

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

**Independent Accountants' Report on  
Applying Agreed-Upon Procedures  
and  
Compilation Report of Independent Accountant and  
Compiled Financial Statements**

**For the Year Ended  
December 31, 2018**



**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, 2018

Name	Title
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Board of Directors

Patricio Garcia	Chairman
Joddie J. Valdez	Vice-Chairman
Miguel Vigil	Treasurer
Darel Madrid	Secretary
Dianna Jaramillo	Member

Administration

Gloria Gonzales	Operator/Office Manager
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**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Board of Directors  
Agua Sana water Users Association  
and  
Honorable Brian Colón, Esq.  
New Mexico State Auditor  
Santa Fe, New Mexico

I have performed the procedures enumerated below which were agreed to by State of New Mexico Agua Sana Water Users Association (Association) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, Budget, and Capital Outlay information and its compliance with Section 12-6-3 NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2018. The Association is responsible for its financial reporting and compliance as described above. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, my procedures and associated findings are as follows:

**1. REVENUE CALCULATION**

**Procedures**

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

**Findings**

The Association's revenues were \$302,552, which requires Tier 6 Agreed-Upon Procedures in accordance with the Audit Rule.

## **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. For purposes of performing my procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the Association.

b) Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing my procedures "accuracy" means that reconciling items agree to canceled checks or deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

### **Findings**

All bank statements were complete and on-hand. 17 of 24 bank reconciliations were not completed within one month after the statement date, see item #2018-001 in the accompanying schedule of findings and responses. 8 of 24 or 33% of the reconciliations were tested for accuracy and agreement to the general ledger and were determined to be accurate. Both bank accounts were tested for uninsured bank balances, none were noted.

## **3. CAPITAL ASSETS**

### **Procedure**

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

### **Findings**

The Association performed and certified their annual capital asset inventory without exception.

#### **4. DEBT**

##### **Procedures**

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

##### **Findings**

The Association made the required debt payments with no exceptions. Reserve requirements are not applicable to the Association's debt.

#### **5. REVENUE**

##### **Procedures**

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues equal to at least 30% of the total dollar amount and test the following attributes:

b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

##### **Findings**

Revenues were analytically tested against budgeted and prior year revenues and they were determined to be reasonable. 31%, or \$92,518 of the total dollar amount of receipts were tested. All receipts tested were agreed to the bank statements without exception. 14 of 41, totaling \$21,222, had no supporting documentation such as deposit slips or detail of amounts deposited. See item #2018-002 in the accompanying schedule of findings and responses. The remaining receipts tested had supporting documentation and were determined to be properly recorded as to amount, classification and period.

## **6. EXPENDITURES**

### **Procedures**

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

### **Findings**

143 disbursements totaling \$86,923, or 30.3% were tested. No supporting documentation such as a receipt or invoice was provided for 37 disbursements for a total of \$19,991. See item #2010-008 in the accompanying schedule of findings and responses. One mileage reimbursement was paid at the Internal Revenue Service (IRS) rate of \$.53 per mile instead of the approved state rate of \$.43. See item #2018-003 in the accompanying schedule of findings and responses. The remaining disbursements tested were accurate as to amount, payee, date and description, and were in compliance with the budget, procurement code, and the Per Diem and Mileage Act, where applicable.

## **7. JOURNAL ENTRIES**

### **Procedures**

Test all non-routine journal entries, adjustments and reclassifications posted to the general ledger for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

## **Findings**

The Association did not make any journal entries during 2018.

## **8. BUDGET**

### **Procedures**

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following test work:

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if 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, accrual or modified accrual basis) for each individual fund.

### **Findings**

The budget was reviewed and determined to be properly authorized by the Association and certified by DFA-LGD. Expenditures exceeded budgeted amounts for the Association's only fund, see item #2016-001 in the accompanying schedule of findings and responses. The budget and actual schedule is presented on page 9 of this report.

## **9. CAPITAL OUTLAY APPROPRIATIONS**

### **Procedures**

The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital outlay appropriations of the New Mexico Legislature that meet Tier 6 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year that meet Tier 6 criteria. Perform the following tests on all state-funded capital outlay expenditures:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.



- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

### **Findings**

The Association did not have any capital outlay expenditures in 2018.

## **10. OTHER**

### **Procedures**

a) If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section, 12-6-6 NMSA 1978. The findings must include all required content detailed in Section 2.2.2.10 (L) NMAC.

### **Findings**

The Association's 2018 agreed-upon procedures report was due to the state auditor on or before May 31, 2019. The report was submitted on August 31, 2020. See item 2010-003 in the accompanying schedule of findings and responses. Nothing else was noted that is required to be reported.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Association's financial reporting and compliance as described above. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of State of New Mexico Agua Sana Water Users Association, Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration Local Government Division and is not intended to be and should not be used by anyone other than those specified parties.

*James L. Hartogensis, CPA LLC*

Albuquerque, New Mexico  
August 28, 2020

**STATE OF NEW MEXICO  
 AGUA SANA WATER USERS ASSOCIATION  
 YEAR-END REPORT SUBMITTED TO DFA  
 YEAR ENDED DECEMBER 31, 2018**

4th Quarter (Jan 1 - Dec 31st) 2018

Beginning Cash Balance on Jan 1st:	Approved Budget	Jan 1 - Dec 31st	Amount Over/Under Budget	% of Budget
	\$81,293	\$19,950		
<b>Revenue</b>				
Water Sales (Water Use Fees)	\$280,000	\$287,945	\$7,945	102.84%
Connection/Reconnection Charges (Utility Connection/Reconnection Fees)	\$5,000	\$12,657	\$7,657	253.14%
Membership and Meter Sales (Utility Service Fees)	\$6,000	\$1,950	-\$4,050	32.50%
Late Fees and Penalties (Other Fines and Forfeits)	\$0	\$0	\$0	-
Gross Receipts Tax (Other State shared taxes)	\$0	\$0	\$0	-
Other Operating Revenue (miscellaneous - other)	\$0	\$0	\$0	-
<b>Total Revenue</b>	<b>\$291,000</b>	<b>\$302,552</b>	<b>\$11,552</b>	<b>103.97%</b>
<b>Expenditures</b>				
<b>Operating Expenditures</b>				
Salaries - Operator, Bookkeeper, etc.	\$0	\$0	\$0	-
Employee Benefits and Expenses	\$0	\$0	\$0	-
Electricity	\$32,000	\$34,465	\$2,465	107.70%
Other Utilities - Gas, Water, Sewer, Telephone	\$1,320	\$1,382	\$62	104.68%
System Parts and Supplies	\$5,000	\$3,265	-\$1,735	65.30%
System Repairs and Maintenance	\$10,000	\$14,330	\$4,330	143.30%
Vehicle Expenses	\$2,000	\$0	-\$2,000	0.00%
Office and Administrative Expenses	\$5,000	\$13,606	\$8,606	272.11%
Professional Services - Accounting, Engineering, Legal	\$82,000	\$125,650	\$43,650	153.23%
Insurance	\$3,000	\$3,402	\$402	113.40%
Dues, Fees, Permits and Licenses	\$1,500	\$291	-\$1,209	19.40%
Taxes - Gross Receipts Tax, Water Conservation Fee	\$18,000	\$802	-\$17,198	4.46%
Training	\$3,000	\$755	-\$2,245	25.17%
Miscellaneous	\$2,000		-\$2,000	0.00%
<b>Loans</b>				
Annual debt service - Loan 1	\$45,000	\$44,332	-\$668	98.52%
Annual debt service - Loan 2	\$45,000	\$44,332	-\$668	98.52%
<b>Total Expenditures</b>	<b>\$281,520</b>	<b>\$286,612</b>	<b>\$5,092</b>	<b>101.81%</b>
LESS: Operating Reserve	\$0		\$0	-
Emergency Reserve	\$0	\$69,364	\$69,364	-
Capital Improvement Reserve	\$0	\$0	\$0	-
Debt Reserve	\$0	\$0	\$0	-
<b>Estimated Ending Cash Balance on Dec 31st:</b>	<b>plus Adj 649.00</b>	<b>\$97,882</b>		

