

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
DECEMBER 31, 2017

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
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DECEMBER 31, 2017

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STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2017

BOARD OF DIRECTORS

Roby Zumwalt - President

Jim Townsend - Vice President

Vance Riggs - Secretary/Treasurer

Randy Bristow - Board Member

Donnie Pounds - Board Member

ADMINISTRATION

Randy Bristow – General Manager

Jan Waldrip - Office Manager



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

P.O. Box 3600

Roswell, NM 88202

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INDEPENDENT AUDITORS' REPORT

Wayne Johnson
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cottonwood Rural Water Association (the "Association") as of and for the year then ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Cottonwood Rural Water Association as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Management has omitted management's discussion and analysis, that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018 on our consideration of Cottonwood Rural Water Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cottonwood Rural Water Association's internal control over financial reporting and compliance.

Barr and Company, L.L.P
Roswell, New Mexico
May 31, 2018

Barr+Company LLP

Basic Financial Statements

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 638,715
Customer receivables	31,295
Prepaid expenses	11,626
Inventory	<u>24,513</u>

Total CURRENT ASSETS 706,149

NONCURRENT ASSETS

CAPITAL ASSETS

Capital assets	6,350,768
Water Rights and Land	388,631
Accumulated depreciation	<u>(956,975)</u>

Total CAPITAL ASSETS 5,782,424

OTHER ASSETS

Restricted cash	<u>143,547</u>
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Total OTHER ASSETS 143,547

Total NONCURRENT ASSETS 5,925,971

TOTAL ASSETS

\$ 6,632,120

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF NET POSITION
DECEMBER 31, 2017

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 429,575
Accrued expenses	3,977
Meter and other refundable deposits	46,856
Unearned meter deposit revenue	6,665
Current portion of long-term debt	<u>16,378</u>

Total CURRENT LIABILITIES 503,451

NONCURRENT LIABILITIES

Loans payable	<u>1,092,941</u>
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Total NONCURRENT LIABILITIES 1,092,941

NET POSITON

NET POSITION

Net investment in capital assets	2,569,735
Unrestricted	<u>2,465,993</u>

Total NET POSITION 5,035,728

TOTAL LIABILITIES AND NET POSITION \$ 6,632,120

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES	
Charges for service	\$ 384,812
Total OPERATING REVENUES	384,812
OPERATING EXPENSES	
Personnel services	171,009
Contractual services	25,054
Supplies	16,676
Repairs and maintenance	10,529
Utilities	21,003
Depreciation	79,641
Licenses and fees	4,143
Insurance	39,889
Miscellaneous	4,043
Total OPERATING EXPENSES	371,987
OPERATING INCOME (LOSS)	12,825
NON-OPERATING REVENUES (EXPENSES)	
Rental income	12,000
Interest income	9,570
Miscellaneous	1,062
Interest expense	(22,221)
Total NON-OPERATING REVENUES (EXPENSES)	411
Income (loss) before contributions and transfers	13,236
Capital grants	2,178,586
Change in net position	2,191,822
Net position - beginning of year	2,843,906
Net position - ending of year	\$ 5,035,728

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities	
Cash received from user charges	\$ 402,162
Cash payments to employees for services	(161,433)
Cash payments to suppliers for goods and services	289,659
Net cash provided by operating activities	530,388
Cash flows from noncapital financing activities	
Miscellaneous income	22,632
Net cash provided by noncapital financing activities	22,632
Cash flows from capital and related financing activities	
Capital Grants	2,178,586
Acquisition of capital assets	(2,595,157)
Proceeds from USDA loan	649,000
Principal paid on capital debt	(216,832)
Interest paid on capital debt	(22,221)
Net cash used by capital and related financing activities	(6,624)
Net increase in cash and cash equivalents	546,396
Cash and cash equivalents - beginning of year	235,866
Cash and cash equivalents - end of year	\$ 782,262
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ 12,825
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	79,641
Changes in assets and liabilities	
Customer receivables	(5,400)
Inventory	(3,656)
Prepaid expenses	(208)
Accounts payable	426,666
Customer deposits	22,750
Accrued expenses	(2,230)
Net cash provided by operating activities	\$ 530,388

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and Investments: The Association's cash and cash equivalents are 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 days 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 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, when construction is completed, in the Association's proprietary fund.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, 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 is 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.”

