation leave. In addition, the Association has elected to not participate in retirement plans.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The Association did not have deferred outflows or inflows of resources at fiscal year-end.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislations or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Association's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues

Revenues are classified as operating or non-operating according to the following criteria:

Operating revenues - include activities that have the characteristics of an exchange transaction, such as charges for services and fees, net of allowance for uncollectible amounts.

Non-operating revenues - include activities that have the characteristics of non-exchange transactions such as capital grants and investment income. Grant revenue is recognized when the eligibility requirements are met.

Expenses

Expenses are classified as operating or non-operating according to the following criteria:

Operating expenses - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; material and supplies; office expenses; and depreciation expenses related to Association capital assets.

Non-operating expenses - include activities that have the characteristics of non-exchange transactions such as interest on capital asset related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

Grants and Contributions

The Association receives grants as well as contributions in the course of operations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses. The Association utilizes their restricted revenues before their unrestricted revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Use of Estimates

Management of the Association has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Tax Status

The Association operates as a not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Deposits

The Association may invest idle cash under the guidelines of the State of New Mexico Statute Section 6-10-10 NMSA 1978 which authorizes investments in the following instruments:

(1) Bonds or negotiable securities of the United States, the state or a county, municipality or school district that has a taxable valuation or real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(2) Securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

The Association follows the following procedures in establishing the budgetary data reflected in the financial statements.

An operating budget is adopted each fiscal year and is approved by the Association Board and the New Mexico Department of Finance and Administration. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. The Association Board is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by the New Mexico Department of Finance and Administration. In conjunction with this, they can overspend line items within the fund, but it is a violation of state statute to over-expend the fund in total.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash

At December 31, 2014, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts. The following is a schedule as of December 31, 2014, of the cash and cash equivalents.

	1st National Bank of Santa Fe (non-interest bearing checking account)	1st National Bank of Santa Fe (savings account)
Amount on deposit	$ 17,859	$ 179,745
FDIC coverage	(17,859)	(179,745)
Total uninsured funds	$ -	$ -

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2014, $0 of the Association's bank balance of $197,604 was exposed to custodial credit risk.

NOTE 4 – RECEIVABLES

Accounts receivable

During the current fiscal year, the Association had customer accounts receivable at December 31, 2014 of $20,472 related to charges for services. The receivables are deemed 100% collectible.

NOTE 4 – RECEIVABLES (Concluded)

Due from state government

At December 31, 2014, the Association had a due from state government of $14,116 that relates to a special appropriation.

NOTE 5 – CAPITAL ASSETS

The majority of the assets of the Association are located on land not owned by the Association, but are constructed on private easements for the specific and registered use of the Association or within the public utility right-of-way associated with public roads granted by plats from the county.

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance (as restated)	Additions	Deletions	Adjustments	Ending Balance
Business-type Activities:					
Land	$ 193,227	$	$	$	$ 193,227
Improvements	1,085,642	124,865		27,710	1,238,217
Furniture and fixtures	-	823	3,800	2,977	-
Machinery and equipment	15,458	9,066	10,000	(2,210)	12,314
Water rights	252,315				252,315
Buildings	294,272	328,989			623,261
Total Capital Assets at Historical Cost	1,840,914	463,743	13,800	28,477	2,319,334
Less: Accumulated Depreciation					
Machinery and equipment	$ (12,522)	$ (3,066)	$ (10,000)	$ 1,727	$ (3,861)
Improvements	(92,352)	(56,221)			(148,573)
Furniture and fixtures	-		(1,926)	(1,926)	-
Water rights	-	(16,829)		16,829	-
Building	(139,724)	(16,183)			(155,907)
Total Accumulated Depreciation	(244,598)	(92,299)	(11,926)	16,630	(308,341)
Business-type Activities Capital Assets, Net	$ 1,596,316	$ 371,444	$ 1,874	$ 41,107	$ 2,010,993

NOTE 5 – CAPITAL ASSETS (Concluded)

Beginning capital assets have been restated to approximate historical costs based on accounting records. Capital assets previously had been recorded at estimated value and certain assets were not recorded properly.

