

STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

**For the Year Ended
June 30, 2017**

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
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June 30, 2017

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STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
June 30, 2017

BOARD OF DIRECTORS

Delbert Fulfer	President
Gilbert Miera	Vice-President
C. Jay Wysong	Secretary-Treasurer
Luis Terrazas	Board Member
Cray Werner	Board Member

ADMINISTRATIVE STAFF

Julie Dubiskas	Office Manager
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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To: The Board of Directors
Arenas Valley Water Development Association
and
Honorable Wayne A. Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below, which were agreed to by the Arenas Valley Water Development Association (AVWDA) and the New Mexico State Auditor (the specified parties), solely to assist you in evaluating AVWDA's financial reporting relating to its Cash, Capital Assets, Debt, Revenue, Expenditures, Journal Entries, Budget information and its compliance Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended June 30, 2017. The Arenas Valley Water Development Association's management is responsible for its financial reporting as described above.

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 this report. Consequently, we 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, the procedures and the associated results of procedures are as follows:

Revenue Calculation

Procedures

Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Page".

Results of Procedure

We obtained and recalculated the revenue calculation and determined that it was properly classified as Tier 6 Agreed-Upon Procedures in accordance with the Audit Rule.

Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).
- 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

- a) The AVWDA has a checking account, 9 certificates of deposit and a cash money market account. The Organization utilizes the Peachtree-Sage Financial Accounting Software System to record their financial transactions and accounting information. All bank reconciliations are performed within a timely basis and all were completed, on-hand and agreed to the general ledger accounting system.
- b) Random tests of bank reconciliations revealed no exceptions for accuracy. We reviewed 4 months which represented 33.3% of the population. The reconciliations were accurate and agreed with supporting documentation. These reconciliations agree to the DFA-LGD reports submitted.
- c) Financial institutions have provided AVWDA with adequate pledged collateral held on uninsured deposits as required by Section 6-10-17 NMSA 7978, NM Public Money Act.

Capital Assets

Procedures

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

Findings

- a) The Organization performs a yearly inventory as required by Section 12-6-10 NMSA 1978 and maintains a capital asset listing. This inventory listing has been formally certified by the Board of Directors.

Debt

Procedures

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

Findings

- a) The agency had no debt, incurred no debt, or had any debt payments during the fiscal year.

Revenue

Procedures

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

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

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

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- c) Proper recording of classification, 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. The basis for the organization is the accrual basis.

Findings

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed no exceptions and met with expected results.
- b) Four months testing of the cash receipts out of the twelve month period were selected for testing, which represented \$149,614 of \$410,549 or 37%. The amounts recorded into the general ledger accounting system do agree with supporting documentation and the bank statements on a consistent basis.

- c) These amounts were properly recorded using the accrual basis of accounting. The general ledger accounting system is reflecting classification, amount and period per review in relationship to the supporting documentation of the organization.

Expenditures

Procedures

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

- a) Thirty disbursements were randomly selected which totaled \$136,044 of the total disbursements of \$445,475 or 31%. We determined that the amounts recorded as disbursed agreed to supporting documentation. Amounts paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled banking instrument (check), as appropriate.
- b) These disbursements were properly authorized and approved in compliance with legal requirements and the established policies and procedures of the agency.
- c) The bid process (or request for proposal, 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).

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 policies and procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Findings

- a) There were no findings to report. All Journal entries appear reasonable.
- b) The Association utilizes Sage Software Accounting system to record the accounting activity of the organization. Limited reoccurring journal entries, included interest income and bank charges, are being prepared as necessary, with proper approval. Certain year end adjustment entries, although valid and complete, are being reviewed by the governing body.

Budget

Procedures

Obtain the original fiscal year budget and all budget adjustments made through 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

- a) The operating budget was approved by the local public body's governing body. One subsequent budget adjustment was generated by the organization. The Association did receive confirmation from the DFA-LGD on the approved budget and the subsequent budget adjustment.
- b) Total actual expenditures were reviewed to the budgeted items for budgetary analysis. This procedure caused the budgetary process to be effective.
- c) The Association did prepare a schedule of revenues and expenditures – budget and actual budget report for the year ended June 30, 2017 as indicated in this report.

