

STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

**For the Year Ended
June 30, 2015**

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
TABLE OF CONTENTS
June 30, 2015

	<u>Page</u>
Table of Contents.....	i
Official Roster.....	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures	2-6
Schedule of Revenues, Expenses and Changes in Cash Balance Budget (Non-GAAP Budgetary Basis) and Actual on Budgetary Basis With Reconciliation to GAAP	7
Schedule of Findings and Responses	8-12
Exit Conference	13
Compiled Financial Statements.....	14-25

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
June 30, 2015

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, 2015. 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, 9 certificates of deposit and a cash money market account. The Organization utilizes the Peachtree-Sage Financial Accounting Software System to record their financial transactions and accounting information. All bank reconciliations are performed within a timely basis and all were completed, on-hand and agreed to the general ledger accounting system.
- b) Random tests of bank reconciliations revealed no exceptions for accuracy. 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 #2012-001.
- 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 called 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. The debt obligations are current.

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:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statements.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis. The basis for the organization is the accrual basis.

Findings

- a) Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed expected results.
- b) Amounts recorded into the general ledger accounting system do agree with supporting documentation and the bank statements on a consistent basis.
- c) 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. One subsequent budget adjustment was generated by the organization. The Association did not receive confirmation from the DFA-LGD on the approved budget or the budget adjustment. 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, 2015 as indicated in this report. This report had not been approved 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 is 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) Four disbursements were made directly to the Engineering firm providing services to the agency under the contract issued in FY14. The amount, payee, date and description did agree to the vendor's invoice, purchase order, contract and cancelled check on all of these transactions. These procedures were complied with for the Colonias Infrastructure Project Loan/Grant agreement for \$434,000 with a closing date of May 3, 2013.
- b) The four disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- c) The bid process for the Colonias Infrastructure Project Loan/Grant agreement for \$434,000 was adhered to in the prior fiscal year when the process was completed. This determination was complied with for the closing date of May 3, 2013.
- d) The source documents on the four expenditures that were reviewed provided assurance that the capital asset expenditures were appropriate and correctly classified.
- e) Copies of invoices, and other supporting vouchers were verified that support these four expenditures. They were submitted to the New Mexico Finance Authority per the terms of the agreement. These amounts agreed to the general ledger accounting system.
- f) The project is not funded in advance.
- g) The project is not complete. A balance of \$72,843 is being carried on the books as NMFA Grant Receivable and NMFA Grant Deferred Revenue. See Note 5.
- h) The cash received for the award is an invoice driven reimbursement structured type of arrangement. Cash is only received after payment has been made on the expenditure.
- i) These four reimbursement requests were properly supported by the costs incurred by the agency.

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
May 17, 2016

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, 2015

	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	\$ 416,467	416,467	396,915	(3,305)	393,610	(19,552)
Late Charges	6,340	6,340	6,500	-	6,500	160
Membership & Connection Fees	8,274	8,274	16,560	-	16,560	8,286
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenues	\$ 431,081	431,081	419,975	(3,305)	416,670	(11,106)
Operating Expenses:						
Cost of Water	219,274	286,097	292,407	(15,051)	277,356	(6,310)
Personal Expenses	93,257	93,257	70,441	1,176	71,616	22,816
Depreciation Expenses	-	-	-	66,900	66,900	-
Office Utilities	3,227	3,227	1,869	-	1,869	1,358
Maintenance	18,111	18,111	18,110	963	19,072	1
Insurance	11,834	11,834	7,466	-	7,466	4,368
Travel	986	986	1,341	-	1,341	(355)
Professional Fees	11,050	11,050	9,448	-	9,448	1,602
Advertising	-	-	195	-	195	(195)
Dues & Subscriptions	1,453	1,453	444	-	444	1,009
Office Expense	8,381	8,381	10,713	-	10,713	(2,332)
Postage Expense	2,400	2,400	2,271	-	2,271	129
Telephone	4,756	4,756	2,867	-	2,867	1,889
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	\$ 374,729	441,552	417,572	53,988	471,558	23,980
Operating income (loss)	56,352	(10,471)	2,403	(57,293)	(54,888)	12,874
Non-Operating Revenue (Expenses):						
Interest Revenue	10,471	10,471	3,901	(40)	3,861	(6,570)
Hwy water line project	100,000	100,000	35,456	-	35,456	(64,544)
NMFA Project Expense	(100,000)	(100,000)	(35,456)	35,456	-	64,544
Debt Reduction	-	-	(4,340)	4,340	-	(4,340)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total non-operating revenues (expenses)	10,471	10,471	(439)	39,756	39,317	(10,910)
Net change	66,823	-	1,964	(17,537)	(15,571)	1,964
Cash, beginning of year	624,622	624,622	624,622			624,622
Cash, end of year	\$ 691,445	624,622	626,586			626,586