NOTE 6 – LOAN PAYABLE

During fiscal year ended December 31, 2013, the Association entered into a Loan/Grant Agreement in the amount of $314,043 with the New Mexico Water Trust Board and the New Mexico Finance Authority for upgrades to the water mains, fire hydrants, and valve and street repairs. The Association pledged a $770,883 capital outlay appropriation against this Loan/Grant Agreement.

Long-term liability activity for the current fiscal year was as follows.

Business-type Activities:	**Beginning Balance**	**Additions**	**Deletions**	**Ending Balance**	**Short-term Due Within One Year**
Loan payable	$ 312,752		$ 16,093	$ 296,659	$ 16,134
Total	$ 312,752		$ 16,093	$ 296,659	$ 16,134

Annual debt service requirements to maturity are summarized as follows:

	Principal	Interest
Year Ending December 31:		
2015	$ 16,134	$ 742
2016	16,174	701
2017	16,214	661
2018	16,255	620
2019	16,296	580
2020-24	82,090	2,285
2025-29	83,123	1,254
2030-32	50,373	252
	$ 296,659	$ 7,095

NOTE 7 – RELATED PARTY TRANSACTIONS

During fiscal year 2014, the Association had the following transactions with related parties of management and governance.

Expenses:

Association Position Title	Relationship		Amounts for Fiscal Year 2014	Type and Purpose of Transaction
Accounts Manager	Employee of Association		$ 2,200	Lease the office located on property
Accounts Manager	Employee of Association		574	Electricity costs for Office
Treasurer	Niece		231	Take minutes at the Annual Meeting
Vice President	Son-in-law		1,440	Helper work and training
Vice President	Son-in-law		21,103	Water operator, contract worker
Vice President	Grandson		236	Water operator helper
		Total	$ 25,784	

Membership Deposits:

Association Position Title	Relationship	Amount for Fiscal Year 2014
President	Self	$ 5,500
President	Daughter	300
President	Daughter	300
President	Son	300
Vice-President	Self	600
Vice-President	Daughter	600
Vice-President	Son-in-law	300
Treasurer	Self	300
Treasurer	Father	300
Treasurer	Brother	300
Treasurer	Brother	300
Treasurer	Brother	300
Treasurer	Sister	2,500
Board Member	Self	300
Secretary	Self	300
Secretary	Father	600
Secretary	Aunt	300
Accounts Manager	Self	550
		$ 13,950

NOTE 7 – RELATED PARTY TRANSACTIONS (Concluded)

Hook-up Deposits:

Association Position Title	Relationship	Amount for Fiscal Year 2014
President	Self	$ 2,400
Treasurer	Brother	2,400
Treasurer	Brother	1,450
		$ 6,250

Accounts Receivable:

Association Position Title	Relationship	Amount for Fiscal Year 2014
President	Self	$ 621
President	Son	61
Vice-President	Self	64
Vice-President	Daughter	129
Vice-President	Son-in-law	217
Treasurer	Brother	97
Treasurer	Brother	61
Treasurer	Brother	70
Treasurer	Sister	62
Secretary	Father	56
Secretary	Aunt	24
Accounts Manager	Self	267
	Total	$ 1,729

NOTE 8 – CONTINGENT LIABILITIES

The Association is currently in disputes with the Internal Revenue Service (IRS) regarding tax year 2010. The estimated amount that could potentially be owed is $2,214.

NOTE 9 – RISK MANAGEMENT

The Association carries commercial insurance for all risks of loss including property, liability, and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 – RESTATEMENT

The January 1, 2014, net position does not agree to the prior year due to corrections of the following errors.

- Capital asset historical costs and accumulated depreciation were restated due to 1) estimates being used in the prior fiscal years, and 2) removal of items less than the capitalization threshold.
- Hook-up and membership deposits were not being recorded properly based on the actual membership and hook-up fees that the Association has collected from customers.
- Proper recognition of accounts receivable from prior years.