Capital Outlay

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 agreement, correspondence and other relevant documentation for any capital outlay award funds expensed by the recipient during the fiscal year that meet the Tier 6 criteria. Perform the following tests on all state- funded capital outlay expenditures:

- 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 the 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 is 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 charged with oversight per the terms of the agreement and verify that the 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

- a) There were no disbursements for capital outlay.
- b) There were no disbursements for capital outlay: the budget, legal requirements and established policies and procedures reflected this.
- c) There was no bid process activity during the year.
- d) No capital outlay assets were purchased during the year.

- e) No capital outlay assets were purchased, no oversight agency is involved.
- f) No project was funded in advance.
- g) All past projects have been completed. No unexpended balances are reflected to be reverted to the grantor.
- h) There was no cash received for capital outlay during the fiscal year.
- i) These were no cost incurred during the fiscal year.

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 the required content detailed in Section 2.2.2.10 (L) NMAC.

Findings

- a) No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, or any internal control deficiencies.

Schedule of Findings and Responses are included on pages 12 through 15 of this report.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Arenas Valley Water Development Association's financial reporting to the State Auditor as described above. 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 Arenas Valley Water Development Association, the New Mexico State Auditor's Office, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and it is not intended to be and should not be used by anyone other than those specified parties.



Carney Foy, CPA
Silver City, New Mexico
August 22, 2018

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Revenues, Expenses, and Changes in Cash Balance
Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis
With Reconciliation to GAAP
For the Year Ended June 30, 2017

	Budget Amounts		Actual on Budgetary Basis	Budget to GAAP Difference	Actual GAAP Basis	Budgetary Basis Variance with Final Budget Over (Under)
	Original	Final				
Operating Revenues:						
Water Service Fees	\$ 449,765	375,271	375,271	(6,582)	381,853	-
Late Charges	7,760	6,965	6,965	-	6,965	-
Membership & Connection Fees	16,075	-	-	-	-	-
Total operating revenues	\$ 473,600	382,236	382,236	(6,582)	388,818	-
Operating Expenses:						
Cost of Water	303,884	282,967	282,967	(6,342)	289,309	-
Personal Expenses	91,328	74,749	74,749	(959)	75,708	-
Depreciation Expenses	-	-	-	(71,333)	71,333	-
Office Utilities & Property Tax	12,546	2,114	2,114	-	2,114	-
Maintenance	18,564	15,725	15,725	349	15,376	-
Insurance	14,319	8,989	8,989	-	8,989	-
Travel	990	1,064	1,064	-	1,064	-
Professional Fees	15,400	6,417	6,417	-	6,417	-
Advertising	440	83	83	-	83	-
Dues & Subscriptions	1,000	220	220	-	220	-
Office Expense	10,326	18,484	18,484	10,360	8,124	-
Postage Expense	3,000	2,670	2,670	-	2,670	-
Telephone	5,500	3,788	3,788	-	3,788	-
Total operating expenses	\$ 477,297	417,270	417,270	(67,925)	485,195	-
Operating income (loss)	(3,697)	(35,034)	(35,034)	61,343	(96,377)	-
Non-Operating Revenue (Expenses):						
Interest Revenue	13,370	1,051	1,051	(329)	1,379	-
Total non-operating revenues (expenses)	13,370	1,051	1,051	(329)	1,379	-
Net change	9,673	(33,983)	(33,983)	<u>61,014</u>	<u>(94,998)</u>	-
Cash, beginning of year	590,262	590,262	590,262			-
Cash, end of year	<u>\$ 599,935</u>	<u>556,279</u>	<u>556,279</u>			<u>-</u>

Explanations of Difference:

Decrease in Accrued Interest	(329)
Decrease in Accounts Receivable	(6,581)
Decrease in Accounts Payable	6,342
Increase in Payroll Taxes Payable	959
Depreciation Expense Non Cash	71,333
Increase in Inventory	(349)
Fixed Assets Purchase	(10,360)

Total \$ 61,014

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Department of Finance and Administration Report Submission
Year Ended June 30, 2017

The Arenas Valley Water Development Association's DFA Submission is presented on page 9 thru 11 of this report.

