STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

For the Year Ended
June 30, 2014

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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

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

CARNEY FOY

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

To: Delbert Fulfer, 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, 2014. 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, 8 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. The reconciliations were accurate and agreed with supporting documentation. However, quarterly financial reports were not submitted timely DFA-LGD during the fiscal year. See finding #2012-01.
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) 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 borrower/Grantee Resolution No. 03-13 was adopted on March 26, 2013. The Organization obtained $43,400 in debt from the New Mexico Financial Authority. This was acquired along with a Grant of $390,600. The debt instrument calls for the first payment of $2,700 to be due June 1, 2014. With the project still in process this payment notification was never realized by the organization. This delinquent payment was subsequently paid with the June 1, 2015 payment.

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 excepted results.
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 banking instrument (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 being reviewed by the governing body.

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 was approved by the local public body's governing body. No subsequent budget adjustments were generated by the organization, thus the original budget was the final budget. The Association did not receive confirmation from the DFA-LGD on the approved budget. See finding #2012-05.

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, 2014 as indicated in this report. This report was not approved or monitored by DFA-LGD.

<u>Capital Outlay</u>

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) These procedures were complied with for the Colonias Infrastructure Project Loan/Grant agreement for $434,000 with a closing date of May 3, 2013.

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 to 12 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, the New Mexico Legislature, and the DFA-LGD. This report is not intended to be and should not be used by anyone other than those specified parties.

Carney Foy, CPA
Silver City, New Mexico
November 4, 2015

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, 2014

		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	$	350,898	350,898	347,965	2,353	350,318	(2,933)
Late Charges		6,038	6,038	6,330	-	6,330	292
Membership & Connection Fees		7,880	7,880	15,760	-	15,760	7,880
Total operating revenues	$	364,816	364,816	370,055	2,353	372,408	5,239
Operating Expenses:							
Cost of Water		162,163	162,163	222,151	22,298	244,449	(59,988)
Personal Expenses		84,776	84,776	74,398	733	75,131	10,378
Depreciation Expenses		-	-	-	60,384	60,384	-
Office Utilities		2,939	2,939	2,322	-	2,322	617
Maintenance		14,464	14,464	24,398	(3,935)	20,463	(9,934)
Insurance		9,127	9,127	7,343	-	7,343	1,784
Travel		896	896	1,093	-	1,093	(197)
Professional Fees		10,816	10,816	5,854	-	5,854	4,962
Advertising		357	357	299	-	299	58
Dues & Subscriptions		1,321	1,321	376	-	376	945
Office Expense		9,792	9,792	8,095	-	8,095	1,697
Postage Expense		2,181	2,181	2,816	-	2,816	(635)
Telephone		4,323	4,323	2,972	-	2,972	1,351
Total operating expenses	$	303,155	303,155	352,117	79,480	431,597	(48,962)
Operating income (loss)		61,661	61,661	17,938	(77,127)	(59,189)	(43,723)
Non-Operating Revenue (Expenses):							
Interest Revenue		10,320	10,320	4,292	-	4,292	(6,028)
Hwy water line project		390,600	390,600	282,301	-	282,301	(108,299)
NMFA Project Expense		(390,600)	(390,600)	(325,701)	325,701	-	64,899
Increase in debt		-	-	43,400	(43,400)	-	43,400
Total non-operating revenues (expenses)		10,320	10,320	4,292	282,301	286,593	(6,028)
Net change		71,981	71,981	22,230	205,174	227,404	(49,751)
Cash, beginning of year		602,392	602,392	602,392			
Cash, end of year	$	674,373	674,373	624,622			(49,751)

Explanations of Difference:

Payment for Capital Acquisitions		325,701
Increase in Accounts Receivable		2,353
Increase in Inventory		3,935
Increase in Accounts Payable		(22,298)
Increase in Accrued Expenses		(733)
Increase in Debt		(43,400)
Depreciation		(60,384)
Total	$	205,174

Schedule of Findings and Responses

Year Ended June 30, 2014

	Type of Finding*	Status	Current Year Finding Number
Current Year Findings: (06-30-14)			
Approval and Quarterly Financial Reports	D		2012-01
Agreed Upon Procedures Report Submission	D		2012-02
Actual Expenditure Compared to Budget	D		2012-05
Follow-up on Prior Year Findings: (06-30-13)			
Approval and Quarterly Financial Reports	D	Repeated	2012-01
Agreed Upon Procedures Report Submission	D	Repeated	2012-02
Fixed Assets Certification by the Board of Directors	D	Cleared	2012-03
Non-routing Journal Entries Review	D	Cleared	2012-04
Actual Expenditure Compared to Budget	D	Repeated	2012-05
Contract Approval Process of the IPR	D	Cleared	2012-06
Depository of Public Money and Credit Risk	D	Cleared	2013-01

