

**STATE OF NEW MEXICO**  
**Agua Sana Water Users Association**

**Accountants' Compilation Report (ACR)**  
**And**  
**Independent Accountants' Report on Applying Agreed-Upon Procedures**

**For the Fiscal Year Ended December 31, 2017**

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**State of New Mexico  
Agua Sana Water Users Association**

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**December 31, 2017**

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**State of New Mexico  
Agua Sana Water Users Association**

**Official Roster**

**December 31, 2017**

**Name**

**Title**

**Board of Directors**

Patricio Garcia	President
Joddie Valdez	Vice President
Mike Vigil	Treasurer
Darel Madrid	Secretary
Diana Jaramillo	Member

**Staff**

Gloria Gonzales	Water Operator/ Office Manager
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**JOSEPH M. SALAZAR**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**P.O. Box 1744**  
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**Independent Accountant's Compilation Report**

Patricio Garcia, President  
Board Members  
Agua Sana Water Users Association  
and  
Honorable Wayne Johnson  
New Mexico State Auditor

Management of the Association is responsible for the accompanying financial statements of the business type activities, the major fund of Agua Sana Water Users Association (Association) as of for the year ended December 31, 2017, and related notes to the financial statements, which collectively comprise the Associations basic financial statements as listed in the table of contents in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements

Management has omitted the management's discussion and analysis information that is required to be presented for purposes of additional analysis. 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.



Joseph M. Salazar CPA  
December 3, 2018

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

**Exhibit 1**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 81,293
Accounts receivable	23,876
<b>Total current assets</b>	<b>105,169</b>

Non Current Assets

Capital assets	6,863,325
less accumulated depreciation	(2,407,187)
<b>Total capital assets net of depreciation</b>	<b>4,456,138</b>
<b>Total assets</b>	<b>\$ 4,561,307</b>

**LIABILITIES**

Liabilities

loan payable-current	\$ 37,417
<b>Total current liabilities</b>	<b>37,417</b>
Long term liabilities	
loan payable	1,084,813
<b>Total long term liabilities</b>	<b>1,084,813</b>
<b>Total liabilities</b>	<b>1,122,230</b>

**NET POSITION**

Net investment in capital assets	3,333,908
Unrestricted	105,169
<b>Total net position</b>	<b>3,439,077</b>
<b>Total liabilities and net position</b>	<b>\$ 4,561,307</b>

"See independent accountant's compilation report"

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

<b>STATE OF NEW MEXICO</b>		<b>Exhibit 2</b>
<b>AGUA SANA WATER USERS ASSOCIATION</b>		
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>		
<b>For the Year Ended December 31, 2017</b>		
<b>Operating revenue</b>		
Water sales	\$	256,704
Connect and reconnect fees		25,062
Membership and meter sales		1,648
Total operating revenue		<u>283,414</u>
<b>Operating expenses</b>		
Utilities		
Electricity		31,563
Gas, water and telephone		1,319
System parts and supplies		5,170
System repairs and maintenance		5,690
Depreciation		134,048
Office and administrative expenses		7,257
Professional services		109,092
Miscellaneous		53
Dues, fees, permits and license		727
Taxes		11,496
Training,		1,379
Annual debt loan		56,273
Annual debt loan		
Total expenses		<u>364,067</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income		23
Total nonoperating revenue (expenses)		<u>23</u>
Change in net position		<u>(80,630)</u>
Net position-beginning of year		3,484,707
Restatement		35,000
Restated net position		<u>3,519,707</u>
Net position-end of year	\$	<u>3,439,077</u>
"See independent accountant's compilation report"		
The accompanying notes to the financial statements are an integral part of the financial statements.		
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STATE OF NEW MEXICO		EXHIBIT 3
AGUA SANA WATER USERS ASSOCIATION		
STATEMENT OF CASH FLOW		
FOR THE YEAR ENDED DECEMBER 31, 2017		
<b>Cash flows from operating activities</b>		
Receipts from customers and users		\$ 291,392
Payment to contract employees, board members		(116,349)
Payments to suppliers and contractors		(113,670)
Net cash provided (used) by operating activities		<u>61,373</u>
<b>Cash Flows from investing activities</b>		
Interest income		23
Net cash provided (used) by investing activities		<u>23</u>
<b>Cash flows from capital investing activities</b>		
Acquistion of capital assets		-
Decrease in loans payable		(35,927)
Net cash used in capital financing activities		<u>(35,927)</u>
Net increase (decrease) in cash and cash equivalents		25,469
Cash and cash equivalents, beginning of year		<u>55,824</u>
Cash and cash equivalents, end of year		<u>81,293</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>		
Net income (loss)		(80,653)
Adjustmenrts to reconcile operating income to net cash provided (used) by operating activites:		
Depreciation		134,048
Decrease in accounts receivable		7,978
Net cash provided (used) by operating activities		<u>\$ 61,373</u>
" See independent accountant's compilation report"		
The accompanying notes to the financial statements are an integral part of the financial statements		
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**State of New Mexico**  
**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

