

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
ANNUAL COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2016

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
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DECEMBER 31, 2016

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STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2016

BOARD OF DIRECTORS

Roby Zumwalt - President

Jim Townsend - Vice President

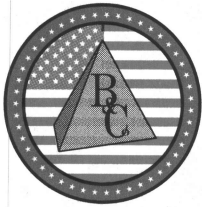
Vance Riggs - Secretary/Treasurer

Randy Bristow - Board Member

Donnie Pounds - Board Member

ADMINISTRATION

Jan Waldrip - Office Manager



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

P.O. Box 3600

Roswell, NM 88202

(575) 627-1400 • Fax (575) 627-1111

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 activities of Cottonwood Rural Water Association (the "Association"), New Mexico, as of and for the year ended December 31, 2016, and 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.

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 operational, economic, or historical context.

Barr & Company, L.L.P.

Barr and Company, L.L.P.
Roswell, New Mexico
May 25, 2017

Basic Financial Statements

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 99,446.85
Customer receivables	25,895.37
Prepaid expenses	11,417.33
Inventory	<u>20,856.68</u>

Total CURRENT ASSETS 157,616.23

CAPITAL ASSETS

Capital assets	3,755,610.82
Water Rights and Land	388,631.00
Accumulated depreciation	<u>(877,334.31)</u>

Total CAPITAL ASSETS 3,266,907.51

OTHER ASSETS

Restricted cash	<u>136,419.58</u>
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Total OTHER ASSETS 136,419.58

TOTAL ASSETS

\$ 3,560,943.32

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

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF NET POSITION
DECEMBER 31, 2016

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 2,908.57
Accrued expenses	6,206.85
Meter and other refundable deposits	24,105.96
Unearned meter deposit revenue	6,665.00
Current portion of long-term debt	<u>47,911.25</u>

Total CURRENT LIABILITIES 87,797.63

NONCURRENT LIABILITIES

Loans payable	<u>629,239.91</u>
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Total NONCURRENT LIABILITIES 629,239.91

NET POSITON

NET POSITION

Net investment in capital assets	2,569,734.51
Unrestricted	<u>274,171.27</u>

Total NET POSITION 2,843,905.78

TOTAL LIABILITIES AND NET POSITION

\$ 3,560,943.32

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

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Charges for service	322,752.92
	<hr/>
Total OPERATING REVENUES	322,752.92
OPERATING EXPENSES	
Personnel services	180,271.49
Contractual services	27,850.49
Supplies	31,907.24
Repairs and maintenance	11,599.57
Utilites	20,549.39
Depreciaiton	76,151.62
Licenses and fees	3,491.42
Insurance	35,586.06
Miscellaneous	2,562.41
	<hr/>
Total OPERATING EXPENSES	389,969.69
OPERATING INCOME (LOSS)	(67,216.77)
NON-OPERATING REVENUES (EXPENSES)	
Rental income	6,500.00
Interest income	9,353.48
Miscellaneous	9,563.82
Interest expense	(17,610.44)
	<hr/>
Total NON-OPERATING REVENUES (EXPENSES)	7,806.86
Income (loss) before contributions and transfers	(59,409.91)
Capital grants	7,728.46
	<hr/>
Change in net position	(51,681.45)
Net position - beginning of year	2,895,587.23
	<hr/>
Net position - ending of year	2,843,905.78
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See accompanying notes to the 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, 2016

Cash flows from operating activities	
Cash received from user charges	\$ 410,295.97
Cash payments to employees for services	(169,854.32)
Cash payments to suppliers for goods and services	(217,045.26)
Net cash provided by operating activities	<u>23,396.39</u>
Cash flows from noncapital financing activities	
Miscellaneous income	<u>25,417.30</u>
Net cash provided by noncapital financing activities	<u>25,417.30</u>
Cash flows from capital and related financing activities	
Capital Grants	7,728.46
Acquisition of capital assets	(49,596.63)
Principal paid on capital debt	(46,576.44)
Interest paid on capital debt	(17,610.44)
Net cash used by capital and related financing activities	<u>(106,055.05)</u>
Net increase in cash and cash equivalents	(57,241.36)
Cash and cash equivalents - beginning of year	<u>293,107.79</u>
Cash and cash equivalents - end of year	<u><u>\$ 235,866.43</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ (67,216.77)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	76,151.62
Changes in assets and liabilities	
Customer receivables	19,985.56
Grants receivable	51,837.00
Inventory	(1,573.28)
Prepaid expenses	(1,244.76)
Accounts payable	(63,139.60)
Customer deposits	15,720.49
Accrued expenses	(7,123.87)
Net cash provided by operating activities	<u><u>\$ 23,396.39</u></u>

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

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: 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 579 members. The water service delivery area is restricted to Cottonwood rural district in northern Eddy County, New Mexico.