Net position, January 1, 2014, as previously reported	$ 1,491,286
Capital assets	(203,299)
Hook-up deposits	(9,250)
Membership deposits	(36,800)
Accounts receivable	819
Net position, January 1, 2014, as restated	$ 1,242,756

NOTE 11 – SUBSEQUENT EVENTS

On March 6, 2015, the Association purchased a new Office building for $144,382, through a real estate agent who is a relative of one of the Board of Directors. The Seller of the building paid all commissions owed to the real estate agent.

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
(GAAP BASIS)

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	Actual Amounts	(Unfavorable)
Revenues:				
Charges for services	$ 123,100	$ 123,100	$ 141,860	$ 18,760
Memberships	7,650	7,650	16,422	8,772
Investment income	72	72	110	38
Special appropriation			180,000	180,000
Capital grant - state	279,000	279,000	414,299	135,299
New waterline service revenue			27,710	27,710
Miscellaneous	16,000	16,000	423	(15,577)
Total revenues	$ 425,822	$ 425,822	$ 780,824	$ 355,002
Expenses:				
Salaries	$	$	$ 27,783	$ (27,783)
Training and travel	400	400	1,026	(626)
Dues, fees, permits and licenses	280	280	309	(29)
Equipment rental and supplies	6,000	6,000	6,507	(507)
Insurance	6,416	6,416	6,180	236
Office and administrative expense	9,398	9,398	11,277	(1,879)
Professional fees	24,200	24,200	26,404	(2,204)
Repairs and maintenance	2,400	2,400	3,452	(1,052)
Taxes	5,775	5,775	1,374	4,401
Utilities	11,100	11,100	30,301	(19,201)
Other operating expenses	20,121	20,121	7,986	12,135
Water conservation fees	576	576	235	341
Depreciation			73,743	(73,743)
Interest expense and fiscal fees			782	(782)
Loss on sale of capital asset			1,834	(1,834)
Phase II	295,000	295,000		295,000
Emergency funds	28,800	28,800		28,800
Total expenses	410,466	410,466	199,193	211,273
Change in Net Position	$ 15,356	$ 15,356	$ 581,631	$ 566,275

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
SCHEDULE OF SPECIAL APPROPRIATIONS
FISCAL YEAR ENDED DECEMBER 31, 2014

Description	Authority	Appropriation Period	Total Appropriations	Prior Year Expenditures	Current Year Expenditures
To plan, design, and construct water distribution infrastructure in Agua Fria in Santa Fe County.	Laws of 2013, Ch. 226, Sect. 23, Paragraph 71	2013-2017	$ 50,000	$ -	$ 50,000
To purchase water rights and plan, design, and construct improvements to the water distribution system and wells for Agua Fria in Santa Fe county.	Laws of 2014, Ch. 66	2014-2018	$ 130,000	$ -	$ 130,000
			$ 180,000	$ -	$ 180,000

AGUA FRIA COMMUNITY WATER SYSTEM ASSOCIATION
SCHEDULE OF JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING
DECEMBER 31, 2014

Participants	Responsible Party	Description	Beginning Date	Ending Date	Project Amount	Total Estimated Amount of Project and Association Portion	Current Year Contributions	Audit Responsibility	Fiscal Agent, if applicable
AFCWSA/Santa Fe County	Both AFCWSA & Santa Fe County	Water service agreement and dedication of infrastructure for use by AFCWSA	05/24/2006	None	Amount Paid by AFCWSA for purchase of water in 2014 $25,779	N/A	$25,779	N/A	N/A

N/A - not applicable

Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Directors
Agua Fria Community Water System Association
Santa Fe, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Agua Fria Community Water System Association (the Association) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and related budgetary comparison of the Association presented as supplemental information, and have issued our report thereon dated June 24, 2015. We modified our report for the business-type activities, as more fully described in our audit opinion beginning on page one.