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

**A. Financial Reporting Entity**

The financial statements of Agua Sana Water Users Association (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 Associations accounting policies are described below

**A. Reporting Entity**

The Agua Sana Water Users Association is a not-for-profit mutual domestic water consumers association (MDWC), Incorporated under the provisions of the Sanitary Projects Act (SPA) of the State of New Mexico on February 2, 1993. It was established for the purpose of constructing, maintaining and operating a water system for the members of the Association in Hernandez, New Mexico. The business and affairs of the association are conducted and managed by a Board. Members of the Board shall consist of five directors elected by the membership of the Association. The Association has no capital stock. Any person shall be admitted to membership in the association upon payment to the Association of a reasonable fee, as determined by the board of directors.

Mutual domestic water consumers associations created pursuant to the Sanitary Projects Act (Section 3-29-1 MSA 1978) are defined as local public bodies subject to audit pursuant to the Audit Act Section 12-6-3, NMSA 1978

**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, basis financial statements consist of: (a) enterprise 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.



**State of New Mexico**  
**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

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

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 services).

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 flow. 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.

**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 measurement 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 cash equivalents**

Cash and cash equivalents include amounts in a checking account and a saving account. For the purpose of cash flows, the two accounts are considered 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.

**State of New Mexico  
Agua Sana Water Users Association  
Notes to Financial Statements  
December 31, 2017**

**(1) Summary of Significant Accounting Policies (continued)**

**Accounts Receivables**

Substantially all of the Association's receivables are from customers for water sales. Collateral is generally not required. Accounts receivable are considered fully collectible.

**Capital Assets**

Capital assets are recorded at original costs, or fair value if donated. The Association's capitalization policy for movable equipment includes all items with a unit cost of \$5,000 or more, and an estimate 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 expenses in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Water system infrastructure	30-75 years
Machinery and equipment	10 years

**Compensated Absences/ Retirement Plan**

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

**Deferred Outflows and 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/expenditures) 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 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 or resources at fiscal year end.

**State of New Mexico**  
**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

(1) **Summary of Significant Accounting Policies (continued)**

**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 policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

**Revenues**

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

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

Non-operating revenue- includes 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 of transactions such 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 assets 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 No. 34.

**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

**Use of Estimates**

Management of the Association has made certain estimate and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Accordingly, actual results could differ from those estimates.

**Budgetary Information**

The budget is prepared on a basis that differs from accounting principles generally accepted in the United States of America (GAAP). GAAP basis revenues and expenditures include accrued amounts. The revenues and expenditures reported in the budgetary comparisons are generally recorded on the cash basis. The District uses the following procedures to establish the budgeted amounts reflected in the budgetary comparisons:

1. Prior to December 1, the Association submits an interim (proposed) budget to the Department of Finance and Administration (DFA), Local Government Division for the fiscal year beginning January 1.
2. The Association reviews the interim proposed budget and makes any necessary adjustments if necessary prior to January 31. The Association pass a resolution adopting the budget and makes it part of its governing bodies meeting minutes.
3. Budget adjustment are submitted to DFA LGD when the Association recognizes an increases or decreases to revenues and/or expenditures with a resolution detailing the adjustments including revenue and/or expenditures line items affected and the dollar amount of each adjustment.

