

State of New Mexico

Cottonwood Rural Water Association

Office of the State Auditor Tier 6 Agreed Upon Procedure
For the Year Ended December 31, 2015

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Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
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STATE OF NEW MEXICO
Cottonwood Rural Water Association
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Official Roster
For the Year Ended December 31, 2015

Board of Directors

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

Administration

Jan Waldrip	Office Manager
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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) have 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, 2015 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. The results of our procedures are as follows:

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Schedule of Procedures and Results
December 31, 2015

1. Revenue Calculation

Procedure

Verify the local public body's revenue calculation and tier determination.

Results of Procedure

The Association's 2015 revenue was \$360,220 and the total capital outlay award was \$335,216, therefore a Tier 6 agreed upon procedure engagement is required.

2. 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 purposes 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 accounts are all accounted for and reconciled 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 slip and subsequent bank statements.
- 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 of Procedures

- a. We obtained the bank statements and corresponding reconciliations for all of the Association's accounts as of December 31, 2015. No exceptions were noted as a result of this procedure. Bank reconciliations were completed in a timely manner, and all bank statements and reconciliations are complete and on hand.
- b. A random sample of six monthly bank reconciliations were haphazardly selected in fiscal year 2015 from the Association's account and found to be accurate. Reconciled balances were traced to the general ledger and supporting documentation as well as the quarterly financial reports submitted to DFA- Local Government Division. It was noted that one of the reconciliations selected did not tie to the general ledger by \$102.09 in January. It was also noted that the year-end reconciled balance for two accounts did not tie to the bank statements by \$23,322. This finding has been included in the Schedule of Findings and Responses as Finding #4. In addition, four out of five cash accounts totaling \$183,745 and respective fourth quarter activity of 2015 were not reported to DFA. This finding has been included in the Schedule of Findings and Responses as Finding #5.
- c. No collateral was required because the Association's accounts are held at two different institutions and the account totals at each institution individually did not exceed \$250,000.

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3. Capital Assets

Procedure

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

Results of Procedure

The Association did not perform a capital asset inventory that was certified by its Board of Directors for the year ended December 31, 2015. This finding has been included in the Schedule of Findings and Responses as Finding #3.

4. Debt

Procedure

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 of Procedure

RPC obtained the annual debt statements and verified that all payments were made during the year. RPC also traced the monthly payment made to USDA and NMFA to the Western Bank checking account bank statement for the entire 2015 year. The USDA loan requires two reserve accounts: debt service and asset management. RPC verified that the Association already fulfilled the reserve requirement for the debt service account as well as verified that the required monthly deposits were being made to the asset management account.

5. Revenues

Procedures

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue. For purposes of performing analytical procedures, we inquired of Association's management for explanations of all variances of budget to actual of more than 10% from the budgeted amount.

Select a sample of revenues based on accountant judgment [for purpose of procedure in 5(b) and 5(c), we haphazardly selected the months February, April, June, August, and October for a total of five months] and test using the following attributes:

- b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

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5. Revenues (continued)

The following items were selected for procedures 5(b)-5(c):

Receipt Date	Payer	Description	Amount
2/4/2015	Various	Water billings	\$ 778.20
4/6/2015	Various	Water billings	690.49
6/1/2015	Various	Water billings	1,459.00
8/4/2015	Various	Water billings	2,085.38
10/2/2015	T. Ford	Water billings	15.00

Results of Procedures

- a. Actual revenue compared to budgeted revenue for the fiscal year could not be reviewed due to the Association's budget being adopted on the year ending June 30, 2015 per DFA's specifications and actual revenues being recorded during the calendar year ending December 31, 2015.
- b. No exceptions were noted as a result of this procedure. Amounts recorded in the general ledger agreed with supporting documents.
- c. No exceptions were noted as a result of this procedure. Amounts were properly recorded on a cash basis as to classification, amount and period per review of supporting documentation.