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 preliminary 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 unit is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

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

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

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB), and their predecessors, the National Council on Government 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.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. No payables exceed 90 day past due.

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 greater than \$5,000 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.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets	Years
Automobiles	5
Furniture and fixtures (including software)	5-7
Equipment	7-15
Plant and water system	5-50

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through December 31, 2016, along with applicable payroll taxes and interest accrued by the association.

Unearned Meter Deposit Revenue: This represents meters that members of the Association have paid for, but not installed. The revenue will be recognized when earned.

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.

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.”

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016.

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 B - 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, 2016.

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, 2016, none of the Association's bank balances of \$211,626.37 were exposed to custodial credit risk.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B - DEPOSITS AND INVESTMENTS (continued)

	Western Bank	First American Bank	Totals
Amount of deposits	\$ 101,419.40	\$ 110,206.97	\$ 211,626.37
FDIC Coverage	<u>(101,419.40)</u>	<u>(110,206.97)</u>	<u>(211,626.37)</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)	<u>-</u>	<u>-</u>	<u>-</u>
Pledged Collateral			
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, 2016.

Reconciliation to the Statement of Net Position

Cash and cash equivalents per Exhibit A-1	\$ 99,446.85
Restricted Cash and cash equivalents per Exhibit A-1	<u>136,419.58</u>
Total cash and cash equivalents	<u>235,866.43</u>
Less: NMFA cash	26,212.61
Add: outstanding checks	2,072.55
Less: deposits in transit	-
Less: petty cash	<u>100.00</u>
Bank balance of deposits	<u>\$ 211,626.37</u>

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE C - RECEIVABLES

Receivables as of December 31, 2016, are as follows:

	<u>Totals</u>
Water billings	\$ 18,509.80
Meters	<u>7,385.57</u>
Total customer receivables	25,895.37
Grant Receivables	<u>-</u>
Total receivables	<u><u>\$ 25,895.37</u></u>

The majority of the receivables are concentrated in Eddy County, New Mexico. Management of the Association has determined the receivables to be fully collectible.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE D - CAPITAL ASSETS

Capital asset and depreciation activity as of and for the year ended December 31, 2016 were as follows:

	Balance 12/31/15	Additions	Deletions	Balance 12/31/16
Capital assets not being depreciated				
Land	\$ 7,590.00	\$ -	\$ -	\$ 7,590.00
Water rights	381,041.00	-	-	381,041.00
Construction in progress	403,841.83	7,729.18		411,571.01
Total	<u>792,472.83</u>	<u>7,729.18</u>	<u>-</u>	<u>800,202.01</u>
Capital assets being depreciated				
Furniture and fixtures	2,777.00	8,112.81	-	10,889.81
Equipment	16,350.00			16,350.00
Automobiles	17,172.44	33,754.64		50,927.08
Plant and water system	3,265,872.92			3,265,872.92
Total	<u>\$ 3,302,172.36</u>	<u>\$ 41,867.45</u>	<u>\$ -</u>	<u>\$ 3,344,039.81</u>
Less accumulated depreciation				
Furniture and fixtures	(2,777.00)	(946.49)		(3,723.49)
Equipment	(1,020.00)	(1,813.81)		(2,833.81)
Automobiles	(17,172.44)	(3,938.04)		(21,110.48)
Plant and water system	(780,213.25)	(69,453.28)		(849,666.53)
Total	<u>\$ (801,182.69)</u>	<u>\$ (76,151.62)</u>	<u>\$ -</u>	<u>\$ (877,334.31)</u>
Total capital assets, net of depreciation	<u>\$ 3,293,462.50</u>	<u>\$ (26,554.99)</u>	<u>\$ -</u>	<u>\$ 3,266,907.51</u>

Depreciation expense for the year ended December 31, 2016 was \$76,151.62.

