

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, 2014

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

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December 31, 2014

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State of New Mexico
Agua Sana Water Users Association

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Official Roster

December 31, 2014

Name

Title

Board of Directors

Joddie Valdez	President
Mike Vigil	Secretary
Alberto Martinez	Treasurer
Patricio Garcia	Member
Margaret Montoya	Member

Staff

Lupe Aragon	Water Operator
Gloria Gonzales	Billing Clerk

JOSEPH M. SALAZAR
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Independent Accountant's Compilation Report


Patricio Garcia, President
Board Member
Agua Sana Water Users Association
and
Honorable Tim Keller
New Mexico State Auditor

We have compiled the accompanying financial statements of the business type activities, the major fund, of the State of New Mexico Agua Sana Water Users Association (Association) as of and for the year ended December 31, 2014 which collectively comprise the Association's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America

Management of the Association is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the 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

• March 25, 2016

STATE OF NEW MEXICO
 AGUA SANA WATER USERS ASSOCIATION
 STATEMENT OF NET POSITION
 December 31, 2014

Exhibit 1

ASSETS

Current Assets	
Cash and cash equivalents	\$ 61,690
Accounts receivable	56,833
Total current assets	<u>118,523</u>
Non Current Assets	
Capital assets	6,828,325
less accumulated depreciation	(2,004,041)
Total capital assets net of depreciation	<u>4,824,284</u>
Total assets	<u><u>\$ 4,942,807</u></u>

LIABILITIES

Liabilities	
loan payable-current	\$ 33,132
Total current liabilities	<u>33,132</u>
Long term liabilities	
loan payable	1,192,550
Total long term liabilities	<u>1,192,550</u>
Total liabilities	<u>1,225,682</u>

NET POSITION

Net investment in capital assets	3,598,602
Unrestricted	118,523
Total net position	<u>3,717,125</u>
Total liabilities and net position	<u><u>\$ 4,942,807</u></u>

"See independent accountant's compilation report"

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

STATE OF NEW MEXICO
 AGUA SANA WATER USERS ASSOCIATION
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 For the Year Ended December 31, 2014

Exhibit 2

Operating revenue	
Water sales	\$269,830
Rental fees	300
IRS refund	42
Total operating revenue:	<u>270,172</u>
 Operating expenses	
Acequia water rights/maintenance	315
Bank correction	3,401
Contract services	66,523
Depreciation	134,550
Facilities and equipment insurance	2,396
Tax payments	7,205
Employment and property tax payments	2,095
Dues and registration	714
Operations-supplies and equipment	5,028
USDA/RIP loan	40,217
Reimbursement of rental fees	475
Stipends for board and employees	9,876
Billing clerk payroll	15,463
Meter reader	16,415
System operator/maintenance	25,769
Board training, travel and mileage	943
Utilities for well	43,128
Water rights transfers	175
Water system equipment and software	883
Total expenses	<u>375,571</u>
Nonoperating revenues (expenses)	
Interest income	11
Total nonoperating revenue (expenses)	<u>11</u>
Change in net position	<u>(105,388)</u>
Net position-beginning of year	<u>3,822,513</u>
Net position-end of year	<u><u>\$3,717,125</u></u>

"See independent accountant's compilation report"
 The accompanying notes to the financial statements are an integral part of the financial statements.

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2014

EXHIBIT 3

Cash flows from operating activities

Receipts from customers and users	\$270,172
Payment to employees	(67,523)
Payments to suppliers and contractors	(173,487)
Net cash provided (used) by operating activities	29,162

Cash Flows from investing activities

Interest income	11
Net cash provided (used) by investing activities	11

Cash flows from capital investing activities

Acquisition of capital assets	(45,100)
Increase in loans payable	34,337
Net cash used in capital financing activities	(10,763)

Net increase (decrease) in cash and cash equivalents	18,410
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Cash and cash equivalents, beginning of year	43,280
--	--------

Cash and cash equivalents, end of year	\$61,690
--	----------

Reconciliation of operating income to net cash provided (used) by operating activities

Net income (loss)	(105,388)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	134,550
Net cash provided (used) by operating activities	\$ 29,162

" See independent accountant's compilation report"

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

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2014

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

A. Financial Reporting Entity

The financial statements Agua Sana Water Users Association (Association) is has 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, 2014

(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, 2014

(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, 2014

(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 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, 2014

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 Association did not prepare a budget for the fiscal year.