6. Expenditures

Procedures

Select a sample of cash disbursements based on accountant judgment [for purposes of procedures in 6(a), 6(b) and 6(c), we randomly selected a sample of 61 disbursements by selecting all items greater than \$2,000] 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 cancelled check, as appropriate.
- b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

The following cash disbursements were selected and the procedures describing in 4(a)-4(c) above were performed:

Check Date	Check Number	Payee	Description	Check Amount
1/13/2015	13984	First American Bank	Monthly required USDA reserve deposit	\$ 2,350.00
1/13/2015	13985	NMFA	Debt payment	3,604.97
1/15/2015	ACH	IRS	December 31st payroll 941 deposit	2,685.78
2/10/2015	14014	First American Bank	Monthly required USDA reserve deposit	2,350.00

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6. Expenditures (continued)

Check Date	Check Number	Payee	Description	Check Amount
2/10/2015	14015	NMFA	Debt payment	\$ 3,604.97
2/13/2001	ACH	IRS	January 31st payroll 941 deposit	2,726.53
3/10/2015	14052	First American Bank	Monthly required USDA reserve deposit	2,350.00
3/10/2015	14053	NMFA	Debt payment	3,604.97
3/13/2015	ACH	IRS	February 29th payroll 941 deposit	2,693.72
4/9/2015	14091	First American Bank	Monthly required USDA reserve deposit	2,350.00
4/9/2015	14092	NMFA	Debt payment	3,604.97
4/15/2015	ACH	IRS	March 31st payroll 941 deposit	2,526.06
4/24/2015	ACH	NM Tax and Rev	March CRS-1	2,011.02
5/12/2015	14130	First American Bank	Monthly required USDA reserve deposit	2,350.00
5/12/2015	14131	NMFA	Debt payment	3,604.97
5/15/2015	ACH	IRS	April 30th payroll 941 deposit	2,907.00
5/28/2015	14154	Western Bank	Purchase of cashier's check for heavy equipment	9,755.00
6/9/2015	14168	First American Bank	Monthly required USDA reserve deposit	2,350.00
6/9/2015	14169	NMFA	Debt payment	3,605.07
6/15/2015	ACH	IRS	May 31st 941 payroll deposit	3,230.22
6/15/2015	14179	ACG, LLP	Audit fee invoice 1	9,978.69
7/13/2015	14210	First American Bank	Monthly required USDA reserve deposit	2,350.00
7/13/2015	14211	NMFA	Debt payment	3,605.07
7/13/2015	14221	CVE	June electric bill	2,740.82
7/15/2015	ACH	IRS	June 30th payroll 941 deposit	4,083.49
7/24/2015	ACH	NM Tax and Rev	June CRS-1	2,166.92
7/15/2015	14227	Western Bank	Purchase of cashier's check for trailer	6,855.00
8/10/2015	14252	First American Bank	Monthly required USDA reserve deposit	2,350.00
8/10/2015	14253	NMFA	Debt payment	3,605.07
8/10/2015	14261	Baker Utility Supply	Utility supplies	5,049.60
8/10/2015	14263	ACG, LLP	Audit fee invoice 2	4,483.18
8/14/2015	ACH	IRS	July 31st payroll 941 deposit	4,335.54
8/14/2015	ACH	NM Tax and Rev	July CRS-1	2,527.81
8/14/2015	14269	CVE	July electric bill	4,651.67
9/15/2015	14297	First American Bank	Monthly required USDA reserve deposit	2,350.00
9/15/2015	14298	NMFA	Debt payment	3,605.07
9/15/2015	14300	White Cloud Pipeline	Installing PVC sleeve	2,749.50
9/15/2015	14301	CVE	August electric bill	4,228.53
9/15/2015	ACH	IRS	August 31st payroll 941 deposit	4,544.27
9/24/2015	ACH	NM Tax and Rev	August CRS-1	3,421.95
9/17/2015	14327	Montgomery Agency	September 2015-2016 policy renewal	9,340.00
9/21/2015	14329	BC & BS of NM	October health insurance payment	2,247.90

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6. Expenditures (continued)

