

Accounting & Auditing Services, LLC

Financial Audits + Agreed Upon Procedures + Tax + Consulting

Canoncito @ Apache Canyon Mutual Domestic Water Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending December 31, 2016

Canoncito @ Apache Canyon Mutual Domestic Water Association
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Fiscal Year Ending December 31, 2016

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**Canoncito @ Apache Canyon Mutual Domestic Water Association
Official Roster
Fiscal Year Ending December 31, 2016**

Board of Directors

Rita Gurule, President

Andy Ortiz, Vice President/Treasurer

Trish Sandoval, Secretary

Administrative Staff

Ana Berry, Accounts Manager

Independent Accountant's Report on Applying Agreed-Upon Procedures

Rita Gurule, President
Canoncito @ Apache Canyon Mutual Domestic Water Association
and
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Canoncito @ Apache Canyon Mutual Domestic Water Association (Association) for the year ended December 31, 2016, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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 the 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

1. 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."

Based on a review of the Association's general ledger, total revenues for the fiscal year ending December 31, 2016 were \$96,133 and the Association did not receive a capital outlay appropriation. Based on this information, the Association was properly determined to be a Tier 4 entity for FY16 since their total revenues were between \$50,000 and \$250,000 and they did not receive a capital outlay appropriation.

2. Cash
 - 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.

The bank reconciliations were performed on a monthly basis in a timely manner. All bank statements for the fiscal year were complete and on hand. As of December 31, 2016, the Association has one checking account at Bank of America. The Association did not have any investment accounts.

- 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the Association's general ledger, supporting documentation and the financial reports submitted to 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.

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the fiscal year.

3. Capital Assets

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

At the end of the fiscal year, the Association did not have any movable chattels and equipment costing more than \$5,000. No capital asset purchases during the fiscal year were noted during the agreed-upon procedures.

4. Revenue

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water billings, new membership fees, and a grant from the NM Office of the State Auditor to pay for audit fees. The variances between the actual FY15 revenue and actual FY16 revenue were adequately explained by the Bookkeeper; no unusual or unexplained variances were noted.

The actual revenue compared to budgeted revenue for each type of revenue was reviewed. According to the Association's general ledger, actual revenues were \$29,833 more than budgeted revenues for FY16. No significant or unusual variances were noted.

b. Select a sample of revenues based on auditor judgment and test using the following attributes:

- i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts and deposits was judgmentally selected and tested which amounted to approximately 63% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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, modified accrual or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

5. Expenditures

a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of cash disbursements were tested which amounted to approximately 45% of total expenditures. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms.

- ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget and legal requirements. However, the Association has not established any written procurement policies and procedures. See Finding 2016-001 on p. 7.

- iii. 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 13-1-199 NMSA 1978), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and the Per Diem and Mileage Act.

6. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
 - i. Journal entries appear reasonable and have supporting documentation.

According to the Association's Bookkeeper, no non-routine journal entries were posted to the general ledger during the fiscal year, and none were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has a procedure in place to ensure that non-routine journal entries posted to the general ledger by the Bookkeeper are reviewed and approved by the governing body during the monthly board meetings.

7. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
 - i. 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.

The Association's Board of Directors adopted a formal budget during a board meeting on November 4, 2015 (Resolution #2015-2) which was approved by DFA-LGD in a letter to the Association dated February 19, 2016. The Association did not have any budget adjustments in FY16.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures for FY16 exceeded the final approved budget. According to the Association's general ledger, actual expenditures for FY16 were \$30,371 more than budgeted expenditures. See Finding No. 2010-001 on p. 6.

- iii. 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, modified accrual or accrual basis) for each individual fund.

Based on the Association's general ledger, the Schedule of Revenues and Expenditures was prepared on the cash basis of accounting. See Exhibit 1 on p. 10.

8. Other

- a. If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed 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.

See Finding 2016-002 on p. 8.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. 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 management and others with the Association, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

April 24, 2017

Canoncito @ Apache Canyon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016

Status of Prior Year Findings

Finding 2010-001. Budget Over-Expended and Quarterly Financial Reports – Revised and Repeated.

Finding 2010-002. Capital Assets Inventory – Resolved.

Current Year Findings

Finding 2010-001 – Actual Expenditures Exceeded the Approved Budget

Condition

For the fiscal year ending December 31, 2016, total expenditures exceeded the approved budget by \$30,371.

Regarding the prior year finding, the Association took corrective action in 2016 and is submitting its quarterly financial reports to DFA-LGD. However, the Association did not take any corrective action in 2016 to ensure that actual expenditures did not exceed the budget.

Criteria

According to state law, Section 6-6-6 NMSA 1978, “When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials.”

Effect

Excessive spending will eventually create financial problems for the Association. Claims against the officials of the Association could occur for future non-compliance with Section 6-6-6 NMSA 1978.

Cause

During the fiscal year, management of the Association did not adequately monitor its actual expenditures to ensure that the approved budget was not overspent.