Internal Control Over Financial Reporting

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

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-008, and 2014-011 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-003, and 2014-012 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 2014-001, 2014-002, 2014-004, 2014-005, 2014-006, 2014-007, 2014-009, 2014-010, and 2014-013.

The Association's Response to Findings

The Association's response to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
June 24, 2015

2014-001 PERSONNEL RECORDS – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION
For the Association's one employee the Form I-9: *Employment Eligibility Verification* could not be located in the employee's personnel file.

CRITERIA
The Immigration Reform and Control Act of 1986 (IRCA) requires employers to complete a Form I-9 to document verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986 to work in the United States. In addition, the employer is responsible for completing and retaining the Form I-9.

EFFECT
The Association is not in compliance with the laws and regulations of the Federal government.

CAUSE
The Association was unaware of the requirement that a Form I-9 was required.

RECOMMENDATION
The Association should ensure that the Form I-9 is completed for all employees employed by the Association.

MANAGEMENT RESPONSE
The Association was not aware of the IRS requirement.

CORRECTIVE ACTION PLAN
An I-9 Form has been completed by the Associations' employee and has been placed in the employees' file.

2014-002 OPEN MEETINGS ACT VIOLATION – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION
The August 2014 meeting minutes were not prepared until April 2015. In addition, the meeting minutes did not document if board members were recusing themselves from matters in which related parties or conflicts of interest were being discussed.

CRITERIA
Section 10-5-1(G) NMSA 1978 requires the draft of meeting minutes to be prepared within ten working days after the meeting had shall be approved, amended or disapproved the next meeting where a quorum was present. In addition, this Section requires the minutes to include at a minimum the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted.

EFFECT
The Association is out of compliance with the Open Meetings Act.

CAUSE
The Association was unaware that meeting minutes needed to be prepared within a specified time period and that they were required to be kept at a detailed level.

RECOMMENDATION
The Association should take immediate action to ensure that they are in compliance with the Open Meetings Act.

MANAGEMENT RESPONSE
The Secretary did take notes for the August 2014 meeting, but failed to type up the minutes and get them approved by the Board. The hand written notes were provided to OSA staff.

Although Board Members always recuse themselves from all matters concerning related parties, it was not reflected in the minutes.

CORRECTIVE ACTION PLAN
All Board minutes will be typed up within 10 days after the meeting so that they can be approved at the next months' meeting. Also, the minutes will be more detailed so as to show that Board Members are not discussing or voting on any matters concerning related parties.

2014-003 SEGREGATION OF DUTIES – SIGNIFICANT DEFICIENCY

CONDITION

The same individual who receives and records cash receipts, also reconciles the general ledger for all bank accounts, prepares the deposit slips, and prepares journal entries to correct errors in posting transactions.

CRITERIA

A system of internal controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review can be used to compensate for the lack of separation of duties.

EFFECT

Theft or defalcation could occur and remain undetected when proper controls are not in place over cash receipts.

CAUSE

Separation of duties over cash receipts is difficult to achieve in a small office environment.

RECOMMENDATION

Although the Association's staff is only one individual, steps could be taken to help mitigate the risk of one individual performing all duties with the exception of depositing the monies into the bank. The basic premise is that no one individual should have access to both physical assets and the related accounting records or all phases of a transaction without a mitigating control.

MANAGEMENT RESPONSE

The Association does have the Treasurer make the deposits at the bank; however, the Accounts Manager picks up the payments from the post office box and generates the deposits.

CORRECTIVE ACTION PLAN

A Board Member will pick up checks at the post office and log the checks before the deposit is processed by the Accounts Manager. The Treasurer will then make the deposit at the bank.

2014-004 PAYROLL – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION
The Association was not able to substantiate through Board meeting minutes one employee's salary adjustment of $24 that occurred during fiscal year 2013. This amount carried forward into fiscal year 2014 causing an unsubstantiated overpayment of $612.

CRITERIA
The Association should ensure that all salaries are properly supported by Board meeting minutes, salary agreements, or other means.

