

*State of New Mexico
Cottonwood Rural Water Association*

*Office of the State Auditor
Tier 6 Agreed-Upon Procedures
for the Year Ended December 31, 2014*



**Accounting &
Consulting Group, LLP**
Certified Public Accountants

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Table of Contents
For Year Ended December 31, 2014

	<u>Page</u>
Table of Contents	3
Official Roster	4
Independent Accountants' Report on Applying Agreed-Upon Procedures	5
Schedule of Procedures and Results	7-9
Schedule of Findings and Responses	11-15
Exit Conference	16

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Official Roster
For the Year Ended December 31, 2014

Board of Directors

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

Timothy M. Keller
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, 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 year ended December 31, 2014 in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
May 29, 2015

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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 Year Ended December 31, 2014

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

- 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. (For purpose of performing these procedures, “timely” means completion of the bank reconciliations within one month after the last day of the reporting month and “complete” means that statements for bank and investment accounts are all accounted for by the Association.)
- 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. (For the purpose of performing these procedures, “accuracy” means that reconciling items agree to deposit slips and subsequent bank statement and reconciled balances agree to the general ledger.)
- 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.

Results

- a. The Association was able to provide the auditor will all bank reconciliations for each of the bank accounts for the year ended. They appear to have been prepared in a timely manner.
- b. A random test of six bank reconciliations was performed where the ending balance was compared to the general ledger, supporting documentation, and the quarterly DFA reports. It was noted that three of the reconciliations selected did not tie to the general ledger by \$1,135.97 in March, \$148.51 in April, and \$148.51 in July. It was also noted that the year end book balance in the operating account did not tie to the report submitted to DFA by \$322. See finding #4.
- c. 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, 2014.

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

We reviewed all debt payments during the fiscal year. All required payments per the debt amortization schedules were traced to copies of checks written and bank statements.

Procedure 4:

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 (for purposes of procedures in 4 (b) and 4 (c), we haphazardly selected 5 deposits) 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 the 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.

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 Year Ended December 31, 2014

Procedure 4 (continued)

Results

- a. We could not analytically review revenue through comparison of actual revenues to budgeted revenues for the fiscal year ending December 31, 2014 due to the Association's budget being adopted on the year ending June 30, 2014 per DFA's specifications and actual revenues being recorded during fiscal year ending December 31, 2014.
- b. No exceptions were found as a result of this procedure. The amounts recorded in the general ledger agrees to the supporting documentation and bank statement.
- c. No exceptions were found as a result of this procedure. The amounts appear to be properly recorded in classification, amount, and period.

Procedure 5:

Expenditures Procedures

Select a sample of cash disbursements based on auditor judgment, (for purposes of procedures in 5 (a), 5 (b) and 5 (c), we haphazardly selected 72 disbursements) 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 canceled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts, and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 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. No exceptions were found as a result of this procedure. The amounts recorded as disbursed agreed to supporting documentation: amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract, and cancelled check as appropriate.
- b. No exceptions were found as a result of this procedure. The disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
- c. No exceptions were found as a result of this procedure. 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

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:

- a. Journal entries appear reasonable and have supporting documentation. (A journal entry is considered reasonable if: i. Explanation is consistent with the nature of the adjustment and the general ledger accounts affected. ii. Supporting documentation {invoices, contracts, correspondence, calculations, etc.} agrees with the journal entry details.)
- b. The local public body has procedures that require journal entries to be reviewed, and there is evidence the reviews are being performed.

Results

- a. We selected 13 non-routine journal entries and no exceptions were noted as a result of this procedure. Journal entries appear reasonable and have supporting documentation.
- b. It was noted during the testwork that the Association is not reviewing journal entries on a monthly basis and documenting the review. See 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:

- 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

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 Year Ended December 31, 2014

Procedure 7 (continued):

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.

Results

- a. Per review of the minutes and submissions to DFA, the Association appears to be properly approving their budgets.
- b. We could not determine if actual expenditures exceeded final budgeted expenditures for fiscal year ending December 31, 2014 due to the Association's budget being adopted on the year ending June 30, 2014 per DFA's instructions and actual expenditures being recorded during fiscal year ending December 31, 2014.
- c. A budget to actual schedule could not be prepared because the Association's fiscal year ends on December 31, 2014 and DFA requires them to submit a budget for the year ending June 30, 2014.

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 Association, no state capital outlay appropriations were expended during the year ended December 31, 2014.

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 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 #2.

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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 Year Ended December 31, 2014

Finding #1 FS 2011-004 Journal Entry Review (Procedure 6)

Condition: During our testing of 13 journal entries we noted that all journal entries were prepared and posted by a CPA firm that the Association hired to perform bookkeeping for the Association. No evidence was found of management review of these journal entries.

Criteria: 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.

Accountants' 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 and the board will begin reviewing journal entries monthly at the board meeting.

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 Year Ended December 31, 2014

Finding #2 FS 2012-001 Material Journal Entries (Other)

Condition: The Association does not have a comprehensive documented internal control structure. Material journal entries were needed for capital assets, deposits held in trust of others, and long-term debt to tie these items to documentation provided by the Association. Three entries were made for a total of \$28,432. While materiality is not part of the AUP engagement, this carryover finding is related to the 2012 audit of the Association.

Criteria: 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.

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 2014 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly to ensure accuracy of account balances

Accountants' 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 Year Ended December 31, 2014

Finding #3 FS 2013-001 Capital Asset Certification (Procedure 2)

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.

Accountants' 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 2015.

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 Year Ended December 31, 2014

Finding #4 FS 2014-001 Reconciliations do not tie to General Ledger (Procedure 1)

Condition: It was noted in review of the bank reconciliations that three out of the six tested did not tie to the general ledger in the amount of \$1,135.97 in March, \$148.51 in April, and \$148.51 in July. In addition, the year-end reconciled balances did not tie to financial reports submitted to DFA at December 31, 2014 in the amount of \$322.

Criteria: Section 6-6-3 NMSA, 1978 discusses the need for the Association to keep all the books, records and accounts in their respective office in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division.

Effect: When books are not correctly reconciled to the general ledger, it increases the risk that fraud and misappropriations could occur.

Cause: Cash subledgers were not obtained by the firm who prepares the general ledger for the Association. This caused several voided checks to be missed and not be added back into the appropriate cash accounts in the appropriate month.

Accountants' Recommendation: It is recommended that the Association provide the bookkeeper with the appropriate subledgers each month to ensure that each transaction is correctly recorded in the general ledger.

Views of Responsible Officials and Planned Corrective Actions: Management will be going to send the cash subledger each month to the bookkeeper to ensure all transactions are recorded in the general ledger.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Exit Conference
For the Year Ended December 31, 2014

Exit Conference

The contents of this report were discussed on May 29, 2015. The following individuals were in attendance:

Representing the Cottonwood Rural Water Association

Randy Bristow	Member
Jan Waldrip	Office Manager

Representing Accounting & Consulting Group, LLP

Eric Olson	Staff Accountant
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*State of New Mexico
Cottonwood Rural Water Association*

*Annual Compiled Financial Statements
December 31, 2014*



**Accounting &
Consulting Group, LLP**
Certified Public Accountants

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Table of Contents
December 31, 2014

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		4
Official Roster		5
FINANCIAL SECTION		
Independent Accountants' Compilation Report		9
BASIC FINANCIAL STATEMENTS		
Statement of Net Position	A-1	12
Statement of Revenues, Expenses, and Change in Net Position	A-2	13
Statement of Cash Flows	A-3	14
NOTES TO FINANCIAL STATEMENTS		15-23
	<u>Schedule</u>	
SUPPORTING SCHEDULE		
Schedule of Deposit and Investment Accounts	I	26

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Official Roster
December 31, 2014

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

Timothy M. Keller
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, 2014, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 operation, economic, or historical context.

The supporting schedule on page 26, is not a required part of the basic financial statements but is supplementary information required by the New Mexico Office of the State Auditor and requested by those charged with governance. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or provide any assurance on the supplementary information. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
May 29, 2015

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Net Position
December 31, 2014

Exhibit A-1

Assets

Current assets	
Cash and cash equivalents	\$ 129,220
Customer receivables, net of allowance for doubtful accounts	32,245
Prepaid expenses	8,769
Inventory	<u>25,281</u>
Total current assets	<u>195,515</u>
Noncurrent assets	
Restricted cash and cash equivalents	80,756
Capital assets	3,207,791
Accumulated depreciation	(730,713)
Water rights	<u>381,041</u>
Total noncurrent assets	<u>2,938,875</u>
Total assets	<u><u>\$ 3,134,390</u></u>

Liabilities

Current liabilities	
Accounts payable	\$ 4,140
Accrued expenses	9,023
Meter and other refundable deposits	8,250
Current portion of long-term debt	<u>45,976</u>
Total current liabilities	<u>67,389</u>
Noncurrent liabilities	
Loans payable	<u>704,182</u>
Total noncurrent liabilities	<u>704,182</u>
Total liabilities	<u>771,571</u>
Net position	
Net investment in capital assets	1,726,920
Unrestricted	<u>635,899</u>
Total net position	<u>2,362,819</u>
Total liabilities and net position	<u><u>\$ 3,134,390</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, 2014

Exhibit A-2

Operating revenues	
Charges for services	\$ 314,042
Total operating revenues	<u>314,042</u>
Operating expenses	
Personnel services	121,294
Contractual services	90,307
Supplies	15,688
Repairs and maintenance	9,831
Utilities	25,650
Depreciation	67,714
Amortization	371
Miscellaneous	14,193
Total operating expenses	<u>345,048</u>
Operating income (loss)	<u>(31,006)</u>
Nonoperating revenues (expenses)	
Interest income	9,489
Interest expense	(19,355)
Total nonoperating revenues (expenses)	<u>(9,866)</u>
Change in net position	(40,872)
Net position-beginning of year	2,405,984
Restatement (Note 12)	(2,293)
Net position-beginning, as restated	<u>2,403,691</u>
Net position-end of year	<u><u>\$ 2,362,819</u></u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Cash Flows
For the Year Ended December 31, 2014

Exhibit A-3

Cash flows from operating activities	
Cash received from user charges	\$ 316,829
Cash payments to employees for services	(122,891)
Cash payments to suppliers for goods and services	<u>(165,022)</u>
Net cash provided (used) by operating activities	<u>28,916</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	(45,106)
Interest paid on capital debt	<u>(19,355)</u>
Net cash provided (used) by capital and related financing activities	<u>(64,461)</u>
Cash flows from investing activities	
Interest on investments	<u>9,489</u>
Net cash provided (used) by investing activities	<u>9,489</u>
Net increase (decrease) in cash and cash equivalents	(26,056)
Cash and cash equivalents-beginning of year	<u>236,032</u>
Cash and cash equivalents-end of year	<u><u>\$ 209,976</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (31,006)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Amortization	371
Depreciation	67,714
Changes in assets and liabilities	
Customer receivables	2,712
Prepaid expenses	(304)
Inventory	(671)
Accounts payable	(8,378)
Accrued expenses	(1,597)
Meter and other refundable deposits	<u>75</u>
Net cash provided (used) by operating activities	<u><u>\$ 28,916</u></u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

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 550 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 June 30, 2014, the Association adopted Governmental Accounting Standards Board (GASB) Statements No. 65, 66, and 67. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish 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 recognizes, 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*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62. GASB Statement No. 67, *Financial Reporting for Pension Plans-An Amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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.

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.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

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 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.

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
 Notes to Financial Statements
 December 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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, 2014. 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, 2014, along with applicable payroll taxes and interest accrued by the association.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. 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

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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, 2014.

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, 2014.

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 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.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 2. Deposits and Investments (continued)

Custodial Credit Risk- Deposits Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does 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, 2014, none of the Association's bank balances of \$211,597 were exposed to custodial credit risk.

	<u>Western Bank</u>	<u>First American Bank</u>	<u>Totals</u>
Amount of deposits	\$ 139,091	\$ 72,506	\$ 211,597
FDIC Coverage	<u>(139,091)</u>	<u>(72,506)</u>	<u>(211,597)</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>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged collateral	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) collateralized	<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, 2014.

NOTE 3. Receivables

Receivables as of December 31, 2014, are as follows:

Water billings	\$ 22,685
Meters	<u>10,201</u>
Gross accounts receivable	32,886
Allowance for doubtful accounts	<u>(641)</u>
Net accounts receivable	<u>\$ 32,245</u>

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

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 4. Capital Assets

Capital asset and depreciation activity as of and for the year ended December 31, 2014 were as follows:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14
Capital assets not being depreciated				
Land	\$ 7,590	\$ -	\$ -	\$ 7,590
Total	<u>7,590</u>	<u>-</u>	<u>-</u>	<u>7,590</u>
Capital assets being depreciated				
Furniture and fixtures	4,107	-	-	4,107
Automobiles	17,172	-	-	17,172
Plant and water system	<u>3,178,922</u>	<u>-</u>	<u>-</u>	<u>3,178,922</u>
Total	<u>3,200,201</u>	<u>-</u>	<u>-</u>	<u>3,200,201</u>
Less accumulated depreciation				
Furniture and fixtures	4,107	-	-	4,107
Automobiles	17,172	-	-	17,172
Plant and water system	<u>641,720</u>	<u>67,714</u>	<u>-</u>	<u>709,434</u>
Total	<u>662,999</u>	<u>67,714</u>	<u>-</u>	<u>730,713</u>
Total capital assets, net of depreciation	<u>\$ 2,544,792</u>	<u>\$ (67,714)</u>	<u>\$ -</u>	<u>\$ 2,477,078</u>

Depreciation expense for the year ended December 31, 2014 was \$67,714.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 5. Other Assets

During the year ended December 31, 2014, the following changes occurred in the other assets reported in the Statement of Net Position. Water rights are not subject to amortization.

	Balance 12/31/13	Restatement	Balance 12/31/13	Additions	Deletions	Balance 12/31/14
Other assets not being amortized						
Water rights	\$ 381,041	\$ -	\$ 381,041	\$ -	\$ -	\$ 381,041
Total	381,041	-	\$ 381,041	-	-	381,041
Other assets being amortized						
Loan costs	7,036	(7,036)	-	-	-	-
Total	7,036	(7,036)	-	-	-	-
Less accumulated amortization						
Loan costs	4,372	(4,743)	(371)	371	-	-
Total	4,372	(4,743)	(371)	371	-	-
Total other assets, net of amortization	<u>\$ 383,705</u>	<u>\$ (2,293)</u>	<u>381,412</u>	<u>\$ (371)</u>	<u>\$ -</u>	<u>\$ 381,041</u>

Amortization expense for the year ended December 31, 2014 was \$371.

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 \$8,250.

NOTE 7. Long-term Debt

During the year ended December 31, 2014, the following changes occurred in the liabilities reported in the statement of net position:

	Balance 12/31/13	Additions	Retirements	Balance 12/31/14	Due Within One Year
NMFA Loan	\$ 297,900	\$ -	\$ 37,977	\$ 259,923	\$ 38,629
USDA/RUS	497,364	-	7,129	490,235	7,347
Totals	<u>\$ 795,264</u>	<u>\$ -</u>	<u>\$ 45,106</u>	<u>\$ 750,158</u>	<u>\$ 45,976</u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

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, 2051. The annual interest rate on the loan is 3.62%.

Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2014 are as follows:

Loans Payable			
Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service
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	49,710	15,251	64,961
2020-2024	105,236	65,612	170,848
2025-2029	52,678	57,060	109,738
2030-2034	61,196	48,544	109,740
2035-2039	71,082	38,658	109,740
2040-2044	82,572	27,168	109,740
2045-2049	95,915	13,825	109,740
2050-2054	42,397	1,320	43,717
Total	<u>\$ 750,158</u>	<u>\$ 336,896</u>	<u>\$ 1,087,054</u>

NOTE 8. 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.

NOTE 9. Joint Powers Agreements and Memorandums of Understanding

As of the year ended December 31, 2014, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

NOTE 10. Construction and Other Significant Commitments

As of the year ended December 31, 2014, the Association had no construction or other significant commitments in progress.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to Financial Statements
December 31, 2014

NOTE 11. Contingent Liabilities

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

NOTE 12. Restatement

The Association has restated other assets in order to comply with GASB Statement No. 65. The restatement has decreased net position by \$2,293

NOTE 13. Subsequent Pronouncements

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. This Statement will be implemented during the fiscal year ending June 30, 2015.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged. The Association is analyzing the effects that this Statement will have on their financial statements.

In April 2013, GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The Association is analyzing the effects that this Statement will have on their financial statements.

In November 2013, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. This Statement will be implemented during the fiscal year ending December 31, 2015.

NOTE 14. Subsequent Events

Cottonwood Rural Water Association has evaluated events subsequent to December 31, 2014 that would possibly require adjustment or disclosure in these financial statements, through May 29, 2015, the date that these financial statements were available to be issued.

No events have occurred subsequent to December 31, 2014 that would require adjustment of modification to the contents of these statements.

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SUPPORTING SCHEDULE

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
 Schedule of Deposit and Investment Accounts
 December 31, 2014

Schedule I

Account Name	Account Type	Western Bank	First American Bank	Total
Deposits				
Operating	Checking	\$ 105,689	\$ -	\$ 105,689
Water rights reserve	Savings	33,402	-	33,402
USDA debt service reserve	Savings	-	21,985	21,985
USDA asset reserve	Savings	-	50,521	50,521
Total amount of deposit in bank		139,091	72,506	211,597
Less: FDIC coverage		(139,091)	(72,506)	(211,597)
Total uninsured public funds		-	-	-
50% collateral requirements		-	-	-
Pledged securities		-	-	-
Over/(Under) Collateralized		-	-	-
Bank balance		139,091	72,506	211,597
Outstanding items		(1,721)	-	(1,721)
Deposits in transit		-	-	-
Other adjustments		-	-	-
Book balance		<u>\$ 137,370</u>	<u>\$ 72,506</u>	209,876
Petty cash				<u>100</u>
Total deposits and investments				<u>\$ 209,976</u>
Total unrestricted cash and cash equivalents per Exhibit A-1				\$ 129,220
Total restricted cash and cash equivalents per Exhibit A-1				<u>80,756</u>
Total deposits and investments				<u>\$ 209,976</u>