Note 2 Cash and Cash Equivalents

A. Cash and cash equivalents

Cash and cash equivalents of the Association at December 31, 2014:

<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>
Community Bank					
Agua Sana-Checking account-Operating		\$ 27,611	\$ 167	\$1,718	\$ 29,162
Agua Sana- Saving account		<u>32,528</u>	<u>-</u>	<u>-</u>	<u>32,528</u>
	Total Community Bank	<u>60,139</u>	<u>\$ 167</u>	<u>\$1,718</u>	<u>\$61,690</u>
	FDIC coverage	<u>60,139</u>			
	Amount uninsured	<u>-</u>			

The Association accounts with Community Bank 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, 2014, the Association's cash balance of \$61,690 was fully insured.

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2014

Note 3 Receivables

During the fiscal year, the Association had customer accounts receivable at December 31, 2014 of \$56,833. The receivable amount is considered fully collectible.

Note 4 Capital Assets

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

	Balance 6/30/2013	Additions	Deletions	Balance <u>6/30/14</u>
Land	\$ 35,000	-	-	\$ 35,000
Water system	6,733,225	45,100	-	6,778,325
Machinery and equipment	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Total capital assets	<u>6,783,225</u>	<u>45,100</u>	<u>-</u>	<u>6,828,325</u>
Accumulated depreciation				
Water system	(1,854,491)	(134,550)	-	(1,989,041)
Machinery and equipment	(15,000)	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Total accumulated depreciation	<u>(1,869,491)</u>	<u>(134,550)</u>	<u>-</u>	<u>(2,004,041)</u>
Net capital assets	<u>\$ 4,913,734</u>	<u>\$(89,450)</u>	<u>\$ -</u>	<u>\$4,824,284</u>

**State of New Mexico
 Agua Sana Water Users Association
 Notes to Financial Statements
 December 31, 2014**

Note 5 Loans Payable

The Association had the following loans as of December 31, 2014 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 16th day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2014 was \$579,412.

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>
2015	\$ 11,851	\$25,829	\$37,680
2016	12,396	25,284	37,680
2017	12,966	24,894	37,860
2018	13,561	24,299	37,860
2019	14,184	23,676	37,860
2020-2024	81,315	107,085	188,400
2025-2029	101,790	127,420	188,400
2030-2034	127,420	60,980	188,400
2035-2039	159,505	28,895	188,400
2040-2041	<u>44,424</u>	<u>1,304</u>	<u>45,728</u>
Totals	<u>\$579,412</u>	<u>\$408,856</u>	<u>\$988,268</u>

On November 19, 1998, the Association entered into a promissory note with the United States Department of Agriculture for \$450,000 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 19th day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2014 was \$344,118.

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2014

Loans Payable Continued

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>
2015	\$8,051	\$16,177	\$ 24,228
2016	8,443	15,785	24,228
2017	8,852	15,376	24,228
2018	9,281	14,947	24,228
2019	9,733	14,495	24,228
2020-2024	56,244	64,896	121,140
2025-2029	71,264	49,876	121,140
2030-2034	90,325	30,815	121,140
2035-2038	81,925	7,582	89,507
Totals	<u>\$ 344,118</u>	<u>\$229,949</u>	<u>\$ 574,067</u>

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 16th day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2014 was \$202,338.

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>
2015	\$4,745	\$9,511	\$ 14,256
2016	5,005	9,251	14,256
2017	5,186	9,070	14,256
2018	5,469	8,787	14,256
2019	5,736	8,520	14,256
2020-2024	33,132	38,148	71,280
2025-2029	41,994	29,286	71,280
2030-2034	53,227	18,053	71,280
2035-2038	47,844	4,391	52,235
Totals	<u>\$ 202,338</u>	<u>\$135,017</u>	<u>\$ 337,355</u>

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2014

Loans Payable Continued

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 \$27,067 as of December 31, 2014.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative	
		Fee	Total
2015	1,472	68	1,540
2016	1,476	64	1,540
2017	1,479	61	1,540
2018	1,483	57	1,540
2019	1,487	53	1,540
2020-2024	7,490	167	7,700
2025-2029	7,584	114	7,700
2030-2032	<u>4,596</u>	<u>123</u>	<u>4,620</u>
Total	<u>\$ 27,067</u>	<u>\$ 707</u>	<u>\$ 27,774</u>