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017.

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 of capital assets and the allowance for uncollectible accounts.

NOTE B – BUDGETS AND BUDGETARY ACCOUNTING

Mutual Domestic Water Consumers Associations follow procedures promulgated by the Department of Finance and Administration, Local Government Division (DFA-LGD). Those procedures are as follows:

1. In November, the Office Manager develops a proposed initial operating budget for the upcoming calendar year. The proposed initial operating budget is presented to the Board for review and update in November. Changes to the proposed budget are made accordingly.
2. After the board approves the proposed initial budget, it is then submitted to the DFA-LGD for review and certification in time to meet the DFA-LGD Deadline of January 31.
3. DFA-LGD returns the approved initial budget in February. Upon certification by the DFA-LGD, the budget becomes a legally binding document and budgetary control does not allow total expenditures in any fund to exceed the amount budgeted.
4. The Board is authorized to make budget revisions with the DFA-LGD's approval.
5. Formal budgetary integration is employed as a management control device during the year.

Budgets for revenues and most expenses are adopted on a GAAP basis of revenue being recognized when earned and expenses being recognized when incurred. The Association does not include depreciation expense in the budgeting expenses.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE C - 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, 2017.

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, 2017, none of the Association's bank balances of \$783,306.32 were exposed to custodial credit risk.

Pledged Collateral - Deposits: The Association had deposits in excess of the FDIC limits of \$339,742 as of December 31, 2017. Those deposits were all in one financial institution. Western Bank held a bond from Freddie Mac FHR, CUSIP #3137AYSG7, in the amount of \$2,000,000 as pledged collateral.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE C - DEPOSITS AND INVESTMENTS (continued)

	Western Bank	First American Bank	Totals
Amount of deposits	\$ 639,773	\$ 143,534	\$ 783,307
FDIC Coverage	(300,031)	(143,534)	(443,565)
Total uninsured public funds	<u>339,742</u>	<u>-</u>	<u>339,742</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	<u>(339,742)</u>	<u>-</u>	<u>(339,742)</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.

Reconciliation to the Statement of Net Position

Cash and cash equivalents	\$ 638,715
Restricted Cash and cash equivalents	<u>143,547</u>
Total cash and cash equivalents	<u>782,262</u>
Less: NMFA cash	13
Add: outstanding checks	1,158
Less: deposits in transit	-
Less: petty cash	<u>100</u>
Bank balance of deposits	<u>\$ 783,307</u>

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE D - RECEIVABLES

Receivables as of December 31, 2017, are as follows:

	<u>Totals</u>
Water billings	\$ 25,552
Meters	<u>5,744</u>
Total customer receivables	31,296
Grant Receivables	<u>-</u>
Total receivables	<u>\$ 31,296</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.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE E - CAPITAL ASSETS

Capital asset and depreciation activity as of and for the year ended December 31, 2017 were as follows:

	Balance 12/31/16	Additions	Deletions	Balance 12/31/17
Capital assets not being depreciated				
Land	\$ 7,590	\$ -	\$ -	\$ 7,590
Water rights	381,041	-	-	381,041
Construction in progress	411,571	2,595,157	-	3,006,728
Total	<u>\$ 800,202</u>	<u>\$ 2,595,157</u>	<u>\$ -</u>	<u>\$ 3,395,359</u>
Capital assets being depreciated				
Furniture and fixtures	10,890	-	-	10,890
Equipment	16,350	-	-	16,350
Automobiles	50,927	-	-	50,927
Plant and water system	3,265,873	-	-	3,265,873
Total	<u>\$ 3,344,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,344,040</u>
Less accumulated depreciation				
Furniture and fixtures	(3,723)	(1,623)	-	(5,346)
Equipment	(2,834)	(1,814)	-	(4,648)
Automobiles	(21,110)	(6,751)	-	(27,861)
Plant and water system	(849,667)	(69,453)	-	(919,120)
Total	<u>\$ (877,334)</u>	<u>\$ (79,641)</u>	<u>\$ -</u>	<u>\$ (956,975)</u>
Total capital assets, net of depreciation	<u>\$ 3,266,908</u>	<u>\$ 2,515,516</u>	<u>\$ -</u>	<u>\$ 5,782,424</u>

