

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, 2015

JOSEPH M. SALAZAR, CPA
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State of New Mexico
Agua Sana Water Users Association

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December 31, 2015

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State of New Mexico
Agua Sana Water Users Association

Official Roster

December 31, 2015

Name

Title

Board of Directors

Patricio Garcia	President
Joddie Valdez	Vice President
Mike Vigil	Treasurer
Darel Madrid	Secretary
Margaret Montoya	Member

Staff

Gloria Gonzales	Water Operator/ Office Manager
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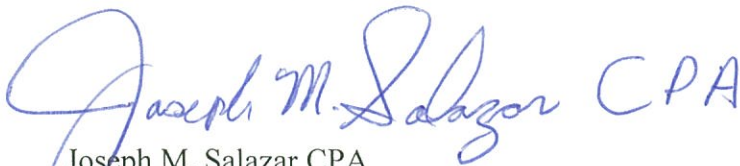
JOSEPH M. SALAZAR
CERTIFIED PUBLIC ACCOUNTANT
P.O. Box 1744
Espanola, New Mexico 87532
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Independent Accountant's Compilation Report

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

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, 2015, 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
November 30, 2016

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
STATEMENT OF NET POSITION
December 31, 2015

Exhibit 1

ASSETS

Current Assets	
Cash and cash equivalents	\$ 56,629
Accounts receivable	51,937
Total current assets	<u>108,566</u>
Non Current Assets	
Capital assets	6,828,325
less accumulated depreciation	<u>(2,138,590)</u>
Total capital assets net of depreciation	4,689,735
Total assets	<u><u>\$ 4,798,301</u></u>

LIABILITIES

Liabilities	
loan payable-current	\$ 34,500
Total current liabilities	<u>34,500</u>
Long term liabilities	
loan payable	1,158,157
Total long term liabilities	<u>1,158,157</u>
Total liabilities	<u>1,192,657</u>

NET POSITION

Net investment in capital assets	3,497,078
Unrestricted	108,566
Total net position	<u>3,605,644</u>
Total liabilities and net position	<u><u>\$ 4,798,301</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, 2015

Exhibit 2

Operating revenue	
Water sales	\$244,837
Rental fees	1,300
IRS refund	2,294
Connect and membership fees	5,028
Insurance refund	7,414
Rental income	420
Returned checks and fees	557
Total operating revenue	<u>261,850</u>
Operating expenses	
Acequia water rights/maintenance	390
Bank correction	1,097
Bank service charge	178
Returned checks and fees	1,805
Contract services	19,333
Depreciation	134,549
Donation	100
Board /water system insurance	2,857
Facilities and equipment insurance	7,298
Tax payments	20,555
Dues and registration	1,203
Operations-supplies and equipment	16,950
USDA/RIP loan	54,990
Reimbursement of rental fees	438
Stipends for board and employees	4,918
Payroll	60,429
Training,	276
Utilities for well	37,927
Water rights transfers	10
Water system equipment and software	8,039
Total expenses	<u>373,342</u>
Nonoperating revenues (expenses)	
Interest income	11
Total nonoperating revenue (expenses)	<u>11</u>
Change in net position	<u>(111,481)</u>
Net position-beginning of year	<u>3,717,125</u>
Net position-end of year	<u>\$3,605,644</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, 2015

EXHIBIT 3

Cash flows from operating activities	
Receipts from customers and users	\$266,746
Payment to contract employees, board members	(65,347)
Payments to suppliers and contractors	<u>(173,339)</u>
Net cash provided (used) by operating activities	<u>28,060</u>
Cash Flows from investing activities	
Interest income	<u>11</u>
Net cash provided (used) by investing activities	<u>11</u>
Cash flows from capital investing activities	
Acquisition of capital assets	-
Decrease in loans payable	<u>(33,132)</u>
Net cash used in capital financing activities	<u>(33,132)</u>
Net increase (decrease) in cash and cash equivalents	(5,061)
Cash and cash equivalents, beginning of year	<u>61,690</u>
Cash and cash equivalents, end of year	<u><u>\$56,629</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Net income (loss)	(111,481)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	134,549
Decrease in accounts receivable	4,992
Net cash provided (used) by operating activities	<u><u>\$ 28,060</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
Notes to Financial Statements
December 31, 2015

(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, 2015

(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, 2015

(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, 2015

(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, 2015

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, 2015**

Note 2 Cash and Cash Equivalents

Cash and cash equivalents

Cash and cash equivalents of the Association at December 31, 2015:

<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	\$ 17,611	\$ 257	\$1,718	\$ 19,072
	Agua Sana- Saving account	<u>37,557</u>	<u>-</u>	<u>-</u>	<u>37,557</u>
	Total Community Bank	<u>55,168</u>	<u>\$ 257</u>	<u>\$1,718</u>	<u>\$56,629</u>
	FDIC coverage	<u>55,168</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, 2015, the Association's cash balance of \$56,629 was fully insured.