Check Date	Check Number	Payee	Description	Check Amount
10/13/2015	14343	First American Bank	Monthly required USDA reserve deposit	\$ 2,350.00
10/13/2015	14344	NMFA	Debt payment	3,605.07
10/15/2015	ACH	IRS	September 30th payroll 941 deposit	4,190.92
10/23/2015	ACH	NM Tax and Rev	September CRS-1	2,693.93
11/1/2015	14378	NM Mutual	October 2015-2016 policy renewal	4,722.00
11/10/2015	14380	First American Bank	Monthly required USDA reserve deposit	2,350.00
11/10/2015	14381	NMFA	Debt payment	3,605.07
11/10/2015	14392	BC & BS of NM	November health insurance payment	2,292.28
11/10/2015	14393	Baker Utility Supply	Utility supplies	3,603.44
11/15/2015	ACH	IRS	October 31st payroll 941 deposit	4,155.87
11/24/2015	ACH	NM Tax and Rev	October CRS-1	2,868.84
12/8/2015	14421	First American Bank	Monthly required USDA reserve deposit	2,350.00
12/8/2015	14422	NMFA	Debt payment	3,605.07
12/8/2015	14434	BC & BS of NM	December health insurance payment	2,292.28
12/15/2015	ACH	IRS	November 30th payroll 941 deposit	3,813.25
5/12/2015	2000	Engineers Inc.	January through March engineering fees	159,740.46
7/16/2015	2001	Engineers Inc.	April and May engineering fees	45,424.74
10/21/2015	2002	Engineers Inc.	June through August engineering fees	72,978.56
12/14/2015	2003	Engineers Inc.	September engineering fees	5,235.24

Results of Procedures

- a. No exceptions were noted 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 noted 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 noted 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 Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

7. Journal Entries

Procedures

If nonroutine journal entries, such as adjustments or reclassifications, are posted to the general ledger [for purposes of procedures in 7(a) and 7(b), we selected all 25 nonroutine journal entries], 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.]

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7. Journal Entries (continued)

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

The following nonroutine journal entries were selected and the procedures describing in 7(a) and 7(b) above were performed:

Journal Entry Number	Date Posted	Description	Amount
GJ-000482	1/31/2015	ADJ to actual	\$ 1,856.28
GJ-000483	1/31/2015	Correcting coding error	208.01
GJ-000487	2/28/2015	ADJ meters	24.76
GJ-000488	2/28/2015	ADJ sales tax	231.76
GJ-000491	3/31/2015	ADJ sales tax	177.25
GJ-000495	4/30/2015	ADJ sales tax	240.89
GJ-000497	4/30/2015	ADJ to actual	834.44
GJ-000499	5/31/2015	ADJ sales tax	103.25
GJ-000504	6/30/2015	ADJ sales tax	111.13
GJ-000506	6/30/2015	ADJ meters	425.38
GJ-000507	6/30/2015	Reverse double entry	425.35
GJ-000512	7/31/2015	ADJ to actual	262.82
GJ-000517	8/31/2015	ADJ sales tax	795.70
GJ-000518	8/31/2015	Record equipment sales	38,000.00
GJ-000519	8/31/2015	Correcting coding error	38,000.00
GJ-000522	9/30/2015	ADJ sales tax	267.77
GJ-000523	9/30/2015	ADJ to actual	838.61
GJ-000528	10/31/2015	ADJ sales tax	247.11
GJ-000529	10/31/2015	ADJ meters	38.44
GJ-000530	10/31/2015	Correct entry	463.00
GJ-000532	11/30/2015	ADJ sales tax	79.55
GJ-000535	11/30/2015	ADJ accounts to actual	14.35
GJ-000536	11/30/2015	Record construction account	5,200.00
GJ-000539	12/31/2015	ADJ sales tax to actual	279.41
GJ-000540	12/31/2015	ADJ accounts to actual	15.09

Results of Procedures

- a. 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 at least a monthly basis and documenting this review. This finding has been included in the Schedule of Findings and Responses as Finding #1.

8. 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.

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8. Budget (continued)

- b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Results of Procedures

- a. The review of Board minutes indicated that the budget and budget adjustments were approved by the Board and were sent to DFA for approval.
- b. Actual expenditures compared to budgeted expenditures for the fiscal year could not be reviewed due to the Association's budget being adopted on the year ending June 30, 2015 per DFA's specifications and actual expenditures being recorded during the calendar year ending December 31, 2015.
- c. A schedule of revenues and expenses- budget and actual could not be prepared from the Association records on the GAAP budgetary basis because of the Association being in a calendar year end, and DFA requires them to submit a budget for the fiscal year June 30, 2015 year end.

9. Capital Outlay

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. Test all capital outlay expenditures during the fiscal year to:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and cancelled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received is accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.