Explanations of Difference:

Decrease in Accrued Interest	(40)
Increase in Capital Acquisitions	35,456
Decrease in Accounts Receivable	(3,305)
Decrease in Inventory	(963)
Decrease in Accounts Payable	15,051
Increase in Accrued Expenses	(1,176)
Decrease in Debt Payable	4,340
Depreciation Expense Non Cash	(66,900)

Total \$ (17,537)

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
 Year Ended June 30, 2015

	<u>Type of Finding*</u>	<u>Status</u>	<u>Current Year Finding Number</u>
Current Year Findings: (06-30-15)			
Approval and Quarterly Financial Reports	D		2012-001
Agreed Upon Procedures Report Submission	D		2012-002
Actual Expenditure Compared to Budget	D		2012-005
Follow-up on Prior Year Findings: (06-30-14)			
Approval and Quarterly Financial Reports	D	Repeated	2012-001
Agreed Upon Procedures Report Submission	D	Repeated	2012-002
Actual Expenditure Compared to Budget	D	Repeated	2012-005

*** 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, 2015

Item 2012-001 – 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 until later in the fiscal year. The quarterly reports for the quarter ended September 30, 2014 and December 31, 2014 were not submitted.

Although this condition is being repeated with modification from a prior year condition, management has made significant progress toward corrective action.

Cause

The AVWDA submitted the annual budget to the DFA-LGD for the fiscal year. Early in the fiscal year, the agency tried to contact the DFA-LGD but were not able to develop the connection to their DFA-LGD representative. Much of the fiscal year passed, and the quarterly reports were not submitted in a timely manner. The DFA-LGD did assign a program manager at fiscal year end. The agency did submit quarterly reports for March 31, 2015 and June 30, 2015. Proper filing of acceptable reports then needed to be worked out.

Effect

The AVWDA has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978. The DFA-LGD has not provided the proper oversight to the agency. Reporting to the DFA-LGD was not filed timely nor provided in an acceptable manner.

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. It is also recommended that the format for these reports follow the style as reported on page 7 of this report.

Entity Response

The agency will actively establish a needed and on going relationship with the DFA-LGD. Quarterly financial reports to the DFA-LGD, were submitted as of March 31, 2015 and June 30, 2015. A program manager relationship has been established with Anita Medina, of the DFA-LGD by the agency's secretary. They are working to provide the timely complete quarterly financial reporting by December 31, 2015.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2015

Item 2012-002 – 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 15, 2015, as required by Sections 2.2.2.9(A) and Section 2.2.2.16 (H) NMAC.

Condition

The report wasn't submitted timely, it was submitted to the Office of the State Auditor on May 17, 2016. This prior years repeated finding indicated a lack of progress to correct this finding.

Cause

Catching up on the Agree Upon Procedures reporting from prior years has caused this report to be late. This is the third report to be reported to the State Auditor's Office in the prior twelve month period. Among the various duties of the part time staff additional time resources were dedicated to grant applications and other compliance related activities. The completion of this report had to be delayed.

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 agency make every effort to work with the IPA to fulfill the reporting requirements to assure the report is prepared in a timely manner.

Entity Response

The secretary of the agency along with the President of the Board of Directors will review the process to assure timely reporting for the fiscal year 2016. The report will be submitted by the December 15, 2016 deadline.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2015

Item 2012-005 – Actual Revenue and 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 showing significant progress by the agency. Further budgetary monitoring and budget adjustments in the normal course of the fiscal year needs to be implemented. The budget for the fiscal year 2015, although approved by the agency, was not subsequently approved by the DFA-LGD.