The legal level at which actual expenditures may not exceed budgeted expenditures is at the total fund level. The Board can revise its budget with the approval of DFA-LGD. Encumbrance accounting is not utilized by the District.

**State of New Mexico  
 Agua Sana Water Users Association  
 Notes to Financial Statements  
 December 31, 2017**

**Note 2 Cash and Cash Equivalents**

**Cash and cash equivalents**

Cash and cash equivalents of the Association at December 31, 2017:

<u>Name of Depository</u>	<u>Account Name</u>	<u>Bank Balance</u>	<u>Outstanding Checks</u>	<u>Deposit in Transit</u>	<u>Financial Statement Balance</u>
New Mexico Bank and Trust					
	Agua Sana-Checking account-Operating	\$ 18,499	\$ 1,046	\$2,497	\$19,950
	Agua Sana- Saving account	<u>61,343</u>	<u>-</u>	<u>-</u>	<u>61,343</u>
	Total Community Bank	<u>79,842</u>	<u>\$ 1,046</u>	<u>\$2,497</u>	<u>\$81,293</u>
	FDIC coverage	<u>79,842</u>			
	Amount uninsured	<u>-</u>			

The Association accounts with New Mexico Bank and Trust were fully insured under the FDIC.

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 aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year.

**Custodial credit risk**

Custodial credit risk is the risk that in the event of a bank (or other custodial agent) failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Association's cash balance of \$81,303 was fully insured.

**Note 3 Receivables**

The Association had customer accounts receivable during the fiscal year. As of December 31, 2017 the Association had receivables of \$23,876. The receivable amount is considered fully collectible.

**State of New Mexico**  
**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 4 Capital Assets**

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Balance</u> <u>6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2017</u>
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Water system	6,778,325	35,000	-	6,813,325
Machinery and equipment	<u>15,000</u>	-	-	<u>15,000</u>
Total capital assets	<u>6,828,325</u>	<u>35,000</u>	<u>-</u>	<u>6,863,325</u>
Accumulated depreciation				
Water system	(2,258,139)	(134,048)	-	(2,392,187)
Machinery and equipment	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Total accumulated depreciation	<u>(2,273,139)</u>	<u>(134,048)</u>	<u>-</u>	<u>(2,407,187)</u>
Net capital assets	<u>\$ 4,555,186</u>	<u>\$ (99,048)</u>	<u>\$ -</u>	<u>\$4,456,138</u>

**Note 5 Loans Payable**

The Association had the following loans as of December 31, 2017 as follows:

On March 16, 2001, the Association entered into a promissory note with the United States Department of Agriculture for \$684,000 for forty years at 4.50% per annum. The Association shall make a monthly payment of \$3,140 starting on June 16, 2003 and make monthly payments thereafter on the 16<sup>th</sup> day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2017 was \$542,138.

Debt service requirements to maturity are as follows:

<u>Year ended December 31</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>	<u>Total</u>
2018	13,561	24,299	37,860
2019	14,184	23,676	37,860
2020	14,836	23,024	37,860
2021	15,517	22,343	37,860
2022-2026	88,957	99,443	188,400
2027-2031	111,358	77,042	188,400
2032-2036	139,396	49,004	188,400
2037-2041	<u>144,329</u>	<u>28,990</u>	<u>173,319</u>
Totals	<u>\$542,138</u>	<u>\$372,715</u>	<u>\$927,819</u>

**State of New Mexico  
 Agua Sana Water Users Association  
 Notes to Financial Statements  
 December 31, 2017**

**Loans Payable Continued**

On November 19, 1998, the Association entered into a promissory note with the United States Department of Agriculture for \$425,000 for forty years at 4.750% per annum. The Association shall make a monthly payment of \$2,019 starting on December 19, 2000 and make monthly payments thereafter on the 19<sup>th</sup> day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2017 was \$318,875.

