

COYOTE CREEK MUTUAL DOMESTIC
WATER USERS ASSOCIATION

Financial Statements

December 31, 2008



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

INTRODUCTORY SECTION

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 YEAR ENDED DECEMBER 31, 2008**

INTRODUCTORY SECTION

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**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2008**

<u>Name</u>	<u>Board of Directors</u>	<u>Title</u>
Liz Thayer		President
Don Turner		Vice President
Mary Simpson		Secretary
JoAnn Barnhart		Treasurer
Neva Kriese		Member

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Timothy Keller
New Mexico State Auditor
The Board of Directors of Coyote Creek Mutual Domestic Water Users Association
Quemado, New Mexico

We have audited the accompanying financial statements of the Coyote Creek Mutual Domestic Water Users Association (the Association) as of and for the year ended December 31, 2008, and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the accompanying budgetary comparison presented as supplementary information as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2008, and the respective changes in financial position, its cash flows and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 13, 2017 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Association has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although is not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the Association's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Axiom CPAs and Business Advisors, LLC



Albuquerque, NM
January 13, 2017

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2008**

Assets	2008
Current assets:	
Cash and cash equivalents	\$ 25,322
Accounts receivable	70,537
Total current assets	<u>95,859</u>
Noncurrent assets:	
Capital assets (net of accumulated depreciation):	
Construction in progress	681,094
Land	39,500
Buildings	3,950
Less: accumulated depreciation	(911)
Total noncurrent assets	<u>723,633</u>
Total assets	<u>819,492</u>
Liabilities	
Current liabilities:	
Accounts payable	67,112
Accrued expenses	406
Total current liabilities	<u>67,518</u>
 Total liabilities	 <u>67,518</u>
Net Assets	
Invested in capital assets, net of related debt	723,633
Unrestricted	28,341
Total net assets	\$ <u><u>751,974</u></u>

See Notes to Financial Statements.

**COYOTE CREEK MUTUAL WATER USERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AS OF DECEMBER 31, 2008**

	<u>2008</u>
Operating Revenues	
Membership fees	\$ 14,949
Total Operating Revenues	<u>14,949</u>
Operating Expenses	
Maintenance and operation	7,865
Training	1,433
Taxes	123
Advertising	5
Miscellaneous	445
Total Operating Expenses	<u>9,871</u>
Non operating revenues	
Grant revenue	707,913
Interest income	1
Total Non Operating Revenues	<u>707,914</u>
Increase in Net Assets	<u>712,992</u>
Net assets, beginning of year	38,982
Net assets, end of year	<u><u>\$ 751,974</u></u>

See Notes to Financial Statements.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>2008</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 14,949
Payments to Suppliers and contractors	<u>(19,529)</u>
Net Cash Used by Operating Activities	<u>(4,580)</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(613,982)</u>
Net Cash Used By Investing Activities	<u>(613,982)</u>
Cash Flows from Financing Activities	
Receipts from granting agency	<u>640,801</u>
Net Cash Provided By Financing Activities	640,801
Net Increase in Cash and Cash Equivalents	22,239
Cash and Cash Equivalents, beginning of year	<u>3,083</u>
Cash and Cash Equivalents, end of year	\$ <u><u>25,322</u></u>
Cash Flows from Operating Activities	
Operating Income	\$ 5,078
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	338
Receipts from granting agency	-
Interest income	1
Changes in assets and liabilities	
Receivables	(69,651)
Accounts payable	59,363
Sales taxes payable	<u>291</u>
Net Cash Provided by Operating Activities	\$ <u><u>(4,580)</u></u>

See Notes to Financial Statements.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Coyote Creek Mutual Domestic Water Users Association (the "Association") is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining, and operating a water system for members of the Association in rural Catron County. The Association was incorporated as a Cooperative Association under the provisions of the New Mexico Cooperative Corporation Act. The Board of Directors changed its form of organization from a not-for-profit cooperative to a not-for-profit Association under the Sanitary Projects Act, NMSA 3-29-1 through 3-29-19.