Note 3 Receivables

The Association had customer accounts receivable during the fiscal year. As of December 31, 2015 the Association had receivables of \$51,937. The receivable amount is considered fully collectible.

**State of New Mexico
 Agua Sana Water Users Association
 Notes to Financial Statements
 December 31, 2015**

Note 4 Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance <u>6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2015</u>
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Water system	6,778,325	-	-	6,793,325
Machinery and equipment	<u>15,000</u>	-	-	<u>15,000</u>
Total capital assets	<u>6,828,325</u>	<u>-</u>	<u>-</u>	<u>6,843,325</u>
Accumulated depreciation				
Water system	(1,989,041)	(134,549)	-	(2,123,590)
Machinery and equipment	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Total accumulated depreciation	<u>(2,004,041)</u>	<u>(134,549)</u>	<u>-</u>	<u>(2,138,590)</u>
Net capital assets	<u>\$ 4,824,284</u>	<u>\$(134,549)</u>	<u>\$ -</u>	<u>\$4,689,735</u>

Note 5 Loans Payable

The Association had the following loans as of December 31, 2015 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, 2015 was \$567,500.

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>
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	14,835	23,025	37,860
2021-2025	85,051	103,349	188,400
2026-2030	106,466	81,934	188,400
2031-2035	133,274	55,126	188,400
2036-2040	166,831	21,569	188,400
2041	<u>7,936</u>	<u>54</u>	<u>7,990</u>
Totals	<u>\$567,500</u>	<u>\$383,210</u>	<u>\$950,710</u>

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2015

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 19th day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2015 was \$336,170.

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>
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	10,205	14,023	24,228
2021-2025	58,955	62,185	121,140
2026-2030	74,723	46,417	121,140
2031-2035	94,710	26,430	121,140
2036-2038	<u>61,268</u>	<u>4,134</u>	<u>65,402</u>
Totals	<u>\$ 336,170</u>	<u>\$213,792</u>	<u>\$ 549,962</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 \$6,986 as of December 31, 2015.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative Fee	Total
2016	\$ 533	\$ 18	\$ 551
2017	535	16	551
2018	536	15	551
2019	537	14	551
2020	539	12	551
2021-2025	2,712	41	2,753
2026-2029	<u>1,594</u>	<u>8</u>	<u>1,602</u>
Total	<u>\$ 6,986</u>	<u>\$ 124</u>	<u>\$ 7,110</u>

State of New Mexico
 Agua Sana Water Users Association
 Notes to Financial Statements
 December 31, 2015

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 16th day of each month until the principal and interest are fully paid. The outstanding balance on this loan as of December 31, 2015 was \$197,654.

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>
2016	\$ 4,975	\$ 9,281	\$ 14,256
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
2021-2025	35,253	36,027	71,280
2026-2030	44,033	27,247	71,280
2031-2035	55,811	15,469	71,280
2036-2038	<u>35,149</u>	<u>2,324</u>	<u>37,473</u>
Totals	<u>\$ 197,654</u>	<u>\$124,939</u>	<u>\$ 322,593</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 \$25,595 as of December 31, 2015.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Administrative Fee	Total
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	1,491	49	1,540
2021-2025	7,527	173	7,700
2026-2030	7,584	116	7,700
2031-2032	<u>3,068</u>	<u>12</u>	<u>3,080</u>
Total	<u>\$ 25,595</u>	<u>\$ 585</u>	<u>\$ 26,180</u>

**State of New Mexico
 Agua Sana Water Users Association
 Notes to Financial Statements
 December 31, 2015**

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 \$21,801 as of December 31, 2015.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
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	3,202	297	3,499
2021-2022	<u>6,697</u>	<u>302</u>	<u>6,999</u>
Total	<u>\$ 21,801</u>	<u>\$ 2,693</u>	<u>\$ 24,494</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 \$36,951 as of December 31, 2014.