Debt service requirements to maturity are as follows:

<u>Year ended December 31</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2018	9,281	14,947	24,228
2019	9,733	14,495	24,228
2020	10,205	14,023	24,228
2021	10,701	13,527	24,228
2021-2025	61,816	59,324	121,140
2026-2031	78,351	42,789	121,140
2032-2036	99,308	21,832	121,140
2037-2038	<u>39,480</u>	<u>7,582</u>	<u>47,062</u>
Totals	<u>\$ 318,875</u>	<u>\$188,948</u>	<u>\$ 507,823</u>

The Association on January 30, 2009 entered into a loan from the New Mexico Finance Authority Water Trust Board for \$10,370 for 20 years and an administrative fee of .25% per year. The outstanding balance was \$5,918 as of December 31, 2017.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative Fee	Total
2018	536	15	551
2019	537	14	551
2020	539	12	551
2021	540	11	551
2022-2026	2,720	35	2,755
2027-2029	<u>1,046</u>	<u>4</u>	<u>1,101</u>
Total	<u>\$ 5,918</u>	<u>\$ 91</u>	<u>\$ 6,009</u>

**State of New Mexico  
 Agua Sana Water Users Association  
 Notes to Financial Statements  
 December 31, 2017**

**Loans Payable Continued**

On November 19, 1998, the Association entered into a promissory note with the United States Department of Agriculture for \$250,000 for forty years at 4.750% per annum. The Association shall make a monthly payment of \$1,188 starting on December 19, 2000 and make monthly payments thereafter on the 16<sup>th</sup> day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2017 was \$187,463.

Debt service requirements to maturity are as follows:

<u>Year ended December 31</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2017	\$ 5,216	\$9,040	\$14,256
2018	5,469	8,787	14,256
2019	5,736	8,520	14,256
2020	6,012	8,244	14,256
2021	6,304	7,952	14,256
2022-2026	36,427	34,853	71,280
2027-2031	46,173	25,107	71,280
2032-2036	58,522	12,758	71,280
2037-2038	<u>22,820</u>	<u>4,391</u>	<u>27,211</u>
Totals	<u>\$ 187,463</u>	<u>\$110,612</u>	<u>\$ 298,045</u>

The Association has a loan from the New Mexico Finance Authority Water Trust Board for \$30,000 for 20 years and an administrative fee of .25% per year. The outstanding balance was \$22,640 as of December 31, 2017.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative Fee	Total
2018	1,483	57	1,540
2019	1,487	53	1,540
2020	1,491	49	1,540
2021	1,494	46	1,540
2022-2026	7,527	173	7,700
2027-2031	7,622	78	7,700
2032	<u>1,536</u>	<u>4</u>	<u>1,540</u>
Total	<u>\$ 22,640</u>	<u>\$ 460</u>	<u>\$ 23,100</u>



**State of New Mexico  
 Agua Sana Water Users Association  
 Notes to Financial Statements  
 December 31, 2017**

**Loans Payable Continued**

The Association entered into a loan on June 21, 2003 with the New Mexico Environment Department Rural infrastructure program for \$58,058 for 20 years at an interest rate of 3.0% per annum. The outstanding balance was \$16,026 as of December 31, 2017.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
2018	3,018	481	3,499
2019	3,109	390	3,499
2020	3,202	297	3,499
2021	3,298	201	3,499
2022	<u>3,399</u>	<u>100</u>	<u>3,499</u>
Total	<u>\$ 16,026</u>	<u>\$ 1,469</u>	<u>\$ 17,495</u>

The Association entered into a loan on June 10, 2014 with the National Rural Water Association for \$42,187 for 10 years at an interest rate of 3.0% per annum. The outstanding balance was \$29,170 as of December 31, 2017.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
2018	4,069	819	4,888
2019	4,193	695	4,888
2020	4,320	568	4,888
2021	4,451	437	4,888
2021-2024	<u>12,137</u>	<u>491</u>	<u>12,628</u>
Total	<u>\$ 29,170</u>	<u>\$ 3,010</u>	<u>\$ 32,180</u>

**State of New Mexico**  
**Agua Sana Water Users Association**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 6 Risk Management**

The Agua Sana Water Users Association is exposed to various risks of loss. The Association carries insurance with the various insurance companies. Coverage is provided for general liability, surety bond and property.

