

STATE OF NEW MEXICO

ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Independent Accountants' Report on Applying Agreed-Upon Procedures

**For the Year Ended
June 30, 2016**

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
TABLE OF CONTENTS
June 30, 2016

	<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	8-9
Exit Conference	10
Compiled Financial Statements.....	11-22

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
OFFICIAL ROSTER
June 30, 2016

BOARD OF DIRECTORS

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

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To: The Board of Directors
Arenas Valley Water Development Association
and
Honorable Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below, which were agreed to by the Arenas Valley Water Development Association (AVWDA) and the New Mexico State Auditor (the specified parties), solely to assist you in evaluating AVWDA's financial reporting relating to its Cash, Capital Assets, Debt, Revenue, Expenditures, Journal Entries, Budget and Capital Outlay Appropriations information for compliance Section 12-6-3B (6) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended June 30, 2016. The Arenas Valley Water Development Association's management is responsible its financial reporting to and compliance with the State Auditors rules as described above.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, the Procedures and the associated findings are as follows:

Tier Determination

Procedures

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

Results of Procedure

We obtained and recalculated the revenue calculation and determined that it was properly classified as Tier 6 of the Audit Act.

Cash

Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).
- c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Findings

- a) The AVWDA has a checking account, 7 certificates of deposit and a cash money market account. The Organization utilizes the Peachtree-Sage Financial Accounting Software System to record their financial transactions and accounting information. All bank reconciliations are performed 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. These reconciliations agree to the DFA-LGD reports submitted.
- c) Financial institutions have provided AVWDA with adequate pledged collateral held on uninsured deposits as required by Section 6-10-17 NMSA 7978, NM Public Money Act.

Capital Assets

Procedures

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

Findings

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

Debt

Procedures

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

Findings

- a) The 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 payments of \$2,700 to be due June 1, of each year. During this fiscal year the agency paid this debt of \$39,060 in full. The debt obligations are complete.

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) Four months out of the twelve month period were selected for testing. The amounts recorded into the general ledger accounting system do agree with supporting documentation and the bank statements on a consistent basis.
- c) These amounts were properly recorded using the accrual basis of accounting. The general ledger accounting system is reflecting classification, amount and period per review in relationship to the supporting documentation of the organization.

Expenditures

Procedures

Select a sample of cash disbursements and test for the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1.NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

- a) Thirty disbursements were randomly selected. We determined that the amounts recorded as disbursed agreed to supporting documentation. Amounts paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled banking instrument (check), as appropriate.
- b) These disbursements were properly authorized and approved in compliance with legal requirements and the established policies and procedures of the agency.
- c) The bid process (or request for proposal, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1.NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2.NMAC).

Journal Entries

Procedures

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

Budget

Procedures

Obtain the original fiscal year budget and all budget 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 receive confirmation from the DFA-LGD on the approved budget and the subsequent budget adjustment.
- b) Total actual expenditures were reviewed to the budgeted items for budgetary analysis. This procedure caused the budgetary process to be effective.
- c) The Association did prepare a schedule of revenues and expenditures – budget and actual budget report for the year ended June 30, 2016 as indicated in this report.

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) Five disbursements, totaling \$72,842. were made directly to the Engineering firm providing services to the agency under the contract amendment issued in FY16. 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) These five 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 these five 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 five 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 completed. No unexpended balances were reverted to the grantor. The NMFA Grant has been completed. See Note 5 for handling of the Deferred Revenue.
- h) The cash received for the award is an invoice driven reimbursement structured type of arrangement. Cash is only received by the organization after payment has been made on the expenditure.
- i) These five 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 (l) (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.

Schedule of Findings and Responses are included on pages 8 through 9 of this report.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Arenas Valley Water Development Association's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Arenas Valley Water Development Association, the New Mexico State Auditor's Office, the New Mexico Legislature, and the 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
December 14, 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, 2016

	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	\$ 431,256	407,178	395,033	(353)	394,680	(12,145)
Late Charges	6,467	6,450	6,450	-	6,450	-
Membership & Connection Fees	15,760	-	12,145	-	12,145	12,145
Total operating revenues	\$ 453,483	413,628	413,628	(353)	413,275	-
Operating Expenses:						
Cost of Water	204,329	280,380	280,380	(2,097)	278,283	-
Personal Expenses	93,140	73,747	73,747	(2,122)	71,625	-
Depreciation Expenses	-	-	-	69,779	69,779	-
Office Utilities & Property Tax	3,548	2,146	2,146	(32)	2,114	-
Maintenance	16,831	27,268	27,268	(16,638)	10,630	-
Insurance	13,018	9,173	9,173	-	9,173	-
Travel	900	1,434	1,434	-	1,434	-
Professional Fees	14,000	13,049	13,049	-	13,049	-
Advertising	400	316	316	-	316	-
Dues & Subscriptions	1,599	474	474	-	474	-
Office Expense	9,005	5,678	5,678	(2,588)	3,090	-
Postage Expense	5,038	2,513	2,513	-	2,513	-
Telephone	5,000	3,100	3,100	-	3,100	-
Total operating expenses	\$ 366,807	419,278	419,278	46,302	465,580	-
Operating income (loss)	86,676	(5,650)	(5,650)	(46,655)	(52,305)	-
Non-Operating Revenue (Expenses):						
Interest Revenue	11,142	8,386	8,386	(278)	8,108	-
Hwy water line project	53,000	72,843	72,843	-	72,843	-
NMFA Project Expense	(53,000)	(72,843)	(72,843)	72,843	-	-
Debt Reduction	-	(39,060)	(39,060)	39,060	-	-
Total non-operating revenues (expenses)	11,142	(30,674)	(30,674)	111,625	80,951	-
Net change	97,818	(36,324)	(36,324)	64,970	28,646	-
Cash, beginning of year	626,586	626,586	626,586			-
Cash, end of year	\$ 724,404	590,262	590,262			-