NOTE D - 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 at December 31, 2016 is \$24,105.96.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE E - LONG-TERM DEBT

During the year ended December 31, 2016, the following changes occurred in the liabilities reported in the statement of net position:

	Balance 12/31/15	Additions	Retirements	Balance 12/31/16	Due Within One Year
NMFA loan	243,986.60	\$ -	\$ 38,903.60	\$ 205,083.00	39,988.56
UDSA/RUS	479,741.00		7,672.84	472,068.16	7,922.69
Totals:	<u>\$ 723,727.60</u>	<u>\$ -</u>	<u>\$ 46,576.44</u>	<u>\$ 677,151.16</u>	<u>\$ 47,911.25</u>

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, 2016 are as follows:

Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service
2017	\$ 47,911.25	\$ 16,856.98	\$ 64,768.23
2018	48,844.26	16,025.60	64,869.86
2019	49,821.32	15,152.56	64,973.88
2020	50,826.35	14,253.14	65,079.49
2021	49,707.91	13,326.56	63,034.47
2022-2026	48,801.82	60,998.18	109,800.00
2027-2031	56,689.01	53,110.99	109,800.00
2032-2036	65,850.89	43,949.11	109,800.00
2037-2041	76,493.45	33,306.55	109,800.00
2042-2046	88,856.07	20,943.93	109,800.00
2047-2051	93,348.83	6,634.54	99,983.37
	<u>\$ 677,151.16</u>	<u>\$ 294,558.14</u>	<u>\$ 971,709.30</u>

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE F - 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 the grantor agencies. The purpose of these audits is to ensure compliance with grantor requirements for the use of these funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE G - JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING

As of the year ended December 31, 2016, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

NOTE H - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of the year ended December 31, 2016, the Association had no construction or other significant commitments in progress.

NOTE I - CONTINGENT LIABILITIES

Management at the Association has determined there is no pending litigation that would warrant disclosure in the notes to the financial statements.

NOTE J - SUBSEQUENT PRONOUNCEMENTS

In December 2015, GASB Statement No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, 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.

In December 2015, GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods after December 15, 2015, with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In January 2016, GASB Statement No. 80 *Blending Requirements for Certain Component Units* - an Amendment of GASB Statement No. 14, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016, with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

See accountants' compilation report

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE J - SUBSEQUENT PRONOUNCEMENTS (Continued)

In March 2016, GASB Statement No. 81 *Irrevocable Split-Interest Agreements*, was issued. The provisions of this Statement are effective for fiscal years beginning after December 15, 2016, with earlier application encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In March 2016, GASB Statement No. 82 *Pension Issues - an amendment of Gasb Statements No. 67, No. 68, and No. 73*, 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 November 2016, GASB Statement No. 83 *Certain Asset Retirement Obligations*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2018 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84 *Fiduciary Activities*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2018 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

NOTE K - SUBSEQUENT EVENTS

Cottonwood Rural Water Association has evaluated events subsequent to December 31, 2016 that would possibly require adjustment or disclosure in these financial statements, through May 25, 2017, the date that these financial statements were available to be issued.

No events have occurred subsequent to December 31, 2016 that would require adjustment of modification to the contents of these statements.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
FOR THE YEAR ENDED DECEMBER 31, 2016

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Procedures and Results
December 31, 2016

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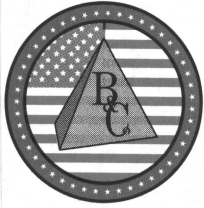
STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
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December 31, 2016

Board of Directors

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

Administration

Jan Waldrip	Office Manager
-------------	----------------



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

P.O. Box 3600

Roswell, NM 88202

(575) 627-1400 • Fax (575) 627-1111

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, 2016 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:

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Procedures and Results
December 31, 2016

1. Revenue Calculation

Procedure:

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

Results of Procedure:

The Association's 2016 revenue was \$342,788.48 and the total capital outlay award was \$59,565.46, therefore a Tier 6 agreed upon procedure engagement is required.

2. Cash

Procedure:

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. Bank statements and corresponding reconciliations for all of the Association's accounts as of December 31, 2016 were obtained. 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 four monthly bank reconciliations were haphazardly selected in fiscal year 2016 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.

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 maximum FDIC insured amount.

