

STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

For the Year Ended
June 30, 2011

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
TABLE OF CONTENTS
June 30, 2011

	<u>Page</u>
Table of Contents.....	i
Official Roster.....	1
Independent Accountant's Report on Applying Agreed-Upon Procedures	2-6
Schedule of Revenues and Expenditures Budget and Actual - (Accrual Basis) Proprietary Fund.....	7
Schedule of Findings and Responses	8-13
Exit Conference	14
Compiled Financial Statements.....	15-24

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
June 30, 2011

BOARD OF DIRECTORS

Gilbert Miera	President
Jim Blurton	Vice-President
Delbert Fulfer	Secretary-Treasurer
Luis Terrazas	Board Member
Terry Trujillo	Board Member

CARNEY FOY
CERTIFIED PUBLIC ACCOUNTANT
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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To: Gilbert Miera, President
Arenas Valley Water Development Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below for the Arenas Valley Water Development Association (AVWDA), for the year ended June 30, 2011. The AVWDA was determined to be a Tier 6 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the AVWDA through the Office of the New Mexico State Auditor. The Arenas Valley Water Development Association's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in 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. Our procedures and findings are as follows:

Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial 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, 7 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 on a timely basis and all were completed and on-hand and agree to the general ledger accounting system.
- b) Random tests of bank reconciliations revealed no exceptions for accuracy. The reconciliations were accurate and agreed with supporting documentation. However, quarterly financial reports were not submitted to DFA-LGD at any time during the fiscal year.
- c) All deposits exceeded insured limits.

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, although this acknowledgment of this listing had not been formally certified by the Board of Directors.

Debt

Procedures

- a) Verify that 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 Organization has no debt.

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 based on auditor judgment and test using the following attributes:

- a) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- b) 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.
- b) Amounts recorded into the general ledger accounting system do agreed with supporting documentation and the bank statements on a consistent basis.
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 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) Amounts recorded as disbursed agreed to supporting documentation. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) 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

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items 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

- a) The Association utilizes Peachtree 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 not be reviewed by the governing body. See finding 2011-04.

Budget

Procedures

Obtain the original fiscal year budget and all budget amendments made through the fiscal year and perform the following:

- 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 Organization did not realize the statutory requirements of their budget responsibilities and related reporting to the local public body of the DFA-LGD. Therefore the 2011 budget was not submitted to the DFA-LGD for approval. The governing body did approve an operating budget, although during the fiscal year no budget revisions were approved.
- b) Total actual revenues and expenditures were not reviewed to the original budgeted revenues and expenditures for budgetary analysis. This lack of procedure caused the budgetary process to be ineffective. See finding 2011-05.
- c) The Association did not submit a budget report for the year ended June 30, 2011 to DFA-LGD. A schedule of revenues and expenditures -- budget and actual was prepared, although it was not approved or monitored by DFA-LGD.

Capital Outlay

Procedures

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

- 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 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.

Findings

- a) There were no state-funded capital outlay awards made to the organization 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, disclose in the report as required by Section, 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (I) (3) (C) 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.

See page 8 for findings related to non-compliance.

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

This report is intended solely for the information and use of Arenas Valley Water Development Association, the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.



Carney Foy, CPA
Silver City, New Mexico
December 5, 2013

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Revenues and Expenditures
Budget and Actual - (Accrual Basis)-Proprietary Fund
 For the Year Ended June 30, 2011

	Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water Service Fees	\$ 317,299	317,299	328,857	11,558
Late Charges	5,484	5,484	5,505	21
Membership & Connection Fees	14,184	14,184	11,820	(2,364)
Interest Revenue	8,909	8,909	11,387	2,478
Miscellaneous Income	384	384	320	(64)
Total Revenues	\$ 346,260	346,260	357,889	11,629
Expenditures				
Cost of Water	150,074	150,074	190,782	(40,708)
Personnel Expenses	56,870	56,870	62,840	(5,970)
Depreciation Expenses			51,306	(51,306)
Boring Project	40,850	40,850		40,850
Office Utilities	1,780	1,780	1,555	225
Maintenance	7,519	7,519	7,087	432
Insurance	6,827	6,827	6,234	593
Travel	1,144	1,144	953	191
Professional Fees	1,907	1,907	5,347	(3,440)
Advertising	580	580	651	(71)
Dues & Subscriptions	1,116	1,116	1,029	87
Office Expense	6,080	6,080	5,286	794
Postage Expense	1,803	1,803	1,912	(109)
Property Tax	646	646	538	108
Telephone	3,572	3,572	3,878	(306)
Total Expenditures	\$ 280,768	280,768	339,398	(58,630)
Excess (deficiency) of Revenue over Expenditures	65,492	65,492	18,491	(47,001)
Other changes to cash				
Payment for Capital Acquisitions			(113,367)	
Increase in Accounts Receivable			(7,766)	
Decrease in Inventory			12,411	
Increase in Accounts Payable			29,925	
Increase in Accrued Expenses			1,192	
Non cash expense-Depreciation			51,306	
Net Increase (Decrease) Cash	\$ 65,492	65,492	(7,898)	
Cash, Beginning of Year	573,631	573,361	573,361	
Cash, End of Year	\$ 704,615	704,345	565,463	