Under the Sanitary Projects Act, the Association remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico. An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, there is another AG opinion (68-38) that states Mutual Domestic Associations (MDAs) under the SPA are created for "one purpose only, and that is to establish and maintain a water system." Also, it concluded that MDAs are not "other municipal corporations" and are, thus, subject to ad valorem taxes. Finally, the AG opinion (06-02) has determined that MDAs created pursuant to the SPA 1) are public bodies/political subdivisions; 2) whose revenues are "public money"; and 3) they have statutory responsibilities to abide by the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act. Due to this fact that MDAs have been determined to be governmental not-for-profit organizations, their financial statements must follow the government format (GASB 34).

GASB Statement No. 14 established criteria for determining the government reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Association is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Association may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issued bonded debt. The Association also has no component units, as defined by GASB Statement No. 14 or GASB Statement No. 39, as there are no other legally separate organizations for which the elected Board members are financially accountable. There are no other primary governments with which the Board Members are financially accountable. There are no other primary governments with which the Association has a significant relationship. 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 the 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 criteria used in evaluating potential component units is the scope of public service.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 significant 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 has no component units, and is not a component unit of another governmental agency. The Association is considered a special-purpose government engaged in *business-type activities*.

This summary of significant accounting policies of the Association are presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representation of the Association's management that is responsible for the financial statements. The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The more significant of the Association's accounting policies are described below.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of presentation. The Association is considered a special purpose government engaged in a single business-type activity and presents only financial statements required for enterprise funds. These financial statements and corresponding required supplementary information consist of:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements
- Information required under 2.2.2 NMAC

Basis of Accounting and Measurement Focus. The accompanying financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is 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. The proprietary fund consists of one enterprise fund; there are no other funds employed.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As mentioned above, because the Association is deemed a local public body, it is also responsible for adhering to the following statutory requirements:

- Open Meeting Act
- Inspection of Public Records Act
- Procurement Code
- Per Diem and Mileage Act
- Section 6-6 NMSA 1978

C. Assets, Liabilities and Net Assets

Cash : 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. Although the Association may occasionally exceed the FDIC limits during the year, it does not believe that it is exposed to significant credit risk.

Concentration of Credit Risk: The Association grants credit without collateral to its customers for its services but the customers are subject to service termination if the receivables are not collected within a specific time frame.

Accounts Receivable: The accounts receivable reported in the Statement of Net Assets are considered fully collectible. Receivables are recognized when services are rendered and revenue has been earned.

Capital Assets: Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 per Section 12-6-10 NMSA 1978, 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. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of the governmental capital assets reported in the government-wide statements. However, infrastructure assets were still under construction as of December 31, 2008 and are reported as construction in progress in the statement of net assets.

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. No interest was included as part of the cost of capital assets under construction during the year ended December 31, 2008.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

Property, plant, and equipment of the primary government is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives using the straight line method over the following estimated useful lives:

Buildings and building improvements	40 Years
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Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Components of Net Assets: Net assets is classified as restricted when externally imposed constraints such as those created by creditors, grantors, laws and regulations, contributors, or enabling legislation.

In the Statement of Net Assets, net assets is displayed in two components:

Invested in Capital Assets, net of related debt: Consists of restricted capital assets, net of accumulated depreciation.

Unrestricted Net Assets: All other net assets that do not meet the definition of "restricted" or "Invested in Capital Assets, net of related debt."

The Statement of Net Assets reports \$723,633 of Invested in capital assets, net of related debt, and \$28,341 of Unrestricted Net Assets at December 31, 2008.

D. Revenues

Classification of Revenues. The Association has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues: Operating revenues include activities that have characteristics of exchange transactions, such as association fees and dues.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions such as investment income and revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 33.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grants: The Association received grant revenues from the U.S. Department of Agriculture (USDA), which are legally restricted to expenditures for specific purposes. Each grant is operated under its own budget, which has been approved by the USDA. Revenues from grants are recognized when all eligibility requirements, including time requirements, are met. These revenues have been classified as nonoperating in the statement of revenues, expenses and changes in net position.

Association fees: The Association collects fees from its members for water service and other administrative fees for all eligible members who go through the required application process. These revenues have been classified as operating in the statement of revenues, expenses and changes in net position.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The budget for the Association is prepared on the Non-GAAP cash basis. The budget is prepared by management and is required to be approved by the New Mexico Department of Finance and Administration (DFA) on an annual basis. The Association was not in compliance with this requirement for 2008 as the budget was not submitted to DFA.

