STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

For the Year Ended
June 30, 2012

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
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STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
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BOARD OF DIRECTORS

Gilbert Miera	President
Terry Trujillo	Vice-President
Jay Wysong	Secretary-Treasurer
Luis Terrazas	Board Member
Cray Werner	Board Member

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To: Gilbert Miera, President
Arenas Valley Water Development Association
and
Honorable Timothy Keller
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, 2012. 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:

<u>Cash</u>

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. See finding #2012-01.
c) All deposits are covered by the insurance collateral held on the account.

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. See finding #2012-03

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 agree 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 #2012-04.

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 operating budget which was approved by the local public body's governing body and the DFA-LGD. No subsequent budget adjustments were generated by the organization, thus the original budget was the final budget.
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 2012-05.
c) The Association did prepare a schedule of revenues and expenditures – budget and actual budget report for the year ended June 30, 2012 as indicated in this report. This report 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 expensed by the recipient during the fiscal year:

a) Determine that amount recorded as disbursed ages 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 property 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 in 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- 14 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
May 27, 2015

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, 2012

		Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Water Service Fees	$	317,299	317,299	338,037	20,738
Late Charges		5,484	5,484	5,860	376
Membership & Connection Fees		14,184	14,184	15,760	1,576
Interest Revenue		8,909	8,909	6,184	(2,725)
Miscellaneous Income		384	384	327	(57)
Total Revenues	$	346,260	346,260	366,168	19,908
Expenditures					
Cost of Water		150,074	150,074	205,401	(55,327)
Personal Expenses		56,870	56,870	63,344	(6,474)
Depreciation Expenses		-	-	61,573	(61,573)
Office Utilities		1,780	1,780	1,579	201
Maintenance		7,519	7,519	6,718	801
Insurance		6,827	6,827	7,393	(566)
Travel		1,144	1,144	1,337	(193)
Professional Fees		1,907	1,907	1,349	558
Advertising		580	580	606	(26)
Dues & Subscriptions		1,116	1,116	1,266	(150)
Office Expense		6,080	6,080	5,967	113
Postage Expense		1,803	1,803	2,127	(324)
Property Tax		646	646	601	45
Telephone		3,572	3,572	3,266	306
Total Expenditures	$	239,918	239,918	362,527	(122,609)
Excess (deficiency) of Revenue over Expenditures		106,342	106,342	3,641	(102,701)
Other changes to cash					
Payment for Capital Acquisitions		-	-	(33,505)	(33,505)
Increase in Accounts Receivable		-	-	(8,798)	(8,798)
Increase in Inventory		-	-	(6,589)	(6,589)
Decrease in Accounts Payable		-	-	(24,946)	(24,946)
Increase in Accrued Expenses		-	-	(449)	(449)
Decrease in Prepaid Assets		-	-	2,482	2,482
Non cash expense-Depreciation		-	-	61,573	61,573
Total - Other Changes to Cash	$	-	-	(10,232)	(10,232)
Net Increase (Decrease) Cash		106,342	106,342	(6,591)	(112,933)
Cash, Beginning of Year		565,464	565,464	565,464	-
Cash, End of Year	$	671,806	671,806	558,873	(112,933)

See independent accountant’s compilation report.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2012

	Type of Finding*	Prior Year Finding Number	Current Year Finding Number
Current Year Findings:			
Approval and Quarterly Financial Reports	D	2011-01	2012-01
Agreed Upon Procedures Report Submission	D	2011-02	2012-02
Capital Assets Certification by Board of Directors	D	2011-03	2012-03
Non-routing Journal Entries Review	D	2011-04	2012-04
Actual Expenditure Compared to Budget	D	2011-05	2012-05
Contract Approval Process of IPA	D	N/A	2012-06
Follow-up on Prior Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2012-01
Agreed Upon Procedures Report Submission	D	N/A	2012-02
Capital Assets Certification by Board of Directors	D	N/A	2012-03
Non-routing Journal Entries Review	D	N/A	2012-04
Actual Expenditure Compared to Budget	D	N/A	2012-05

*** Legend for Findings:**

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

2012-01

Approval and Quarterly Financial Reports

Criteria

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

Periodic quarterly 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 for much of this year. The Association tried to contract the DFA-LGD but were not able to develop the connection to their DFA-LGD representative.