**Note 7 Contingent Liabilities**

There are no known contingent liabilities and therefore, no provision for contingencies in these financial statements.

**Note 8 Restatement**

The Association capital asset inventory did not include a water pump in its previous fiscal year's capital asset inventory.

**STATE OF NEW MEXICO**

**AGUA SANA MUTUAL DOMESTIC WATER USERS  
ASSOCIATION**

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED UPON PROCEDURES REPORT**

**YEAR ENDED December 31, 2017**

**JOSEPH M. SALAZAR CPA  
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**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
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**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**

**Official Roster**

**December 31, 2017**

**Name**

**Title**

**Board of Directors**

Patricio Garcia

President

Joddie Valdez

Vice President

Mike Vigil

Treasurer

Darel Madrid

Secretary

Diana Jaramillo

Member

**Staff**

Gloria Gonzales

Water Operator/ Office Manager

**JOSEPH M. SALAZAR**  
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**INDEPENDENT ACCOUNTANTS' REPORT**  
**ON APPLYING AGREED UPON PROCEDURES**

Patricio Garcia, President  
Agua Sana Water Users Association  
and  
Honorable Wayne Johnson  
New Mexico State Auditor

We have performed the procedures enumerated below for the Agua Sana Water Users Association (Association) for the year ended December 31, 2017. The Association was determined to be a Tier 6 entity under the Audit Act Section 12-6-3 (B) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Agua Sana Water Users Association management is responsible for the organization's accounting records. This 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 the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Our procedures and findings are as follows:

**Procedures**

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

**Findings**

We determined that the local public body is a tier 6 agreed upon procedures 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 the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reporting submitted to DFA-Local Government Division.
- c) Determine whether the local public body's financial institution have provided it with 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA1978, NM Public Money Act, if applicable.

### **Findings**

- a) The Association has a checking and a savings account and utilizes (Easy Bill) software to post transactions to its billing system and uses quick book software to maintain its financial records of its receipts and disbursement for the calendar year. The two accounts were reconciled on a monthly basis and were available and on hand for the entire calendar year. The bank statements were available for the two bank accounts for the entire calendar year.
- b) We tested 30% of the bank reconciliations for accuracy for the months of March 2017, June 2017, September 2017 and December 2017 and determined that bank reconciliations were accurate and performed on a timely manner and traced the amounts to supporting documentation and the financial records submitted to DFA local government division. No exceptions noted.
- c) The two accounts had FDIC coverage of \$250,000. Bank accounts never exceeded uninsured limits and, therefore, pledged collateral was not required on any of the bank accounts at any time during the year.

## **3. Capital Assets**

### **Procedures**

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

### **Findings**

The Association performed a yearly inventory as required by State Statute. No exceptions noted.

## **4. Debt**

### **Procedures**

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

## **Findings**

The required debt payments were made during the year on existing loans. No exceptions noted. No reserve requirements were noted based on loan agreements reviewed.

## **5. Revenues**

### **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 the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- c) Proper recording of classification, amounts, 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.