Actual expenditures may not exceed the budget at the fund level.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash

At December 31, 2008, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts. The following is a schedule as of December 31, 2008, of the cash and cash equivalents.

	<u>Bank of the West</u>
Amount on deposit	\$ 42,394
FDIC coverage	<u>(42,394)</u>
Total uninsured funds	<u><u>-</u></u>
Bank Balance	\$ 42,394
Outstanding Checks	<u>(17,072)</u>
Carrying Balance	<u><u>25,322</u></u>

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association’s deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2008, \$0 of the Association’s bank balance of \$42,394 was exposed to custodial credit risk.

NOTE 4. RECEIVABLES

Receivables as of December 31, 2008 are as follows:

Grants receivable – USDA	\$ 67,112
Other receivables	<u>3,425</u>
 Total receivables	 <u>\$ 70,537</u>

The above receivables are deemed 100% collectible and represent amounts due primarily from a cost reimbursement grant with the USDA.

NOTE 5. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended December 31, 2008, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Capital assets, net of accumulated depreciation, at December 31, 2008 appear in the Statement of Net Position as follows:

Capital Assets Not Being Depreciated	December 31, 2007	Additions	Deletions	December 31, 2008
Construction in Progress	\$ -	681,094	-	681,094
Land	39,500	-	-	39,500
Subtotal	<u>39,500</u>	681,094		<u>720,594</u>
Capital Assets Being Depreciated				
Buildings	3,950	-	-	3,950
Subtotal	<u>3,950</u>			<u>3,950</u>
Total Capital Assets	43,450	681,094		724,544
 Less: Accumulated Depreciation	 <u>(573)</u>	 <u>(338)</u>		 <u>(911)</u>
Net Capital Assets	<u>\$ 42,877</u>	<u>680,756</u>		<u>723,633</u>

Depreciation expense for the year ended December 31, 2008 was \$338.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 6. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Association expects such amount, if any, to be immaterial.

NOTE 7. COMMITMENTS

The Association contracts with outside contractors for construction and renovation of various facilities. At December 31, 2008, the total amount of contracts outstanding for capital projects could not be determined by the Association.

NOTE 8. CONCENTRATIONS

The Association depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the Association is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State Appropriations.

NOTE 9. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 13, 2017, which is the date the financial statements were available to be issued. The following subsequent events occurred between January 1, 2009 and January 13, 2017:

- In 2010, The Association executed an RCAC Loan in the amount of \$30,303;
- In 2010, The Association executed another RCAC Loan in the amount of \$10,101;
- The Association entered into a licensing agreement with a third party to enable it to access water pumps in Catron County; the agreement requires that the Association pay contingent fees to the third party.

NOTE 10. TAX STATUS

The Association operates as a non-profit association and has received exempt status under Code Section 501(c) (12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
Year Ended December 31, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Member fees	\$ 16,675	16,675	14,949	(1,726)
Interest income	-	-	1	1
Grant revenues	-	-	707,913	707,913
<i>Total revenues</i>	<u>16,675</u>	<u>16,675</u>	<u>722,863</u>	<u>706,188</u>
Budgeted cash balance	<u>3,083</u>	<u>3,083</u>	-	(3,083)
<i>Total revenues and budgeted cash balance</i>	<u>19,758</u>	<u>19,758</u>	<u>722,863</u>	<u>703,105</u>
Expenditures				
Maintenance and operation	9,190	9,190	7,865	1,325
Training	1,500	1,500	1,433	67
Taxes	2,000	2,000	123	1,877
Membership fees	125	125	-	125
Advertising	200	200	5	195
Reserves	1,800	1,800	-	1,800
Miscellaneous	1,000	1,000	107	893
<i>Total expenditures</i>	<u>15,815</u>	<u>15,815</u>	<u>9,533</u>	<u>6,282</u>
<i>Excess of revenues over expenditures</i>	<u>3,943</u>	<u>3,943</u>	<u>713,330</u>	<u>709,387</u>
Depreciation			<u>(338)</u>	
Excess of revenues over expenditures			<u>\$ 712,992</u>	

See Notes to Financial Statements.