Cause

This Board of Directors did not follow up on this budgetary oversight requirement. The communication between the DFA-LDG and the agency, which has been lacking, is improving.

Effect

As indicated on page 7, the actual water revenues received compared to budget reflect an unfavorable variance of \$11,106. The operating actual expenses compared to budget reflect a favorable variance of \$23,980. The line items representing the Non-Operating Revenue and Expenses indicate an unfavorable variance of \$10,910. Combining the revenue, expenses, and other non-operating revenue and expenses, the budget report indicates a favorable budget variance of \$1,964. 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 improved upon 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

The President of the Board, along with all of the Board of Directors will implement the budgetary review and authorization process to assure approval has been received from the DFA-LGD by the June 30, 2016 budgetary cycle.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
Year Ended June 30, 2015

STATUS OF PRIOR YEAR'S FINDINGS

Item 2012-001 – 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 condition is being repeated with modification; management has made significant progress toward corrective action.

Item 2012-002 – 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 2012-002.

Item 2012-005 – 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 2012-005. Significant progress has been made to address this finding.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Year Ended June 30, 2015

EXIT CONFERENCE

The report contents were discussed at an exit conference held May 17, 2016 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

CARNEY FOY
CERTIFIED PUBLIC ACCOUNTANT
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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, 2015, 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.



Carney Foy, CPA
May 17, 2016

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Position
June 30, 2015

Current Assets		
Cash-Unrestricted	\$	626,586
Accounts Receivable		55,126
Inventory & Supplies		14,248
Grant Receivable		72,843
Accrued Interest Receivable		<u>772</u>
Total Current Assets		<u>769,575</u>
Non Current Assets		
Capital Assets	\$	2,610,341
Less Allowance for Depreciations		<u>(982,835)</u>
Total Non Current Assets		<u>1,627,506</u>
Total Assets	\$	<u><u>2,397,081</u></u>

LIABILITIES and NET POSITION

Current Liabilities		
Accounts Payable	\$	29,687
Accrued Payroll Expenses		6,581
Current Portion of Long Term Debt		2,170
Deferred Revenue - NMFA		<u>72,843</u>
Total Current Liabilities		111,281
Long Term Liabilities		
Note Payable		36,890
Total long term Liabilities		<u>36,890</u>
Total Liabilities		<u>148,171</u>
Net Position		
Net investment in Capital Assets		1,627,506
Unrestricted		<u>621,404</u>
Total Net Position		<u>2,248,910</u>
Total Liabilities and Net Position	\$	<u><u>2,397,081</u></u>

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, 2015

Operating Revenues	
Water Sales and Service	\$ 393,610
Late Charges	6,500
Membership & Connections Fees	16,560
	416,670
Operating Expenses	
Cost of Water	277,356
Personal Expenses	71,616
Depreciation Expenses	66,900
Office Utilities	1,869
Maintenance of System	19,072
Insurance	7,466
Travel	1,341
Professional Fees	9,448
Advertising Expenses	195
Dues & Subscriptions	444
Office Expenses	10,713
Postage Expense	2,271
Telephone Expense	2,867
	471,558
Total Operating Expenses	471,558
Total Operating Income (Loss)	(54,888)
Non-Operating Revenues (Expenses)	
Interest Income	3,861
Grant NMFA	35,456
	39,317
Total Non-Operating Revenue (Expenses)	39,317
Change in Net Position	(15,571)
Net Position Beginning of Year	2,264,481
Net Position End of Year	\$ 2,248,910

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows
June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 403,415
Cash Paid for Water	(292,407)
Cash Paid to Suppliers	(54,724)
Cash Paid to Employees	(70,441)
Net Cash Provided By Operating Activates	<u>(14,157)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Memberships	16,560
Grant Funds Received	35,456
NMFA - Loan Payment	(4,340)
NMFA - Project Expended.	<u>(35,456)</u>
Net Cash Used For Capital and Related Financing Activates	<u>12,220</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>3,901</u>
Net Cash Provided From Investing Activities	<u>3,901</u>
Net Increase Cash	1,964
Cash - Beginning of Year	<u>624,622</u>
Cash - End of Year	<u>\$ 626,586</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (15,571)
Noncash Items in Net Income	
Depreciation	66,900
(Increase) Decrease In:	
Accounts Receivable	3,305
Inventory	963
Capital Acquisition	(35,456)
Prepaid Assets	40
Increase (Decrease) In:	
Accounts Payable	(15,053)
Accrued Tax Expenses	1,176
Note Payable	<u>(4,340)</u>
Net Cash Provided From Noncapital Financing Activities	<u>\$ 1,964</u>