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9. Capital Outlay (continued)

- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results of Procedures

- a. No exceptions were noted as a result of this procedure. The amounts recorded 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 noted as a result of this procedure. The disbursements were properly authorized and approved in compliance with the budget, legal requirement, and established policies and procedures.
- c. No exceptions were noted 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 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).
- d. The Capital Outlay project was for planning and design; therefore there was no physical existence, thus this procedure was not performed.
- e. No exceptions were noted as a result of this procedure. The status reports were submitted to the state agency per terms and the amounts in the status report agreed with the general ledger and supporting documentation.
- f. There was no advance funding, thus this procedure was not performed.
- g. The project is not yet complete, thus this procedure was not performed.
- h. The cash was accounted for in a separate bank account at Western Bank.
- i. No exceptions were noted as a result of this procedure. The reimbursement requests were properly supported by costs incurred by the recipient.

10. 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(I)(3)(C) NMAC.

Results of Procedures

It was noted during preparation of the compilation report that multiple, material journal entries were needed to correct certain balance sheet accounts. This finding has been included in the Schedule of Findings and Responses as Finding #2. In addition, the reports required by a Tier 6 agreed-upon procedures were not submitted to the State Auditor timely. This finding has been included in the Schedule of Findings and Responses as Finding #6.

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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 management and others within the Association, the New Mexico State Auditor, the Department of Finance and Administration–Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Albuquerque, New Mexico
June 6, 2016

STATE OF NEW MEXICO
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Schedule of Findings and Responses
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Finding #1 FS 2011-004 Journal Entry Review (Procedure 7)

Condition: During testing of 25 journal entries, it was 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. This finding was unable to be resolved from the prior year due to policies not being put in place to review journal entries being posted by the CPA firm.

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.

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 and to evidence this review with initials and a date on the journal entries made.

Views of Responsible Officials and Planned Corrective Action: Starting in May of 2016, the financial reports prepared by the contracted CPA firm will be reviewed by the Office Manager. Reports will be signed and dated after the Office Manager has reviewed it.

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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 cash, accounts receivable, grants receivable, capital assets, accounts payable, deposits held in trust, unearned meter deposit revenue, equity, and long-term debt to tie these items to documentation provided by the Association. The total amount of the entries was for \$361,714 in order to compile the financial statements of the Association. While materiality is not part of the AUP engagement, this carryover finding is related to the 2012 audit of the Association. This finding was unable to be resolved in the current year as policies were not put into place to ensure that all balances were correct at year end.

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 2015 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. Journal entries made by the contracted bookkeeper should be reviewed and approved at least monthly, and balances should be adjusted to documentation at year end.

Views of Responsible Officials and Planned Corrective Action: Starting in May of 2016, the Office Manager will make sure that the balances on the bookkeeper's financial statements tie into what is shown on the Association's books.

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

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. The finding was unable to be resolved from the prior year due to the fact that the Association did not perform an inventory count.

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 did not perform an annual inventory count at year end and get it certified by the board as to the correctness of the listing.

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: The General Manager and Office Manager are responsible for conducting the inventory count. During the June 2016 board meeting, all assets will be reviewed. Subsequently, the list will be reviewed annually at each January board meeting. A certification of correctness of the asset listing will be provided each year.

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For the Year Ended December 31, 2015

Finding #4 FS 2014-001 Reconciliations Do Not Tie to General Ledger (Procedure 2)

Condition: It was noted in review of the monthly bank reconciliations that one out of the six tested did not tie to the general ledger in the amount of \$102.09 in January. Additionally, two year-end reconciled balances did not tie to the bank statements in the amount of \$23,322. This finding was unable to be resolved from the prior year as policies and procedures were not put in place to ensure that cash was correctly reported.

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: Procedures were not in place to ensure that all transactions were recorded properly and that year end cash bank balances tied to the general ledger.

Accountant's 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 and to ensure that all transactions have been accounted for.

Views of Responsible Officials and Planned Corrective Actions: The Office Manager will ensure that all copies of bank reconciliations and statements are being provided to the contracted bookkeeper each month. This finding is excepted to be resolved by May of 2016.

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, 2015

Finding #5 FS 2015-001 Cash Balances Not Reported to DFA (Procedure 2)

Condition: It was noted in review of the cash accounts that four out of five cash accounts totaling \$183,745 and the respective revenue and expense activity for the fourth quarter of 2015 were not reported to the Department of Finance and Administration (DFA).