EFFECT
The Association might be overpaying employees as the Board meeting minutes were not clearly identifying all increases to salaries.

CAUSE
The Board of Director meeting minutes were not detailed to include all items that were included on the agenda.

RECOMMENDATION
The Association should ensure that all employees pay rates and increases are included in the employee's personnel file.

MANAGEMENT RESPONSE
The increase was voted on by the Board; however, the minutes were not typed up and the notes were misplaced, although this item was on the agenda for discussion.

CORRECTIVE ACTION PLAN
Any action on payroll items will be approved by the Board and documented in the minutes.

2014-005 PROCUREMENT – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICENCY

CONDITION
For the one procurement tested (totaling $25,779) that required sole source documentation, the Association did not have sole source documentation prepared.

CRITERIA
The Procurement Code (Section 13-1-1 to 13-1-199 NMSA 1978) allows "a contract [to] be awarded without competitive sealed bids or competitive sealed proposals regardless of the estimated cost when the state purchasing agent or a central purchasing office determines, in writing, that: (1) there is only one source for the required service, construction or item of tangible personal property; (2) the service, construction or item of tangible personal property is unique and this uniqueness is substantially related to the intended purpose of the contract; and (3) other similar services, construction or items of tangible personal property cannot meet the intended purpose of the contract."

EFFECT
The Association was not in compliance with the Procurement Code.

CAUSE
The Association was unaware of the requirement for sole source procurements.

RECOMMENDATION
The Association should ensure they understand and implement procedures to assist them in becoming compliant with the Procurement Code.

MANAGEMENT RESPONSE
Santa Fe County is our back up water supply in case of emergencies. The Association failed to get a procurement letter stating that they are they only utility that can serve as our back up.

CORRECTIVE ACTION PLAN
The Board will adopt a policy concerning Procurements and have a letter on file for future use.

2014-006 UNTIMELY DEPOSITS – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION

For 6 out of 6 cash receipts tested, totaling $123,922, it could not be determined if the Association deposited the cash receipts within 24 hours of receipt.

CRITERIA

Section 6-10-2 NMSA 1978, of the Public Money statute requires the maintenance of a record in which is entered daily, in detail, all items of cash receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. According to Section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury, before the close of the next succeeding business day after the receipt of the money. Also, it is good accounting practice to have accurate referenced documentation to ensure the funds are properly recorded and deposited.

EFFECT

The failure to maintain a receipting system that properly logs cash receipts when received, increases the risk of misappropriating receipts.

CAUSE

The Association did not have a system in place to effectively monitor the receipt of cash receipts.

RECOMMENDATION

In order to prevent or reduce the risk of misappropriation of funds, a log should be consistently maintained for all the monies received by the Association. Such a log will provide the information necessary to ensure that all monies received are deposited in a timely manner. The Association should also ensure the Account Manager is properly referencing all checks and money orders in the deposit before they are deposited into the bank.

MANAGEMENT RESPONSE

Deposits were generated; however, deposits were not made within the 24 hour period.

CORRECTIVE ACTION PLAN

All future revenue will be deposited within 24 hours of receiving.

2014-007 BANK RECONCILIATION – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION
The amount included on the reconciliation for reconciled book balance for the checking account does not agree to the trial balance by $50, as a check for $50 was not properly voided in the accounting system. In addition, in re-performing procedures over the bank reconciliations, we noted two outstanding items, which were dated prior to January 1, 2014 that have not been properly canceled. The total amount of the outstanding items was $587.

CRITERIA
Proper internal controls over financial reporting and good accounting practices require that the cash accounts be properly reconciled every month and the reconciling items are a true reflection of outstanding items. In addition, Section 6-10-57, NMSA 1978 requires local public bodies to cancel checks that are unpaid for one year after they become payable.

EFFECT
The Association could potentially overlook a material difference if they are not completely reconciling each month. In addition, the Association is not in compliance with state statute regarding stale-dated checks.