Explanations of Difference:

Decrease in Accrued Interest	(277)
Increase in Capital Acquisitions	92,216
Decrease in Accounts Receivable	(353)
Increase in Inventory	1,190
Decrease in Accounts Payable	939
Increase in Payroll Taxes Payable	1,974
Decrease in Debt Payable	39,060
Depreciation Expense Non Cash	(69,779)

Total \$ 64,970

STATE OF NEW MEXICO
 ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION
Schedule of Findings and Responses
 Year Ended June 30, 2016

	<u>Type of Finding*</u>	<u>Status</u>	<u>Current Year Finding Number</u>
Current Year Findings: (06-30-16)			
None			
Follow-up on Prior Year Findings: (06-30-15)			
Approval and Quarterly Financial Reports	D	Resolved	2012-001
Agreed Upon Procedures Report Submission	D	Resolved	2012-002
Actual Expenditure Compared to Budget	D	Resolved	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, 2016

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 resolved.

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 been resolved.

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 been resolved.

STATE OF NEW MEXICO
ARENAS VALLEY WATER DEVELOPMENT ASSOCIATION

Year Ended June 30, 2016

EXIT CONFERENCE

The report contents were discussed at an exit conference held December 14, 2016 with the following in attendance:

Arenas Valley Water Development Association

C. Jay Wysong	Secretary-Treasurer
Cray Werner	Board Member
Julie Dubiskas	Office Manager

Accounting Firm

Carney Foy	Certified Public Accountant
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Complied Financial Statements

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Arenas Valley Water Development Association
And
Honorable Timothy M. Keller
New Mexico State Auditor
Santa Fe, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities of Arenas Valley Water Development Association, which comprise of the Statement of Net Position as of June 30, 2016, and the related Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows for the year then ended, and the related notes to the financial statements included in the accompanying prescribed form. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements included in the accompanying prescribed form nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements included in the accompanying prescribed form.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, and are not intended to be a complete presentation of the Association's assets and liabilities.

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



Carney Foy, CPA
Silver City, New Mexico
December 14, 2016

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Net Position
June 30, 2016

ASSETS

Current Assets		
Cash-Unrestricted	\$	590,262
Accounts Receivable		54,773
Inventory & Supplies		15,438
Grant Receivable		-
Accrued Interest Receivable		494
Total Current Assets		660,967
Non Current Assets		
Capital Assets	\$	2,702,557
Less Allowance for Depreciations	(1,052,614)	1,649,943
Total Non Current Assets		1,649,943
Total Assets	\$	2,310,910

LIABILITIES and NET ASSETS

Current Liabilities		
Accounts Payable	\$	28,747
Accrued Payroll Expenses		4,606
Deferred Revenue - NMFA		-
Total Current Liabilities		33,353
Long Term Liabilities		
Note Payable		-
Total long term Liabilities		-
Total Liabilities		33,353
Net Position		
Invested in Capital Assets, Net of Debt		1,649,943
Unrestricted		627,613
Total Net Position		2,277,556
Total Liabilities and Net Position	\$	2,310,910

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, 2016

Operating Revenues	
Water Sales and Service	\$ 394,680
Late Charges	6,450
Membership & Connections Fees	12,145
	413,275
Operating Expenses	
Cost of Water	278,283
Personal Expenses	71,625
Depreciation Expenses	69,779
Office Utilities & Property Tax	2,114
Maintenance of System	10,630
Insurance	9,173
Travel	1,434
Professional Fees	13,049
Advertising Expenses	316
Dues & Subscriptions	474
Office Expenses	3,090
Postage Expense	2,513
Telephone Expense	3,100
	465,580
Total Operating Expenses	465,580
Total Operating Income (Loss)	(52,305)
Non-Operating Revenues (Expenses)	
Interest Income	8,108
Grant NMFA	72,843
	80,951
Total Non-Operating Revenue (Expenses)	80,951
Change in Net Position	28,646
Net Position Beginning of Year	2,248,910
Net Position End of Year	\$ 2,277,556

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Statement of Cash Flows
June 30, 2016