See independent accountant's compilation report

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
 Year Ended June 30, 2011

	<u>Type of Finding*</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2011-01
Audit Report Submission	D	N/A	2011-02
Capital Assets Certification by Board of Directors	D	N/A	2011-03
Non-routing Journal Entries Review	D	N/A	2011-04
Actual Expenditure Compared to Budget	D	N/A	2011-05
Follow-up on Prior Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-01	2011-01
Audit Report Submission	D	2010-02	2011-02

- * 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, 2011

2011-01

Budget Submission/ Approval and Quarterly Financial Reports

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the DFA-LGD, on or before June 1, of each year, a proposed budget for the next fiscal year. Upon receipt of any budget approved by the DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. Section 6-6-2 (B) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 NMSA, 1978 Compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration- Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

The Arenas Valley Water Development Association did not submit their 2011 budget for DFA-LGD approval although the budget was approved in the Board of Directors minutes. Periodic financial reports were not submitted, as required, to the DFA-LGD at any time during the fiscal year. The budgetary process was implemented without any budgetary adjustment or oversight approval.

Cause

The AVWDA was not aware of the DFA-LGD requirements. The Association did approval the budget, but being their initial year of implementing this process reports and authorization was not obtained from DFA-LGD.

Effect

The AVWDA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

The Association should development a process of achieving these 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 operation 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.

We further recommend that the AVWDA submit periodic financial reports as required to the DFA-LGD.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets are adopted on the GAAP Basis of receipts and disbursements.

Entity Response

Arenas Valley Water Development Association will open discussions with DFA-LGD to assure the future budgets are being approved. The board will review and approve a budget for all future fiscal year ends. The budgetary process as outlined in the recommendation will be followed. Quarterly financial reports to the DFA-LGD will be prepared and submitted starting as soon as practical.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-02

Audit Report Submission Date

Criteria

The agreed upon procedures report is due to the Office of the State Auditor on or before December 1, 2011, as required by Sections 2.2.2.9(A) and Section 2.2.2.16 (H) NMAC.

Condition

The report was submitted to the Office of the State Auditor on December 5, 2013

Cause

This was the second year for the agency to submit a report to the State Auditor. It was the first time they were required to obtain a Tier 6 agreed upon procedures services. This caused a delay in the entire process. Notification from the State Auditor of acceptance to engage the IPA was not received by the agency until late in 2012.

Effect

Delays in submission of the agreed upon procedures 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.

Recommendation

We recommend that the AVWDA submit their recommended IPA to the State Auditor for the agreed upon procedures service in ample time whereas the contract can be preformed and the report can be issued by the December 1 deadline.

Entity Response

Arenas Valley Water Development Association will review the process and timeline of obtaining an IPA. We will make every effort to submit these reports in a timely fashion.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-03

Capital Assets Certification by the Board of Directors

Criteria

The Organization performs a yearly inventory as required by Section 12-6-10 NMSA 1978 and maintains a capital asset listing, although this acknowledgment of this listing had not been formally certified by the Board of Directors.

Condition

The capital asset listing is not being formally certified by the Board of Directors.

Cause

This Board of Directors was not aware of this requirement

Effect

Non compliance with Section 12-6-10 NMSA 1978.

Recommendation

We recommend that the AVWDA Board of Directors continues to perform a yearly inventory of the capital assets and in addition certify this listing by acceptance of the Board of Directors. This should be substantiated in the minutes of the Board of directors.

Entity Response

Arenas Valley Water Development Association will review this process and implement the recommendation.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-04

Non-routine Journal Entries Review

Criteria

Non-routine journal entries that are being posted to the general ledger are reasonable and have supporting documentation, and the Board of Directors has procedures that require these journal entries to be reviewed and there is evidence these reviews are being performed.

Condition

The non-routine journal entries that are being posting to the general ledger, although valid and substantiated, are not being reviewed by the Board of Directors. There is no evidence that this review is taking place.

Cause

This Board of Directors was not aware of this requirement.

Effect

Non-routine journal entries are not being properly reviewed by the Board of Directors. Non compliance with a Tier 6 procedure. This presents a diminishing lack of internal controls.