CAUSE
The Association was not aware that the cash balance was not properly reconciled and that checks unpaid for more than one year need to voided and escheated to the State of New Mexico.

RECOMMENDATION
The Association should implement procedures to ensure and monitor the cash accounts are properly reconciled and that outstanding checks are appropriately escheated to the State when required.

MANAGEMENT RESPONSE
Although bank reconciliations are done on a monthly basis Check #3927 for $50 was voided from our books when it was returned to us which affected the year-end book balance. Two items have not cleared the checking account.

CORRECTIVE ACTION PLAN
The Association will ensure that the reconciled book balance agrees with the trial balance at year end. The two outstanding items will be taken off our books.

2014-008 INTERNAL CONTROLS OVER FINANCIAL REPORTING – MATERIAL WEAKNESS

CONDITION

The Association did not have adequate internal control procedures in place over the financial statements in accordance with generally accepted accounting principles (GAAP). During the fiscal year 2014 audit, the following audit adjustments were necessary to properly state the financial statements at fiscal year-end.

- A net capital asset adjustment of $203,299 was necessary to properly state beginning net position and capital assets.
- Adjustments in the amount of $46,050 were required to properly state liabilities related to prior year hook-up deposits and membership deposits.
- An audit adjustment of $27,710 was necessary to reverse a year-end adjustment made by the Association.
- An audit adjustment of $14,116 was necessary to properly state receivables and revenues, related to a special appropriation.
- An audit adjustment of $6,361 was necessary to correctly state sales tax payable and taxes.

CRITERIA

Statement on Auditing Standards No. 115 indicates internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

EFFECT

Material misstatements were included in the Association's general ledger that was provided to the auditors. As a result, audit adjustments were required to ensure the financial statements were materially correct.

CAUSE

The Association does not have adequate internal control procedures for identifying errors in the general ledger that resulted in material misstatements of the financial statements. In addition, the Association used estimates for their capital assets, instead of recording them based on actual or historical cost.

RECOMMENDATION

The Association should develop and document policies and procedures over all financial areas as well as financial reporting and closing. In addition, the Board should review adjustments to their general ledger in a timely manner and ensure accuracy of the financial data.

MANAGEMENT RESPONSE

The Associations' capital assets and liabilities were not maintained accordingly due to the lack of expertise from the Board of Directors and staff.

CORRECTIVE ACTION PLAN

The Association will ensure that all journal entries are done on a timely basis and that the Capital Asset Inventory listing will be updated accordingly.

2014-009 INTERNAL CONTROL OVER CASH DISBURSEMENT – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION

During our review of internal controls, the following items were noted from a sample size of 40 disbursements tested.

- There was three instances totaling $578 where either supporting documentation was absent or did not justify the amount of the disbursement.
- There was three instances totaling $2,034 where the authorized signer was signing disbursement checks for a related party.
- There was five instances totaling $10 where an invoice was not paid in a timely manner and assessed a late fee.

CRITERIA

Section 6-5-8 NMSA 1978 indicates that purchases for goods and services, other than personnel, must be accompanied by supporting invoices and documentation. In addition, according to Section 6-6-3 NMSA 1978, the Village is expected to conform to the rules and regulations that they have adopted relating to internal controls.

EFFECT

Without adequate supporting documentation for purchases, there can be risks for unsupported or improper purchases with public funding. In addition, related party transactions can lead to allegations of misappropriation of funds, which can negatively impact the public perception of the Association. Further, invoices not paid in a timely manner lead to inadvertent costs for the Association.

CAUSE

The Association has not properly implemented the effectiveness of their internal controls over disbursements.

RECOMMENDATION

The Association should ensure that a comprehensive internal control structure over disbursements be properly designed, documented, and implemented. The Board of Directors should ensure that the Association's documented internal control procedures are adhered to.

MANAGEMENT RESPONSE

Two checks made out for $200 each did not have invoices attached. Checks were signed by a Board Member (with another Board Member signature) for a related party.

