

State of New Mexico

Cottonwood Rural Water Association

Office of the State Auditor Tier 6 Agreed-Upon Procedures

For the Period
Beginning January 1, 2013 and Ending December 31, 2013



STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
FOR THE PERIOD BEGINNING JANUARY 1, 2013 AND ENDING DECEMBER 31, 2013

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
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For the Period Beginning January 1, 2013 and Ending December 31, 2013

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Official Roster
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Board of Directors

<u>Name</u>	<u>Title</u>
Roby Zumwalt	President
Jack Callaway	Vice-President
Vance Riggs	Secretary/Treasurer
Dan Dolan	Board Member
Randy Bristow	Board Member

Administration

Jan Waldrip	Office Manager
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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Hector H. Balderas
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

We have performed the agreed-upon procedures which the Office of the State Auditor and Cottonwood Rural Water Association (the "Association") has specified, listed in the attached schedule, to perform tests as required by Tier 6 of the Audit Act- Section 12-6-3B(6) NMSA 1978 and Section 2.2.2.16 NMAC for the period beginning January 1, 2013 and ended December 31, 2013 in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Association is the responsible party, and the subject matter is the responsibility of the Association. The sufficiency of the 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 findings related to the procedures in the schedule of procedures and results are presented in the accompanying schedule of findings and responses as listed in the table of contents.

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 Cottonwood Rural Water Association, the New Mexico State Auditor, the Department of Finance- Local Government Division, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than those specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Roswell, New Mexico
May 27, 2014

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Procedures and Results
For the Period Beginning January 1, 2013 and Ending December 31, 2013

The procedures and associated results are listed below. Any findings as a result of testing these procedures can be found in the attached Schedule of Findings and Responses.

Procedure 1:

Cash Procedures

- 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.
- 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.
- 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.

Results

- The Association was able to provide the auditor with all bank reconciliations for each of the bank accounts for the year ended. They appear to have been prepared in a timely manner.
- A random test of bank reconciliations was performed where the ending balance was compared to the general ledger, supporting documentation, and the quarterly DFA reports. Amounts from the supporting documentation and DFA reports tied to the general ledger.
- The Association's bank balances did not exceed FDIC coverage of \$250,000. Therefore, pledged collateral was not required for the year ended December 31, 2013.

Procedure 2:

Capital Assets Procedures

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

Results

- It was noted when reviewing the capital asset listing and board minutes that the Association did not perform a yearly inventory as required by NMSA. This finding has been included in the Schedule of Findings and Responses as Finding #3.

Procedure 3:

Debt Procedures

- 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 local public body is in compliance with those requirements.

Results

- Payments for all debt were compared to the amortization schedules in the debt documents, and no exceptions were noted. The Association appears to be in compliance with debt reserve requirements for their loans.

Procedure 4:

Revenue Procedures

- 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.
- Select a sample of revenues based on auditor judgment and test using the following attributes:
 - Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
 - 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.

Results

- Review of the general ledger, supporting documentation, and prior year financials show that the majority of revenue consists of fees and charges and a construction grant from USDA, which make up 99% of the Association's revenue combined. The Association does not appear to have overexpended their budget for the year end.
- A random sample was tested to compare the general ledger amounts to supporting documentation and bank statements. These amounts appear to have been properly recorded.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Procedures and Results
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Procedure 5:

Expenditures Procedures

- Select a sample of cash disbursements based on auditor judgment and test using the following attributes:
 - 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 canceled check, as appropriate.
 - Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
 - 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) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results

- A sample representative of the population was selected to test the appropriateness of cash disbursements and that they were properly authorized and approved. No exceptions were noted.
- Per review of the general ledger, minutes, and supporting documentation for expenditures tested for appropriateness, the Association appears to be in compliance with the New Mexico Procurement Code, State Purchasing Regulations, and the Per Diem and Mileage Act.

Procedure 6:

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:
 - Journal entries appear reasonable and have supporting documentation.
 - The local public body has procedures that require journal entries to be reviewed, and there is evidence the reviews are being performed.

Results

- A systematic sample of journal entries was selected and reviewed for reasonableness and compared to supporting documentation. No exceptions were noted.
- It was noted during the testwork that the Association is not reviewing journal entries on a monthly basis and documenting the review. The 2011 finding is revised and repeated in the Schedule of Findings and Responses as Finding #1.

Procedure 7:

Budget Procedures

- Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
 - 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.
 - Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
 - 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.