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: The information that is reported to DFA is incomplete and could lead to inappropriate funding of the Association.

Cause: Procedures were not in place to ensure that all cash balances, revenues, and expenses were reported correctly to DFA.

Accountant's Recommendation: It is recommended that the Association prepare a report every quarter for each bank account to submit to DFA approval and to ensure that the total cash reported to DFA matches the general ledger.

Views of Responsible Officials and Planned Corrective Actions: The Office Manager will ensure that the quarterlies sent to the Department of Finance and Administration will include all cash accounts held at the Association. This finding is expected to be resolved by May of 2016.

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, 2015

Finding #6 FS 2015-001 Late AUP Report (Other)

Condition: The Association's 2015 AUP report was not submitted by the May 31, 2016 deadline.

Criteria: The Association is required to submit their AUP report for the year ended December 31, 2015 on or before May 31, 2016 subsequent to the entity's fiscal year end in accordance with Subsection A of 2.2.2.9 of NMAC.

Effect: The Association would be affected by a late submission by not catching problems in a timely fashion to correct findings. The financial statements are not available for use by the Association in a timely fashion for making financial decisions.

Cause: Material journal entries to revenue were necessary, and the need for an audit was evaluated late. However, it was noted that a large majority needed for the accruals were related to capital outlay funds, and thus, the Association was still subject to the tiered system procedures set forth by the New Mexico State Auditor.

Accountants' Recommendation: We recommend that the Association ensure that all balances are correct at year end to ensure that possible change of AUP does not occur as a result of proposed adjusting journal entries.

Views of Responsible Officials and Planned Corrective Action: Starting in May of 2016, the financial reports prepared by the contracted CPA firm will be reviewed by the Office Manager to determine if all balances are correct to ensure this finding is resolved. The report for the 2016 year is expected to be submitted on time.

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, 2015

Exit Conference

The contents of this report were discussed on May 23, 2016. The following individuals were in attendance:

Representing the Cottonwood Rural Water Association

Randy Bristow
Jan Waldrip

Board Member
Office Manager

Representing RPC CPAs + Consultants, LLP

Jessica Huff, CPA

Senior Accountant

State of New Mexico

Cottonwood Rural Water Association
Annual Compiled Financial Statements
December 31, 2015

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Achieving Results*

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
Cottonwood Rural Water Association
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December 31, 2015

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STATE OF NEW MEXICO
Cottonwood Rural Water Association
Official Roster
December 31, 2015

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

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

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FINANCIAL SECTION

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Timothy M. Keller
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

Management is responsible for the accompanying financial statements of the business-type activity of Cottonwood Rural Water Association (the "Association") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis and budgetary schedules that accounting principles generally accepted in the United States of America require 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.

RPC CPAs + Consultants LLP

RPC CPAs + Consultants, LLP
Roswell, New Mexico
June 6, 2016

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Net Position
December 31, 2015

Exhibit A-1

Assets

Current assets	
Cash and cash equivalents	\$ 120,186
Customer receivables	45,881
Grant receivables	51,837
Prepaid expenses	10,173
Inventory	<u>19,283</u>
Total current assets	<u>247,360</u>
Noncurrent assets	
Restricted cash and cash equivalents	172,922
Capital assets	3,713,604
Accumulated depreciation	(801,182)
Water rights	<u>381,041</u>
Total noncurrent assets	<u>3,466,385</u>
Total assets	<u><u>\$ 3,713,745</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 66,048
Accrued expenses	13,332
Meter and other refundable deposits	8,385
Unearned meter deposit revenue	6,665
Current portion of long-term debt	<u>46,475</u>
Total current liabilities	<u>140,905</u>
Noncurrent liabilities	
Loans payable	<u>677,253</u>
Total noncurrent liabilities	<u>677,253</u>
Total liabilities	<u>818,158</u>
Net position	
Net investment in capital assets	2,569,735
Unrestricted	<u>325,852</u>
Total net position	<u>2,895,587</u>
Total liabilities and net position	<u><u>\$ 3,713,745</u></u>

See accompanying notes to financial statements and independent accountants' compilation report

