

State of New Mexico
Desert Aire Mutual Domestic Water
And Sewer Works Association

Independent Accountant's Report on
Applying Agreed Upon Procedures
June 30, 2016

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

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**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**OFFICIAL ROSTER
JUNE 30, 2016**

BOARD OF DIRECTORS

Daniel Herrera, President

Pamela Aguirre, Vice President

Carolyn Massey, Treasurer

Jeremy De Graaf, Secretary

Tim McAuley, Member at Large

WATTS CPA, P.C.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Honorable Timothy Kelly, State Auditor and
Members of the Board of Directors
Desert Aire Mutual Domestic Water
And Sewer Works Association
Anthony, New Mexico

I have performed the procedures enumerated below, which were agreed to by the Desert Aire Mutual Domestic Water and Sewer Works Association (the "Association") and the New Mexico State Auditor, solely to assist you with respect to the compliance with Tier 5 of the Audit Act - Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC of Desert Aire Mutual Domestic Water and Sewer Works Association as of and for the year ended June 30, 2016. The Association's management is responsible for the Association's accounting records. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. My procedures and findings are as follows:

1. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Results

I recalculated the Association's revenue calculation and verified that tier 5 is the correct determination.

2. Cash

Procedures

- a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b. Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.
- c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results

- a. The Association has six bank accounts. I obtained all bank reconciliations prepared for FY 2016 and noted that there was nothing noted as to when they were prepared so timeliness cannot be determined. One bank account was missing six months reconciliations and three other accounts were missing three reconciliations each.

The Association had all statements on hand except that three accounts were missing three statements each.

- b. I selected five months of bank reconciliations, which is greater than 30% of the reconciliations, and recalculated them, noting no errors. For four of the months' reconciliations, I traced the ending balance to the general ledger, the related supporting documentation including bank statements and details of

reconciling items. In one selected month, four accounts did not have a reconciliation.

The Association only filed the September quarterly report to DFA and failed to file the other three reports, so I could only trace the September bank reconciliation to the report.

c. All of the bank account deposits were fully insured in FY 2016 and did not require collateral as required by Section 6-10-17 NMSA 1978, NM Public Money Act.

3. Capital Assets

Procedures

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

Results

The Association performed a capital asset inventory which I verified by obtaining a copy of the capital asset inventory.

4. Revenue

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

a. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenue equal to at least 30% of the total dollar amount using the following attributes:

b. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

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

Results

I identified the types of revenue that the Association receives by reviewing the budget, agreements, rate schedules and underlying documentation. The Association receives revenues from customers for connecting to the system, water usage fees, state grants, interest and miscellaneous other income.

a. I performed an analytical review of revenues by comparing actual revenue to the budgeted revenue for the year for each type of revenue. The results of the analytical review were as expected.

b. I judgementally selected all revenue transactions for four months, as well as all grant revenues, which totaled greater than 30% of all revenue, and agreed all to their respective supporting documentation and the bank statement except that an entire month's supporting documentation could not be located and there were two days where the deposited amount did not agree to the daily cash receipts report.

c. I judgementally selected all revenue items for four months as well as all grant revenues and found that each was recorded correctly in the general ledger for classification, amount and period based on the supporting documentation except that 1 entire months transactions did not have the daily cash receipts reports and deposit slips.

5. Expenditures

Procedures

Select a sample of cash disbursements equal to at least 30% of the total dollars amount and test for the following attributes:

a. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that

amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results

a. I judgementally selected 30 cash disbursements and all of the capital outlay disbursements, which totaled greater than 30% of total disbursements, and determined that the amount recorded as disbursed agrees to adequate supporting documentation for 15 disbursements. I also verified that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate for the same 15 disbursements. Fourteen disbursements totaling \$4,820.50 did not have a supporting approved invoice or purchase voucher and an additional disbursement for \$159.27 had a purchase voucher but no invoice. The results of the capital outlay portion of the sample are listed in procedure 8 below.

b. I judgementally selected 30 cash disbursements and all of the capital outlay disbursements, which totaled greater than 30% of total disbursements, and determined that the amount recorded as disbursed agrees to adequate supporting documentation for 15 disbursements. I also verified that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate for the same 15 disbursements. Fourteen disbursements totaling \$4,820.50 did not have a supporting approved invoice or purchase voucher and an additional disbursement for \$159.27 had a purchase voucher but no invoice. The results of the capital outlay portion of the sample are listed in procedure 8 below.

c. None of the tested disbursements required a bid process for FY 2016.

6. Journal Entries

Procedures

Test all non-routine journal entries, adjustments and reclassifications posted to the general ledger for the following attributes:

a. Journal entries appear reasonable and have supporting documentation.

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

Results

a. & b. There were no non-routine journal entries posted to the general ledger for FY 2016.