Depreciation expense for the year ended December 31, 2017 was \$79,641.

NOTE F - 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, 2017 is \$46,856.

STATE OF NEW MEXICO
 COTTONWOOD RURAL WATER ASSOCIATION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE G - LONG-TERM DEBT

During the year ended December 31, 2017, the following changes occurred in the liabilities reported in the statement of net position:

	Balance 12/31/16	Additions	Retirements	Balance 12/31/17	Due Within One Year
NMFA loan	\$ 205,083	\$ -	\$ 205,083	\$ -	\$ -
UDSA/RUS	472,068	-	7,906	464,162	8,147
USDA/RUS	-	649,000	3,843	645,157	8,231
Totals:	<u>\$ 677,151</u>	<u>\$ 649,000</u>	<u>\$ 216,832</u>	<u>\$ 1,109,319</u>	<u>\$ 16,378</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%. This loan was paid off in 2017.

On December 20, 2011, the Association borrowed \$511,000 from the U. S. Department of Agriculture. The loan is payable in monthly installment of \$1,830, and matures on December 20, 2051. The annual interest rate on the loan is 3.62%.

On August 8, 2017, the Association borrowed \$649,000 from the U. S. Department of Agriculture. The loan is payable in monthly installments of \$2,421 and matures on May 5, 2057. The annual interest rate on the loan is 3.25%.

Debt Service Requirements: Debt service requirements on long-term debt at December 31, 2017 are as follows:

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE H - LONG-TERM DEBT (continued)

Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service
2018	\$ 16,378	\$ 34,634	\$ 51,012
2019	16,872	34,140	51,012
2020	17,407	33,605	51,012
2021	17,959	33,053	51,012
2022	18,529	32,483	51,012
2023-2027	101,840	153,220	255,060
2028-2032	119,051	136,009	255,060
2033-2037	139,175	115,885	255,060
2038-2042	162,707	92,353	255,060
2043-2047	190,226	64,834	255,060
2048-2052	189,992	33,292	223,284
2053-2057	119,182	8,904	128,086
	<u>\$ 1,109,318</u>	<u>\$ 772,412</u>	<u>\$ 1,881,730</u>

NOTE I - 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.

The Association applied for and received a grant from the USDA under the Rural Utilities Services Colonias Grant in the amount of \$3,625,100.

NOTE J - JOINT POWERS AGREEMENTS AND MEMORANDUMS OF UNDERSTANDING

As of the year ended December 31, 2017, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

NOTE K - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of the year ended December 31, 2017, the Association was in the middle of a major construction project to upgrade their water distribution system and storage tank. The project started in August 2017, and was still ongoing as of December 31, 2017.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE L - 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 M - SUBSEQUENT EVENTS

Cottonwood Rural Water Association has evaluated events subsequent to December 31, 2017 that would possibly require adjustment or disclosure in these financial statements, through May 31, 2018, the date that these financial statements were available to be issued.

No events have occurred subsequent to December 31, 2017 that would require adjustment of modification to the contents of these statements.

COMPLIANCE SECTION



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wayne Johnson
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Association's basic financial statements and have issued our report hereon dated May 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cottonwood Rural Water Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cottonwood Rural Water Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Cottonwood Rural Water Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. The following findings were noted to be significant deficiencies: 2012-001, 2017-001, 2016-003, 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood Rural Water Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Association's Responses to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barr & Company, LLP

Barr and Company, L.L.P
Roswell, New Mexico
May 31, 2018

FEDERAL FINANCIAL ASSISTANCE



Barr & Company, L.L.P.