STATE OF NEW MEXICO
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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 perform a capital asset inventory that was certified by its Board of Directors for the year ended December 31, 2016.

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

Obtained the annual debt statements and verified that all payments were made during the year. Monthly payments made to USDA and NMFA were traced to the Western Bank checking account bank statement for the entire 2016 year. The USDA loan requires two reserve accounts: debt service and asset management. Barr & Company 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.

Results of Procedures

a. Actual revenue compared to budgeted revenue for the fiscal year was within the expectations mentioned above.

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5. Revenues (continued)

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

Date	Payer	Description	Amount
01/11/16	Various	Water Billings	1,166.63
01/27/16	Various	Water Billings	1,049.56
02/02/16	Various	Water Billings	1,744.56
02/25/16	Various	Water Billings	1,857.14
03/10/16	State of NM	Capital Grants	29,255.07
03/31/16	Various	Water Billings	2,598.02
04/08/16	Various	Water Billings	1,677.66
04/29/16	Various	Water Billings	2,286.47
05/01/16	Various	Water Billings	1,434.01
05/16/16	Various	Water Billings	1,762.52
06/14/16	Various	Water Billings	1,684.80
06/17/16	Various	Water Billings	2,526.27
07/20/16	Various	Water Billings	1,725.04
07/28/16	Various	Water Billings	2,556.01
08/05/16	Various	Water Billings	2,658.34
08/10/16	Various	Water Billings	2,166.70
09/12/16	Various	Water Billings	2,185.33
09/30/16	Various	Water Billings	2,949.72
10/06/16	State of NM	Capital Grants	1,531.13
10/14/16	Various	Water Billings	19,183.06
11/02/16	Various	Water Billings	1,451.44
11/16/16	Various	Water Billings	1,005.07
12/05/16	Various	Water Billings	960.38
12/22/16	Various	Water Billings	1,336.46

b. It was noted during the testwork that the following deposits tested had not been recorded in the general ledger: deposit dated March 10, 2016 from the State of New Mexico in the amount of \$29,255.07 and the deposit dated October 6, 2016 from the State of New Mexico in the amount of \$1,531.13. This finding has been included in the Schedule of Findings and Responses as Finding #1.

c. Due to the deposit errors noted in item b above, that these deposits were not properly classified in the general ledger, or recorded as to amount or period. This finding has been included in the Schedule of Findings and Responses as Finding #1.

6. Expenditures

Procedures

Select a sample of cash disbursements based on auditor judgment [for purposes of procedures in 6(a), 6(b) and 6(c), we randomly selected a sample of 30 disbursements by selecting all items greater than \$10,000 and randomly selecting an additional 27 transactions] and tested using the following attributes:

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 Cottonwood Rural Water Association
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 December 31, 2016