The Association was not aware that we are not allowed to pay late fees.

CORRECTIVE ACTION PLAN

The Board will ensure that any money paid for Office leases will require an invoice. Board members will not sign checks for a related party. We will make sure that invoices are paid in a timely manner so as not to get charged late fees.

2014-010 UNTIMELY SUBMISSION OF AUDIT REPORT – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION
The audit report for the fiscal year ended December 31, 2014 was not submitted to the State Auditor by the required regulatory due date of June 1st.

CRITERIA
Section 2.2.2.9(A)(1)(h) NMAC requires agencies with a fiscal year-end other than June 30 must submit the audit report no later than 5 months after fiscal year-end.

EFFECT
The Association is not in compliance with the State Auditor Rule.

CAUSE
The Association originally submitted documentation for a Tier 5 agreed upon procedure (AUP) engagement; however, during review of the tier determination form, it was noted that the revenues exceeded $500,000 and the Association would need to undergo a full financial statement audit.

RECOMMENDATION
The Association should work with its auditor to improve its timeline to meet the May June 1st deadline.

MANAGEMENT RESPONSE
Due to the change of Tier 5 to a full financial audit, the process was a lot more detailed and took longer than expected to complete.

CORRECTIVE ACTION PLAN
The Accounts Manager will ensure that the required forms are submitted to the Office of the State Auditor (OSA) by January 1st of the following year and the agreed upon procedures are conducted and submitted to OSA by June 1st.

2014-011 INTERNAL CONTROL DEFICIENCIES OVER CAPITAL ASSETS – MATERIAL WEAKNESS

CONDITION

During audit testwork over capital assets, the following items were noted.

- An adjustment to net capital assets of $203,299 was necessary to properly state beginning net position and capital assets.
- The Association did not record approximately 42.3 acre feet of water rights that were adjudicated by the New Mexico State Engineer in previous years. In addition, the Association was depreciating their water rights, which included an adjustment of $75,718 to accumulated depreciation and an adjustment of $16,829 to depreciation expense.
- The Association made a year-end adjustment for $27,710; however, this journal entry was reversed as the journal entry was removing revenue and capital assets from the general ledger.
- The Association had a journal entry for $92,299 related to current year depreciation expense; however, there was not a supporting schedule prepared related to the adjustment.
- In the current fiscal year, the Association capitalized $3,033 of expenditures that did not meet the capitalization threshold of the Association.
- The Association had $13,800 of capital assets and $11,936 of accumulated depreciation that was deleted from the capital asset listing; however, there was no supporting documentation to support the amounts being deleted. In addition, the Association did not notify the State Auditor's Office 30 days prior to the disposal of the capital assets. Further, it is unknown if the computer that was removed was "sanitized" or effectively made "inaccessible."
- The Association has one capital asset on their depreciation schedule that they indicate as "equipment." The date of this asset indicates various and; therefore, is not being depreciated.
- The Association should review and assess the capital asset classifications for which they are reporting capital assets under.

CRITERIA

Governmental Accounting Standards Board Statement (GASB) No. 34 requires governments to report all capital assets, including infrastructure assets, in the financial statements. In addition, paragraph 18 requires "capital assets [to] be reported at historical cost." In addition, it should include the capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Further, donate capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

GASBS No. 51 outlines the reporting requirements related to intangible assets, such as water rights. GASBS No. 51 "requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets." In addition, the Statement indicates that "if there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances."

The Audit Act (Section 12-6-10 NMSA 1978) requires agencies to capitalize only chattels and equipment that cost over $5,000. All agencies are required to update their capitalization policy and implement it in accordance with the law.

Section 13-6-1 NMSA 1978 requires local public bodies to give notification at least thirty days prior to its physical disposal of a capitalized asset. Such notification must include the proposed method of disposition for the asset.

EFFECT
The financial statements of the Association were materially misstated prior to the audit adjustments being made.

CAUSE
In prior fiscal years, the Association recorded the capital assets at an estimated cost instead of at actual or historical costs. In addition, the Association is making journal entries prepared by a third party and not properly documenting the entries being made.