Recommendation

In the monthly course of review, the Board designate should review and sign off on all non-routine journal entries. This should be done with the necessary supporting documentation to substantiate the entry.

Entity Response

Arenas Valley Water Development Association will review this process and implement the recommendation.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-05

Actual Expenditure Compared to Budget

Criteria

Section 6-6-2 (A) NMSA, 1978 requires each local public body to furnish and file with the Department of Finance and Administration – Local Government Division (DFA-LGD) a proposed budget. This budget should be monitored, reviewed and adjusted in the normal course of the fiscal year by the Board of Directors. Unfavorable variances between actual revenue and actual expenses compared to budgeted revenue and budgeted expenses should not be authorized.

Condition

The budgetary process of managing the revenues and expenditures compared to the approved budget for the Association is not being monitored, reviewed, and adjusted in the normal course of the fiscal year

Cause

This Board of Directors was not aware of this requirement.

Effect

The actual revenues received compared to budget are reflect a favorable variance of \$11,629. The actual expenses compared to budget reflect an unfavorable variance of \$58,630. The budgetary process is not being used as a management tool by the Board of Directors.

Recommendation

The budgetary process will need to be implemented by the Board of Directors. Procedures must be instituted by the Board to assure that revenue and expenditures have been authorized by the budget process. If unfavorable variances development, budget amendments should be implemented with approval from the Board of Directors and the DFA-LGD.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets are adopted on the GAAP Basis of receipts and disbursements.

Entity Response

Arenas Valley Water Development Association will review this process and implement the recommendation.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Year Ended June 30, 2011

EXIT CONFERENCE

The report contents were discussed at an exit conference held December 5, 2013 with the following in attendance:

Arenas Valley Water Development Association

Delbert Fulfer	Board President
Gilbert Miera	Board Vice-President
Jay Wysong	Board Secretary-Treasurer
Cray Werner	Board Member
Julie Dubiskas	Office Manager

Accounting Firm

Carney Foy, CPA

Complied Financial Statements

CARNEY FOY
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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Arenas Valley Water Development Association
41A Kirkland Rd.
Silver City, New Mexico 88061

We have compiled the accompanying Statement of Net Assets – Proprietary Fund of the Arenas Valley Water Development Association as of June 30, 2011, and the related Statement of Revenues, Expenditures, and Changes in Net Assets - Proprietary Fund and the Cash Flows – Proprietary Fund for the year then ended. We have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the accrual basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accrual basis of accounting and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

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



Carney Foy, CPA
December 5, 2013

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Assets – Proprietary Fund
June 30, 2011

ASSETS

Current Assets

Cash-unrestricted		565,464
Accounts Receivable		46,212
Inventory & Supplies		5,539
Prepaid Insurance		2,304
Accrued Interest Receivable		2,000
Total Current Assets		<u>621,519</u>

Non Current Assets

Capital Assets	2,215,679	
Less Allowance for Depreciations	<u>(732,179)</u>	<u>1,483,500</u>
Total Non Current Assets		<u>1,483,500</u>
Total Assets		<u>2,105,019</u>

LIABILITIES and NET ASSETS

Current Liabilities

Accounts Payable		50,021
Accrued Payroll Expenses		4,674
Total Current Liabilities		<u>54,695</u>
Total Liabilities		<u>54,695</u>

Net Assets

Invested in Capital Assets, Net of Debt		1,483,500
Unrestricted		566,824
Total Net Assets		<u>2,050,324</u>
Total Liabilities and Net Assets		<u>2,105,019</u>

See independent accountant's compilation report

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Revenues, Expenses and Changes
In Fund Net Assets – Proprietary Fund
June 30, 2011

Operating Revenues

Water Sales and Service	\$	334,682
Total Operating Revenues		334,682

Operating Expenses

Cost of Water		190,782
Personal Expenses		62,840
Depreciation Expenses		51,306
Office Utilities		1,555
Maintenance		7,087
Insurance		6,234
Travel		953
Professional Fees		5,347
Advertising Expenses		651
Dues & Subscriptions		1,029
Office Expenses		5,286
Postage Expense		1,912
Property Tax		538
Telephone Expense		3,878
Total Operating Expenses		339,398
Total Operating Income (Loss)		(4,716)

Non-Operating Revenues (Expenses)

Interest Income		11,387
Total Non-Operating Revenue (Expenses)		11,387
Change in Net Assets		6,671

Net Assets at Beginning of Year		2,031,833
Contributed Capital-Memberships Current Year		11,820
Net Assets at End of Year	\$	2,050,324