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements
June 30, 2015

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, 2015, 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 using a tiered rotation basis. The Association is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the Association's board of directors have oversight responsibility. The board of directors have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Association is not included in any other governmental reporting entity as defined in the *Codification of Governmental Accounting and Financial Reporting Standards*.

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

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

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

2. Accounts Receivable

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

3. Capital Asset

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

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

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 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 Association's resources follows:

BUDGETS AND BUDGETARY ACCOUNTING

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

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

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

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, 2015 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 \$630,777 and the balance per the banks was \$626,536, and is shown as follows:

Cash Accounts	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
		Outstanding Checks	Transit Deposits	
First NM Bank	\$ 160,415	(4,241)	-	156,174
Western Bank CD	110,404	-	-	110,404
Financial Network CD	358,786	-	-	358,786
Financial Network Money Market	1,172	-	-	1,172
Total	\$ 630,777	(4,241)	-	626,536
Petty Cash				50
Total Cash				\$ 626,586

Concentration of Credit Risk

First NM Bank - NONE (\$160,415 bank statement balances is covered by the \$250,000 FDIC maximum federal insurance)

\$ -

Western Bank CD - NONE (\$110,404 CD statement balance is covered by the \$250,000 FDIC maximum federal insurance)

-

Financial Network CD - NONE (\$358,786 - 9 CD's are collateralized by CD's from issuing banks.

-

Financial Network Money Market - \$1,172
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

\$ -

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

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, 2015 is managed.

2. RECEIVABLES

The accounts receivable consist of the following:

		<u>Operating</u>	
Operating Receivables	\$	55,126	
Total Accounts Receivable	\$	<u>55,126</u>	
Operating Receivables-Aged			
0 to 30 days		41,268	
31- to 60 days		6,726	
60 to 90 days		6,058	
over 90 days		1,074	
		<u>55,126</u>	

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

<u>Description</u>		<u>Balance</u> 06-30-14	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 06-30-15
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		2,193,008	35,456	-	2,228,464
Total Fixed Assets		<u>2,574,885</u>	<u>35,456</u>	<u>-</u>	<u>2,610,341</u>
Accumulated Depreciation		<u>(915,935)</u>	<u>(66,900)</u>	<u>-</u>	<u>(982,835)</u>
Net Capital Assets	\$	<u>1,658,950</u>	<u>(31,444)</u>	<u>-</u>	<u>1,627,506</u>

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

4. NOTE PAYABLE and LONG-TERM OBLIGATIONS

The following is a summary of changes in Long-Term Debt for year ended June 30, 2015.

	Balance 06-30-14	Issued	Retired	Balance 06-30-15	Due Within One Year
Note Payables					
NMFA	\$ 43,400	-	4,340	39,060	2,170
Total	<u>\$ 43,400</u>	<u>-</u>	<u>4,340</u>	<u>39,060</u>	<u>2,170</u>

Notes payable at June 30, 2015, 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.

Total Balance due on Note Payable	39,060
Current Portion of Long-Term Notes Payable	(2,170)
Total Long-Term Notes Payable	\$ 36,890

Long term debt (notes payable) consists of the following as of June 30, 2015

Fiscal Year	Total	Term Debt	Interest
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	-
Year Ended 6-30-2020	2,170	2,170	-
Years 7-1-20 to 06-01-33	28,210	28,210	-
TOTAL	\$ 39,060	39,060	-

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2015

5. DEFERRED REVENUE

Activity for the fiscal year ended June 30, 2015, was as follows:

Description	Deferred Revenue
Balance at beginning of year	\$ <u>108,299</u>
Additions:	-
Funding	-
Reductions:	
Expenditures incurred Project	(35,456)
Deferred Revenue - end of year	\$ <u><u>72,843</u></u>

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 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.