The report is not in the standard DFA format, but has been accepted by DFA for the Association. No other reports have been submitted to the Department of Finance and Administration.

Department of Finance and Administration
 Local Government Division
 Budget Adjustments per Resolutions

09/20/17

Special District: Arenas Valley Water Development Association

Analyst: Manoj Shah

Fiscal Year: 2016-17

DFA Resolution Number	DFA Approval Date	Fund Description	Fund Number	Estimated Beginning Cash Balance	Investments	Budgeted Fund Revenues	Budgeted Operating Transfers	Budgeted Fund Expenditures	Estimated Ending Fund Cash Balance
		GENERAL FUND (Original Budget) Budget Adjustment (Increase/decrease) Reduce revenue - see budget adjmt Reduce expenditures - see budget adjmt	101	590,262 0	0 0	486,971 (103,685)	0 0	477,297 (60,027)	599,936 599,936 496,251 556,278 556,278 556,278
		INTERGOVERNMENTAL GRANTS	218	590,262 0	0 0	383,286 0	0 0	417,270 0	556,278 0
		OTHER Budget Adjustment (Increase/decrease)	299	0 0	0 0	0 0	0 0	0 0	0 0
		DEBT SERVICE (Original Budget) Budget Adjustment (Increase/decrease)	400	0 0	0 0	0 0	0 0	0 0	0 0
		Grand Total		590,262	0	383,286	0	417,270	556,278

STATEMENT OF ACTIVITIES - CASH BASIS
COMPARED FY17 ORIGINAL BUDGET WITH FY17 FINAL BUDGET, WITH CASH RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2017

REPORT 970
 Sep 06, 2017

	(1) ORIGINAL BUDGET 06-30-17	BUDGET ADJUSTMENT No 1- FY2017	(2) FINAL BUDGET 06-30-17	(3) CASH BASIS 06-30-17	Col (2) - Col (3) BUDGET VARIANCE + (-)
40000 Water and Supplies	383,873.78	(57,731.70)	326,142.08	326,142.08	0.00
40005 Water Revenue Adjustments	2,160.54	(1,184.03)	976.51	976.51	0.00
41500 ToF SC Access Fee	58,690.60	(10,538.44)	48,152.16	48,152.16	0.00
45600 Reimbursements/Refunds	5,040.00	(5,040.00)	0.00	0.00	0.00
41000 Late Charges	7,760.29	(795.29)	6,965.00	6,965.00	0.00
WATER SERVICE FEES	457,525.21	(75,289.46)	382,235.75	382,235.75	0.00
42000 Membership/Connection Fee	16,075.00	(16,075.00)	0.00	0.00	0.00
INTEREST REVENUE					
40300 Financial Network Fixed Income	9,673.50	(8,976.93)	696.57	696.57	0.00
40800 Checking Acc't Interest	663.67	(524.06)	139.61	139.61	0.00
40600 Western Money Market Earnings	2,241.21	(2,053.52)	187.69	187.69	0.00
43000 Miscellaneous Income	792.00	(765.36)	26.64	26.64	0.00
TOTAL INTEREST REVENUE	13,370.38	(12,319.87)	1,050.51	1,050.51	0.00
TOTAL REVENUES	486,970.59	(103,684.33)	383,286.26	383,286.26	0.00

USED FOR DFA BUDGET REPORTING

STATEMENT OF ACTIVITIES - CASH BASIS
 COMPARED FY17 ORIGINAL BUDGET WITH FY17 FINAL BUDGET, WITH CASH RECONCILIATION
 FOR THE YEAR ENDED JUNE 30, 2017