Effect

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

Recommendation

It is recommended that AVWD make every effort to establish a relationship with the representation of the DFA-LGD. It is further recommend that the AVWDA submit quarterly financial reports as required to the DFA-LGD.

Entity Response

Quarterly financial reports to the DFA-LGD will be prepared and submitted starting as soon as practical.

2012-02
Agreed Upon Procedures Report Submission Date

Criteria
The agreed upon procedures report is due to the Office of the State Auditor on or before December 1, 2012, 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 January 16, 2015.

Cause
This was the third 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 effect to submit these reports in a timely fashion.

2012-03

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 or 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.

2012-04
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.

2012-05

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 or adjustments to the budgetary process should be implemented.

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

As indicated on page 7, the actual revenues received compared to budget reflect a favorable variance of $19,908. The actual expenses compared to budget reflect an unfavorable variance of $132,841. This is giving an unfavorable budget variance of ($112,933). 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.

The schedule of revenues and expenditures – budget and actual on the budgetary basis should be implemented for the accrual basis of accounting as reported by the proprietary fund. This would be consistent with the reporting by generally accepted accounting principles (GAAP).

Entity Response

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

2012-06

Contract Approval Process of the IPA

Criteria

In adhering to Section 2.2.2.8 G (6) NMAC, of the New Mexico State Auditors Rule, the agency is required to submit the completed Independent Public Accountants (IPA) Recommendation Form for Audits. This form is also used for the approval of the Agreed Upon Procedure Tier System. This form shall be completed and signed by the agency. Further the rule states that a Agreed Upon Procedures contract shall be executed before any Agreed Upon Procedures are performed. This contract shall be signed by the agency, the IPA and the State Auditor's designee.

Condition

The Agreed Upon Procedures report for the agency for the fiscal year ended June 30, 2012 was received by the Office of the State Auditor (Office) on January 22, 2015. However, the agency had failed to submit a new Independent Public Accountant (IPA) recommendation and contract to the Office for approval. The original contract was signed October 16, 2012 and expired on October 15, 2013. On April 20, 2015, the Office did receive a late submission of the recommendation and contract for approval.

Cause

An oversight by the IPA and the Agency.

Effect

The Office will accept this Agreed Upon Procedures report in the normal course of its review cycle. A repeat of this type of noncompliance finding of the contracting requirements of the Office will place the agency and the IPA in jeopardy of having future reports rejected and other possible sanctions applied as described in Section 2.2.2.8 E (1-4) NMAC.

Recommendation

It is understood that the IPA and the agency will not repeat this non compliance issue. Before any Agreed Upon Procedures or any contract work related to the State Auditors Office is undertaken, the contracting requirements will be followed. This will be specifically adhered to in the relationship to the selection of an IPA and achieving an executed contract.

Entity Response

Arenas Valley Water Development Association agrees with the recommendation.

EXIT CONFERENCE

The report contents were discussed at an exit conference held May 27, 2015 with the following in attendance:

Arenas Valley Water Development Association

Delbert Fulfer	Current Board President
Julie Dubiskas	Office Manager

Accounting Firm

Carney Foy, CPA

Complied Financial Statements

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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, 2012, 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

Carney Foy, CPA
May 27, 2015

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Assets – Proprietary Fund
June 30, 2012

ASSETS

Current Assets			
Cash-unrestricted		$	558,873
Accounts Receivable			55,010
Inventory & Supplies			12,128
Prepaid Insurance			1,050
Accrued Interest Receivable			772
Total Current Assets			627,833
Non Current Assets			
Capital Assets	2,249,184		
Less Allowance for Depreciations	(793,752)		1,455,432
Total Non Current Assets			1,455,432
Total Assets		$	2,083,265

LIABILITIES and NET ASSETS

Current Liabilities			
Accounts Payable		$	25,075
Accrued Payroll Expenses			4,225
Total Current Liabilities			29,300
Total Liabilities			29,300
Net Assets			
Invested in Capital Assets, Net of Debt			1,455,432
Unrestricted			598,533
Total Net Assets			2,053,965
Total Liabilities and Net Assets		$	2,083,265