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended December 31, 2018**

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		Favorable (Unfavorable)
<b>REVENUES:</b>				
Water sales	\$ 280,000	\$ 280,000	\$ 287,945	\$ 7,945
Connection charges	5,000	5,000	8,922	3,922
Membership and meter sales	6,000	6,000	5,684	(316)
<b>Total revenues</b>	<b>291,000</b>	<b>291,000</b>	<b>302,551</b>	<b>11,551</b>
<b>EXPENDITURES:</b>				
Electricity	36,000	36,000	34,465	1,535
Other utilities	1,520	1,520	1,382	138
System parts and supplies	10,000	10,000	18,862	(8,862)
System repairs and maintenance	15,000	15,000	5,961	9,039
Vehicle expenses	1,000	1,000	-	1,000
Office and administrative expenses	6,000	6,000	2,823	3,177
Professional services	85,000	85,000	125,650	(40,650)
Insurance	3,500	3,500	3,402	98
Dues, fees, permits and licenses	1,500	1,500	999	501
Taxes	18,000	18,000	802	17,198
Training	3,000	3,000	755	2,245
Miscellaneous expenses	1,000	1,000	2,846	(1,846)
Debt service - Loan 1	45,000	45,000	43,664	1,336
Debt service - Loan 2	45,000	45,000	45,000	-
<b>Total expenditures</b>	<b>271,520</b>	<b>271,520</b>	<b>286,611</b>	<b>(15,091)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 19,480</b>	<b>\$ 19,480</b>	<b>\$ 15,940</b>	<b>\$ (3,540)</b>

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2018**

**Current Year Findings**

**2010-003 Late Agreed-Upon Procedures Report (noncompliance)**

*Condition:* The agreed-upon procedures (AUP) report was submitted to the state auditor's office on August 31, 2020. This condition remains unchanged from 2017. There has been no progress in remediating the finding.

*Criteria:* 2.2.2.9 A NMAC required the Association to submit their agreed-upon procedures report by the due date of May 31, 2019 or five months after year-end.

*Cause:* The Association was unable to prepare for the AUP and contract with an independent accountant in time to meet the deadline.

*Effect:* Legislators and other interested parties were unable to make timely decisions regarding the Association.

*Recommendation:* The Association should implement a policy that requires compliance with the Audit Rule.

*Management's Response:* The Association will implement a policy that requires compliance with the Audit rule. It is very hard to find a CPA who will contract for a Tier 6 in this local area. The policy will be approved at the next board meeting and the board will be responsible for implementing the policy.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES CONTINUED  
YEAR ENDED DECEMBER 31, 2018

**Current Year Findings, continued**

2010-008 – Adequate Supporting Documentation for Disbursements (significant deficiency)

*Condition:* 143 disbursements were tested for a total of \$86,923. For 37 disbursements totaling \$19,991, no supporting documentation was provided. This condition worsened since 2017.

*Criteria:* Good accounting practices and internal control require the Association maintain adequate supporting documentation for all disbursements, including an invoice or receipt and authorization.

*Cause:* The Association did not provide the necessary paperwork to test disbursements.

*Effect:* It could not be determined whether the disbursements in question were allowable costs.

*Recommendation:* All documentation for every disbursement should be maintained by the Association to substantiate all budgeted expenditures.

*Management's Response:* All Disbursements are approved by a Board member. The office manager will immediately work to improve this finding.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED  
YEAR ENDED DECEMBER 31, 2018

**Current Year Findings, continued**

2016-001 Excess of Expenditures Over Authorized Budget (significant deficiency, noncompliance)

*Condition:* The Association's expenditures exceeded the authorized budget by \$15,091. This condition remains unchanged from 2017. There has been no progress in remediating the finding.

*Criteria:* Section 6-6-6, NMSA 1978 requires the Association to keep expenditures within budgeted amounts. 2.2.2.10 R(1)(a) requires reporting a finding if actual expenditures exceed budgeted expenditure at the legal level of budgetary control, which is at the fund level for the Association.