Canoncito @ Apache Canyon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016

Recommendation

To avoid overspending the approved budget, management of the Association should monitor its actual expenses throughout the fiscal year. The bookkeeper should submit budget status reports to the Board of Directors on a quarterly basis. If there is the possibility that actual expenses will exceed the budget at the total fund level during the fiscal year, management should prepare a budget adjustment request for the Board's review and approval. If the Board adjusts the original budget, the Board should then submit the budget adjustment request to DFA-LGD for approval.

Management's Response

In 2016, the Association was awarded \$21,495.00 by the OSA to perform the 2011-2015 AUP's. This amount was not budgeted because we thought that the money would be paid directly to the Auditor; however, it was disbursed to the Association, which resulted in an expense when the Auditor was paid. There were also additional unexpected expenses that occurred in 2016 which we did not budget for.

The Association's Accounts Manager will monitor the budgets at the end of every month and the Board will make all necessary amendments to the budget throughout the year from now on.

Finding 2016-001. No Written Procurement Policies and Procedures

Condition

The Association does not have any written procurement policies and procedures to control the purchase of goods and services and ensure compliance with the State Procurement Code.

Criteria

Adequate procurement policies and procedures provide for the fair and equal treatment of all persons involved in public procurement, maximize the purchasing value of public funds and provide safeguards for maintaining a procurement system of quality and integrity.

Effect

Without adequate procurement policies and procedures, there is a lack of internal control over cash disbursements and the Association is at risk of noncompliance with the State Procurement Code.

**Canoncito @ Apache Canyon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016**

Cause

The District's Board of Directors was unaware of the need to establish written procurement policies and procedures.

Recommendation

The Board of Directors should establish and implement written procurement policies and procedures to ensure compliance with the State Procurement Code (Sections 13-1-28 through 13-1-199 NMSA 1978). For the purchase of all goods and services, the Association should consider adopting the State Procurement Code Regulations (1.4.1 NMAC). The procurement policy should include a record retention policy whereas all procurement documentation shall be filed, retained and safeguarded for at least five years after the end of the fiscal year in which the procurement occurred.

Management's Response

The Association was not aware that a Procurement Policy needed to be done. A Procurement Policy will be created and adopted by the Board of Directors at the Association's next board meeting that will be held on May 3, 2017.

Finding 2016-002. Incomplete Balance Sheet

Condition

As of December 31, 2016, the balance sheet of the Association does not report the accounts receivable balance of \$22,023 which is due from the Association's members for outstanding water usage billings. Also, the balance sheet does not include the loan payable to the New Mexico Finance Authority (NMFA) with an approximate balance due of \$21,438 as of December 31, 2016. See the balance sheet on p. 10 which was reported to DFA-LGD.

Criteria

Generally accepted accounting principles require financial statements to be complete and accurate.

Effect

The balance sheet of the Association does not report the correct financial position of the Association as of December 31, 2016 which could mislead the users of the financial statement.

Canoncito @ Apache Canyon Mutual Domestic Water Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2016

Cause

The Association's Board of Directors has not instructed the contract bookkeeper to record the accounts receivable balance reported by the Quickwater billing system and the loan balance payable to the NMFA in the Association's general ledger and balance sheet.

Recommendation

The Association's Board of Directors should require its contract bookkeeper to accurately record the accounts receivable balance in the Association's general ledger and balance sheet on a monthly basis. Also, the contract bookkeeper should accurately record the loan payable to the NMFA in the Association's general ledger and financial statements.

Management's Response

The Association was not aware that the receivable balance from the billing system software needs to be reflected on the balance sheet. The Accounts Manager will perform a journal entry at the end of each billing cycle to reflect the receivables balance in Quickbooks. All journal entries will be approved by the Board at the Association's board meetings.

Although the annual Water Trust Board Loan payment was budgeted, the loan balance was never put on the balance sheet. The Accounts Manager will update the balance sheet immediately to include a liability for the Water Trust Board Loan principal balance.

Canoncito @ Apache Canyon MDWA
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2016