The Association on January 30, 20009 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 \$7,514 as of December 31, 2014.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative	
		Fee	Total
2015	532	19	551
2016	533	18	551
2017	535	16	551
2018	536	15	551
2019	537	14	551
2020-2024	2,667	48	2,755
2025-2029	<u>2,174</u>	<u>13</u>	<u>2,187</u>
Total	<u>\$ 7,514</u>	<u>\$ 143</u>	<u>\$ 7,657</u>

**State of New Mexico
 Agua Sana Water Users Association
 Notes to Financial Statements
 December 31, 2014**

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 \$24,563 as of December 31, 2014.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
2015	2,762	737	3,499
2016	2,845	654	3,499
2017	2,930	569	3,499
2018	3,018	481	3,499
2019	3,109	390	3,499
2020-2022	<u>9,899</u>	<u>600</u>	<u>10,497</u>
Total	<u>\$ 24,563</u>	<u>\$ 3,341</u>	<u>\$ 27,905</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 \$40,670 as of December 31, 2014.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
2015	3,720	1,168	3,499
2016	3,821	1,057	3,499
2017	3,949	939	3,499
2018	4,069	819	3,499
2019	4,193	695	3,499
2020-2024	<u>20,908</u>	<u>3,534</u>	<u>10,497</u>
Total	<u>\$ 40,670</u>	<u>\$ 8,212</u>	<u>\$ 48,882</u>

E. 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.

F. Contingent Liabilities

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

STATE OF NEW MEXICO

**AGUA SANA MUTUAL DOMESTIC WATER USERS
ASSOCIATION**

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

YEAR ENDED December 31, 2014

**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, 2014

Name

Title

Board of Directors

Joddie Valdez	President
Mike Vigil	Secretary
Alberto Martinez	Treasurer
Patricio Garcia	Member
Margaret Montoya	Member

Staff

Lupe Aragon	Water Operator
Gloria Gonzales	Billing Clerk

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

Patricio Garcia, President
Agua Sana Water Users Association
and
Honorable Tim Keller
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, 2014. 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:

1. Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial 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 obtained quick book software in June 2014 and maintained financial records of its receipts and disbursement for the fiscal year. The Association did not perform cash reconciliations for the first six months of the fiscal year. The Association did perform cash reconciliations for the last six months of the fiscal year. Bank statements were available for the two bank accounts for the entire fiscal year. The Association did not maintain supporting documentation of its accounts being reconciled for the first six month of the fiscal year on a monthly basis. (See finding 2010-005)
- b) We performed a test of the bank reconciliations for the months of December 2014 and September 2014 and determined that bank reconciliations were performed on a timely manner and traced the amounts to supporting documentation and the financial records. No exceptions noted. The Association did not prepare and submit a proposed budget for approval to DFA local government division. No other reports were filed with the DFA local government division. (See finding 2010-001 and 2010-005)
- 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.

2. 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 did perform a yearly inventory as required by State Statute. No exceptions noted.

3. 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.

4. 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 based on auditor judgment and test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank 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, 2014 showing only four revenue accounts- water sales, rental fee, interest income and IRS refund, for the fiscal year. The Association did not prepare a budget for the year than ended December 31, 2014. We were unable to perform an analytical review and test actual revenues compared to budgeted revenues for the year. (See finding 2010-001)
- b) The Association provided a listing of all deposits and checks issued for the fiscal year. The quick books listing of all deposits included the date, what account and amount that was deposited. We judgmentally selected and traced 30 deposits amounts for the fiscal 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 monthly basis. The 30 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.

5. Expenditures

Procedures

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

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and 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) The Association did not maintain supporting documentation as vendor's invoices, purchase orders and contracts for all its purchases of goods and services. The Association had only some invoices and cancelled per the bank statements and a listing of the check register per quick books and revenue accounts per quick book. The Association did not use purchase orders or contracts. Unable to determine compliance with the procurement code. (See finding 2010-008 and 2010-002)
- b) Scanned and reviewed the listing of checks provided by the Association for the fiscal year. Based on our review of the listing for the fiscal year it seems that the Association disbursements were disbursements necessary for the operations of the association. (See findings 2010-001 and 2010-008)
- c) Association did not 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.(See finding 2010-002)

6. 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, 2014. (see finding 2010—006)

7. 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 did not prepare and submitted an approved budget by the Association for approval to DFA-LGD for the year ended December 31, 2014. (See finding 2010-001)
- b) Unable to determine that total actual expenditures did not exceed the final budget at the legal level of budgetary control since a budget was not prepared and submitted for approval.
- 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. The Association did not submit a budget report for approval and no quarterly reports for the year ended December 31, 2014 to DFA-LGD.