REPORT 970
 Sep 06, 2017

	(1) ORIGINAL BUDGET 06-30-17	BUDGET ADJUSTMENT No 1- FY2017	(2) FINAL BUDGET 06-30-17	(3) CASH BASIS 06-30-17	Col (2) - Col (3) BUDGET VARIANCE + (-)
Cost of Water	303,884.46	(20,917.27)	282,967.19	282,967.19	0.00
Personnel Expenses	91,327.51	(16,578.17)	74,749.34	74,749.34	0.00
Depreciation Expense	0.00	0.00	0.00	0.00	0.00
PAID TO SUPPLIES					
Office Building Expense	12,546.00	(10,431.88)	2,114.12	2,114.12	0.00
Maintenance-Water System	18,564.11	(2,839.10)	15,725.01	15,725.01	0.00
Insurance	14,319.31	(5,330.49)	8,988.82	8,988.82	0.00
Travel	990.00	74.35	1,064.35	1,064.35	0.00
Professional Fees	15,400.00	(8,983.37)	6,416.63	6,416.63	0.00
Advertising	440.00	(357.06)	82.94	82.94	0.00
Dues & Subscriptions	1,000.00	(780.00)	220.00	220.00	0.00
Office Expenses	10,325.70	8,157.92	18,483.62	18,483.62	0.00
Postage	3,000.00	(330.20)	2,669.80	2,669.80	0.00
Telephone	5,500.00	(1,711.97)	3,788.03	3,788.03	0.00
Paid to Suppliers	82,085.12	(22,531.80)	59,553.32	59,553.32	0.00
TOTAL EXPENSES	<u>477,297.09</u>	<u>(60,027.24)</u>	<u>417,269.85</u>	<u>417,269.85</u>	<u>0.00</u>
TOTAL OPERATIVE INCOME (LOSS)	9,673.50	(43,657.09)	(33,983.59)	(33,983.59)	0.00
NON OPERATING REVENUE (EXPENSES)					
TOTAL NON OPERATING	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
NET CHANGE	9,673.50	(43,657.09)	(33,983.59)	(33,983.59)	0.00
BEG CASH	<u>590,262.22</u>	<u>0.00</u>	<u>590,262.22</u>	<u>590,262.22</u>	<u>0.00</u>
ENDING CASH	<u>599,935.72</u>	<u>(43,657.09)</u>	<u>556,278.63</u>	<u>556,278.63</u>	<u>0.00</u>
PROOF	599,935.72	(43,657.09)	556,278.63	556,278.63	0.00

Explanation of Difference

- Decrease in Accrual Interest
- Decrease in Accounts Receivable
- Decrease in Accounts Payable
- Increase in Payroll Taxes Payable
- Depreciation Expense
- (Increase) Decrease in Inventory
- Fixed Assets Purchase
- Decrease in Debt Payable

USED FOR DFA BUDGET REPORTING

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2017

	<u>Type of Finding*</u>	<u>Status</u>	<u>Current Year Finding Number</u>
Current Year Findings: (06-30-17)			
AUP- Late Submission of AUP Contract & Recommendation	D		2017-001
AUP- Procurement Code Violation	D		2017-002
AUP- Report Submission Date	D		2017-003

Follow-up on Prior Year Findings: (06-30-16)

None

*** Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency
- D. Noncompliance

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2017

Item 2017-001 – Late Submission of AUP Contract and Recommendation

Condition

The 2.2.2.8(F)(8)(e) NMAC Audit Rule requires that the AUP contract and recommendation of an IPA be submitted to the Office of the State Auditor by July 1st of each year for agencies with a June 30 fiscal year end. This was not achieved.

Criteria

Per 2.2.2.8(F)(8)(e) NMAC Audit Rule, the agency did not meet the deadline for submission of the agreed-upon procedures (AUP) contract and recommendation of an independent public accountant (IPA) to the State Auditors Office by the deadline for the fiscal year ending 2017.

Effect

Delays in submission of the AUP Contract to the New Mexico State Auditor resulted in a delay within the entire process.

Cause

The AUP contract and recommendation of the IPA was not prepared and submitted timely to the State Auditor's office by the agency's personnel.