6. Expenditures (continued)

- 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
01/12/16	14463	FIRST AMERICAN BANK		2,350.00
01/12/16	14467	BLUE CROSS BLUE SHIELD OF NM	EMPLOYEE HEALTH INSURANCE	2,292.28
02/09/16	14503	MOTOR VEHICLE DIVISION	REGISTRATION	61.20
02/29/16	ACH	USA TAX PMT IRS	941 DEPOSIT - JANUARY 2016	4,830.86
01/13/16	2004	ENGINEERS, INC.	PROFESSIONAL SERVICES	22,581.58
03/01/16	14535	ENGINEERS, INC.	PROFESSIONAL SERVICES	10,025.72
03/10/16	2005	ENGINEERS, INC.	PROFESSIONAL SERVICES	29,255.07
03/15/16	ACH	USA TAX PMT IRS	941 DEPOSIT - FEBRUARY 2016	4,043.80
04/12/16	14588	PENASCO VALLEY TELECOM	TELEPHONE	143.51
04/12/16	14594	BLUE CROSS BLUE SHIELD OF NM	EMPLOYEE HEALTH INSURANCE	2,292.28
05/13/16	ACH	USA TAX PMT IRS	941 DEPOSIT - APRIL 2016	4,833.89
06/02/16	14655	VANCE COUNTRY FORD	CAPITAL ASSETS	30,454.64
06/14/16	14656	COUNTY OF EDDY	PERMIT	100.00
06/15/16	ACH	USA TAX PMT IRS	941 DEPOSIT - MAY 2016	6,488.71
07/25/16	ACH	TAX & REV	CRS-1 - JUNE 2016	4,931.72
08/01/16	14735	XCEL ENERGY	UTILITIES	15.83
08/09/16	14753	RPC CPAS & CONSULTANTS, LLP	AUDIT	14,512.50
08/24/16	14766	JOHNATHAN L. SHUMAN, PC	PROFESSIONAL SERVICES	2,032.27
09/13/16	14788	MONTGOMERY INSURANCE AGENCY	INSURANCE	11,142.00
09/13/16	14789	BLUE CROSS BLUE SHIELD OF NM	EMPLOYEE HEALTH INSURANCE	2,292.28
10/06/16	2008	OCCAM ENGINEERS, INC.	PROFESSIONAL SERVICES	1,531.13
10/11/16	14820	NM FINANCE AUTHORITY	LOAN PAYMENT	3,605.20
10/11/16	14831	BLUE CROSS BLUE SHIELD OF NM	EMPLOYEE HEALTH INSURANCE	2,348.04
10/14/16	ACH	USA TAX PMT IRS	941 DEPOSIT - SEPTEMBER 2016	3,852.95
11/01/16	14856	NEW MEXICO MUTUAL	INSURANCE	3,636.00
11/08/16	14862	NM FINANCE AUTHORITY	LOAN PAYMENT	3,605.20
11/08/16	14864	ARTESIA DAILY PRESS	ADVERTISING	32.60
12/13/16	14904	FIRST AMERICAN BANK	ASSET RESERVE ACCOUNT	2,350.00
12/13/16	14913	ROSWELL LUMBER COMPANY	REPAIRS	228.51
12/15/16	ACH	USA TAX PMT IRS	941 DEPOSIT - NOVEMBER 2016	4,392.88

STATE OF NEW MEXICO
 Cottonwood Rural Water Association
 Office of the State Auditor Tier 6 Agreed-Upon Procedures
 Schedule of Procedures and Results
 December 31, 2016

6. Expenditures (continued)

Results of Procedures

- a. It was noted during the testwork that the following expenditures tested had not been recorded in the general ledger: check 2005 dated March 10, 2016 to OCCAM Engineers Inc. in the amount of \$29,255.07 and check 2008 dated October 6, 2016 to OCCAM Engineers Inc. in the amount of \$1,531.13. This finding has been included in the Schedule of Findings and Responses as Finding #2.
- 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 10 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.]
- 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-00546	02/29/16	Record Bank Trans	29,927.99
GJ-00555	05/31/16	Record Bank Trans	32,178.12
GJ-00560	06/30/16	Record Journal Entries	73,771.76
GJ-00566	07/31/16	Meters Adjustment	1,428.65
GJ-00570	12/31/15	Record Year End Entries	1,721,276.72
GJ-00573	08/31/16	ADJ Sales Tax to Actual	352.01
GJ-00581	09/30/16	Record Journal Entries	45,080.81
GJ-00586	10/31/16	Record Journal Entries	50,271.86
GJ-00589	11/30/16	Record Journal Entries	27,850.64
GJ-00592	11/30/16	Correct Entry	1,142.32

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7. Journal Entries (continued)

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 #3.

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.
- 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 were reviewed and found that they did not exceed the budgeted amount.
- c. A schedule of revenues and expenses-budget and actual was prepared from the Association records on the cash budgetary basis and is presented below. No instances of noncompliance were noted as a result of this procedure. See Schedule of Revenues and Expenses - Budget and Actual on page 14 of this report

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.

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9. Capital Outlay (continued)

- 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.
- 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.

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9. Capital Outlay (continued)

- 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(1)(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 #4.

It was also noted that the association needs to have a Chief Procurement Officer, as required by the Procurement Code Section 13-1-95.2 (2013) NMSA 1978. This finding has been included in the Schedule of Findings and Responses as Finding #5.

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This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review. The objective of which would be the expression of an opinion or conclusion, respectively, on the agreed upon procedures included herein. Accordingly, we do not express such an opinion or conclusion. 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.