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended December 31, 2015

Exhibit A-2

Operating revenues	
Charges for services	\$ 346,591
Total operating revenues	346,591
Operating expenses	
Personnel services	149,386
Contractual services	42,594
Supplies	19,006
Repairs and maintenance	16,850
Utilities	24,579
Depreciation	70,473
Miscellaneous	13,361
Total operating expenses	336,249
Operating income (loss)	10,342
Nonoperating revenues (expenses)	
Rental income	12,000
Interest income	9,946
Miscellaneous	1,579
Loss on sale of capital assets	(16,283)
Interest expense	(18,541)
Total nonoperating revenues (expenses)	(11,299)
Income (loss) before contributions and transfers	(957)
Capital grants	335,216
Change in net position	334,259
Net position-beginning of year	2,362,819
Restatement (Note 11)	198,509
Net position-beginning, as restated	2,561,328
Net position-end of year	\$ 2,895,587

See accompanying notes to financial statements and independent accountants' compilation report

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Statement of Cash Flows
For the Year Ended December 31, 2015

Exhibit A-3

Cash flows from operating activities	
Cash received from user charges	\$ 339,755
Cash payments to employees for services	(145,078)
Cash payments to suppliers for goods and services	<u>(49,887)</u>
Net cash provided by operating activities	<u>144,790</u>
Cash flows from noncapital financing activities	
Miscellaneous income	<u>13,579</u>
Net cash provided by noncapital financing activities	<u>13,579</u>
Cash flows from capital and related financing activities	
Capital grants	283,379
Acquisition of capital assets	(361,591)
Proceeds from sale of capital assets	38,000
Principal paid on capital debt	(26,430)
Interest paid on capital debt	<u>(18,541)</u>
Net cash used by capital and related financing activities	<u>(85,183)</u>
Cash flows from investing activities	
Interest on investments	<u>9,946</u>
Net cash provided by investing activities	<u>9,946</u>
Net increase in cash and cash equivalents	83,132
Cash and cash equivalents-beginning of year	<u>209,976</u>
Cash and cash equivalents-end of year	<u><u>\$ 293,108</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 10,342
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	70,473
Changes in assets and liabilities	
Customer receivables	(13,636)
Prepaid expenses	(1,404)
Inventory	5,998
Accounts payable	61,909
Accrued expenses	4,308
Meter and other refundable deposits	135
Unearned meter deposit revenue	<u>6,665</u>
Net cash provided by operating activities	<u><u>\$ 144,790</u></u>

See accompanying notes to financial statements and independent accountants' compilation report

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2015

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 559 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, 2015, the Association adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement No. 27* (“GASB 68”), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an Amendment of GASB Statement No. 68* (“GASB 71”). These two Statements are required to be implemented at the same time. Neither of these Statements have materially impacted the Association’s financial statements.

During the year ended December 31, 2015, the Association also adopted GASB Statements No. 69 and 70. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”) establishes accounting and financial reporting standards related to government combinations (including mergers, acquisitions, and transfers of operations), and disposals of government operations. GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”) improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Neither of these Statements have materially impacted the Association’s financial statements.

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 the Financial Statements
December 31, 2015

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. 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 the Financial Statements
 December 31, 2015

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. Information technology 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
Equipment	7-15
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, 2015. 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, 2015, 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.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2015

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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, 2015.

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, 2015.

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 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.

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, 2015, none of the Association’s bank balances of \$289,434 were exposed to custodial credit risk.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2015

NOTE 2. Deposits and Investments (continued)

	Western Bank	First American Bank	Totals
Amount of deposits	\$ 150,628	\$ 138,806	\$ 289,434
FDIC Coverage	<u>(150,628)</u>	<u>(138,806)</u>	<u>(289,434)</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, 2015.

Reconciliation to the Statement of Net Position

Cash and cash equivalents per Exhibit A-1	\$ 120,186
Restricted cash and cash equivalents per Exhibit A-1	<u>172,922</u>
Total cash and cash equivalents	<u>293,108</u>
Less: NMFA cash	25,731
Add: outstanding checks	22,157
Less: deposits in transit	-
Less: petty cash	<u>100</u>
Bank balance of deposits	<u>\$ 289,434</u>

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2015

NOTE 3. Receivables

Receivables as of December 31, 2015, are as follows:

Water billings	\$ 35,680
Meters	<u>10,201</u>
Total customer receivables	45,881
Grant receivables	<u>51,837</u>
Total receivables	<u><u>\$ 97,718</u></u>

The vast majority of all receivables are concentrated in one geographical region, specifically Eddy County. All of the above receivables are deemed by the Association to be fully collectible.