8. 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, 2014.

Other

Procedures

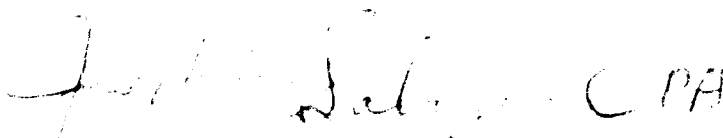
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 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 budget, procurement code compliance, cash reconciliation, financial statements, adequate supporting documentation, late agreed upon procedures report, and late submission of IPA recommendation form.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of 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
March 25, 2016

STATE OF NEW MEXICO Exhibit A
 AGUA SANA WATER USERS ASSOCIATION
 SCHEDULE REVENUE AND EXPENSES- BUDGET AND ACTUAL (CASH BASIS)
 FOR YEAR ENDED DECEMBER 31,2014

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Operating revenue				
Water sales	-	-	\$269,830	-
Rental fees	-	-	300	-
IRS refund	-	-	42	-
Interest income	-	-	11	-
Total operating revenue	<u>-</u>	<u>-</u>	<u>270,183</u>	<u>-</u>
Operating expenses				
Acequia water rights/maintenance	-	-	315	-
Bank correction	-	-	3,401	-
Contract services	-	-	66,523	-
Depreciation	-	-	134,550	-
Facilities and equipment insurance	-	-	2,396	-
Tax payments	-	-	7,205	-
Employment and property tax payments	-	-	2,095	-
Dues and registration	-	-	714	-
Operations-supplies and equipment	-	-	5,028	-
USDA/RIP loan	-	-	40,217	-
Reimbursement of rental fees	-	-	475	-
Stipends for board and employees	-	-	9,876	-
Billing clerk payroll	-	-	15,463	-
Meter reader	-	-	16,415	-
System operator/maintenance	-	-	25,769	-
Board training,travel and mileage	-	-	943	-
Utilities for well	-	-	43,128	-
Water rights transfers	-	-	175	-
Water system equipment and software	-	-	883	-
Total expenses	<u>-</u>	<u>-</u>	<u>375,571</u>	<u>-</u>
Revenue over (under) expenses	<u>-</u>	<u>-</u>	<u>\$ (105,388)</u>	<u>-</u>

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

Current Year Findings

2010-001 Budget Submissions/Approved and Quarterly Financial Reports to DFA-LGD

Criteria

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the DFA-LGD on or before May 1, of each year, a proposed budget for the next fiscal year. Upon receipt of budget approval by DFA-LGD, the local public body shall cause such budget to be made part of the minutes of the such body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-2 NMSA, 1978 states that every local public body shall make all reports as may be required by the Department of Finance and Administration-Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

Agua Sana Water Users Association (Association) did not prepare or submit a budget for the DFA-LGD approval nor did they submit required quarterly financial and budget reports to the DFA-LGD at any time during the year or at year end.

Cause

The Association was not aware of the DFA-LGD requirements.

Effect

The Association has not complied with Section 6-6-2 and Section 6-6-3 NMSA 1978.

Recommendation

We recommend that the Association submit their proposed budget to DFA-LGD for approval and quarterly financial reports as required to DFA-LGD.

Entity Response

In the future Agua Sana WUA will submit budget and financial reports as required by DFA-LGD. Agua Sana has submitted Budget and Financial Reports to DFA LGD as of 2015.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2014**

2010-002 Procurement Code Compliance

Criteria

All local public bodies in the State of New Mexico are required to comply with the New Mexico Procurement Code.

Condition

Association did not 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 purchasing regulations.

Cause

The Association was not aware of the requirements of complying with the procurement code.

Effect

The Association did not comply with the procurement code.

Recommendation

We recommend that the Association comply with the New Mexico procurement code.

Entity Response

Agua Sana will follow the Procurement Code as required by the New Mexico State Procurement Code and Regulations in the future. As of 2014, Agua Sana has complied with the New Mexico State Procurement Code and Regulations.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

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, 2014) deadline.

Condition

The agreed upon procedures report for the fiscal year 2014 was not submitted to the State Auditor's office by the deadline of June 1, 2014. The report was submitted and received by the State Auditor's Office on March 28, 2016.

Cause

Agua Sana Water Users Association was not aware of the requirement.

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 audit report by the due date.

Entity Response

Agua Sana will strive to be in compliance for the next calendar year AUP engagement.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2010-005 Monthly Cash Reconciliations

Criteria

Good internal control requires that cash accounts be reconciled on a monthly basis.