Debt service requirements to maturity are as follows:

Year Ended	Principal	Interest	Total
2016	\$ 3,832	\$ 1,056	\$ 4,888
2017	3,949	939	4,888
2018	4,069	819	4,888
2019	4,193	695	4,888
2020	4,320	568	4,888
2021-2024	<u>16,588</u>	<u>928</u>	<u>17,516</u>
Total	<u>\$ 36,951</u>	<u>\$ 5,005</u>	<u>\$ 41,956</u>

State of New Mexico
Agua Sana Water Users Association
Notes to Financial Statements
December 31, 2015

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.

STATE OF NEW MEXICO

**AGUA SANA MUTUAL DOMESTIC WATER USERS
ASSOCIATION**

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

YEAR ENDED December 31, 2015

**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, 2015

Name

Title

Board of Directors

Patricio Garcia	President
Joddie Valdez	Vice President
Mike Vigil	Treasurer
Darel Madrid	Secretary
Margaret Montoya	Member

Staff

Gloria Gonzales	Water Operator/ Office Manager
-----------------	--------------------------------

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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, 2015. 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 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) 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 NMSA 1978, 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 performed a test of the bank reconciliations for the months of December 2015 and June 2015 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 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, 2015 showing eight revenue accounts- water sales, rental fee, interest income, IRS refund, Insurance refund, connect and membership fees, returned checks and fees and rental income 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 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 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) We noted during our examination for payments that the Association did not maintain supporting documentation for thirteen of the fifty payments selected for detail testing such as vendor's invoices. None of the vendor invoices indicated what account the payment was posted to or being approved and none contained purchase orders or contracts for all its purchases of goods and services. 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 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 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)

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, 2015. (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, 2015.
- b) Determined that total actual expenditures did exceed the final budget at the legal level of budgetary control. (See finding 2015-001)

- 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. The Association did not submit a budget report for approval and no quarterly reports for the year ended December 31, 2015 to DFA-LGD.

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, 2015.

Other

Procedures

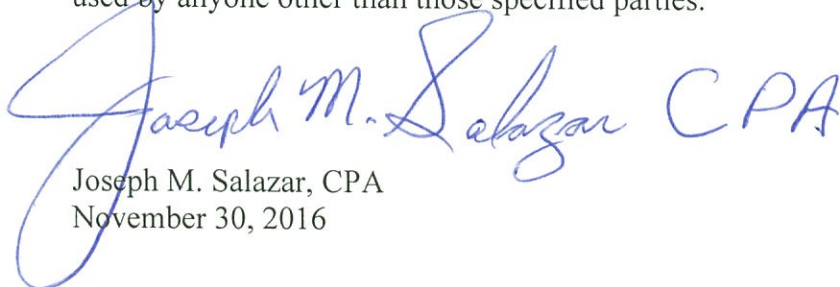
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The finding must include the required contents per Section 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, procurement code compliance, 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.

A large, stylized handwritten signature in blue ink that reads "Joseph M. Salazar CPA". The signature is written in a cursive, flowing style.

Joseph M. Salazar, CPA
November 30, 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 31,2015

	Budget Amounts		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Operating revenue				
Water sales	\$ 217,600	249,733	\$249,733	-
Rental fees	1,800	-	1,300	1,300
Rental income	-	-	420	420
Insurance reimbursement	-	-	7,414	7,414
IRS refund	-	-	2,294	2,294
Return checks and fees	-	-	557	557
Interest income	-	-	11	11
Total operating revenue	219,400	249,733	261,729	11,996
Operating expenses				
Acequia water rights/maintenance	315	400	390	10
Bank correction	50	-	1,097	(1,097)
Bank service charge	-	-	178	(178)
Return checks and fees	-	-	1,805	(1,805)
Contract services	42,000	20,000	19,333	667
Donation	-	100	-	100
Depreciation	-	-	-	-
Board/water system insurance	3,500	-	2,857	(2,857)
Facilities and equipment insurance	3,500	7,300	7,298	2
Tax payments	2,500	21,000	20,555	445
Dues and registration	900	1,300	1,203	97
Operations-supplies and equipment	4,484	17,000	16,950	50
USDA/RIP loan	69,000	89,000	88,015	985
Reimbursement of rental fees	100	-	-	-
Stipends for board and employees	4,500	-	5,018	(5,018)
System operator/maintenance payroll	26,000	-	-	-
Payroll	-	61,000	60,429	571
Reimbursement	-	-	438	(438)
Property taxes	1,000	-	-	-
GRT taxes	10,000	-	-	-
Conservation fee	800	-	-	-
Training for board members& operator	1,000	-	276	(276)
Unemployment tax ES 903	100	-	-	-
Utilities	44,256	-	37,927	(37,927)
Water rights transfers	2,000	-	10	(10)
Water system equipment and software	2,500	8,100	8,039	61
Total expenses	218,505	225,200	271,818	(46,618)
Revenue over (under) expenses	895	24,533	\$ (10,089)	(34,622)

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2015**

Current Year Findings

2015-001 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 Association over expended its expenditure budget by approximately \$46,618 at the fund level.

Cause

The Association adjusted its budget toward the end of the calendar year but did not adjust it to include some expenditure line items it had already incurred during the calendar year. The lack of oversight of its expenditures as compared to budget on a timely basis allowed the Association to over expend it 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

Beginning in calendar year 2017, the Agua Sana Board of Directors will review its financial record on a monthly basis and strive to remain within its budget in future calendar years and approve budget adjustments on a quarterly basis.

**STATE OF NEW MEXICO
AGUA SANA MUTUAL DOMESTIC WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2013**

2015-002 Segregation of Duties on the Approval and Review of all Receipts

Criteria

Good internal control requires the segregation of duties in the recording, approval and reconciliation of receipts transactions.

Condition

All Association receipts are prepared and posted and reconciled by the Office Manager. The Office Manager has complete control over the receipting cycle.

Cause

Association is a small association and depends on the Office Manager to perform all accounting functions.

Effect

The lack of review and approval by the Board could create the possibility for errors or irregularity on the financial statements of the Association.

Recommendation

Recommend that the Association's Board on a monthly basis review documentation of receipts received for the month for review and approval.

Entity Response

Beginning in calendar year 2017, Agua Sana WUA Board of Directors on a monthly basis will review and approve financial reports. The Association's Treasurer will participate in the process of reviewing deposits and cash reconciliations in detail.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Responses
YEAR ENDED DECEMBER 31, 2015**

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. The Association has made improvement from prior years but has not maintained documentation for all of its purchases for goods or services.

Cause

The Association is aware of the requirements of complying with the procurement code. However the Association has only two part time employees and was unable to comply 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 has followed the procurement code in large purchases but has failed to document the process. The Board will develop and implement policies and procedures to document compliance with the procurement code starting January 1, 2017 by the office manager.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2015**

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 2015 was not submitted to the State Auditor's office by the deadline of June 1, 2016. The report was submitted and received by the State Auditor's Office on November 30, 2016. The Association has made improvements in submitting it's agreed upon procedures report. In prior years the Associations was behind years instead of months.

Cause

Agua Sana Water Users Association experienced repair and maintenance issues with its water distribution system during the year and was unable to devote much time to complying with submitting the agreed upon procedure report on a timely 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 audit report by the due date.

Entity Response

The Association Board plans to be in compliance with the state audit rule starting in calendar year 2016.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2015**

**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 current water operator is also doing basis accounting duties for the association. The water operator has limited accounting knowledge. The Association is planning on hiring a bookkeeper or providing additional training to the current water operator by calendar year 2018.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2015**

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 50 payments made by the Association during the fiscal year. Thirteen payments did not have any or inadequate supporting documentation. None of the documentation contained the account the payment was posted 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 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 2016. Agua Sana Board will document approval of all disbursements and have all documents available for calendar year 2016.

**STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Schedule of Findings and Reponses
YEAR ENDED DECEMBER 31, 2015**

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, 2016. The Association has improved in submitting its recommendation of an IPA.

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

The IPA recommendation for calendar year 2016 was submitted on January 5, 2017. Agua Sana WUA will comply with the State Auditor Rule, and submit the IPA recommendation form by the due date in the future.

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION
Status of Prior Year Findings
YEAR ENDED DECEMBER 31, 2015

2010-1	Budget Submission/Approval and Quarterly Financial Reports	Resolved
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	Resolved
2010-6	Financial Statements	Repeated
2010-8	Adequate Supporting Documentation of Disbursements (Expenditures)	Repeated
2010-9	Late Submission of IPA Recommendation Form	Repeated
2011-1	Gross Receipt Tax	Resolved

STATE OF NEW MEXICO
AGUA SANA WATER USERS ASSOCIATION

Exit Conference

YEAR ENDED DECEMBER 31, 2015

Exit Conference

The report contents were discussed at an exit conference held November 30, 2016 with the following in attendance:

Agua Sana Water Users Association

Patricio Garcia, President

Mike Vigil, Treasurer

Gloria Gonzales, Billing and Accounting Clerk

Accounting Firm

Joseph M. Salazar, CPA