COMPLIANCE SECTION

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008**

<u>Federal Grantor or Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
RUS Colonias Grant	10.770	\$ 681,094
Total U.S. Department of Agriculture		<u>681,094</u>
Total Federal Financial Assistance		<u>\$ 681,094</u>

(1) Denotes major federal assistance program

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Coyote Creek Mutual Domestic Water Users Association (CCMDWUA) under programs of the federal government for the year ended December 31, 2008. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of CCMDWUA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of CCMDWUA.

2. Summary of Significant Accounting Policies

a) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements.

b) Pass-through entity identifying numbers are presented where applicable

3. Subrecipients

CCMDWUA did not provide any federal awards to subrecipients during the year.

4. Loan Balances Outstanding

CCMDWUA had no loans outstanding as of December 31, 2008

See Notes to Financial Statements

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008**

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

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$	681,094
Total expenditures funded by other sources		<u>9,871</u>
Total expenditures, including capital assets	\$	<u><u>690,965</u></u>

See Notes to Financial Statements

**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**

Timothy Keller
New Mexico State Auditor
The Board of Directors of Coyote Creek Mutual Domestic Water Users Association
Quemado, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, including the budgetary comparisons for the general fund and major special revenue funds and the aggregate remaining fund information of *Coyote Creek Mutual Domestic Water Users Association (the Association)*, as of and for the year ended December 31, 2008 which collectively comprise all the *Association's* basic financial statements as listed in the accompanying table of contents, and have issued our thereon dated January 13, 2017. We have also audited the financial statements of each of the *Association's* general fund accounts and special revenue funds presented as supplementary information in the year ended December 31, 2008, as listed in the table of contents. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *the Association's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Association's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Association's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Association's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Association's* financial statements that is more than inconsequential will not be prevented or detected by the *Association's* internal control. We consider the deficiencies described in findings 2008-006, and 2008-007 in the

accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Association's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Association's* financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-001, 2008-003 and 2008-004.

We did not note any other matters required to be reported under the *Government Auditing Standards January 2007 revision* Paragraph 5.14 and 5.14 and section 12-6-5, NMSA 1978.

The *Association's* response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the *Association's* response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Association's Board of Directors, the Association's management, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The logo for Axiom, featuring the word "Axiom" in a blue, cursive script font.

Axiom CPAs and Business Advisors, LLC
Albuquerque, NM
January 13, 2017

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Timothy Keller
New Mexico State Auditor
The Board of Directors of Coyote Creek Mutual Domestic Water Users Association
Quemado, New Mexico

Compliance

We have audited the State of New Mexico Coyote Creek Mutual Domestic Water Users Association's (the Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Association's major federal programs for the year ended December 31, 2008. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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. Our audit does not provide a legal determination of the Association's compliance with those requirements.

As described in item 2008-002 in the accompanying schedule of findings and questioned costs, the Association did not comply with requirements regarding CFDA 10.770 Rural Utilities Service (Davis Bacon). Compliance with such requirements is necessary, in our opinion, for the Association to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Association complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the Rural Utilities Service Program for the year ended December 31, 2008. The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-003 and 2008-004.

Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Association's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-002 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-008 to be a significant deficiency.

The Association's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Association's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the Association, the New Mexico State Legislature, the New Mexico State Auditor, the New Mexico Department of Finance and Administration, and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The logo for Axiom, featuring the word "Axiom" in a stylized, blue, cursive font.

Axiom CPAs and Business Advisors, LLC
Albuquerque, NM
January 13, 2017

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

Section A - Summary of Audit Results

Financial Statements:

- | | | |
|----|--|------------|
| 1. | Type of auditors' report issued | Unmodified |
| 2. | Internal control over financial reporting | |
| a. | Material weaknesses identified? | No |
| b. | Control deficiency identified not considered to be a significant deficiency? | Yes |
| c. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | | | | | | | |
|-----------------------------------|---|-----------|-----------------|--------|--------------------------------|-----------------------------------|--|--|
| 1. | Internal control over major programs: | | | | | | | |
| a. | Material weakness identified? | Yes | | | | | | |
| b. | Significant deficiencies identified not considered to be material weaknesses? | No | | | | | | |
| 2. | Type of auditors' report issued on compliance for major programs | Qualified | | | | | | |
| 3. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 | Yes | | | | | | |
| 4. | Identificaiton of major programs: | | | | | | | |
| | <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">CFDA</td> <td style="text-align: center;">Federal Program</td> </tr> <tr> <td style="text-align: center;">Number</td> <td style="text-align: center;">USDA - Rural Utilities Service</td> </tr> <tr> <td style="text-align: center;"> <hr style="width: 100%;"/> 10.770 </td> <td></td> </tr> </table> | CFDA | Federal Program | Number | USDA - Rural Utilities Service | <hr style="width: 100%;"/> 10.770 | | |
| CFDA | Federal Program | | | | | | | |
| Number | USDA - Rural Utilities Service | | | | | | | |
| <hr style="width: 100%;"/> 10.770 | | | | | | | | |
| 5. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 | | | | | | |
| 6. | Auditee qualified as low-risk auditee? | No | | | | | | |

See Notes to Financial Statements

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. FINANCIAL STATEMENT FINDINGS

2008-001 Journal entry process (Other Matters)

CONDITION: The Association does not currently have a formal process for reviewing and entering manual journal entries into their accounting system.

CRITERIA: Pursuant to 2.20.5.8(c), agencies must have an existing internal control structure that is functioning properly, which would include controls over manual journal entries.

EFFECT: Failure to have such a process in place could result in misappropriation or potential misstatement of financial statement amounts.

CAUSE: The Association is a small local public body that does not have the resources to employ a conventional accounting department with proper segregation of duties.

RECOMMENDATION: We recommend that the Association consider having a board member periodically review the propriety of entries posted to the accounting system to help maintain the integrity of the data input into the system.

MANAGEMENT RESPONSE: The Association will have two Board members review the financial journal entries on a minimum of a quarterly basis. We will also consult with our bookkeeper to notify the Board President when a journal entry is made to discuss and verify the process.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. FINANCIAL STATEMENT FINDINGS (Continued)

2008-006 Bank reconciliations (Significant deficiency)

CONDITION: The Association does not currently have a formal process for reviewing the monthly bank reconciliations which are prepared by a third party contracted accountant.

CRITERIA: Pursuant to 2.20.5.8(c), agencies must have an existing internal control structure that is functioning properly, which would include controls over review of bank reconciliations.

EFFECT: Failure to have such a process in place could result in misappropriation or potential misstatement of financial statement amounts.

CAUSE: The Association is a small local public body that does not have the resources to employ a conventional accounting department with proper segregation of duties.

RECOMMENDATION: We recommend that the board consider reviewing the prior month bank reconciliation at the board meetings and approving as part of the monthly agenda.

MANAGEMENT RESPONSE: We already review the prior month's bank reconciliation at the board meetings. In June 2015, the Board will begin doing a formal, recorded approval at each monthly board meeting.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

B. FINANCIAL STATEMENT FINDINGS

2008-007 Controls over cash disbursements (Significant deficiency)

CONDITION: Controls over the cash disbursements cycle indicated that out of 15 items tested, for a total of \$1,122.04, 15 did not have evidence of review and / or approval of the disbursement by someone other than the person who issued the check, 2 items in the amount of \$168.34 did not have a copy of the invoice attached, and 4 items in the amount of \$265.84 did not have dual signatures on the check.

CRITERIA: Pursuant to 2.20.5.8(c), agencies must have an existing internal control structure that is functioning properly, which would include controls over cash disbursements.

EFFECT: Failure to have such a process in place could result in misappropriation or potential misstatement of financial statement amounts.

CAUSE: The Association is a small local public body that does not have the resources to employ a conventional accounting department with proper segregation of duties.

RECOMMENDATION: We recommend that anticipated purchases receive advance approval when practical, that all disbursements have the proper supporting documentation included with the check copy, and that the Association adhere to its internal policy of endorsing all disbursements with two board signatures.