Condition

Association did not maintain supporting documentation on a monthly basis of bank reconciliations performed for the first six months of the fiscal year.

Cause

The Association did not maintain financial records for the first six months of the fiscal year in order to perform cash reconciliations.

Effect

The lack of bank reconciliations of the Associations bank accounts could allow for errors or irregularities that would not be detected on a timely manner on its financial records.

Recommendation

Recommend that Association perform monthly reconciliations of its bank accounts and maintain documentation documenting the reconciliation of its bank accounts to its financial records.

Entity Response

Quickbooks software will help Agua Sana WUA get on track with better accounting procedures for reconciliations, financial reporting and preparing budgets. Agua Sana has implemented a policy for reconciling financial transactions on a regular basis.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

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.

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

Agua Sana will expand it financial reporting to include accounts receivable, accounts payable, loan payable, capital assets and depreciation.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2010-008 Adequate Supporting Documentation for Disbursement (Expenditures)

Criteria

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

Condition

Association did not maintain adequate supporting documentation of all its disbursements.

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 such as 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

Agua Sana has been keeping better documentation as of calendar year 2015.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2010-009 Late Submission of IPA Recommendation Form

Criteria

New Mexico State Auditor Rule Section 2.2.2.16 (d) (6) requires that Local Public Bodies submit the required IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor are due one day after the fiscal year (January 1).

Condition

The IPA Recommendation Form for Tiered Systems of Local Public Bodies and agreed upon procedures contract was not submitted to the State Auditor prior to the due date of January 1, 2015.

Cause

Agua Sana Water Users Association was unable to submit its IPA Recommendation Form for Tiered System Local Public Bodies and the completed agreed upon procedures contract to the State Auditor on a timely basis.

Effect

The lateness of submitting the IPA Recommendation Form for Tiered System of Local Public Bodies and the agreed upon procedures contract creates noncompliance with the State Auditor Rule requirements of completing and submitting the IPA recommendation Form for the Tiered System of Local Public Bodies and the agreed upon procedures contract 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 IPA Recommendation Form and the completed agreed upon procedures contract by the due date.

Entity Response

Agua Sana WUA will comply with the State Auditor Rule, IPA recommendation form and the agreed upon procedures. Agua Sana WUA will strive to submit the required information as needed by the due date in the future.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2014**

2011-001 Gross Receipts Taxes

Criteria

The Association should remit taxes collected for the New Mexico gross receipts tax on a timely basis as required by State Statute.

Condition

We noted during our agreed upon procedures engagement that the Association is assessing and collecting New Mexico Gross Receipts tax on amounts billed to consumers however no payments were noted to the New Mexico Taxation and Revenue Department.

Cause

Agua Sana Mutual Domestic Water Users Association management claims that the Association is exempt from paying gross receipts tax.

Effect

The Association is not in compliance with New Mexico State Statute.

Recommendation

Recommend that the Agua Sana Mutual Domestic Water Users Association comply with the New Mexico Taxation and Revenue Department requirement of submitting monthly payments of gross receipt taxes collected.

Entity Response

Agua Sana WUA will comply with the New Mexico Taxation and Revenue Department as per Section 7-9-3.2(5) NMSA 1978 and New Mexico Taxation and Revenue Ruling 410-92-1 in remitting gross receipt payments in the future.

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION

Status of Prior Year Findings

YEAR ENDED DECEMBER 31, 2014

2010-1	Budget Submission/Approval and Quarterly Financial Reports	Repeated
2010-2	Procurement Code Compliance	Repeated
2010-3	Late Agreed Upon Procedures Report	Repeated
2010-4	Segregation of duties on the approval of all disbursements and review of receipts	Resolved
2010-5	Monthly Cash Reconciliation	Repeated
2010-6	Financial Statements	Repeated
2010-7	Physical Inventory of Capital Assets	Resolved
2010-8	Adequate Supporting Documentation of Disbursements (Expenditures)	Repeated
2010-9	Late Submission of IPA Recommendation Form	Repeated
2011-1	Gross Receipt Tax	Repeated

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION

Exit Conference

YEAR ENDED DECEMBER 31, 2014

Exit Conference

The report contents were discussed at an exit conference held March 25, 2016 with the following in attendance:

Agua Sana Water Users Association

Patricio Garcia, President

Gloria Gonzales, Billing and Accounting Clerk

Accounting Firm

Joseph M. Salazar, CPA