Recommendation

We recommend that the agency review the New Mexico State Auditor Rule for this process. They would also need to make every effort to work with the IPA to fulfill the reporting requirements to assure the report is prepared on or before June of each fiscal year. This should allow enough time to submit to the Office of the State Auditor by the due date.

Entity Response

The Office Manager of the agency along with the Secretary-Treasurer of the Board of Directors will review the process to assure timely reporting in future years. Since this deadline has passed for fiscal year 2018, we will not be able to correct this finding until June 2019.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2017

Item 2017-002 – Procurement Code Violation

Condition

The agency and the independent public accountant (IPA) did not have a approved formal contract in place before work began. A formal contract was not submitted thru the OSA-Connect nor was an approval obtained from the State Auditor Office. A payment was made of \$2,200 to the IPA on this engagement before the approval of the contract had been received.

Criteria

Per 2.2.2.8(M)(1) NMAC Audit Rule, The New Mexico State Auditor shall approve progress and final payment for the annual audit contract and provides that “payment of public funds may not be made to an independent auditor unless a contract is entered into and approved as provided”.

Effect

The agency paid for AUP work that was not authorized by the State Auditor Rule. Reference 2.2.2.8(M)(1) NMAC.

Cause

There was a misunderstanding within the process. The agency had thought that approval had been obtained via a multi-year contract. In reality, the approved contract had not been received by the agency and the submitted IPA was not approved by the New Mexico State Auditor. Approval was initially withheld when it was determined that the IPA had exceeded the number of years retention for this agency. This caused the State Auditor’s Office to hold approval of the IPA until these circumstances could be reviewed. The agency submitted a request for the rotation rule exception. On June 7, 2018 the Office of the State Auditor granted approval for the IPA to complete the AUP Report.

Recommendation

Proper authorization of contracts from the State Auditor’s Office must be obtained before any payments are to be made regarding and AUP contract. We also recommend that the agency review NMAC 2.2.2.8 regarding requirements for contracting and conducting audits of agencies. They should make every effort to comply with the procurement code.

Entity Response

The Office Manager, along with the Secretary-Treasurer of the Board of Directors, will review NMAC 2.2.2.8 and make every effort to comply with the Procurement Code as required.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2017

Item 2017-003 – Agreed Upon Procedures report Submission Date

Condition

The report wasn't submitted timely, it was submitted to the Office of the State Auditor on August 23, 2018.

Criteria

The AUP report is due to the Office of the State Auditor on or before December 15, 2017, as required by Section 2.2.2.16 (G) NMAC.

Effect

Delays in submission of the AUP report affect the reporting of financial information to other state agencies and local governments. The agency is not in compliance with section 2.2.2.9(A) and section 2.2.2.16(h) NMAC.

Cause

There was a misunderstanding regarding the procurement method of obtaining an IPA. The agency did not realize that the IPA they had requested to hire had exceeded their years of service requirements. Once this was recognized, the IPA's work was stopped until approval could be received. The agency wrote a letter to the New Mexico State Auditor on January 29, 2018 to request a rotation rule exception for the IPA. Approval was granted by New Mexico State Auditor's Office on June 21, 2018. This slowed the process immensely.

Recommendation

We recommend that the agency make every effort to work with the New Mexico State Auditor and the IPA to fulfill all reporting requirements to assure the report is prepared in a timely manner.

Entity Response

The Office Manager along with the Secretary-Treasurer of the Board of Directors will review the process to assure timely reporting for the fiscal year 2018. It is our intention to have this report completed by December 15, 2018.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Year Ended June 30, 2017

EXIT CONFERENCE

The report contents were discussed at an exit conference held August 21, 2018 with the following in attendance:

Arenas Valley Water Development Association

C. Jay Wysong

Julie Dubiskas

Secretary-Treasurer

Office Manager

Accounting Firm

Carney Foy

Certified Public Accountant

Compiled Financial Statements

CARNEY FOY
CERTIFIED PUBLIC ACCOUNTANT
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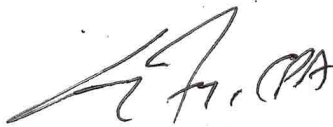
ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Arenas Valley Water Development Association
And
Honorable Wayne A. Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities of Arenas Valley Water Development Association, which comprise of the Statement of Net Position as of June 30, 2017, and the related Statement of Revenues, Expenses, and Changes in Net Position for the year then ended, Statement of Cash Flows for the year then ended, and the related notes to the financial statements included in the accompanying prescribed form. 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 included in the accompanying prescribed form 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 included in the accompanying prescribed form.