MANAGEMENT RESPONSE: In June 2015, the board will begin the process of anticipating purchases that can be given advance approval. This will include payments such as electric bills, water distribution costs, monthly sampling costs, postal costs, etc. The board will also resume the practice of endorsing all disbursements with two board signatures.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-002 Davis-Bacon Compliance (Material Weakness)

FEDERAL PROGRAM INFORMATION:

FUNDING AGENCY: U.S. Department of Agriculture
TITLE: Rural Utilities Service
CFDA Number: 10.770

CONDITION: The Association was unable to provide documentation to validate that it was compliant with the Davis-Bacon Act.

CRITERIA: Section 3142 of the Davis-Bacon Act stipulates that contracts in excess of \$2,000 entered into for which federal funds will be expended "... for construction..." must be compliant with the prevailing wage rates for the respective jurisdiction.

QUESTIONED COSTS: None

EFFECT: The Association is out of compliance with the aforementioned requirement and as such will receive a qualified opinion on its Single Audit Report on Compliance for Each Major Program and Internal Control over Compliance.

CAUSE: Inadequate recordkeeping by the Association.

RECOMMENDATION: We recommend that the Association be cognizant of all requirements set forth in their respective federal grant agreements going forward in order to maintain compliance.

MANAGEMENT RESPONSE: In the past, the Board relied on the engineering firm to lead us and do whatever was necessary. According to the firm, this procedure was not followed. The previous project manager replied to our email regarding this subject with the following statement: " I wish I could help you but certified payroll was not submitted to SMA during this project".

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-008 Late submission of Federal Data Collection Form (Significant Deficiency)

FEDERAL PROGRAM INFORMATION:

FUNDING AGENCY: U.S. Department of Agriculture
TITLE: Rural Utilities Service
CFDA Number: 10.770

CONDITION: The Association was unable to timely file the Data Collection Form required for Single Audits.

CRITERIA: In accordance with Subpart C, section 320, the audit shall be submitted in the prescribed format to the federal clearinghouse within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period.

QUESTIONED COSTS: None

EFFECT: The Association is out of compliance with the aforementioned requirement.

CAUSE: The audit process was started subsequent to the required submission date.

RECOMMENDATION: We recommend that the Association attempt to become current with their audits to avoid being in violation of this requirement going forward.

MANAGEMENT RESPONSE: Management has not been through this process and was unaware of the requirement of filing the Data Collection Form. Management will comply with this requirement on a go forth basis.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

D. OTHER FINDINGS AS REQUIRED BY 2.2.2 NMSA 1978

2008-003 Late Audit Report (Compliance Matter)

CONDITION: The audit report was submitted to the Office of the State Auditor after the required deadline of May 31, 2009.

CRITERIA: Per NMAC 2.2.2.9(1)(d), school district audits are to be submitted to the Office of the State Auditor by May 31th of the year ending December 31.

EFFECT: The Association is out of compliance with the aforementioned statute related to the timeliness of the report submission.

CAUSE: The Association was not previously subject to the filing requirements and was unaware that this applied to them.

RECOMMENDATION: We recommend that the Association become familiar with the statutes that are applicable to their organization.

MANAGEMENT RESPONSE: The Board will become familiar with the State Audit regulations and comply with said regulations. We have already been investigating this requirement.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

D. OTHER FINDINGS AS REQUIRED BY 2.2.2 NMSA 1978 (CONTINUED)

2008-004 Budget Reporting (Compliance Matter)

CONDITION: The Association did not submit their operating budget to DFA for formal approval.

CRITERIA: Pursuant to Section 6-3-7 NMSA 1978, entities shall annually submit to the state budget division a budget for the ensuing fiscal year.

EFFECT: The Association was out of compliance with the aforementioned statute with respect to budget reporting.

CAUSE: The Association is a small local public body who, prior to this year, was not aware that they were subject to certain statutory requirements, including annual submission of a budget.

RECOMMENDATION: We recommend that the Association become familiar with the statutes that are applicable to their organization.

MANAGEMENT RESPONSE: The Board will become familiar with the State requirements regarding compliance with submission of the operating budget to the DFA for approval and will comply henceforth.

TIMELINE / RESPONSIBLE PARTY: The Association Board members will be responsible for corrective action and will implement immediately.

**COYOTE CREEK MUTUAL DOMESTIC WATER USERS ASSOCIATION
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2008**

There were no prior year findings.