### **Findings:**

- a) We were provided a balance sheet, profit and loss statement for the period ended December 31, 2017 showing three revenue accounts- water sales, connect and reconnect charges and membership and meter sales for the calendar year. We performed an analytical review of actual revenues compared to the budget. No significant variances or exceptions noted.
- b) The Association provided a listing of all deposits and checks issued for the calendar year. The quick books listing of all deposits included the date, what account and amount that was deposited. We judgmentally selected and traced 40 deposits amounts for approximately 42% of the total revenues for the calendar year from the listing to the deposit slips and monthly bank statements. No exceptions noted.
- c) Amounts were recorded on a cash basis to the revenue accounts on a timely basis. The 40 deposits traced to the revenue accounts seem to be properly recorded as to classification, amounts and period per review of supporting documentation. No exceptions noted.



## 6. Expenditures

### Procedures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test 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 canceled 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 order, 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).

### Findings

- a) Our test of forty three payments for approximately 36 % of the total expenditures for the fiscal year revealed that amounts recorded agreed as to amount, payee, date description agree to the vendor invoice, however, We noted during our examination for payments that the Association did not maintain supporting documentation for payments made for all its loan payment. None of the vendor invoices indicated what account the payment was posted to. (See finding 2010-008)
- b) Scanned and reviewed the listing of checks provided by the Association for the calendar year. Based on our review of the listing for the calendar year it seems that the Association disbursements were disbursements necessary for the operations of the Association. (See findings 2010-008 )
- c) Association did maintain documentation to demonstrate compliance with the bid process (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 13-1-99 NMSA 1978) and State purchase regulations.

## 7. Journal Entries

### Procedures

If non-routine journal entries, such as adjustment or reclassification, are posted to the general ledger, test significant items for the following attribute:

- 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.

### Findings

The Association maintained its books on a cash basis only for its receipts and disbursements. The Association did not maintain a complete set of financial records recording all its financial transactions. Therefore journal entries were not prepared for the year ended December 31, 2017. (See finding 2010—006)

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

### Findings

- a) The Association prepared and submitted an approved budget by the Association for approval to DFA-LGD for the year ended December 31, 2017.
- b) Determined that total actual expenditures did exceed the final budget at the legal level of budgetary control. (See finding 2016-001)

- c) A schedule of revenues and expenses was prepared from the Association's records on a cash budgetary basis. This schedule is included herein as Exhibit A.

## **9. Capital Outlay Appropriations**

### **Procedures**

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

Test all capital outlay expenditures during the fiscal year to:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process(or request for proposal process if applicable), purchase order, contract, 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 assets 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.

### **Findings**

The Association did not receive or expend any capital outlay appropriations during the year ended December 31, 2017.

### **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 finding must include the required contents per Section 2.2.2.1-(1) (3) (C) NMAC.

### **Findings**

No exceptions or information were noted as a result of applying the procedures described above (regardless of materiality) indicating fraud or illegal acts. However, see the Schedule of Findings and Responses related to over expended budget (See finding 2016-001), financial statements (See finding 2010-006), adequate supporting documentation (See finding 2010-08) and late submission of agreed upon procedures report (See finding 2010-003).

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 in accordance with AT-C 215.35. 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 Agua Sana Water Users Association, the New Mexico State Auditor's Office, the DFA-Local Government Division and New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.



Joseph M. Salazar, CPA  
December 3, 2018

STATE OF NEW MEXICO				Exhibit A
AGUA SANA WATER USERS ASSOCIATION				
SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)				
FOR YEAR ENDED DECEMBER 31,2017				
	Budget Amounts		Actual	Variance with
	<u>Orginal</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Operating revenue				
Water sales	\$ 251,241	251,241	\$256,704	\$ 5,463
Connect and reconnect charges	3,000	3,000	25,062	22,062
Membership and meter sales	3,000	3,000	1,648	(1,352)
Total operating revenue	257,241	257,241	283,414	26,173
Operating expenses				
Utilities				
Electricity	32,000	32,000	31,563	437
Gas,water,telephone	1,320	1,320	1,319	1
System parts and supplies	5,000	5,000	5,170	(170)
System repairs and maintenance	10,000	10,000	5,690	4,310
Vehicle expenses	2,000	2,000	-	2,000
Office and administrative expenses	5,000	5,000	7,257	(2,257)
Professional services	82,000	82,000	109,092	(27,092)
Insurance	3,000	3,000	-	3,000
Dues, fees,permits and licenses	1,500	1,500	727	773
Taxes	18,000	18,000	11,496	6,504
Training	3,000	3,000	1,379	1,621
Miscellaneous	2,000	2,000	-	2,000
Annual debt service loan 1	45,000	45,000	46,100	(1,100)
Annual debt service loan 2	45,000	45,000	46,100	(1,100)
Miscellaneous	-	-	53	(53)
Total expenses	254,820	254,820	265,946	(11,126)
Revenue over (under) expenses	\$ 2,421	\$ 2,421	\$ 17,468	\$ 15,047
Reconciliation to expense in Exhibit 2 page 3				
Depreciation not included schedule of budget and actual (cash basis)			134,048	
Loan payment not included in statement of revenues, expense and changes in net position			(35,927)	
Expenses per Exhibit 2 page 3			\$ 364,067	
<b>8</b>				