BARR & COMPANY, L.L.P.

Certified Public Accountants

P.O. Box 3600

Roswell, NM 88202

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Wayne Johnson
New Mexico State Auditor
Board of Directors
Cottonwood Rural Water Association
Artesia, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Cottonwood Rural Water Association's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cottonwood Rural Water Association's major federal programs for the year ended December 31, 2017. Cottonwood Rural Water Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cottonwood Rural Water Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cottonwood Rural Water Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cottonwood Rural Water Association's compliance.

Opinion on Each Major Federal Program

In our opinion, Cottonwood Rural Water Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items FA 2017-001. Our opinion is on each major federal program is not modified with respect to these matters.

The association's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Cottonwood Rural Water Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cottonwood Rural Water Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cottonwood Rural Water Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the

requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barr + Company. LLP

Barr and Company, L.L.P
Roswell, New Mexico
May 31, 2018

STATE OF NEW MEXICO
 COTTONWOOD RURAL WATER ASSOCIATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor or Pass- Through Grantor/ Program	Passthrough Number	Federal CFDA	Federal Expenditures	Funds Provided to Subrecipients	Noncash Assistance
U.S Department of Agriculture					
<i>Direct United States Department of Agriculture</i>					
Water and Waste Disposal System for					
Rural Communities					
		10.76 *	\$ 2,804,530	\$ -	\$ -
Total U.S. Department of Agriculture			<u>2,804,530</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 2,804,530</u>	<u>\$ -</u>	<u>\$ -</u>

* Denotes Major Federal Financial Assistance Program

See Independent auditor's report.
 See accompanying notes to the schedule of expenditures of federal awards

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Cottonwood Rural Water Association and is presented on the accrual basis of accounting, which is the same basis as was used to prepare the financial statements. The information in this schedule is presented in accordance with the requirements of Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 – 10% DE MINIMUS INDIRECT COST RATE

The Association did not elect to use the 10% indirect cost rate.

NOTE 3 – LOANS

The Association expended federal awards related to loan or loan guarantees of \$649,000 during the year. The Association's balance of loan outstanding at year end was \$645,157.

NOTE 4 – FEDERALLY FUNDED INSURANCE

The Association has no federally funded insurance.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 2,804,530
Total expenditures funded by other sources	<u>371,987</u>
Total Expenditures	<u><u>\$ 3,176,517</u></u>

See Independent auditor's report.

STATE OF NEW MEXICO
 COTTONWOOD RURAL WATER ASSOCIATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2017

A. Summary of Auditors' Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses | Yes |
| c. Noncompliance material to the financial statements noted? | None Noted |

Federal Awards:

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weakness identified? | None Noted |
| b. Significant deficiencies identified not considered to be material weaknesses | Yes |
| 2. Type of auditors' report issued on compliance for major programs | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | Yes |
| 4. Identification of major programs: | |

CFDA Number
10.760

Federal Program
Water and Waste Disposal System for Rural
Communities

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

B. Financial Statement Findings

Finding #1 FS 2012-001 Journal Entries (Significant Deficiency)

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 \$3,368,518 to compile the financial statements 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 2017, 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 monthly and the balances are adjusted. The Association will create a checklist to ensure balances are adjusted monthly.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

B. Financial Statement Findings (continued)

Finding #2 FS 2017-001 Loan Covenant (Significant Deficiency)

Condition: The Association did not submit the required reports, statements and certifications to the USDA in compliance with loan 20170055898H loan covenants to submit a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, evidence of being in good standing with the state of New Mexico, and any current operators licenses within 90 days of year end.

Criteria: Management is responsible for compliance with all loan covenants that apply.

Effect: Because the Association did not comply with the loan covenants, the Association may be out of compliance with respect to the loan.

Cause: For the fiscal year 2017, management did not send the required documentation in a timely manner.