*Cause:* The Association has not yet fully implemented adequate budget tracking procedures.

*Effect:* The Association does not have accurate information to make informed, prudent decisions or maintain compliance with laws and regulations relating to budgets. The Association may not be fulfilling its fiduciary duty to its members.

*Recommendation:* The Association should consider using spreadsheets to track monthly budget to actual revenues and expenditures. These spreadsheets should be reported to the Association Board on a monthly basis, which will assist management and the Board in making timely, informed decisions, as well as helping the Association to make timely budget amendments when necessary.

*Management's Response:* Although, the Association does not have spreadsheets, it meets monthly and board members are constantly made aware of the needs of this association by the office manager/water operator. The Association will try to be more timely in making budget amendments. Effective immediately, the office manager will start providing budget to actual statements to be reviewed at each board meeting.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED  
YEAR ENDED DECEMBER 31, 2018

**Current Year Findings, continued**

**2018-001 Bank Reconciliations Untimely (significant deficiency)**

*Condition:* 17 of 24 reconciliations were not completed timely.

*Criteria:* Good accounting practices require timely reconciled cash balances.

*Cause:* The Association has not implemented a policy to perform timely bank reconciliations.

*Effect:* Accurate cash balances are not available to management which hinders decision making. Without accurate cash reporting, the risk of fraud increases.

*Recommendation:* The Association should implement a policy that bank reconciliations are completed within 30 days after the statement date for each month.

*Management's Response:* The Association will make a policy to implement timely reconciliations. Effective immediately, the office manager will complete monthly bank reconciliations within 30 days after month-end.



**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED  
YEAR ENDED JUNE 30, 2018

**Current Year Findings, continued**

**2018-002 – Adequate Supporting Documentation for Receipts (significant deficiency)**

*Condition:* 41 receipts totaling \$92,518 were tested. For 14 receipts totaling \$21,222, no supporting documentation was provided.

*Criteria:* Good accounting practices and internal control require the Association maintain adequate supporting documentation for all receipts, including a report which shows the detail, by customer.

*Cause:* The Association had a break-in which rendered them unable to provide the necessary paperwork to test receipts.

*Effect:* It could not be determined whether the receipts in question were properly credited to customer accounts.

*Recommendation:* All documentation for every receipt should be maintained by the Association to substantiate all deposits.

*Management's Response:* Effective immediately, the office manager will keep documentation in a safer location in order to be available for the annual audit.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED  
YEAR ENDED JUNE 30, 2018

**Current Year Findings, continued**

**2018-003 – Mileage Reimbursed in Excess of State Rate**

*Condition:* The Association paid \$.53 per mile instead of the state mandated rate of \$.43 per mile. The amount overpaid was \$19.

*Criteria:* The Department of Finance & Administration (DFA) sets mileage rates each year equal to 80% of the federal or IRS rate. The 2018 rate was set at \$.43 per mile.

*Cause:* The Association was not aware of the state rate for mileage.

*Effect:* The Association overpaid mileage reimbursements in 2018.

*Recommendation:* The Association should implement a policy that requires a review of the DFA rule each year and caps mileage reimbursements at the approved state rate.

*Management's Response:* The Association will implement policy requiring a review of the DFA rule each year for mileage to the approved state rate. Effective immediately, all mileage reimbursements will be in accordance with the Per Diem & Mileage Act. The office manager will be responsible for implementing the policy.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED DECEMBER 31, 2018

<u>Finding</u>	<u>Current Year Status</u>
2016-001 Budget Overexpended	Repeated and modified
2010-003 Late Agreed-Upon Procedures Report	Repeated and modified
2010-006 Financial Statements	Cleared
2010-008 Adequate Supporting Documentation For Disbursements	Repeated and modified

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
EXIT CONFERENCE  
YEAR ENDED DECEMBER 31, 2018

The report contents were discussed at an exit conference held on August 28, 2020 with the following in attendance:

**Agua Sana Water Users Association**

Patricio Garcia	Chairman
Gloria Gonzales	Operator/Office Manager

**James L. Hartogenesis, CPA LLC**

James Hartogenesis, CPA, CGFM	Principal
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## COMPILATION REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

Board of Directors  
Agua Sana Water Users Association  
and  
Honorable Brian Colón, Esq.  
New Mexico State Auditor  
Santa Fe, New Mexico

Management is responsible for the accompanying financial statements of the governmental activities and the business-type activities of State of New Mexico Agua Sana Water Users Association (Association), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements, in accordance with accounting principles generally accepted in the United States of America. I 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. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, which is described in Note 1 to the financial statements, and are not intended to be a complete presentation of the Association's assets and liabilities.

Management has elected to omit the management's discussion and analysis, statement of cash flows, and notes related to the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted management's discussion and analysis, statement of cash flows, and related note disclosures were included in the financial statements, it might influence the user's conclusions about the Association's financial position, respective changes in financial position, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters. These omissions result in the financial statements being presented on a basis of accounting other than accounting principles generally accepted in the United States of America.

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**P.O. Box 67315 Albuquerque, NM 87193 [JhartoCPA.com](http://JhartoCPA.com) 505.280.9081**

This report is intended solely for the information and use of the Agua Sana Water Users Association, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration Local Government Division and is not intended to be and should not be used by anyone other than these specified parties.

*James L. Hartogensis, CPA LLC*

Albuquerque, New Mexico  
August 28, 2020

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**STATEMENT OF NET POSITION**  
**December 31, 2018**

**ASSETS:**

Current Assets

Cash and cash equivalents	\$ 94,935
Accounts receivable	25,723
Total current assets	120,658

Noncurrent Assets

Capital assets	\$ 6,873,325
Accumulated depreciation	\$ (2,541,383)
Total noncurrent assets	\$ 4,331,942

<b>Total assets</b>	<b>\$ 4,452,600</b>
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**LIABILITIES:**

Current Liabilities

Current portion of notes payable	\$ 38,712
Total current liabilities	38,712

Long-term Liabilities

Notes payable	1,046,354
Total long-term liabilities	1,046,354

<b>Total liabilities</b>	<b>1,085,066</b>
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**NET POSITION:**

Investment in capital assets, net of related debt	3,246,876
Unrestricted	120,658
<b>Total net position</b>	<b>3,367,534</b>

<b>Total liabilities and net position</b>	<b>\$ 4,452,600</b>
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See independent accountant's compilation report and accompanying notes.

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**Year Ended December 31, 2018**

**OPERATING REVENUES:**

Water sales	\$ 289,792
Connection fees	8,922
Membership and meter sales	<u>5,684</u>
<b>Total operating revenues</b>	<u><u>304,398</u></u>

**OPERATING EXPENSES:**

Professional services	125,650
Depreciation	124,196
Electricity	34,465
System parts and supplies	18,862
System repairs and maintenance	5,961
Miscellaneous expenses	5,156
Insurance	3,402
Office and administrative expenses	2,823
Other utilities	1,382
Dues, fees, permits and licenses	999
Taxes	802
Training	<u>755</u>

**Total operating expenses** 324,453

Net change in operations (20,055)

**NONOPERATING INCOME (EXPENSE):**

Interest expense (51,488)

Change in net position (71,543)

Net position, beginning of year 3,439,077

Net position, end of year \$ 3,367,534

See independent accountant's compilation report and accompanying notes.



**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
**NOTES TO COMPILED FINANCIAL STATEMENTS**  
**Year Ended December 31, 2018**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 of Directors. 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.

The financial statements of the Association have been prepared in accordance with the requirements of Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC. This special purpose framework is a basis of accounting other than accounting principles generally accepted in the United States of America and is not intended to be a complete presentation of the financial statements.

**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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Association's accounting policies are described below.

**B. Basis of Accounting**

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. The Statement of Cash Flows is omitted from these financial statements.

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

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**Year Ended December 31, 2018**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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 flow of “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. With this measurement focus, net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted; and unrestricted components.