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2017**

**Current Year Findings**

**2016-001                      Budget Over Expended**

**Criteria**

New Mexico State Statute 6-6-6 pertaining to approved budgets; claims or warrants in excess of budget; liability. When any budget states for a local public body has been approved and received by a local public body it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check in excess thereof, and the allowances or claims or checks so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks and recovery for the excess amounts so allowed or paid may be had against the bondsmen of the officials.

**Condition**

The Association is in violation of New Mexico State Statute 6-6-6 pertain to the budget being over expended. The Association over expended its expenditure budget by approximately \$11,126 at the fund level. The Association failed to resolve its budgeted expenditure being over expended due to the misunderstanding that the Association thought that if actual revenue exceed actual expenditures that they were in compliance.

**Cause**

The Association did not adjust its budget toward the end of the calendar year due to lack of understanding as to budget expenditures being over expended. The lack of understanding as to the total actual expenditures exceeding budgeted expenditures and lack of oversight of its expenditures as compared to budget on a timely basis allowed the Association to over expend it expenditure budget.

**Effect**

The Association is in violation of New Mexico State Statute.

**Recommendation**

Recommend that Association comply with New Mexico State Statute 6-6-6 NMSA 1978 Compilation and review its revenues and expenditures on a monthly or quarterly basis and adjust its budget expenditures and control its expenditures to avoid over expending it budget.

**Entity Response**

The Agua Sana Board of Directors has attended training by DFA to the best of their knowledge thought they were in compliance. The Board will continue to monitor and oversee its budget expenditures better, to resolve this finding. It just seems to be a misunderstanding of the whole process between DFA and AUP standards. The Association has been reviewing its budget for calendar year 2018 and plans on being within its budget.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**Schedule of Findings and Reponses**  
**YEAR ENDED DECEMBER 31, 2017**

**2010-003**                      **Late Agreed Upon Procedures Report**

**Criteria**

New Mexico State Auditor Rule Section 2.2.2.16 H (1) requires that the Association's agreed upon procedures report be submitted to the State Auditor's Office no later than five months after the fiscal year (June 1, 2016) deadline.

**Condition**

The agreed upon procedures report for the fiscal year 2017 was not submitted to the State Auditor's office by the deadline of June 1, 2018. The report was submitted and received by the State Auditor's Office on December 11, 2018. The Association has made improvements in submitting its agreed upon procedures report. In prior years the Associations was behind years.

**Cause**

The Association submitted its request for services on a timely basis however the first selection was not approved and the Association did not submit its second request on a timely basis due to the time lapse between the first selection and the second selection and lack of adequate time to gather information for the agreed upon procedures engagement due to office manager work schedule and employed on a part time basis..

**Effect**

The lateness of the agreed upon procedures report creates noncompliance with the State Auditor Rule requirements of completing and submitting the agreed upon procedures report by the due date.

**Recommendation**

Recommend that the Agua Sana Water Users Association comply with the State Auditor Rule requirement of completing and submitting the Agreed upon procedures report by the due date.