Exhibit 1

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water Fees	\$ 66,300	\$ 66,300	\$ 73,888	\$ 7,588
Audit Fee Grant	-	-	21,495	21,495
New Membership Fees	-	-	250	250
Transfer Fee	-	-	500	500
Total Revenues	\$ 66,300	\$ 66,300	\$ 96,133	\$ 29,833
Expenditures:				
Current:				
Line Locates	\$ 540	\$ 540	\$ 394	\$ 146
Remote Sensors	324	324	278	46
Materials	-	-	1,014	(1,014)
Repairs & Maintenance	6,000	6,000	1,248	4,752
Software Support	-	-	740	(740)
Water Testing	600	600	1,738	(1,138)
Liability Insurance	3,000	3,000	2,781	219
Bank Charges	168	168	175	(7)
Dues & Subscriptions	129	129	-	129
Mileage	636	636	767	(131)
PO Box Rental	78	78	102	(24)
Postage	588	588	210	378
Public Regulation Commission	20	20	20	-
Storage Unit	480	480	440	40
Supplies	120	120	183	(63)
Accounting Fees	110	110	-	110
Bookkeeping	10,248	10,248	10,320	(72)
Audit	-	-	22,495	(22,495)
Meter Reader	3,276	3,276	3,276	-
Water Operator	8,400	8,400	13,210	(4,810)
Attorney Fees	-	-	1,527	(1,527)
Water Conservation Fee	108	108	-	108
Gross Receipts Taxes	3,315	3,315	3,461	(146)
Electricity	6,240	6,240	9,147	(2,907)
Miscellaneous	-	-	1,286	(1,286)
Loan Payment - NMED 93-03	13,709	13,709	13,709	-
Loan Payment - NMED 94-05	5,145	5,145	5,145	-
Loan Payment - NMFA	1,400	1,400	1,340	60
Total Expenditures	\$ 64,634	\$ 64,634	\$ 95,005	\$ (30,371)

CANONCITO AT APACHE CANYON, MDWA
Balance Sheet
 As of December 31, 2016

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 Cash Basis

	<u>Dec 31, 16</u>
ASSETS	
Current Assets	
Checking/Savings	-1,023.70
Cash In Bank	-1,023.70
Total Checking/Savings	-1,023.70
Total Current Assets	-1,023.70
Fixed Assets	
Accumulated Depreciation	-238,677.00
Satelite Alarming and Videos	10,624.81
Water System	297,049.83
Water treatment device	82,974.68
Total Fixed Assets	151,972.32
TOTAL ASSETS	150,948.62
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
NMED Loan #2 - 1993	81,079.91
Loan 2 Principle	81,079.91
Total NMED Loan #2 - 1993	81,079.91
NMED Loan #3 - 1994	
Loan 3 Principle	34,948.82
Total NMED Loan #3 - 1994	34,948.82
Total Long Term Liabilities	116,028.73
Total Liabilities	116,028.73
Equity	
Retained Earnings	33,792.16
Net Income	1,127.73
Total Equity	34,919.89
TOTAL LIABILITIES & EQUITY	150,948.62

CANONCITO AT APACHE CANYON, MDWA
Profit & Loss
 January through December 2016

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 Cash Basis

	Jan - Dec 16
Ordinary Income/Expense	
Income	
INCOME ACCOUNTS	
Billings	73,887.79
Membership	250.00
Total INCOME ACCOUNTS	<u>74,137.79</u>
Total Income	74,137.79
Expense	
Attorney fees	1,526.53
COST OF OPERATION	
Line locates	394.30
Materials purchasaf	1,013.78
Remote sensors	278.32
Repairs & Maint.	1,247.55
RTCR Sampling Plan	267.50
Water Testing	1,738.41
Total COST OF OPERATION	<u>4,939.86</u>
INSURANCE EXPENSE	
Liability Insurance	2,781.00
Total INSURANCE EXPENSE	<u>2,781.00</u>
Liens	25.00
LOANS	
NMED - 93-03 - Loan	13,708.80
NMED - 94-05 - Loan	5,145.12
NMFA Iban	1,339.68
Total LOANS	<u>20,193.60</u>
OFFICE EXPENSE	
2015 AJP	1,000.00
Audit	21,495.40
Bank Charges	175.00
Call Multiplier credits	89.00
Mileage	767.00
PO Box Rental	102.00
Postage	209.79
Public Regulation Commission	20.00
Software support	740.18
Storage unit	440.00
Supplies	183.03
Total OFFICE EXPENSE	<u>25,221.40</u>
PROFESSIONAL FEE'S	
Bookkeeping-Berry	10,320.00

CANONCITO AT APACHE CANYON, MDWA
Profit & Loss
 January through December 2016

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 Cash Basis

	Jan - Dec 16
R.A.M. - Water Operator	13,209.91
Robert T Gurule - Meter Reader	3,276.00
Total PROFESSIONAL FEE'S	26,805.91
TAX EXPENSE	3,460.88
Gross Receipts	4.71
Property Taxes	3,455.59
TOTAL TAX EXPENSE	3,465.59
UTILITIES	8,926.83
Electricity	220.00
Electricity for office	9,146.83
Total UTILITIES	900.00
WRT CPI adjustment	95,005.72
Total Expense	-20,867.93
Net Ordinary Income	0.26
Other Income/Expense	21,495.40
Other Income	500.00
Interest Earned	21,995.66
OSA for 2011-2015 AUP's	21,995.66
Transfer fee	21,995.66
Total Other Income	21,995.66
Net Other Income	21,995.66
Net Income	1,127.73

**Canoncito @ Apache Canyon Mutual Domestic Water Association
Exit Conference
Fiscal Year Ending December 31, 2016**

On April 24, 2017, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Canoncito @ Apache Canyon Mutual Domestic Water Association

Rita Gurule, President
Ana Berry, Accounts Manager

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager