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STATE OF NEW MEXICO

CAÑON MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

Independent Accountants' Report on Applying
Agreed-Upon Procedures

Year Ended December 31, 2012

STATE OF NEW MEXICO

**CAÑON MUTUAL DOMESTIC
WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

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Agreed-Upon Procedures**

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AND SEWAGE WORKS ASSOCIATION**

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**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Official Roster
at December 31, 2012**

<u>Name</u>	<u>Title</u>
<u>Board of Directors</u>	
Esther Smedley	President
Prexie Lucero	Vice-President
Frances Strain	Secretary
Sally Lucero	Treasurer
Herman Herrera	Member
<u>Contractors</u>	
Roy Spencer	Water Operator
Diane Nunez	Bookkeeper



Macias, Gutierrez
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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To: Esther Smedley, President
Cañon Mutual Domestic Water Consumers and Sewage Works Association
and
Honorable Hector H. Balderas
New Mexico State Auditor

We have performed the procedures enumerated below for the Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA), for the year ended December 31, 2012, solely to assist the CMDWCSWA in demonstrating compliance with a **Tier 4** entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978, as set forth in the accompanying Exhibits A and B. The procedures were agreed to by the CMDWCSWA through the Office of the New Mexico State Auditor. The Cañon Mutual Domestic Water Consumers and Sewage Works 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 the 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:

1. 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 Department of Finance and Administration-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 CMDWCSWA has one checking account and four savings accounts, all in the same financial institution, and utilizes Quickbooks to record cash transactions. All bank reconciliations are performed within days of receiving the bank statements and all bank statements were complete and on-hand for the entire year.

- b) Random tests of bank reconciliations revealed no exceptions. The reconciliations were accurate and agreed with supporting documentation. We traced the December 31, 2012 cash balances to the required year-end quarterly financial report submitted to DFA-LGD (Exhibit B), without exception. However, other required quarterly financial reports were not submitted to DFA-LGD at any time during the year.
- c) Cumulative bank account balances never exceeded uninsured limits and, therefore, pledged collateral was not required at any time during the year.

2. Capital Assets

Procedures

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

Findings

Although there are capital assets (System & Tank, Property) shown on the balance sheet, the CMDWCSWA did not maintain a capital assets inventory listing and, therefore, did not perform a yearly inventory as required by Section 12-6-10 NMSA 1978. The current bookkeeper is not certain how the amounts were arrived at or what is included in the details.

3. 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 statement.
- 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.

Findings

- a) An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. The test actual revenue compared to internal use only budgeted revenue for the year for each type of revenue revealed no exceptions.
- b) We requested supporting documentation for twenty-two (22) deposits (19% of total revenue) from a total of 42 deposits for the year. For the sample selected, amounts recorded on Quickbooks general ledger agreed with deposit tickets provided and the bank statements, without exception.
- c) Amounts were recorded on an accrual basis to the six different revenue sources. However, there was no supporting documentation to test revenue as to classification, amount and the period applicable. The only supporting documentation provided was deposit tickets with customer names, check numbers and amounts. However, the bookkeeper prepares a monthly report that provides the detail to each revenue item. Also, the Board is in the process of upgrading the billing program to provide detail to the various revenue sources.

4. Expenditures

Procedures

Select a sample of cash disbursements based on auditor judgment and test using 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 check clearing amount (cancelled checks not returned), 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) We requested supporting documentation for thirty (30) disbursements (59% of total expenses) out of a total of 96 disbursements for the year. For the sample selected, amounts recorded as disbursed agreed to supporting documentation, without exceptions. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and copy of check clearing amount, as appropriate.
- b) Except for not having a DFA-LGD approved budget for 2012, disbursements were properly authorized and approved in compliance with the legal requirements and established policies and procedures.
- c) 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).

5. 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

The CMDWCSWA utilizes Quickbooks to record cash transactions only and did not prepare formal journal entries for the year ended December 31, 2012.

6. Budget

Procedures

Obtain the original fiscal year budget and all budget amendments made throughout 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 CMDWCSWA did not prepare and submit a budget to DFA-LGD for approval for the year ended December 31, 2012. The 2012 budget was prepared for internal use only and the information included herein was submitted to DFA-LGD after the end of the year.
- b) For the budget prepared for internal use only, the total actual expenses did not exceed the final budget at the total fund level, the legal level of budgetary control.
- c) A schedule of revenues and expenses – budget and actual was prepared from CMDWCSWA records on the accrual budgetary basis. This schedule is included herein as Exhibit A. The CMDWCSWA submitted a budget report for the year ended December 31, 2012 to DFA-LGD, which is presented herein as Exhibit B.

Other

Procedures

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

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. However, see the Schedule of Findings and Responses for noncompliance issues related to the Cash, Capital Assets and Budget findings disclosed above and a Late Report finding.

* * * * *

We were not engaged to, and did not conduct an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or any part thereof, including Exhibits A and B. 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 Cañon Mutual Domestic Water Consumers and Sewage Works Association, the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Macias, Gutierrez & Co., CPAs, P. C.

Macias, Gutierrez & Co., CPAs, P. C.
Española, New Mexico
October 11, 2013

STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
Schedule of Revenues and Expenses-Budget and Actual (Accrual Basis)
Year Ended December 31, 2012

	Budgeted Amounts		Actuals	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Monthly Sales	\$ 52,000	\$ 52,000	\$ 57,464	\$ 5,464
Reconnect Fee	-	-	190	190
Membership Transfer Fee	-	-	3,843	3,843
Late Fees	-	-	4,030	4,030
Meter Hookup	-	-	1,129	1,129
Dividend Income	-	-	214	214
Total revenues	52,000	52,000	66,870	14,870
Cash balance budgeted	-	-	-	-
Total revenues and cash balance budgeted	52,000	52,000	66,870	14,870
Expenses:				
Operator Contract	8,100	8,100	8,100	-
Operator Mileage Reimbursement	1,100	1,100	1,370	(270)
Contract Labor	2,000	2,000	921	1,079
Electric	2,500	2,500	2,220	280
Repairs & Maintenance Materials	4,000	4,000	2,339	1,661
Chemical Supplies	300	300	353	(53)
NM One Call 811	50	50	319	(269)
Water Conservation Fee	200	200	218	(18)
Bookkeeper Contract	13,388	13,388	13,388	-
Special Projects	500	500	-	500
Bookkeeper Mileage Reimbursement	300	300	299	1
Printing & Reproduction	750	750	-	750
Office Supplies	1,600	1,600	502	1,098
Postage	1,200	1,200	820	380
Post Office Box	50	50	70	(20)
Mileage Reimbursement	500	500	38	462
Bond Insurance	100	100	100	-
Director & Officer	900	900	996	(96)
Liability Insurance	2,500	2,500	2,284	216
Interest Expense	-	-	5,258	(5,258)
Subscription & Dues	190	190	30	160
Training	500	500	380	120
Total expenses	40,728	40,728	40,005	723
Excess revenues over (under) expenses	\$ 11,272	\$ 11,272	\$ 26,865	\$ 15,593

CANON MUTUAL DOMESTIC WATER ASSOCIATION
Actual Cash Balance, Revenue Expenses Compared to Budget
December 31, 2012

ASSETS	12.31.12	2012 Budget	\$ Over Budget	2013 Budget
Current Assets				
Checking/Savings				
1010 General Checking (079)	12,31.12			
	13,297.37	2,182.20	11,115.17	13,297.37
1011 USDA Loan Reserves (051)	12,181.53	12,120.65	60.88	12,181.53
1012 Emergency Fund (052)	11,792.85	11,733.91	58.94	11,792.85
1013 Capital Improvement Fund (053)	12,776.30	12,179.96	596.34	12,776.30
1020 Savings JVCU (000)	6,859.99	3,844.30	3,015.69	6,859.99
1225 Undeposited Funds	1,550.71	3,622.60	-2,071.89	1,550.71
Total Checking/Savings	58,458.75	45,683.62	12,775.14	58,458.75
Ordinary Income/Expense				
Income				
4000 · Ordinary Income				
4010 · Monthly Sales	57,464.46	52,000.00	5,464.46	69,432.00
4020 · Reconnect Fee	190.00			
4030 · Membership Transfer Fees	3,842.85			
4040 · Late Fees	4,030.31			
4060 · Meter Hookup	1,128.58			
Total 4000 · Ordinary Income	66,656.20	52,000.00	14,656.20	69,432.00
Total Income	66,656.20	52,000.00	14,656.20	69,432.00
Expense				
5500 · Water Systems Operational Costs				
5511 · Operator Contract	8,100.00	8,100.00	0.00	8,000.00
5514 · Operator Mileage Reimbursement	1,369.49	1,100.00	269.49	1,100.00
5515 · Contract Labor	921.16	2,000.00	-1,078.84	4,000.00
5521 · Electric	2,220.19	2,500.00	-279.81	2,500.00
5523 · Repairs & Maintenance Materials	2,339.32	4,000.00	-1,660.68	2,000.00
5524 · Chemical Supplies	352.85	300.00	52.85	300.00
5551 · NM 811	318.99	50.00	268.99	50.00