Results

- Per review of the minutes and submissions to DFA, the Association appears to be properly approving their budgets, and they do not appear to overexpending their budget.
- A budget to actual schedule could not be prepared because the Association has a calendar year end, and DFA requires them to submit a fiscal year end budget. The budget omission has been noted in the Independent Accountants' Report on Applying Agreed-Upon Procedures.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Procedures and Results
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Procedure 8:

Capital Outlay Appropriations Procedures

- Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year.

Results

- Per review of the general ledger and inquiry with the client, no state capital outlay appropriations were expended during the year ended December 31, 2013.

Procedure 9:

Other Procedures

- 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(T)(3)(C) NMAC.

Results

- It was noted during preparation of the compilation report that material journal entries were needed to correct certain balance sheet accounts. The 2012 finding is revised and repeated in the Schedule of Findings and Responses as Finding #1. In addition, a finding was added due to the report being considered late according to Subsection E 2.2.2.9 NMAC. This finding has been included in the Schedule of Findings and Responses as Finding #4.

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Findings and Responses
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Finding #1 FS 2011-04 Journal Entry Review (Procedure 6) (Material Weakness)

Condition: During the performance of audit procedures we noted that all journal entries are prepared and posted by a CPA firm that the Association hired to perform bookkeeping for the agency. Neither management nor the governing body reviews these entries.

Criteria: *Auditing Standards* state that the management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good accounting policies require procedures for journal entries to be reviewed.

Effect: Because journal entries are not reviewed, instances of entries being posted to incorrect accounts and not being corrected could occur.

Cause: Management does not have procedures in place to review journal entries.

Auditors' Recommendation: We recommend that management establish procedures for the regular review of the journal entries posted by their bookkeeper on at least a monthly basis.

Views of Responsible Officials and Planned Corrective Action: The office manager will begin reviewing journal entries monthly.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Findings and Responses
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Finding #2 FS 2012-01 Material Journal Entries (Other) (Significant Deficiency)

Condition: The Association does not have a comprehensive documented internal control structure. Material journal entries were needed for inventory, capital assets, deposits held in trust of others, and long-term debt.

Criteria: *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect: Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2013 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendations: The Association should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Views of Responsible Officials and Planned Corrective Action: Management will review the financial statements monthly and go over adjustments made by the auditors to become more familiar with the process.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Findings and Responses
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Finding #3 FS 2013-01 Capital Asset Certification (Procedure 2) (Material Weakness)

Condition: It was noted in the testwork over capital assets that the client did not conduct an annual capital asset inventory that was recorded in a written report, certified as to correctness, and signed by the Board.

Criteria: The New Mexico Administrative Code (NMAC) 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”. NMSA 1978 12-6-10 further specifies that that inventory should be done for “movable chattels and equipment costing more than \$5,000 and under the control of the governing authority.”

Effect: Because the Association is not conducting a physical inventory annually, the Association may have assets they are unaware of or may have assets that have been lost or stolen that they did not know about.

Cause: Management was not aware of the statute that requires a certification to be signed by the board each year.

Auditors' Recommendation: The Association should ensure that they perform an annual physical inventory over capital assets and have the Board certify the inventory as to correctness.

Views of Responsible Officials and Planned Corrective Action: A yearly inventory of capital assets certified by the board will be done for 2014.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Findings and Responses
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Finding #4 FS 2013-02 Late Audit Report (Procedure 9) (Other)

Condition: The Association's 2013 audit report was not approved by the State Auditor's Office and amendments were needed to resubmit the report.

Criteria: Cottonwood Rural Water Association is required to submit their audit report for the year ended December 31, 2013 on or before May 31, 2014 in accordance with Subsection A of 2.2.2.9 NMAC. If the State Auditor's Office rejects and returns a substandard audit report to the Independent Public Auditor per Subsection E of 2.2.2.9 NMAC, the State Auditor's Office will consider the report late, and a finding is required to be included in the audit report.

Effect: The Association could be affected by having federal funding withdrawn due to the late audit report.

Cause: Additional procedures were required to be performed due to issues raised during review of the audit report by the State Auditor's Office.

Auditors' Recommendation: We recommend that the Association ensure their audit report is submitted by the May 31 deadline.

Views of Responsible Officials and Planned Corrective Action: Cottonwood will ensure that all procedures are performed prior to the submission of the audit report to the State Auditor's Office for the 2014 audit.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Exit Conference
For the Period Beginning January 1, 2013 and Ending December 31, 2013

Exit Conference

The contents of this report were discussed on May 27, 2014. The following individuals were in attendance:

Representing the Cottonwood Rural Water Association

Roby Zumwalt	President
Jan Waldrip	Office Manager

Representing Accounting & Consulting Group, LLP

Jessica Huff, CPA	In-charge Senior Accountant
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Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico
Cottonwood Rural Water Association
Annual Compiled Financial Statements
December 31, 2013



STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
ANNUAL COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2013

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
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 December 31, 2013

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Official Roster
December 31, 2013

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Roby Zumwalt		President
Jack Callaway		Vice-President
Vance Riggs		Secretary/Treasurer
Dan Dolan		Board Member
Randy Bristow		Board Member

	<u>Administration</u>	
Jan Waldrip		Office Manager

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FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Hector H. Balderas
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

We have compiled the accompanying financial statements of the business-type activities of the Cottonwood Rural Water Association (the "Association") as of and for the year ended December 31, 2013, which collectively comprise the Association's basic financial statements as listed in the table of contents. 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 accounting principles generally accepted in the United States of America.

The management of the Association is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America 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.

Accounting principles generally accepted in the United States of America require that the additional schedule on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by us without audit or review and accordingly, we do not express an opinion or provide any assurance on it.

Management has not presented the *Management's Discussion and Analysis* and budgetary comparison information that governmental accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Roswell, New Mexico
May 27, 2014

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Net Position
December 31, 2013

Exhibit A-1

Assets

Current assets	
Cash and cash equivalents	\$ 183,610
Customer receivables, net of allowance for doubtful accounts	34,957
Prepaid expenses	8,465
Inventory	<u>24,610</u>
Total current assets	<u>251,642</u>
Noncurrent assets	
Restricted cash and cash equivalents	52,422
Capital assets	3,207,791
Accumulated depreciation	(662,999)
Water rights, net of accumulated amortization	381,041
Loan costs, net of accumulated amortization	<u>2,664</u>
Total noncurrent assets	<u>2,980,919</u>
Total assets	<u><u>\$ 3,232,561</u></u>

Liabilities

Current liabilities	
Accounts payable	\$ 12,517
Accrued expenses	10,621
Meter and other refundable deposits	8,175
Current portion of long-term debt	<u>45,106</u>
Total current liabilities	<u>76,419</u>
Noncurrent liabilities	
Loans payable	<u>750,158</u>
Total noncurrent liabilities	<u>750,158</u>
Total liabilities	<u>826,577</u>
Net position	
Net investment in capital assets	1,749,528
Unrestricted	648,281
Restricted	<u>8,175</u>
Total net position	<u>2,405,984</u>
Total liabilities and net position	<u><u>\$ 3,232,561</u></u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended December 31, 2013

Exhibit A-2

Operating revenues	
Charges for services	<u>\$ 317,367</u>
Total operating revenues	<u>317,367</u>
Operating expenses	
Personnel services	120,622
Contractual services	188,718
Supplies	6,660
Repairs and maintenance	14,456
Utilities	24,152
Depreciation	67,697
Amortization	396
Miscellaneous	<u>15,669</u>
Total operating expenses	<u>438,370</u>
Operating income (loss)	<u>(121,003)</u>
Nonoperating revenues (expenses)	
Capital grants	142,560
Interest income	9,048
Interest expense	(20,104)
Miscellaneous	<u>1,475</u>
Total nonoperating revenues (expenses)	<u>132,979</u>
Change in net position	<u>11,976</u>
Net position, beginning	2,372,791
Restatement (Note 8)	<u>21,217</u>
Net position, beginning as restated	<u>2,394,008</u>
Net position, ending	<u><u>\$ 2,405,984</u></u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Cash Flows
For the Year Ended December 31, 2013

Exhibit A-3

Cash flows from operating activities	
Cash received from user charges	\$ 316,135
Cash payments to employees for services	(119,665)
Cash payments to suppliers for goods and services	<u>(261,054)</u>
Net cash provided (used) by operating activities	<u>(64,584)</u>
Cash flows from noncapital financing activities	
Miscellaneous income	<u>1,475</u>
Net cash provided (used) by noncapital financing activities	<u>1,475</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(5,935)
Principal paid on capital debt	(44,263)
Interest paid on capital debt	<u>(20,104)</u>
Net cash provided (used) by capital and related financing activities	<u>72,258</u>
Cash flows from investing activities	
Interest on investments	<u>9,048</u>
Net cash provided (used) by investing activities	<u>9,048</u>
Net increase (decrease) in cash and cash equivalents	18,197
Cash and cash equivalents, beginning	<u>217,835</u>
Cash and cash equivalents, ending	<u><u>\$ 236,032</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (121,003)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Amortization	396
Depreciation	67,697
Changes in assets and liabilities	
Accrued expenses	958
Inventory	(18,822)
Customer receivables	(1,502)
Accounts payable	10,035
Meter and other refundable deposits	270
Prepaid assets	<u>(2,613)</u>
Net cash provided (used) by operating activities	<u><u>\$ (64,584)</u></u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 1. Summary of Significant Accounting Policies

Cottonwood Rural Water Association (the "Association") is a political subdivision of the State of New Mexico established and regulated by the constitution of the State of New Mexico. The Association was incorporated on January 4, 1979 for the purpose of constructing, maintaining, and operating a water system for the supply and distribution of water for domestic use to its members. The Association has a Board of Directors and approximately 545 members. The water service delivery area is restricted to Cottonwood rural district in northern Eddy County, New Mexico.

The summary of significant accounting policies of the Association is presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representation of the Association's management, who is responsible for their integrity and objectivity. The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

During the year ended December 31, 2013, the Association adopted Governmental Accounting Standards Board (GASB) Statements No. 60 through 66. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses issues related to service concession arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. The Association does not have any Service Concession Arrangements or component units. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions- an Amendment of GASB Statement No. 53*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Association does not utilize hedge accounting. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 66, *Technical Corrections- 2012- an Amendment of GASB Statements No. 10 and No. 62*, resolves conflicting guidance that resulted from the issuance of these pronouncements.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the Association for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Association does not have any component units required to be reported under GASB Statements No. 14, No. 39, or No. 61.

B. Measurement focus, basis of accounting, and financial statement presentation

The Association's basic financial statements are prepared in accordance with GAAP as set forth or adopted by the GASB and the Financial Accounting Standards Board (FASB), and their predecessors, the National Council on Governmental Accounting (NCGA) and the Accounting Principles Board (APB), respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units.

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The Association's proprietary (enterprise) fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net Position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted; and unrestricted components.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Association's enterprise fund is charges for services for the Association's water services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the requirements of GASB Statement No. 34, the Association is required to present certain of its proprietary fund as major based upon certain criteria.

The Association reports the following major proprietary fund:

The *General Fund* accounts for a water system for the supply and distribution of water for domestic use to its members, including constructing, maintaining and operating the system.

C. Assets, Liabilities, and Net Position

Deposits and Investments: The Association's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, and Net Position (continued)

State statutes authorize the Association to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Association are reported at fair market value unless they are New Mexico municipal bonds in which case they are pledged at par value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Receivables and Payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

Inventory: The Association's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets: Capital assets, which include property, plant, and equipment, are defined by the Association as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Because the Association is a phase III government for purposes of implementing GASB No. 34, it is not required to retroactively report its major general infrastructure assets. However, it must report all infrastructure assets purchased or built after July 1, 2003. Equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9C(5). Donated capital assets are recorded at estimated fair market value at the date of donation. The Association does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed in the Association's proprietary fund.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Automobiles	5
Furniture and fixtures (including software)	5-7
Plant and water system	5-50

The Association completed construction of a new water well in 2003. As of the date of this report, the well was still not in use. Therefore, no depreciation has been recorded on the well as of December 31, 2013. Management expects the well to be in use in the near future and does not expect any impairment of the well.

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through December 31, 2013, along with applicable payroll taxes and interest accrued by the association.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, and Net Position (continued)

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. For bonds issued after the Association implemented GASB No. 34, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. For fund financial reporting, bond premiums and discounts are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. With the adoption of GASB Statement No. 65, debt issuance costs are no longer amortized over the life of the related asset. Debt issuance costs not related to prepaid insurance are recognized as an expense in the period incurred.

Equity Classifications

Equity is classified as net position and displayed in three components:

a. Net investment in capital assets:

This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position:

Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position:

All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Water Rights: The Association annually reviews the impairment of all water rights and adjusts the carrying values as necessary. No impairment was recorded for the year ended December 31, 2013.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the Association’s financial statements include depreciation on capital assets and the allowance for uncollectible accounts.

NOTE 2. Deposits and Investments

State statutes authorize the investment of Association funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The Association is not aware of any invested funds that did not meet the State investment requirements as of December 31, 2013.

Deposits of funds may be made in interest or noninterest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Association. Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute. The financial institution must provide pledged collateral of \$50 of the deposit amount in excess of the deposit insurance.

The rate of interest in nondemand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 2. Deposits and Investments (continued)

maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account (including an interest on lawyer trust accounts) no longer will receive unlimited deposit insurance coverage by the FDIC.

Beginning January 1, 2013, all of the Association's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

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 not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At December 31, 2013, \$0 of the Association's bank balances of \$235,957 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Association's name and \$0 was uninsured and uncollateralized.

	<u>Western Bank</u>	<u>First American Bank</u>	<u>Totals</u>
Amount of deposits	\$ 193,467	\$ 44,247	\$ 237,714
FDIC Coverage	<u>(193,467)</u>	<u>(44,247)</u>	<u>(237,714)</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged collateral	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) collateralized	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district, or political subdivision of the State of New Mexico. The Association was not required to have collateral pledged for the year ended December 31, 2013.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 3. Receivables

Receivables as of December 31, 2013, are as follows:

Water billings	\$	21,720
Meters		12,942
Grant receivable		<u>936</u>
Gross accounts receivable		35,598
Allowance for doubtful accounts		<u>(641)</u>
Net accounts receivable	\$	<u><u>34,957</u></u>

The vast majority of all receivables are concentrated in one geographical region, specifically Eddy County.

NOTE 4. Capital Assets

A summary of capital assets and changes occurring during the year ended December 31, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	Balance 12/31/12	Adjustment	Additions	Deletions	Balance 12/31/13
Capital assets not being depreciated					
Land	\$ 7,590	\$ -	\$ -	\$ -	\$ 7,590
Total	<u>7,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,590</u>
Capital assets being depreciated					
Furniture and fixtures	9,543	(5,436)	-	-	4,107
Automobiles	21,172	(4,000)	-	-	17,172
Plant and water system	<u>3,173,372</u>	<u>(385)</u>	<u>5,935</u>	<u>-</u>	<u>3,178,922</u>
Total	<u>3,204,087</u>	<u>(9,821)</u>	<u>5,935</u>	<u>-</u>	<u>3,200,201</u>
Less accumulated depreciation					
Furniture and fixtures	9,543	(5,436)	-	-	4,107
Automobiles	20,553	(4,000)	619	-	17,172
Plant and water system	<u>575,027</u>	<u>(385)</u>	<u>67,078</u>	<u>-</u>	<u>641,720</u>
Total	<u>605,123</u>	<u>(9,821)</u>	<u>67,697</u>	<u>-</u>	<u>662,999</u>
Total capital assets, net of depreciation	<u>\$ 2,606,554</u>	<u>\$ -</u>	<u>\$ (61,762)</u>	<u>\$ -</u>	<u>\$ 2,544,792</u>

Depreciation expense for the year ended December 31, 2013 was \$67,697.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 5. Other Assets

During the year ended December 31, 2013, the following changes occurred in the other assets reported in the statement of net position. Water rights are not subject to amortization.

	Balance 12/31/12	Adjustment	Additions	Deletions	Balance 12/31/13
Other assets not being amortized					
Water rights	\$ 381,041	\$ -	\$ -	\$ -	\$ 381,041
Total	381,041	-	-	-	381,041
Other assets being amortized					
Loan costs	8,462	(1,426)	-	-	7,036
Total	8,462	(1,426)	-	-	7,036
Less accumulated amortization					
Loan costs	4,142	(166)	396	-	4,372
Total	4,142	(166)	396	-	4,372
Total other assets, net of amortization	<u>\$ 385,361</u>	<u>\$ (1,260)</u>	<u>\$ (396)</u>	<u>\$ -</u>	<u>\$ 383,705</u>

Amortization expense for the year ended December 31, 2013 was \$396.

NOTE 6. Deposits Held for Others

The Association holds water and meter deposits for all members, which may be refunded only if requested by members upon termination of the water service agreement. The balance held on behalf of the members of the Association is \$8,175.

NOTE 7. Long-term Debt

During the year ended December 31, 2013, the following changes occurred in the liabilities reported in the statement of net position:

	Balance 12/31/12	Restatement	Restated Balance	Additions	Retirements	Balance 12/31/12	Due Within One Year
NMFA Loan	\$ 356,460	\$ (21,217)	\$ 335,243	\$ -	\$ 37,343	\$ 297,900	\$ 37,977
USDA/RUS	504,284	-	504,284	-	6,920	497,364	7,129
Totals	<u>\$ 860,744</u>	<u>\$ (21,217)</u>	<u>\$ 839,527</u>	<u>\$ -</u>	<u>\$ 44,263</u>	<u>\$ 795,264</u>	<u>\$ 45,106</u>

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
 Notes to the Financial Statements
 December 31, 2013

NOTE 7. Long-term Debt (continued)

Loans Payable

On May 1, 2002, the Association borrowed \$703,586 from the New Mexico Finance Authority. The loan is payable in monthly installments varying from \$2,500 to \$3,500 and matures on May 1, 2021. The annual interest rate on the loan is 1.47%.

On December 20, 2011, the Association borrowed \$511,000 from the Rural Community Assistance Corporation. The loan is payable in monthly installments varying from \$2,280 to \$2,010 and matures on December 20, 2048. The annual interest rate on the loan is 3.62%.

Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2013 are as follows:

Loans Payable				
Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service	
2014	\$ 45,106	\$ 19,355	\$ 64,461	
2015	45,976	18,582	64,558	
2016	46,871	17,786	64,657	
2017	47,790	16,967	64,757	
2018	48,735	16,123	64,858	
2019-2023	145,320	68,539	213,859	
2024-2028	51,126	58,614	109,740	
2029-2033	59,391	50,349	109,740	
2034-2038	68,983	40,757	109,740	
2039-2043	80,135	29,605	109,740	
2044-2048	93,084	16,656	109,740	
2049-2053	62,747	2,918	65,665	
Total	<u>\$ 795,264</u>	<u>\$ 356,251</u>	<u>\$ 1,151,515</u>	

NOTE 8. Restatements

The Association has restated net position due to the correction of errors in the presentation of the prior year financial statement's long-term debt as follows:

Fund Name	Net Position 12/31/12	Prior Year Loans Payable	Net Position Restated 12/31/12
Business-type Activities	\$ 2,372,791	\$ 21,217	\$ 2,394,008

NOTE 9. Federal and State Grants

In the normal course of operations, the Association receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2013

NOTE 10. Joint Powers Agreements and Memorandums of Understanding

As of the year ended December 31, 2013, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

NOTE 11. Construction and Other Significant Commitments

As of the year ended December 31, 2013, the Association had no construction or other significant commitments in progress.

NOTE 12. Contingent Liabilities

There is no pending litigation that would warrant disclosure in the notes to the financial statements.

NOTE 13. Subsequent Pronouncements

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local government pension plans. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In January 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In April 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governmentals that extend and receive nonexchange financial guarantees. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In November 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68*, effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Association is analyzing the effects that this pronouncement will have on their financial statements.

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SUPPORTING SCHEDULE

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Schedule of Deposit and Investment Accounts
For the Year Ended December 31, 2013

Schedule I

Account Name	Account Type	Western Bank	First American Bank	Total
Deposits				
Operating	Checking	\$ 167,845	\$ -	\$ 167,845
Water Rights Reserve	Savings	25,622	-	25,622
USDA Debt Service Reserve	Savings	-	21,963	21,963
USDA Asset Reserve	Savings	-	22,284	22,284
Total amount of deposit in bank		193,467	44,247	237,714
Less: FDIC coverage		(193,467)	(44,247)	(237,714)
Total uninsured public funds		-	-	-
50% collateral requirements		-	-	-
Pledged securities		-	-	-
Over/(Under) Collateralized		-	-	-
Bank balance		193,467	44,247	237,714
Outstanding items		(1,757)	-	(1,757)
Deposits in transit		-	-	-
Other adjustments		-	-	-
Book balance		<u>\$ 191,710</u>	<u>\$ 44,247</u>	235,957
Petty cash				<u>75</u>
Total deposits and investments				<u>\$ 236,032</u>
Total unrestricted cash and cash equivalents per Exhibit A-1				\$ 183,610
Total restricted cash and cash equivalents per Exhibit A-1				<u>52,422</u>
Total deposits and investments				<u>\$ 236,032</u>