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, and are not intended to be a complete presentation of the Association's assets and liabilities.

This report is intended solely for the information and use of Arenas Valley Water Development Association, the New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by another other than these specified parties.



Carney Foy, CPA
Silver City, New Mexico
August 22, 2018

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Position
June 30, 2017

ASSETS

Current Assets

Cash-Unrestricted	\$	556,279
Accounts Receivable		61,354
Inventory & Supplies		15,787
Accrued Interest Receivable		823
Total Current Assets		634,243

Non Current Assets

Capital Assets	\$	2,712,917
Less Allowance for Depreciations		(1,123,947)
Total Non Current Assets		1,588,970
Total Assets	\$	2,223,213

LIABILITIES and NET POSITION

Current Liabilities

Accounts Payable	\$	35,089
Accrued Payroll Tax Payable		2,263
Sales Tax Payable		3,302
Total Current Liabilities		40,654

Long Term Liabilities

Note Payable		-
Total Long Term Liabilities		-
Total Liabilities		40,654

Net Position

Invested in Capital Assets, Net of Debt		1,588,970
Unrestricted		593,589
Total Net Position		2,182,559
Total Liabilities and Net Position	\$	2,223,213

See independent accountant's compilation report

STATE OF NEW MEXICO
Arenas Valley Water Development Association
**Statement of Revenues, Expenses and
Changes In Net Position**
June 30, 2017

Operating Revenues	
Water Sales and Service	\$ 381,853
Late Charges	6,965
Membership & Connections Fees	-

Total Operating Revenues	388,818
Operating Expenses	
Cost of Water	289,309
Personal Expenses	75,708
Depreciation Expenses	71,333
Office Utilities & Property Tax	1,535
Maintenance of System	15,376
Insurance	8,989
Travel	1,064
Professional Fees	6,417
General & Admin Expenses	15,463

Total Operating Expenses	485,194
Total Operating Income (Loss)	(96,376)
Non-Operating Revenues (Expenses)	
Interest Income	1,378

Total Non-Operating Revenue (Expenses)	1,378
Change in Net Position	(94,998)
Net Position Beginning of Year	2,277,557
Net Position End of Year	\$ 2,182,559

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows
June 30, 2017

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 382,235
Cash Paid for Water	(282,967)
Cash Paid to Suppliers	(59,553)
Cash Paid to Employees	(74,749)
Net Cash Provided By Operating Activates	<u>(35,034)</u>
 Cash Flows From Capital and Related Financing Activities	
Memberships	-
Net Cash Used For Capital and Related Financing Activates	<u>-</u>
 Cash Flows from Investing Activities	
Interest Income	<u>1,051</u>
Net Cash Provided From Investing Activities	<u>1,051</u>
Net Increase (Decrease)Cash	(33,983)
Cash - Beginning of Year	<u>590,262</u>
Cash - End of Year	<u>\$ 556,279</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities	
Operating Income (Loss)	\$ (94,998)
Noncash Items in Net Income	
Depreciation	71,333
(Increase) Decrease In:	
Accounts Receivable	(6,581)
Inventory	(349)
Accrued Interest	(329)
Capital Acquisition	(10,360)
Increase (Decrease) In:	
Accounts Payable	6,342
Accrued Payroll Tax Expenses	959
	<u> </u>
Net Cash Provided From Noncapital Financing Activities	<u>\$ (33,983)</u>

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements
June 30, 2017

NOTE 1. ORGANIZATION

The Arenas Valley Water Development Association (the Association) was incorporated as a not-for profit entity in 1979 to exclusively associate its members together for the mutual interest and benefit and in that end, to acquire, construct, install, maintain and operate a water system for supplying and distribution of water for domestic use and to engage in any activity thereto.

In 1979, the Association received a determination letter exemption it from federal income tax under Section 501 (c) (12) of the Internal Revenue Code, retroactive from inception of the organization. As a result, no federal or state income taxes have been reflected on the financial statements.

As of June 30, 2017, the water system included 486 memberships located in the area of Arenas Valley, (Grant County) New Mexico.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association's financial statements are prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental entities. The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations) and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

A. FINANCIAL REPORTING ENTITY

The Association is a quasi-government created pursuant to its bylaws and is comprised of an elected Board of Directors. The officers of the Association are elected annually using a tiered rotation basis. The Association is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the Association's board of directors have oversight responsibility. The board of directors have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Association is not included in any other governmental reporting entity as defined in the *Codification of Governmental Accounting and Financial Reporting Standards*.

B. BASIC FINANCIAL STATEMENTS –GOVERNMENT –WIDE STATEMENTS

Because the Association is a special-purpose government, with only a single fund, business-type activity, the basic financial statement do not include both government-wide (based on the Association as a whole) and fund financial statements. The new reporting model focus is on either the Association as a whole or major individual funds (within the fund financial statements). The Association is a single-program government that engages in only business-type activities and has no component units.

In the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, the business type activities are presented on the full accrual basis, flow of economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt obligation. The Association's net positions are reported in three parts – invested in capital assets, restricted net position and unrestricted net position. Business-type operating statement present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Operating revenues and expenses are presented separately from non-operating items. The principal operating revenues reflect charges to customers for the supply of water. Operating expenses include the cost of sales and

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2017

B. BASIC FINANCIAL STATEMENTS –GOVERNMENT –WIDE STATEMENTS (Continued)

services, administrative expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses. Grant revenues are recognized when all of the eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted sources first, then unrestricted resources as they are needed.

The Association applies all applicable Financial Accounting Standards Board Statements and Interpretations.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Business-type activities are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Association.

F. FINANCIAL STATEMENTS AMOUNTS

1. Cash

For the purpose of the Statement of Net Position, "cash" includes all drawer cash, demand, savings accounts, certificates of deposit and money market accounts of the Association.

2. Accounts Receivable

Accounts receivable consists of revenue earned from sales to customers. The Association has the option of collecting delinquent receivable by filing a lien against properties with delinquent accounts or filing a civil action against the delinquent property owners. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. Capital Asset

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, computer software and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis with no salvage value. The estimated useful life of the various classes of depreciable capital assets are as follows:

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2017

3. Capital Asset (continued)

Water system infrastructure and improvements, 50 years: Building and improvements, 15 to 29 years: Water meters, 10 years: and Furniture and equipment, 5 to 15 years.

GASB Statement No. 34 requires the Association to report and depreciate infrastructure assets. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The Association does own underground pipe, which are being depreciated using 50 years straight line. The Association does not own any other infrastructure assets.

The Association does not own any assets acquired under capital leases.

In the proprietary fund, interest is capitalized on assets acquired with debt proceeds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds being applied over the same period.

4. Equity Classification

Equity is classified as net position. Net position is the difference between assets and liabilities. Net position invested in capital assets represents the historical cost of assets or fair value on the date of receipt less accumulated depreciation on those assets. Net position are reported as restricted when there are legal limitation imposed on their use by the Association or external restriction by other governments, creditors or grantors. Unrestricted net position are all other net position that do not meet the definition of "restricted" or "invested in capital assets". When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted sources first, then unrestricted resources as they are needed.

Note G. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the Association is subject to various laws and contractual regulation. An analysis of the Association's compliance with significant laws and regulation and demonstration of its stewardship over the Associations resources follows:

BUDGETS AND BUDGETARY ACCOUNTING

The Association is adhering to the process of procedures that are promulgated by the Department of Finance and Administration-Local Government Division. These procedures are as follows:

- 1) Prior July 1, the Association's staff submits to the Board of Directors a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Prior to July 1, the budget is legally enacted through formal adoption by the Board and then submitted to the Local Government Division of the State Department of Finance and Administration for review and approval.
- 3) The Association's treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors and the State Department of Finance and Administration.
- 4) Formal budgetary integration is employed as a management control device during the year for the Enterprise funds.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2017

Note H. DETAIL NOTES ON ACCOUNTS AND TRANSACTION CLASSES

1. CASH

The Association's policy is to limit cash deposits to insured and/or collateralized demand deposit accounts, certificates of deposit and money market funds. All bank balances, as of June 30, 2017 were insured (The Dodd Frank Act of 2010 required the FDIC to insure all non-interest bearing accounts). The carrying amount of the Association's deposits with financial institutions was \$556,170 and the balance per the banks was \$556,279, and is shown as follows:

Cash Accounts	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
		Outstanding Checks	Transit Deposits	
First NM Bank	\$ 76,728	58	-	76,787
Western Bank CD	110,780	-	-	110,780
Financial Network CD	366,503	-	-	366,503
Financial Network Money Market	2,160	-	-	2,160
Total	\$ 556,170	58	-	556,229
Petty Cash				50
Total Cash				\$ 556,279

Concentration of Credit Risk

First NM Bank - NONE (\$76,787 in bank statement balances are covered by the \$250,000 FDIC maximum federal insurance)

\$ -

Western Bank CD - NONE (\$110,780 CD statement balance is covered by the \$250,000 FDIC maximum federal insurance)

-

Financial Network CD - NONE (\$366,503 - 8 CD's are collateralized by CD's from Brokerage Account . Total collateral coverage is \$368,000 on these Certificates of Deposit (CD's)

-

Financial Network Money Market - NONE (\$2,160 Money Market fund is covered by \$250,000 FDIC maximum federal insurance.

-

Total Credit Risk

\$ -

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2017

1. CASH (Continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Association’s deposits may not be returned to it. The Association does have a deposit policy for custodial credit risk as a result of the FDIC insurance, the Association credit risk at June 30, 2017 is managed.

2. ACCOUNTS RECEIVABLES

The accounts receivable as of June 30, 2017 consist of the following:

		<u>Operating</u>	
Operating Receivables	\$	61,355	
Total Accounts Receivable	\$	<u>61,355</u>	
Operating Receivables-Aged			
0 to 30 days	\$	46,780	
31- to 60 days		1,022	
60 to 90 days		4,647	
over 90 days		8,906	
	\$	<u>61,355</u>	

All of the above accounts receivables are deemed by the Association to be fully collectible.

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

<u>Description</u>	<u>Balance</u>		<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>06-30-16</u>				<u>06-30-17</u>
Business-Type Activities					
Building & Structures	\$ 145,691	-			145,691
Equipment	132,117	-		-	132,117
Office Equipment	23,163	1,510		-	24,673
Field Equipment	100,279	8,850		-	109,129
Water System	2,301,307			-	2,301,307
Total Fixed Assets	<u>2,702,557</u>	<u>10,360</u>		<u>-</u>	<u>2,712,917</u>
Accumulated Depreciation	<u>(1,052,614)</u>	<u>(71,333)</u>		<u>-</u>	<u>(1,123,947)</u>
Net Capital Assets	<u>\$ 1,649,943</u>	<u>(60,973)</u>		<u>-</u>	<u>1,588,970</u>

Depreciation expense was \$71,333 for the year ended June 30, 2017.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2017

4. NOTE PAYABLE and LONG-TERM OBLIGATIONS

The agency has no note payable or long-term debt obligation during the fiscal year.

5. RISK MANAGEMENT AND LITIGATION

The Association is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association maintains insurance coverage to insure against potential losses and claims. The premiums are based on payroll and other expenditures, and are not directly related to claims filed. The policies are retrospectively rated and premiums may be adjusted after year end, based on the ultimate level of expenditures. The Association is not involved in any litigation that would put the business assets at risk.