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Notes to the Financial Statements
December 31, 2015

NOTE 4. Capital Assets

Capital asset and depreciation activity as of and for the year ended December 31, 2015 were as follows:

	Balance 12/31/14	Restatement	Restated Balance 12/31/14	Additions	Deletions	Balance 12/31/15
Capital assets not being depreciated						
Land	\$ 7,590	\$ -	\$ 7,590	\$ -	\$ -	\$ 7,590
Water rights	381,041	-	381,041	-	-	381,041
Construction in progress	-	58,601	58,601	345,241	-	403,842
Total	388,631	58,601	447,232	345,241	-	792,473
Capital assets being depreciated						
Furniture and fixtures	4,107	-	4,107	-	1,330	2,777
Equipment	-	-	-	16,350	-	16,350
Automobiles	17,172	-	17,172	-	-	17,172
Plant and water system	3,178,922	143,496	3,322,418	-	56,545	3,265,873
Total	3,200,201	143,496	3,343,697	16,350	57,875	3,302,172
Less accumulated depreciation						
Furniture and fixtures	4,107	-	4,107	-	1,330	2,777
Equipment	-	-	-	1,020	-	1,020
Automobiles	17,172	-	17,172	-	-	17,172
Plant and water system	709,434	3,588	713,022	69,453	2,262	780,213
Total	730,713	3,588	734,301	70,473	3,592	801,182
Total capital assets, net of depreciation	\$ 2,858,119	\$ 198,509	\$ 3,056,628	\$ 291,118	\$ 54,283	\$ 3,293,463

Depreciation expense for the year ended December 31, 2015 was \$70,473.

NOTE 5. 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 \$8,385.

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
 Notes to the Financial Statements
 December 31, 2015

NOTE 6. Long-term Debt

During the year ended December 31, 2015, the following changes occurred in the liabilities reported in the statement of net position:

	Balance 12/31/14	Additions	Retirements	Balance 12/31/15	Due Within One Year
NMFA Loan	\$ 259,923	\$ -	\$ 15,936	\$ 243,987	\$ 38,904
USDA/RUS	490,235	-	10,494	479,741	7,571
Totals	\$ 750,158	\$ -	\$ 26,430	\$ 723,728	\$ 46,475

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, 2015 are as follows:

Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service
2016	\$ 46,475	\$ 17,834	\$ 64,309
2017	47,383	17,016	64,399
2018	48,317	16,174	64,491
2019	49,280	15,304	64,584
2020	50,269	14,410	64,679
2021-2025	89,224	63,346	152,570
2026-2030	54,282	55,456	109,738
2031-2035	63,057	46,683	109,740
2036-2040	73,244	36,496	109,740
2041-2045	85,083	24,657	109,740
2046-2050	98,834	10,906	109,740
2051	18,280	342	18,622
Total	\$ 723,728	\$ 318,624	\$ 1,042,352

NOTE 7. 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.

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NOTE 8. Joint Powers Agreements and Memorandums of Understanding

As of the year ended December 31, 2015, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

NOTE 9. Construction and Other Significant Commitments

As of the year ended December 31, 2015, the Association had no construction or other significant commitments in progress.

NOTE 10. Contingent Liabilities

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

NOTE 11. Restatement

A restatement of \$198,509 was necessary to record construction in progress and new capital assets from the completion of construction from prior year that had been previously recorded in engineering fees expense. The restatement increased construction in progress from \$0 to \$58,601, the plant and water system from \$3,178,922 to \$3,322,418, and accumulated depreciation on the plant and water system from \$709,434 to \$713,022.

NOTE 12. Subsequent Pronouncements

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

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NOTE 13. Subsequent Events

Cottonwood Rural Water Association has evaluated events subsequent to December 31, 2015 that would possibly require adjustment or disclosure in these financial statements, through June 6, 2016, the date that these financial statements were available to be issued.

No events have occurred subsequent to December 31, 2015 that would require adjustment or modification to the contents of these statements.