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 requirement imposed by the provider have been met.

**C. Cash and cash equivalents**

Cash and cash equivalents include amounts in a checking account and a savings account. The two accounts are considered cash equivalents.

**D. Concentration 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.

**E. Accounts receivable**

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

**F. Capital assets**

Capital assets are recorded at original costs, or fair value if donated. The Associations 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:

Infrastructure	30-75 years
Machinery & equipment	10 years

**G. Employee benefits**

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

**STATE OF NEW MEXICO**  
**AGUA SANA WATER USERS ASSOCIATION**  
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**Year Ended December 31, 2018**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**H. 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 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 will not be recognized as an inflow of resources (revenue) until that time.

The Association did not have deferred outflows or inflows of resources during 2018.

**I. 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.

**J. Revenues**

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

Operating revenues- include activities that have the characteristics of 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.

**K. 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.

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**Year Ended December 31, 2018**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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.

**L. Use of estimates**

Management of the Association has made certain estimates 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.

**K. Budgetary information**

Actual amounts on the budgetary basis are prepared on the cash basis of accounting which recognizes revenues when received and expenditures when paid. Annual budgets are adopted for the general fund.

The Association follows defined procedures in establishing the budgetary data reflected in the financial statements. Each year the Association determines amounts required for construction, maintenance, operations and debt service expenditures. Budget amounts are as originally adopted and as amended by the Association and approved by the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) and are prepared on a cash basis. The Association submits a proposed budget to DFA for the fiscal year commencing the following July 1. DFA must approve the budget prior to its legal enactment.

To meet legal compliance actual expenditures cannot exceed the total budgeted expenditures for the fund on a cash basis. Adjustments to the budget must be submitted to and approved by DFA in the form of a "budget adjustment request". The Association does not use encumbrances.

The budget is prepared on the cash basis, which differs from Generally Accepted Accounting Policies (GAAP). The legal level of budgetary control is at the fund level; the Association's expenditures exceeded budgeted expenditures in the General Fund by \$15,091.

**NOTE 2 – CASH AND INVESTMENTS**

All investments are stated at fair value that is determined by using selected bases. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

The Association does not have an investment policy. Association funds are invested in accordance with New Mexico State Statute 6-10-36 which provides for the following investments:

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**NOTE 2 – CASH AND INVESTMENTS - CONTINUED**

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.
2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

Cash and cash equivalents consist of the following at December 31, 2018:

Name of Depository	Account Name	Bank Balance	Outstanding Checks	Deposits in Transit	Financial Statement Balance
New Mexico Bank & Trust	Operating	\$ 28,518	\$ (2,948)	\$ -	\$ 25,570
New Mexico Bank & Trust	Savings	69,364	\$ -	\$ -	\$ 69,364
		<u>97,882</u>			
FDIC coverage		<u>97,882</u>			
Amount uninsured		<u>\$ -</u>			

**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, 2018, the Association's cash balances are fully insured.

**NOTE 3 – ACCOUNTS RECEIVABLE**

The Association had customer accounts receivable during the fiscal year. As of December 31, 2018 the Association had receivables of \$25,723. The receivable amount is considered fully collectible.

**STATE OF NEW MEXICO  
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NOTES TO COMPILED FINANCIAL STATEMENTS  
Year Ended December 31, 2018**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity during the year ended December 31, 2018 was as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
<u>Assets not being depreciated:</u>				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
<u>Assets being depreciated:</u>				
Water system	6,813,325	15,000	(5,000)	6,823,325
Machinery and equipment	15,000	-	-	15,000
Total capital assets	6,863,325	15,000	(5,000)	6,873,325
Accumulated depreciation	(2,407,187)	(134,196)	-	(2,541,383)
Net capital assets	<u>\$ 4,456,138</u>	<u>\$ (119,196)</u>	<u>\$ (5,000)</u>	<u>\$ 4,331,942</u>

Depreciation expense for the year ended December 31, 2018 was \$134,196.

**NOTE 5 – NOTES PAYABLE**

The Association had the following long-term debt as of December 31, 2018:

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, 2018 was \$528,277.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 14,184	\$ 23,676	\$ 37,860
2020	14,836	23,024	37,860
2021	15,517	22,343	37,860
2022	16,976	20,884	37,860
Thereafter	467,064	258,489	725,553
	<u>\$ 528,577</u>	<u>\$ 348,416</u>	<u>\$ 876,993</u>

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**NOTE 5 – NOTES 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, 2018 was \$309,594.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 9,733	\$ 14,495	\$ 24,228
2020	10,205	14,023	24,228
2021	10,701	13,527	24,228
2022	12,482	11,746	24,228
Thereafter	<u>266,473</u>	<u>120,210</u>	<u>386,683</u>
	<u>\$ 309,594</u>	<u>\$ 174,001</u>	<u>\$ 483,595</u>

The Association on January 30, 2009 entered into a loan from the New Mexico Finance Authority Water Trust Board for \$10,370 for 20 years and an administrative fee of .25% per year. The outstanding balance was \$5,382 as of December 31, 2018.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Administrative Fee	Total
2019	\$ 537	\$ 13	\$ 550
2020	539	13	552
2021	540	14	554
2022	598	7	605
Thereafter	<u>3,168</u>	<u>29</u>	<u>3,197</u>
	<u>\$ 5,382</u>	<u>\$ 76</u>	<u>\$ 5,458</u>

**STATE OF NEW MEXICO  
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**NOTE 5 – NOTES 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, 2018 was \$187,463.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 5,469	\$ 8,787	\$ 14,256
2020	5,736	8,520	14,256
2021	6,012	8,244	14,256
2022	6,765	7,491	14,256
Thereafter	<u>158,265</u>	<u>68,530</u>	<u>226,795</u>
	<u>\$ 182,247</u>	<u>\$ 101,572</u>	<u>\$ 283,819</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. Payments are \$120 per month. The outstanding balance was \$21,157 as of December 31, 2018.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Administrative Fee	Total
2019	\$ 1,487	\$ 53	\$ 1,540
2020	1,491	49	1,540
2021	1,494	46	1,540
2022	1,536	4	1,540
Thereafter	<u>15,149</u>	<u>251</u>	<u>15,400</u>
	<u>\$ 21,157</u>	<u>\$ 403</u>	<u>\$ 21,560</u>



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**NOTE 5 – NOTES 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 \$13,008 as of December 31, 2018.

Year Ending December 31,	Principal	Interest	Total
2019	\$ 3,109	\$ 390	\$ 3,499
2020	3,202	297	3,499
2021	3,298	201	3,499
2022	3,399	100	3,499
	<u>\$ 13,008</u>	<u>\$ 988</u>	<u>\$ 13,996</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 \$25,101 as of December 31, 2018.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 4,193	\$ 695	\$ 4,888
2020	4,320	568	4,888
2021	4,451	437	4,888
2021	4,644	244	4,888
Thereafter	12,137	247	12,628
	<u>\$ 25,101</u>	<u>\$ 2,191</u>	<u>\$ 27,292</u>

Debt service requirements to maturity are as follows: Long-term debt activity for all notes payable for the year ended December 31, 2018 is as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018	Due Within One Year
Notes payable	<u>\$ 1,122,230</u>	<u>\$ -</u>	<u>\$ (37,164)</u>	<u>\$ 1,085,066</u>	<u>\$ 38,712</u>

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**Year Ended December 31, 2018**

**NOTE 6 – RISK MANAGEMENT**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The Association carries an insurance policy to limit exposure to these types of risks.

**NOTE 7 – EXPENDITURES IN EXCESS OF BUDGET**

The Association had actual expenditures that exceeded budgeted expenditures:

<u>Fund</u>	<u>Amount Exceeded</u>
General fund	<u>\$ 15,091</u>

**NOTE 8 – PREPARATION OF FINANCIAL STATEMENTS**

The financial statements were prepared by James L. Hartogensis, CPA LLC from the books and records of the Association. However, the contents of these financial statements remain the responsibility of the Association's management.