Accountants' Recommendations: The Association should consider requesting the financials along with a statement of cash flows from their current bookkeepers at their first meeting of the year to be accepted by the board and submitted with the other documentations to the appropriate individual or office.

Views of Responsible Officials and Planned Corrective Action: The Board will create an annual checklist of documents required to comply with the loan covenants to be submitted by the due date required.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

B. Financial Statement Findings (continued)

Finding #3 FS 2016-003 Chief Procurement Officer (Significant Deficiency)

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 purchasing and capital acquisitions.

Cause: For fiscal year 2017, 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 Board will meet and designate an individual as the Chief Procurement Officer, and that person will attend the next available training.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

B. Financial Statement Findings (continued)

Finding #4 FS 2017-002 Capital Assets (Significant Deficiency)

Condition: The Association has not established any formal policies concerning the acquisition and disposal of property and equipment.

Criteria: To properly capitalize fixed assets, a formal policy should be adopted for consistent treatment of additions, disposals and repairs and maintenance.

Effect: The Association may not capitalize capital assets correctly resulting in capital assets being understated and expenses being overstated. The current improvements to the water delivery system was completely charged to expenses, and not to the construction in process account.

Cause: There is no established guideline concerning which property and equipment acquisitions are to be capitalized

Accountants' Recommendations: We recommend that management establish a policy whereby all capital asset purchases over \$5,000 and having a useful life of one year or more be capitalized. The Association should document the capitalization policy and communicate it to those who code property and equipment invoices to ensure the policy is consistently followed.

Views of Responsible Officials and Planned Corrective Action: The Board plans to adopt a formal capitalization policy during 2018. The policy will ensure for consistent treatment of additions, disposals, repairs and maintenance.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

C. Federal Award Findings

FA 2017-001 Documented Procurement Policy (Significant Deficiency)

Federal Program Information:

Funding Agency: U. S. Department of Agriculture

Title: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Award Year: 2017

Grant Year: 2017

Condition: During testing of the Water and Waste Disposal Systems for Rural Communities program, it was noted that the Association does not have any documented procurement procedures which reflect the applicable Federal, State, and local laws and regulations.

Criteria: 2 CFR § 200.318 states that the non-federal entity must use its own documented procurement procedures, which reflect applicable Federal, State and local laws and regulations, provided that the procurements conform to applicable Federal Law and the standards identified in this section.

Effect: The Association may not be following the applicable Federal, State, and local laws and regulations and the standards identified in 2 CFR § 200.318 since no written policy is in place for employees to use.

Questioned Costs: None

Cause: The association has not adopted formal procurement procedures to send a designated individual for the required training to become a Chief Procurement Officer.

Accountants' Recommendations: We recommend that management establish and adopt a formal policy whereby all Federal and State procurement laws are followed.

Views of Responsible Officials and Planned Corrective Action: The Association plans to adopt formal procurement procedures which follow Federal and State Procurement laws during 2018. The Board will meet and designate an individual as the Chief Procurement Officer, and that person will attend the next available training.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

D. Prior Year Findings

Finding #1 FS 2016-001 Revenue (Material Weakness) - The Association did not recognize revenue received in the current period accounting records. Current status: Resolved.

Finding #2 FS 2016-002 Expenditures (Material Weakness) – The association did not recognize expenses in the current period accounting records. Current Status: Resolved.

Finding #3 FS 2011-004 Journal Entry Review (Significant Deficiency) - Journal entries not reviewed by management of the Association. Current status: Resolved.

Finding #4 FS 2012-001 Material Journal Entries (Significant Deficiency) - Comprehensive documented internal control structure not available for staff. Material journal entries needed to correct errors. Current status: Repeated.

Finding #5 FS 2013-003 Chief Procurement Officer (Significant Deficiency) – No individual was selected or trained as the Chief Procurement Officer. Current status: Repeated.

STATE OF NEW MEXICO
COTTONWOOD RURAL WATER ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

Exit Conference

The contents of this report were discussed on May 29, 2018. 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