**Entity Response**

The request for agreed upon procedures was submitted on time; however the first selected firm was not approved. The Association then asked the State Auditor for an exception to the policy and allow the previous CPA Firm one more year to do the Agreed Upon Procedures engagement. The Association will be in compliance with the state audit rule pertaining to the submission of the AUP report by the due date for calendar 2018.

**STATE OF NEW MEXICO  
AGUA SANA WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2017**

**2010-006                      Financial Statements**

**Criteria**

Generally accepted accounting principles requires that an organization maintain financial records that summarize all its financial transaction of the organization.

**Condition**

The Association did not maintain financial statements that contain all of the organization's transactions on one complete set of books to include all transactions such as a general ledger, statement of financial position, statement of activities and statement of cash flow. The Association financial statements are cash receipts and disbursements posted to quick books for the fiscal year only. The balance sheet contained only two accounts- cash balance and retained earnings. Prior to calendar year 2014, the association did not maintain any form of financial record other than a check stub register and bank statements.

**Cause**

Association is a small organization and unaware of the need for a general ledger or records which show cash, fixed assets, depreciation, accounts receivable, accounts payable, loan payable, revenues, expenses etc in one set of financial statement

**Effect**

Association does not have one complete form of financial statements where all of its financial information is summarized and available to prepare financial statement to prepare a statement of financial position, statement of activities and changes in net assets and statement of cash flow that includes all of the Associations transactions..

**Recommendation**

Recommend that Association expand it financial reporting to include accounts receivable, accounts payable, loan payable and capital assets and depreciation, etc. to enable the Association to have a complete set of financial records.

**Entity Response**

The water operator/office manager does provide financial statements, however these do not meet the standards of the CPA. The Association uses QuickBooks for all its financial expenditures and income. We ask for training from the State in the audit requirement that will be able to comply with this requirement. The water operator/office manager will receive additional training in accounting or will be contracting for accounting services is monies are available.



**STATE OF NEW MEXICO  
AGUA SANA WATER USERS ASSOCIATION  
Schedule of Findings and Reponses  
YEAR ENDED DECEMBER 31, 2017**

**2010-008 Adequate Supporting Documentation for Disbursement (Expenditures)**

**Criteria**

Good accounting practice requires that the Association maintain adequate supporting documentation of all disbursements.

**Condition**

We examined 43 payments made by the Association during the fiscal year. All payments had supporting documentation except for payments made on loans. The loans are automatically withdrawn from the bank account and posted to quick books. Also none of the documentation contained the account code the payment was posted to. Association did not maintain adequate supporting documentation of all its disbursements. The association has improved in its documentation of its disbursements compared to prior years.

**Cause**

Association is a small organization with one part time employee and a part time meter reader to maintain the water system.

**Effect**

Association lack of adequate supporting documentation creates an environment for the possibility of errors and irregularities.

**Recommendation**

Recommend that the Association maintain adequate supporting documentation of all disbursements including loan payment. Documentation should include vendor invoices, cancelled checks, purchase order, etc. Amounts per check agree as to payee, amount and goods or services purchased are necessary expenditures for the operation of the association.

**Entity Response**

The Association Water Operator/Office Manager will document loan payments with interest and add account codes to the disbursement categories to show where payments were posted next calendar year.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**Status of Prior Year Findings**  
**YEAR ENDED DECEMBER 31, 2017**

2016-001	Budget Over Expended	Repeated
2010-003	Late Agreed Upon Procedures Report	Repeated
2010-006	Financial Statements	Repeated
2010-008	Adequate Supporting Documentation of Disbursements (Expenditures)	Repeated

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**

**Exit Conference**

**YEAR ENDED DECEMBER 31, 2017**

**Exit Conference**

The report contents were discussed at an exit conference held December 3, 2018 with the following in attendance:

Agua Sana Water Users Association

Patricio Garcia, President

Mike Vigil, Treasurer

Gloria Gonzales, Office Manager

Accounting Firm

Joseph M. Salazar, CPA