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 401,483
Cash Paid for Water	(280,380)
Cash Paid to Suppliers	(65,151)
Cash Paid to Employees	(73,747)
Net Cash Provided By Operating Activates	<u>(17,795)</u>
 Cash Flows From Capital and Related Financing Activities	
Memberships	12,145
Grant Funds Received	72,843
NMFA - Loan Payment	(39,060)
NMFA - Project Expended.	(72,843)
Net Cash Used For Capital and Related Financing Activates	<u>(26,915)</u>
 Cash Flows from Investing Activities	
Interest Income	<u>8,386</u>
Net Cash Provided From Investing Activities	<u>8,386</u>
Net Increase Cash	(36,324)
Cash - Beginning of Year	<u>626,586</u>
Cash - End of Year	<u>\$ 590,262</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities	
Operating Income (Loss)	\$ 28,646
Noncash Items in Net Income	
Depreciation	69,779
(Increase) Decrease In:	
Accounts Receivable	353
Inventory	(1,190)
Accrued Interest	277
Capital Acquisition	(92,216)
Increase (Decrease) In:	
Accounts Payable	(939)
Accrued Payroll Tax Expenses	(1,974)
Note Payable	<u>(39,060)</u>
Net Cash Provided From Noncapital Financing Activities	<u>\$ (36,324)</u>

See independent accountant's compilation report.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements
June 30, 2016

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, 2016, the water system included 485 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, 2016

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, 2016

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 Associations resources follows:

BUDGETS AND BUDGETARY ACCOUNTING

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

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

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2016

Note H. DETAIL NOTES ON ACCOUNTS AND TRANSACTION CLASSES

1. CASH

The Association's policy is to limit cash deposits to insured and/or collateralized demand deposit accounts, certificates of deposit and money market funds. All bank balances, as of June 30, 2016 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 \$594,085 and the balance per the banks was \$588,810, and is shown as follows:

Cash Accounts	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
		Outstanding Checks	Transit Deposits	
First NM Bank	\$ 116,980	(5,325)	-	111,655
Western Bank CD	110,592	-	-	110,592
Financial Network CD	271,337	-	-	271,337
Financial Network Money Market	95,176	-	-	95,176
Total	\$ 594,085	(5,325)	-	588,760
Petty Cash				50
Total Cash			\$	588,810

Concentration of Credit Risk

First NM Bank - NONE (\$116,980 bank statement balances is covered by the \$250,000 FDIC maximum federal insurance).

\$ -

Western Bank CD - NONE (\$110,592 CD statement balance is covered by the \$250,000 FDIC maximum federal insurance).

-

Financial Network CD - NONE (\$271,337 - 7 CD's (4 institutions) are separately collateralized by each institution up to the FDIC coverage of \$250,000. No institution is holding a CD in excess of \$250,000; Therefore, FDIC coverage is sufficient to bring the credit risk to zero).

-

Financial Network Money Market - (\$95,176 Money Market fund is covered by \$250,000 FDIC maximum federal insurance).

-

Total Credit Risk

\$ -

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2016

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, 2016 is managed.

2. RECEIVABLES

The accounts receivable consist of the following:

		Operating
Operating Receivables	\$	54,773
Total Accounts Receivable	\$	54,773
<u>Operating Receivables-Aged</u>		
0 to 30 days		41,748
31- to 60 days		7,241
60 to 90 days		1,897
over 90 days		3,887
		54,773

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

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

Description	Balance 06-30-15	Increases	Decreases	Balance 06-30-16
Business-Type Activities				
Building & Structures	\$ 145,691	-	-	145,691
Equipment	115,479	16,638	-	132,117
Office Equipment	20,428	2,735	-	23,163
Field Equipment	100,279	-	-	100,279
Water System	2,228,464	72,843	-	2,301,307
Total Fixed Assets	2,610,341	92,216	-	2,702,557
Accumulated Depreciation	(982,835)	(69,779)	-	(1,052,614)
Net Capital Assets	\$ 1,627,506	22,437	-	1,649,943

Depreciation expense was \$69,779 for the year ended June 30, 2016.

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2016

4. NOTE PAYABLE and LONG-TERM OBLIGATIONS

The following is a summary of changes in Long-Term Debt for year ended June 30, 2016. The amount of \$39,060 was paid in full.

	Balance 06-30-15	Issued	Retired	Balance 06-30-16	Due Within One Year
Note Payables					
NMFA	\$ 39,060	-	39,060	-	-
Total	\$ <u>39,060</u>	<u>-</u>	<u>39,060</u>	<u>-</u>	<u>-</u>

Notes payable at June 30, 2016, consist of the following individual item:

<p>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 loan called for annual payments of \$2,170 commencing on June 1, 2014 and due on June 1 of each year until completion at 2033. Arenas Valley Water Authority has paid the remaining \$39,060 off in full during Fiscal Year 2016. These project funds were used to make major improvements to the system's water line infrastructure.</p>	<p>\$ 43,400</p>
	<p><u>\$ -</u></p>

STATE OF NEW MEXICO
Arenas Valley Water Development Association
Notes to the Basic Financial Statements (continued)
June 30, 2016

5. DEFERRED REVENUE

Activity for the fiscal year ended June 30, 2016, was as follows:

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