Barr + Company - LLP

Barr & Company, L.L.P
Roswell, New Mexico
May 25, 2017

STATE OF NEW MEXICO
Cottonwood Rural Water Association
Office of the State Auditor Tier 6 Agreed-Upon Procedures
Schedule of Revenues and Expenditures - Budget and Actual
December 31, 2016

	<u>Budgeted Amounts</u>		GAAP Actual	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Sales	\$ 404,000.00	\$ 404,000.00	\$ 342,788.48	(61,211.52)
State Grants - Capital Outlay	-	-	59,565.46	59,565.46
Miscellaneous	-	-	8,202.76	8,202.76
TOTAL REVENUES	<u>404,000.00</u>	<u>404,000.00</u>	<u>410,556.70</u>	<u>6,556.70</u>
Utilities/Telephone	20,800.00	20,800.00	20,549.39	250.61
Maintenance/Repairs	5,000.00	5,000.00	9,706.93	(4,706.93)
Fuel	5,350.00	5,350.00	3,201.50	2,148.50
Insurance	12,000.00	12,000.00	35,586.06	(23,586.06)
Postage/Office Supplies	2,300.00	2,300.00	16,253.60	(13,953.60)
Supplies-Field	20,000.00	20,000.00	17,923.12	2,076.88
Property Taxes	1,000.00	1,000.00	703.88	296.12
Salaries & Benefits	188,000.00	188,000.00	180,271.49	7,728.51
Water Conservation Fees	1,850.00	1,850.00	1,892.64	(42.64)
Bookkeeping	4,800.00	4,800.00	10,654.55	(5,854.55)
Advertising	550.00	550.00	772.93	(222.93)
NM Financing Authority	21,600.00	21,600.00	39,299.50	(17,699.50)
Short Lived Assets/Reserve Accts.	42,000.00	42,000.00	(11,035.42)	53,035.42
USDA Loans	38,250.00	38,250.00	21,960.00	16,290.00
Water Rights Account	7,500.00	7,500.00	5,227.00	2,273.00
Audit	15,000.00	15,000.00	14,512.50	487.50
Sales Tax	15,400.00	15,400.00	27,198.90	(11,798.90)
Miscellaneous	2,600.00	2,600.00	1,789.48	810.52
TOTAL EXPENDITURES	<u>404,000.00</u>	<u>404,000.00</u>	<u>396,468.05</u>	<u>7,531.95</u>

Note to the budget above, the Association budgets for cash paid on loans and monthly contributions to related required reserve accounts. The accounts above are such budgeted for items: NM Financing Authority, and Short Lived Assets/Reserve Accounts. The Short Lived Assets/Reserve Accounts represents excess deposits into that account over expenditures for equipment.

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 Schedule of Capital Expenditures
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Capital Appropriations	Project Title	Date	Project #	Award	Amount		Amount		Total Amount Expended	Total Amount Received	Balance 12/31/16
					Received Prior Years	Expensed Prior Years	Received Current Year	Expensed Current Year			
NM Environment Department, Construction Progress Bureau (Design) Grant											
		05/01/15	SAP 14-1627-STB	\$366,000.00	\$283,379.00	\$335,215.65	\$59,565.46	\$7,729.18	\$342,944.83	\$342,944.46	\$23,055.54
					\$366,000.00	\$283,379.00	\$59,565.46	\$7,729.18	\$342,944.83	\$342,944.46	\$23,055.54

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Finding #1 FS 2011-004 Journal Entry Review (Procedure 7) - Journal entries not reviewed by management of the Association. Current status: Repeated.

Finding #2 FS 2012-001 Material Journal Entries (Other) - Comprehensive documented internal control structure not available for staff. Material journal entries needed to correct errors. Current status: Repeated.

Finding #3 FS 2013-001 Capital Asset Certification (Procedure 3) - The Association did not perform an inventory of capital assets above \$5,000 for the year and have it certified. Current status: Resolved.

Finding #4 FS 2014-001 Reconciliations Do Not Tie to General Ledger (Procedure 2) - Bank reconciliations did not tie to the general ledger. Current Status: Resolved.

Finding #5 FS 2015-001 Cash Balances Not Reported to DFA (Procedure 2) - Four of the cash accounts were not reported to the DFA. Current status: Resolved.

Finding #6 FS 2015-002 Late (Other) - Report submitted late. Current status: Resolved.

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Finding #1 FS 2016-001 Revenue (Procedure 5)

Condition: During testing of 20 revenue items, it was noted that two deposits from the state of New Mexico, dated 3/10/16 in the amount of \$29,255.07 and 10/6/16 in the amount of \$1,531.13, were not recorded in the general ledger by a CPA firm that the Association hired to perform bookkeeping.