*** Legend for Findings:**

A. Fraud

B. Illegal Act(s)

C. Internal Control Deficiency

D. Noncompliance

Item 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, timely, to the DFA-LGD during the fiscal year. The budgetary process was implemented by the agency, but correspondence to the DFA-LGD was not acknowledged or approved. The DFA-LGD did not assign a program manager to the agency.

Cause

The AVWDA submitted the annual budget to the DFA-LGD for the fiscal year. The Association tried to contact the DFA-LGD but were not able to develop the connection to their DFA-LGD representative. The entire fiscal year passed, and the quarterly reports were not timely submitted. The DFA-LGD did not assign a program manager to the agency that would provide the feedback necessary to establish proper budgetary and reporting controls.

Effect

The AVWDA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978. The DFA-LGD has not provided the oversight to the agency.

Recommendation

It is recommended that AVWD make every effort to establish a relationship with the program manager of the DFA-LGD. It is further recommended that the agency submit timely quarterly financial reports as required to the DFA-LGD.

Entity Response

The agency will actively establish a needed relationship with the DFA-LGD. Quarterly financial reports to the DFA-LGD, as of December 31, 2014 have been submitted timely. A program manager relationship has been established with Tom Dickson, of the DFA-LGD. The agency is working with him to provide the required reports in an acceptable manner.

<u>Item 2012-02 – Agreed Upon Procedures report Submission Date</u>

Criteria
The agreed upon procedures report is due to the Office of the State Auditor on or before December 1, 2014, 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 November 4, 2015.

Cause
This was the fifth year for the agency to submit a report to the State Auditor. It was the second time they were required to obtain a Tier 6 agreed upon procedures services. The prior years report and the proper authorization of the current IPA 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 2015.

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.
Every effort should be made by the agency to work with the IPA to fulfill the reporting requirements in a timely manner.

Entity Response
Arenas Valley Water Development Association will review the process to assure timely reporting. We will make every effort to submit these reports in a timely fashion. We realized that we would be delinquent on the FY14 Tier 6 year end report. We anticipate that our filing of the FY15 reporting will be filed timely as of December 1, 2015.

Item 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, actual expenses and non-operating revenue and expenses compared to budgeted revenue and budgeted expenses should not be authorized. Adjustments to the budgetary process should be implemented when these variance exit.
The annual budget submitted to the DFA-LGD must be approved by the DFA-LGD.

Condition
The budgetary process of managing the revenues, expenditures and non-operating revenue and expenses which should be compared to the approved budget for the Association is not being monitored, reviewed, and adjusted in the normal course of the fiscal year. The budget for the fiscal year 2014 was not approved by the DFA-LGD.

Cause
This Board of Directors was not aware of this requirement. There has been a lack of communication between the agency and the DFA-LGD.

Effect
As indicated on page 7, the actual revenues received compared to budget reflect a favorable variance of $5,239. The actual expenses compared to budget reflect an unfavorable variance of $48,962. The line items representing the Non-Operating Revenue and Expenses indicate an unfavorable variance of $6,028 variance. Combining the revenue, expenses, and other non-operating revenue and expenses the budget report indicates an unfavorable budget variance of $49,751. The budgetary process is not being used as a management tool by the Board of Directors. The budgetary process in not being monitored by the DFA-LGD.

Recommendation
The budgetary process will need to be implemented by the Board of Directors. Procedures must be instituted by the Board to assure that the original budget is approved by the DFA-LGD. Revenue, expenditures and non-operating revenue and expenses must be authorized, monitored and adjusted by the budgetary process. If unfavorable variances development, budget amendments should be implemented with approval from the Board of Directors and the DFA-LGD.

Entity Response
Arenas Valley Water Development Association will review this process and implement this recommendation. The communication with the DFA-LGD has been established and a coordinated effect exists to remedy this situation.

STATUS OF PRIOR YEAR'S FINDINGS

Item 2012-01 – Approval and Quarterly Financial Reports – the finding noted financial reports were not submitted to the DFA-LGD as required. It also included that the budgetary process was not being approved as necessary. This deficiency has partly been resolved and the finding has been updated and repeated as item 2012-01.

Item 2012-02 – Agreed Upon Procedures Report Submission Date – This finding noted that the report submitted to the State Auditor Office was late. This deficiency has not been resolved and the finding has been updated and repeated as item 2012-02.

Item 2012-03 – Capital Assets Certification by the Board of Directors – This finding indicates that the approved and completed capital asset listing is not being formally certified by the Board of Directors. This deficiency has been resolved and the finding has been cleared.

Item 2012-04 - Non-routine Journal Entries Review – This finding indicates that the non-routine journal entries are not being reviewed by the Board of Directors. This deficiency has been resolved and the finding has been cleared.

Item 2012-05 – Actual Expenditure Compared to Budget - This finding indicates that 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. This deficiency has not been resolved and the finding has been updated and repeated as item 2012-05.

Item 2012-06 – Contract Approval Process of the IPA – This finding indicates that 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. This deficiency has been resolved and the finding has been cleared.

Item 2013-01 – Depository of Public Money and Credit Risk – This finding indicates that $6,338 was deposited within a financial institution without adequate collateral. This deficiency has been resolved and the finding has been cleared.

EXIT CONFERENCE

The report contents were discussed at an exit conference held November 4, 2015 with the following in attendance:

Arenas Valley Water Development Association

Delbert Fulfer	Board President
C. Jay Wysong	Secretary-Treasurer
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 Position of the Arenas Valley Water Development Association as of June 30, 2014, and the related Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows 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.

C Foy, CPA

Carney Foy, CPA
November 4, 2015

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Position
June 30, 2014

ASSETS			
Current Assets			
Cash-Unrestricted			$ 624,622
Accounts Receivable			58,432
Inventory & Supplies			15,210
Grant Receivable			108,299
Accrued Interest Receivable			811
Total Current Assets			807,374
Non Current Assets			
Capital Assets	$ 2,574,885		
Less Allowance for Depreciations	(915,935)		1,658,950
Total Non Current Assets			1,658,950
Total Assets			$ 2,466,324
LIABILITIES and NET ASSETS			
Current Liabilities			
Accounts Payable			$ 44,737
Accrued Payroll Expenses			5,406
Current Portion of Long Term Debt			4,340
Deferred Revenue - NMFA			108,299
Total Current Liabilities			162,782
Long Term Liabilities			
Note Payable			39,060
Total long term Liabilities			39,060
Total Liabilities			201,842
Net Position			
Invested in Capital Assets, Net of Debt			1,658,950
Unrestricted			605,532
Total Net Position			2,264,482
Total Liabilities and Net Position			$ 2,466,324

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, 2014

Operating Revenues		
Water Sales and Service	$	350,318
Late Charges		6,330
Membership & Connections Fees		15,760
Total Operating Revenues		372,408
Operating Expenses		
Cost of Water		244,449
Personal Expenses		75,131
Depreciation Expenses		60,384
Office Utilities		2,322
Maintenance of System		20,463
Insurance		7,343
Travel		1,093
Professional Fees		5,854
Advertising Expenses		299
Dues & Subscriptions		376
Office Expenses		8,095
Postage Expense		2,816
Telephone Expense		2,972
Total Operating Expenses		431,597
Total Operating Income (Loss)		(59,189)
Non-Operating Revenues (Expenses)		
Grant NMFA		282,301
Interest Income		4,292
Total Non-Operating Revenue (Expenses)		286,593
Change in Net Position		227,404
Net Position Beginning of Year		2,037,078
Net Position End of Year	$	2,264,482

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows
June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	$	354,295
Cash Paid for Water		(232,408)
Cash Paid to Suppliers		(45,311)
Cash Paid to Employees		(74,398)
Net Cash Provided By Operating Activates		2,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES		
Memberships		15,760
Grant Funds Received		282,301
NMFA - Loan Received		43,400
NMFA - Project Expended.		(325,701)
Net Cash Used For Capital and Related Financing Activates		15,760
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		4,292
Net Cash Provided From Investing Activities		4,292
Net Increase Cash		22,230
Cash - Beginning of Year		602,392
Cash - End of Year	$	624,622
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITES		
Operating Income (Loss)	$	(54,897)
Noncash Items in Net Income		
Depreciation		60,384
(Increase) Decrease In:		
Accounts Receivable		(2,353)
Inventory		(3,935)
Increase (Decrease) In:		
Accounts Payable		22,298
Accrued Tax Expenses		733
Net Cash Provided From Noncapital Financing Activities	$	22,230

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, 2014, the water system included 484 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 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

Note 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.