See independent accountant's compilation report

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows – Proprietary Fund
June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 326,916
Cash Paid to Suppliers	(182,916)
Cash Paid to Employees	(61,738)
Net Cash Provided By Operating Activates	<u>82,262</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES	
Memberships	11,820
Payment For Capital Acquisitions	(113,367)
Net Cash Used For Capital and Related Financing Activates	<u>(101,547)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	11,387
Net Cash Provided From Investing Activities	<u>11,387</u>
Net Increase Cash	(7,898)
Cash - Beginning of Year	573,361
Cash - End of Year	<u>\$ 565,463</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITES	
Operating Income (Loss)	\$ (4,716)
Noncash Items in Net Income	
Depreciation	51,306
(Increase) Decrease In:	
Accounts Receivable	(7,766)
Inventory	12,411
Increase (Decrease) In:	
Accounts Payable	29,925
Accrued Expenses	<u>1,102</u>
Net Cash Provided From Noncapital Financing Activities	<u>\$ 82,262</u>

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1. FUNCTION OF THE ENTITY

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, 2011, the water system included 467 membership 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 units. 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.

Note A. 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. 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 Association, 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*.

Note 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 Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, 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 assets are reported in three parts – invested in capital assets, restricted net assets and unrestricted net assets. 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 services.

Note B. BASIC FINANCIAL STATEMENTS --GOVERNMENT --WIDE STATEMENTS (Continued)

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.

Note 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.

Note 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.

Note 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.

Note F. FINANCIAL STATEMENTS AMOUNTS

1. Cash

For the purpose of the Statement of Net Assets, "cash" includes all draw 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, 2011

3. Capital Asset (continued)

building/improvements, 30 years; furniture and equipment, five to ten 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 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 Classifications

Equity is classified as net assets. Net assets is the difference between assets and liabilities. Net assets 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 assets 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 asset are all other net asset 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 in the process of achieving these procedures that are promulgated by the Department of Finance and Administration-Local Government Division. These procedures are as follows:

- 5) Prior July 1, the Association's staff submits to the Board of Directors a proposed operation budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- 6) 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.
- 7) 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.
- 8) Formal budgetary integration is employed as a management control device during the year for the Enterprise funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets are adopted on the GAAP Basis of receipts and disbursements. Budgetary comparison presented in this report are on this GAAP budgetary basis.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2011

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 mutual funds. All bank balances or deposits as of June 30, 2011 were insured (The Dodd Frank Act of 2010 required the FDIC to insure all non-interest bearing accounts until December 31, 2012). The carrying amount of the Association's deposits with financial institutions was \$570,237 and the balance per the banks was \$565,414, and is shown as follows:

Cash Accounts	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
		Outstanding Checks	Transit Deposits	
First NM Bank	\$ 119,607	(4,823)	-	114,784
Western Bank CD	108,915	-	-	108,915
Raymond James CD	341,525	-	-	341,525
Raymond James Money Market	190	-	-	190
Total	<u>\$ 570,237</u>	<u>(4,823)</u>	<u>-</u>	<u>565,414</u>
Petty Cash				<u>50</u>
Total Cash				<u>\$ 565,464</u>

Concentration of Credit Risk

First NM Bank - NONE (\$114,784 bank statement balances is covered by the \$250,000 FDIC maximum federal insurance)	\$ -
Western Bank CD - NONE (\$108,915 CD statement balance is covered by the \$250,000 FDIC maximum federal insurance)	-
Raymond James CD - NONE (\$341,525 CD is collateralized by CD's from issuing banks.	-
Raymond James Money Market - NONE \$190 Money Market fund is insurance up through balance is covered by the \$250,000 FDIC maximum federal insurance)	-
Total Credit Risk	<u>\$ -</u>

The total deposits at all banks as of June 30, 2011 amounted to \$570,237. The amount in excess of the insurance provide by the FDIC was \$0.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2011

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 not have a deposit policy for custodial credit risk. As a result of the FDIC insurance the Association has no credit risk at June 30, 2011.

2. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

DESCRIPTION	BALANCE 06-30-10	INCREASES	DECREASES	BALANCE 06-30-11
Business-Type Activities				
Building & Structures	\$ 145,691	-	-	145,691
Equipment	115,479	-	-	115,479
Office Equipment	14,686	5,742	-	20,428
Field Equipment	-	66,774	-	66,774
Water System	1,826,457	40,850	-	1,867,307
Total Fixed Assets	<u>2,102,313</u>	<u>113,366</u>	<u>-</u>	<u>2,215,679</u>
Accumulated Depreciation	<u>680,873</u>	<u>51,306</u>	<u>-</u>	<u>732,179</u>
Net Capital Assets	<u>\$ 2,783,186</u>	<u>164,672</u>	<u>-</u>	<u>2,947,858</u>

3. LONG-TERM OBLIGATIONS

The Association has no debt or long term obligations.

Note I. 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 employee; and natural disasters. The Association maintains 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.