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 these deposits were not recorded, revenue was underreported.

Cause: Management does not have procedures in place to ensure correct recording of deposits into the general ledger and review posting from the CPA firm hired to perform bookkeeping.

Accountants' Recommendation: We recommend that management establish procedures for the regular review of the deposits recorded by their bookkeeper on at least a monthly basis and to evidence this review with initials and a date on the monthly general ledger detail.

Views of Responsible Officials and Planned Corrective Action: Management is aware that there was not a correct procedure in place to catch mistakes on the financial reports prepared by the CPA firm hired to perform bookkeeping. The office manager saw the bank balance was correct, but didn't go over each item. Starting on July 18, 2017 the next scheduled board meeting, the financial reports prepared by the contracted CPA firm will be reviewed by the office manager. Reports will be signed and dated after this review and presented to the board at monthly meetings, showing any discrepancies found and fixed.

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Finding #2 FS 2016-002 Expenditure (Procedure 6)

Condition: During testing of 30 expenditure items, it was noted that two expenditures, check 2005 to OCCAM Engineers, Inc. dated 3/10/16 for the amount of \$29,255.07 and check 2008 to OCCAM Engineers, Inc. Dated 10/6/16 for the amount of \$1,531.13, were not recorded in the general ledger by a CPA firm that the Association hired to perform bookkeeping.

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 these expenditures were not recorded, expenses and capital assets were underreported.

Cause: Management does not have procedures in place to ensure correct recording of expenditures into the general ledger and review posting from the CPA firm hired to perform bookkeeping.

Accountants' Recommendation: We recommend that management establish procedures for the regular review of the expenses recorded by their bookkeeper on at least a monthly basis and to evidence this review with initials and a date on the monthly general ledger detail.

Views of Responsible Officials and Planned Corrective Action: Management is aware that there was not a correct procedure in place to catch mistakes on the financial reports prepared by the CPA firm hired to perform bookkeeping. The office manager saw the bank balance was correct, but didn't go over each item. Starting on July 18, 2017 the next scheduled board meeting, the financial reports prepared by the contracted CPA firm will be reviewed by the office manager. Reports will be signed and dated after this review and presented to the board at monthly meetings, showing any discrepancies found and fixed.

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Finding #3 FS 2011-004 Journal Entry Review (Procedure 7)

Condition: During testing of 10 journal entries, it was noted that all journal entries were prepared and posted by a CPA firm that the Association hired to perform bookkeeping. 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: Management is aware that this is a repeat finding. Again, we feel this will be solved by having the office manger thoroughly review the financial statements and present these reviewed, dated and initialed copies at the monthly board meetings.

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Finding #4 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, and long-term debt to tie these items to documentation provided by the Association. The total amount of the entries was \$265,196.59 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 2016, management did not have a documented policy in place to follow to ensure internal controls were in place and working properly in determining accuracy of account balances

Accountants' Recommendations: The Association should ensure 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: The end of the year adjusting entries have been done by the auditors in the past, after their yearly audit. This was the first time this process has been explained to the office manager. The office manager will work with the CPA firm hired by the Association to see that these entries are approved on a monthly basis and the balances are adjusted.

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Finding #5 FS 2016-003 Chief Procurement Officer (Other)

Condition: The Association does not have a Chief Procurement Officer (CPO), as required by the Procurement Code Section 13-1-95.2 (2013) NMSA 1978.

Criteria: Management is responsible for compliance with all federal and state laws and regulations that apply.

Effect: Because the Association does not have a CPO, the Association may be out of compliance with respect to the purchasing and capital acquisitions.

Cause: For the fiscal year 2016, management did not send a designated individual for the required training to become a CPO.

Accountants' Recommendations: The Association should consider who is best qualified, and get the necessary training to qualify as a CPO

Views of Responsible Officials and Planned Corrective Action: The Association was not aware that a Chief Procurement Officer was required. The general manager will follow up on this.

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Exit Conference

The contents of this report were discussed on May 25, 2017. The following individuals were in attendance:

Representing the Cottonwood Rural Water Association

Randy Bristow

Board Member

Jan Waldrip

Office Manager

Representing Barr & Company, L.L.P.

Judy Clarke, CPA

Managing Accountant

James A. Cosman

Senior Accountant