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 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 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:

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 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.

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, except for the money market account, as of June 30, 2014 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 $631,551 and the balance per the banks was $624,572, 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	$	164,367	(6,979)	-		157,388
Western Bank CD		110,217	-	-		110,217
Financial Network CD		356,455	-	-		356,455
Financial Network Money Market		512	-	-		512
Total	$	631,551	(6,979)	-		624,572
Petty Cash						50
Total Cash					$	624,622

Concentration of Credit Risk		
First NM Bank - NONE ($164,368 bank statement balances is covered by the $250,000 FDIC maximum federal insurance)	$	-
Western Bank CD - NONE ($110,217 CD statement balance is covered by the $250,000 FDIC maximum federal insurance)		-
Financial Network CD - NONE ($356,455 CD is collateralized by CD's from issuing banks.		-
Financial Network Money Market - $512 Money Market fund is not insured. This account balance is transferred to FNM Bank account and does not present a credit risk.		-
Total Credit Risk	$	-

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, 2014 is managed.

2. RECEIVABLES

The accounts receivable consist of the following:

		OPERATING
Operating Receivables	$	58,432
Total Accounts Receivable	$	58,432
Operating Receivables-Aged		
0 to 30 days	$	52,190
31- to 60 days		4,210
60 to 90 days		2,032
over 90 days		-
	$	58,432

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

DESCRIPTION		BALANCE 06-30-13	INCREASES	DECREASES	BALANCE 06-30-14
Business-Type Activities					
Building & Structures	$	145,691	-	-	145,691
Equipment		115,479	-	-	115,479
Office Equipment		20,428	-	-	20,428
Field Equipment		100,279	-	-	100,279
Water System		1,867,307	325,701	-	2,193,008
Total Fixed Assets		2,249,184	325,701	-	2,574,885
Accumulated Depreciation		(855,551)	(60,384)	-	(915,935)
Net Capital Assets	$	1,393,633	265,317	-	1,658,950

4. NOTE PAYABLE and LONG-TERM OBLIGATIONS

The following is a summary of changes in Long-Term Debt for year ended June 30, 2014.

		BALANCE 06-30-13	ISSUED	RETIRED	BALANCE 06-30-14	DUE WITHIN ONE YEAR
Note Payables						
NMFA	$	-	43,400	-	43,400	2,700
Total	$	-	43,400	-	43,400	2,700

Notes payable at June 30, 2014, consist of the following individual item:

As part of the Colonias Infrastructure Project Loan/Grant No. 2776-CIF for $434,000 agreement, the New Mexico Finance Authority funded $43,400 which is considered a loan. This is a non interest bearing loan to the Association. This 10% loan portion calls for annual payments are $2,170 commencing on June 1, 2014 and due on June 1 of each year until completion at 2033. Being that the project was still in a work in progress phase, the first year's payment was carryover and combined with the June 1, 2015 payment which then totaled $4,340. These project funds were used to make major improvements to the system's water line infrastructure. This note is being collateralized by pledged revenues.	$	43,400
Total Notes Payable		43,400
Current Portion of Long-Term Notes Payable		(4,340)
Total Long-Term Notes Payable	$	39,060

Long term debt (notes payable) consists of the following as of June 30, 2014

Fiscal Year		Total	Long Term Debt	Interest
Year Ended 6-30-2015	$	4,340	4,340	-
Year Ended 6-30-2016		2,170	2,170	-
Year Ended 6-30-2017		2,170	2,170	-
Year Ended 6-30-2018		2,170	2,170	-
Year Ended 6-30-2019		2,170	2,170	-
Years 7-1-19 to 06-30-33		30,380	30,380	-
TOTAL	$	43,400	43,400	-

5. DEFERRED REVENUE

Activity for the fiscal year ended June 30, 2014, was as follows:

Description		Deferred Revenue
Balance at beginning of year	$	-
Additions:		
Funding		390,600
Reductions:		
Expenditures incurred Project		(282,301)
Deferred Revenue - end of year	$	108,299

6. 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 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.