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, 2012

Operating Revenues		
Water Sales and Service	$	338,037
Late Charges		5,860
Other revenue		327
Total Operating Revenues		344,224
Operating Expenses		
Cost of Water		205,401
Personal Expenses		63,344
Depreciation Expenses		61,573
Office Utilities		1,579
Maintenance		6,718
Insurance		7,393
Travel		1,337
Professional Fees		1,349
Advertising Expenses		606
Dues & Subscriptions		1,266
Office Expenses		5,967
Postage Expense		2,127
Property Tax		601
Telephone Expense		3,266
Total Operating Expenses		362,527
Total Operating Income (Loss)		(18,303)
Non-Operating Revenues (Expenses)		
Interest Income		6,184
Total Non-Operating Revenue (Expenses)		6,184
Change in Net Assets		(12,119)
Net Assets at Beginning of Year		2,050,324
Contributed Capital-Memberships Current Year		15,760
Net Assets at End of Year	$	2,053,965

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows – Proprietary Fund
June 30, 2012

Cash Flows from Operating Activities		
Cash Received From Customers	$	335,426
Cash paid for Water		(210,207)
Cash Paid to Suppliers		(56,905)
Cash Paid to Employees		(63,344)
Net Cash Provided By Operating Activates		4,970
Cash Flows from Capital and Related Financing Activities		
Memberships		15,760
Payment For Capital Acquisitions		(33,505)
Net Cash Used For Capital and Related Financing Activates		(17,745)
Cash Flows from Investing Activities		
Interest Income		6,184
Net Cash Provided From Investing Activities		6,184
Net Increase Cash		(6,591)
Cash - Beginning of Year		565,464
Cash - End of Year	$	558,873
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities		
Operating Income (Loss)	$	(18,302)
Noncash Items in Net Income		
Depreciation		61,573
(Increase) Decrease		
Accounts Receivable		(8,798)
Inventory		(6,589)
Increase (Decrease):		
Accounts Payable		(25,395)
Accrued Expenses		2,482
Net Cash Provided From Noncapital Financing Activities	$	4,971

See independent accountant's compilation report.

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, 2012, the water system included 478 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 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 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*.

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 he 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 is 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 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 live of the various classes of depreciable capital assets are as follows:

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 Associates 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 Classification
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:

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.

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.

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, 2012 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 $562,380 and the balance per the banks was $558,823, and is shown as follows:

Cash Accounts		Balance Per Depository	Reconciling Items: Outstanding Checks	Reconciling Items: Transit Deposits		Balance Per Financial Statements
First NM Bank	$	104,525	(3,557)	-		100,968
Western Bank CD		109,625	-	-		109,625
Financial Network CD		346,397	-	-		346,397
Financial Network Money Market		1,833	-	-		1,833
Total	$	562,380	(3,557)	-		558,823
Petty Cash						50
Total Cash					$	558,873

Concentration of Credit Risk		
First NM Bank - NONE ($100,968 bank statement balances is covered by the $250,000 FDIC maximum federal insurance)	$	-
Western Bank CD - NONE ($109,625 CD statement balance is covered by the $250,000 FDIC maximum federal insurance)		-
Financial Network CD - NONE ($346,397 CD is collateralized by CD's from issuing banks.		-
Financial Network Money Market - NONE $1,833 Money Market fund is insured by the $250,000 FDIC maximum federal insurance)		-
Total Credit Risk	$	-

The total deposits at all banks as of June 30, 2012 amounted to $558,823. The amount in excess of the insurance provide by the FDIC was $0.

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 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, 2012.

2. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Description		Balance 06-30-11	Increases	Decreases	Balance 06-30-12
Business-Type Activities					
Building & Structures	$	145,691	-	-	145,691
Equipment		115,479	-	-	115,479
Office Equipment		20,428	-	-	20,428
Field Equipment		66,774	33,505	-	100,279
Water System		1,867,307	-	-	1,867,307
Total Fixed Assets		2,215,679	33,505	-	2,249,184
Accumulated Depreciation		(732,179)	(61,573)	-	(793,752)
Net Capital Assets	$	1,483,500	(28,068)	-	1,455,432

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 many 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.