CANON MUTUAL DOMESTIC WATER ASSOCIATION
Actual Cash Balance, Revenue Expenses Compared to Budget

	2011	2012	2012	2012
	217.99	17.99	17.99	200.00
5552 · Water Conservation Fee				200.00
Total 5500 · Water Systems Operational Costs	15,839.99	-2,410.01	18,250.00	18,150.00
6500 · Administrative Costs				
6511 · Bookkeeper Contract	13,387.56	-0.44	13,388.00	13,388.00
6512 · Special Projects	0.00	-500.00	500.00	0.00
6513 · Bookkeeper Milage Reimbursement	299.20	-0.80	300.00	300.00
6515 · Audit	0.00	0.00	0.00	3,000.00
6520 · Printing & Reproduction	0.00	-750.00	750.00	350.00
6521 · Office Supplies	502.49	-1,097.51	1,600.00	300.00
6522 · Postage	819.67	-380.33	1,200.00	1,200.00
6523 · Post Office Box	70.00	20.00	50.00	50.00
6525 · Bank Fees	0.00	0.00	0.00	50.00
6529 · Legal/Attorney Fees	0.00	0.00	0.00	100.00
Total 6500 · Administrative Costs	15,078.92	-2,709.08	17,788.00	18,738.00
6600 · Other Expenses				
6611 · Annual Meeting Expense	0.00	0.00	0.00	200.00
6612 · Mileage Reimbursement	38.25	-461.75	500.00	1,500.00
6620 · Insurance				
6621 · Bond Insurance	100.00	0.00	100.00	100.00
6622 · Director & Officer	996.00	96.00	900.00	950.00
6623 · Liability	2,284.00	-216.00	2,500.00	2,500.00
Total 6620 · Insurance	3,380.00	-120.00	3,500.00	3,550.00
6630 · Interest Expense	5,400.00			
Principal Payment	4,003.00		5,400.00	
Total Debt Payment	9,403.00	3.00	9,400.00	12,000.00
6650 · Subscription & Dues				
6651 · Public Regulation Commission	30.00	20.00	10.00	10.00
6652 · Rural Water Membership	0.00	-180.00	180.00	200.00
6653 · General Subs and Dues	0.00	0.00	0.00	100.00
Total 6650 · Subscription & Dues	30.00	-160.00	190.00	310.00

CANON MUTUAL DOMESTIC WATER ASSOCIATION
Actual Cash Balance, Revenue Expenses Compared to Budget
December 31, 2012

	380.00	500.00	-120.00	1,200.00
6660 · Training				
Total 6600 · Other Expenses	13,231.25	14,090.00	-858.75	18,760.00
Total Expenses	44,150.16	50,128.00	-5,977.84	55,648.00
Net Ordinary Income	22,506.04	1,872.00	20,634.04	13,784.00
Other Income/Expense				
Other Income				
7000 · Other Income				
7010 · Dividend Income	185.86	0.00	185.86	0.00
Total 7000 · Other Income	185.86	0.00	185.86	0.00
Total Other Income	185.86	0.00	185.86	0.00
Net Other Income	185.86	0.00	185.86	0.00
Net Income	22,691.90	1,872.00	20,819.90	13,784.00
Note:				
TRANSFER from Account 079 to 052		1,860.00		3,784.00
TRANSFER from Account 079 to 053				10,000.00
Revenue Expenses Unallocated		12.00		0.00
PROJECTED ENDING CASH	12.31.12	47,555.62	12.13.13	72,242.75
ACTUAL ENDING CASH 12.31.12		58,458.75		