RECOMMENDATION
The Association should update their policies and procedures over capital assets and ensure the accuracy of capital asset costs going forward. In addition, the Association should ensure that prior to disposition the State Auditor's Office is notified of any disposals.

MANAGEMENT RESPONSE
The capital asset amounts on the balance sheet and inventory list were recorded using estimates rather than actual or historical costs.

CORRECTIVE ACTION PLAN
The Association will adopt a policy concerning capital assets and update the list at the end of every fiscal year. The OSA will be notified of any items that are disposed of.

2014-012 LACK OF INTERNAL CONTROLS OVER THE JOURNAL ENTRY PROCESS – SIGNIFICANT DEFICIENCY

CONDITION
Among our testwork of the Association's 19 manual journal entries and the supporting documentation, three journal entries that were made did not contain all the necessary documentation to support why the entry was being made. The total amount of unsupported journal entries was $112,460. In addition, it is unclear as to why the Association made two journal entries (totaling $27,710) based on the documentation provided. Furthermore, all 19 journal entries were not approved by a Board Member of the Association.

CRITERIA
Accurate journal entries are essential in correcting errors, facilitating the month-end closing process, and preparing materially correct financial statements. Journal entries should be reviewed by someone other than the preparer and that has the accounting knowledge to determine that the entry is appropriate and correct. The entry should be accompanied by supporting documentation to facilitate the review process. The review should be performed prior to the entry being recorded in the accounting records to reduce the need for additional correcting journal entries.

EFFECT
When journal entries are not supported by documentation and are not reviewed by someone other than the preparer, there is an increase in the risk of misstated financial statements.

CAUSE
The Association did not review all journal entries created during the fiscal year and ensure they had adequate documentation.

RECOMMENDATION
The Association should implement a process by which all journal entries are reviewed by someone other than the preparer. This individual should have the expertise to understand the journal entry and make a decision regarding its appropriateness.

MANAGEMENT RESPONSE
The Association was not aware of the procedures concerning approval of journal entries.

CORRECTIVE ACTION PLAN
The Accounts Manager will keep a file of all journal entries and documentation. Journal entries will be a part of the financial reporting that is approved at the monthly board meetings.

2014-013 BACK-UP COMPUTER PROCEDURES – FINDING THAT DOES NOT RISE TO THE LEVEL OF A SIGNIFICANT DEFICIENCY

CONDITION

The Association maintains a back-up of the computer files on-site at the Association's office; however, these files are not kept in a fire proof safe.

CRITERIA

Good internal controls indicate that where computer files are critical to the operations of an agency, those files should be regularly backed up and maintained in a secure location in a fire proof safe on-site or off-site so that the files can be recovered in the case of a disaster at the agency's place of operation.

EFFECT

In the event of a major disaster the existing data could all be destroyed, leaving the Association without access to any data.

CAUSE

The Association was not aware that the back-up of the computer files should either be kept off-site or in a fire proof safe.

RECOMMENDATION

The Association should establish a regular scheduled backup of its data and maintain this backup on-site in a fire proof safe or off-site.

MANAGEMENT RESPONSE

The Association's Accounts Manager internally backs up the billing and Quickbooks files on a weekly basis.

CORRECTIVE ACTION PLAN

We have currently on-site a fire proof safe and will immediately start using it for the storage of the back-up.

EXIT CONFERENCE

An exit conference was held on June 24, 2015. The following were in attendance:

Representing Agua Fria Community Water System Association:

Rudy Martinez	Vice-President
Gil Tercero	Treasurer
Ana Berry	Accounts Manager

Representing the Office of the State Auditor:

Anna Williams, CPA	Audit Manager
Sara Specht, CFE	Audit Supervisor

PREPARATION OF THE FINANCIAL STATEMENTS

The Office of the State Auditor, the Association's independent public auditor assisted in the preparation of the financial statements presented in this report. The Association's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.