**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2012**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	N/A	2010-1
Capital Assets Inventory	D	N/A	2010-2
Late Report	D	N/A	2012-1
Follow-up on Prior Year Findings:			
Budget Submission/Approval and Quarterly Financial Reports	D	2010-1	2010-1
Capital Assets Inventory	D	2010-2	2010-2

For the year ended December 31, 2011, Canon MDWCSWA was determined to be a Tier 2 entity and submitted the required certification

*** Legend for Findings:**

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

**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2012**

2010-1

Budget Submission/Approval and Quarterly Financial Reports

Criteria

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

Condition

The Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) did not prepare or submit a 2012 budget for DFA-LGD approval nor did they submit required quarterly financial cash activity and budget reports to the DFA-LGD at any time during the year other than at year end.

Cause

The CMDWCSWA did not comply with the recommendations included in the agreed-upon procedures report for the year ended December 31, 2010.

Effect

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

Recommendation

We again recommend that the CMDWCSWA submit their proposed budget to DFA-LGD for approval, on or before December 1 of each year and that upon receipt of the approved budget cause such budget to be made a part of the minutes. We further recommend that the CMDWCSWA submit quarterly financial reports, as required, to DFA-LGD.

Entity Response

“The entity will prepare the budget on a timely basis and is currently submitting both the budget and quarterly reports to DFA-LGD.”

**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2012**

2010-2

Capital Assets Inventory

Criteria

Section 12-6-10 NMSA, 1978 requires each local public body to, at the end of each fiscal year, conduct a physical inventory of capital assets costing more than five thousand dollars (\$5,000) and under control of the governing authority. The inventory shall list all capital assets and the date and cost of acquisition. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each local public body shall maintain one copy in its files.

Condition

The Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) has not maintained a capital asset listing or performed a yearly inventory as required by Section 12-6-10 NMSA 1978.

Cause

The CMDWCSWA did not comply with the recommendations included in the agreed-upon procedures report for the year ended December 31, 2010.

Effect

The CMDWCSWA has not complied with Section 12-6-10 NMSA 1978.

Recommendation

We again recommend that the CMDWCSWA develop a capital asset inventory listing and perform a yearly inventory as required by Section 12-6-10 NMSA 1978.

Entity Response

“The entity will prepare and record a capital assets inventory no later than the end of the fiscal year (December 31).”

**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Schedule of Findings and Responses
Year Ended December 31, 2012**

2012-1

Late Report

Criteria

Office of the State Auditor, Rule 2012, Section 2.2.2.16.H, requires that local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures report no later than five months after the fiscal year end.

Condition

The Cañon Mutual Domestic Water Consumers and Sewage Works Association (CMDWCSWA) has a December 31 year end but the agreed-upon procedures report was submitted more than five months after the end of the fiscal year.

Cause

The CMDWCSWA did not prepare and submit the required recommendation and contract forms to the State Auditor for approval in a timely manner. Since the contract was approved on July 15, 2013, the agreed-upon procedures engagement started after the deadline.

Effect

The CMDWCSWA has not complied with Office of the State Auditor, Rule 2012, Section 2.2.2.16.H.

Recommendation

We recommend that the CMDWCSWA submit all future agreed upon procedures reports by the required deadline.

Entity Response

“The entity will submit all future agreed upon procedures reports by the required deadline.”

**STATE OF NEW MEXICO
CAÑON MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION**

**Exit Conference
Year Ended December 31, 2012**

EXIT CONFERENCE

The report contents were discussed at an exit conference (closed executive session) held on October 21, 2013 with the following in attendance:

Cañon Mutual Domestic Water Consumers and Sewage Works Association

Esther Smedley, President
Jon Bull, Vice-President
Frances Strain, Secretary
Sally Lucero, Treasurer
Bonne Taylor, Member
Diane Nunez, Contracted Bookkeeper

Accounting Firm

James R. (Jim) Macias, CPA