7. Budget

Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

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

Results

- a. I verified by reviewing the board of director's minutes and correspondence from DFA-LGD that the original budget was approved by the Association's governing body and DFA-LGD, respectively.
 - b. I determined that total actual expenditures did not exceed the final budget at the legal level of budgetary control. The Association does not budget for grants and capital outlay.
 - c. See the attached page 8 for the statement of revenues and expenditures budget and actual - budgetary basis.
8. Capital Outlay Appropriations

Procedures

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year. Perform the following tests on all state funded capital outlay expenditures:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results

- a. I determined all amounts recorded as disbursed agrees to adequate supporting documentation. I verified

that amount, payee, date and description agrees to the contract and vendor's invoice/statement.

b. There were 7 checks totaling \$149,096.08 and the Association had no documentation related to authorization and approval.

c. The bid process and contracting was performed in prior years. There was no evidence that purchase orders / vouchers were used on the FY 2016 checks.

d. The projects were for engineering and design and I observed the related reports.

e. There were no status reports filed.

f. The project is not funded in advance.

g. All of the project funds were expended.

h. Cash received for the awards were maintained in a separate book account as required by the agreements.

i. The Association could not provide copies of their reimbursement requests, however the total amount reimbursed agreed to the total amount expended on the projects. Because there were no reimbursement requests, I could not determine if the costs were paid prior to the reimbursements being requested.

9. Other

Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

Results

No additional information came to my attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of Desert Aire Mutual Domestic Water and Sewer Works Association, the New Mexico State Auditor, the New Mexico Legislature and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Watts CPA, P.C.

El Paso, Texas
August 23, 2017

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**CAPITAL OUTLAY AWARDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	2775-CIF	2777-CIF	2969-CIF
Amount awarded	\$ 217,800	\$ 102,931	\$ 212,400
Received through June 30, 2016	\$ 217,800	\$ 102,931	\$ 212,400
Expended through June 30, 2016	\$ 217,800	\$ 102,931	\$ 212,400
Remaining balance as of June 30, 2016	\$ -	\$ -	\$ -
Project effective date through	April 5, 2016	April 5, 2016	August 1, 2017

Legislation:

2775-CIF - Grant to design waste water infrastructure for the Desert Aire Mutual Domestic Water and Sewer Works Association from the Colonias Infrastructure Project Fund created by the Colonias Infrastructure Act, NMSA 1978 Sec 6-30-1 through 6-30-8.

2777-CIF - Grant to design the water system for the Desert Aire Mutual Domestic Water and Sewer Works Association from the Colonias Infrastructure Project Fund created by the Colonias Infrastructure Act, NMSA 1978 Sec 6-30-1 through 6-30-8.

2969-CIF - Grant to design waste water infrastructure for the Desert Aire Mutual Domestic Water and Sewer Works Association from the Colonias Infrastructure Project Fund created by the Colonias Infrastructure Act, NMSA 1978 Sec 6-30-1 through 6-30-8.

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**STATEMENT OF REVENUES AND EXPENDITURES
- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget- Favorable (Unfavorable)
Revenues:				
Meter hook ups	\$ 11,000	\$ 11,000	\$ -	\$ (11,000)
Membership fees	300	300	-	(300)
Water sales tax and fees	116,300	116,300	111,269	(5,031)
Reconnection fees and fines	200	200	-	(200)
Miscellaneous	1,200	1,200	-	(1,200)
Total revenues	129,000	129,000	111,269	(17,731)
Expenditures:				
Accounting fees	3,600	3,600	4,947	(1,347)
Advertising	500	500	-	500
Audit	6,500	6,500	-	6,500
Auto expense	800	800	144	656
Bank charges / purchase of checks	500	500	1,141	(641)
Board expense - cell phone	1,500	1,500	-	1,500
Board expense - lodging	1,000	1,000	-	1,000
Board expense - meals & ent.	600	600	-	600
Board expense - training	1,500	1,500	-	1,500
Board expense - travel	1,500	1,500	-	1,500
Board expense - meetings	200	200	-	200
Contract labor / O&M	15,000	15,000	9,740	5,260
Disposal coupons Dona Ana	1,300	1,300	300	1,000
Duties, fees & subscriptions	500	500	65	435
Gasoline expense	600	600	-	600
Insurance - liability	7,000	7,000	2,929	4,071
Legal fees	3,500	3,500	1,284	2,216
Loan payments	5,100	5,100	10,471	(5,371)
Nsf returned checks	200	200	-	200
Office expense	4,000	4,000	90	3,910
Pest control	200	200	-	200
Postage	2,000	2,000	273	1,727
Professional fees	4,000	4,000	-	4,000
Rent - equipment	800	800	153	647

Continued

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**STATEMENT OF REVENUES AND EXPENDITURES
- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2016**

Repairs and maintenance	1,500	1,500	-	1,500
Repairs and maintenance (well)	2,000	2,000	428	1,572
Supplies	1,500	1,500	-	1,500
Wages	26,000	26,000	9,927	16,073
Reimbursements	300	300	18,503	(18,203)
Taxes - GRT	6,300	6,300	1,527	4,773
Taxes - payroll	2,700	2,700	1,572	1,128
Taxes - property	1,200	1,200	-	1,200
Taxes - WCI assessment fee	50	50	759	(709)
Taxes - water conservation	800	800	3,136	(2,336)
Utilities - disposal	250	250	96	154
Utilities - electricity	2,500	2,500	-	2,500
Utilities - electricity - well	15,000	15,000	14,431	569
Utilities - Internet	800	800	-	800
Utilities - telephone - office	3,500	3,500	1,791	1,709
Reserve	2,200	2,200	-	2,200
Total expenditures	129,000	129,000	83,707	45,293
Revenues over expenditures	-	-	27,562	27,562
Non-operating revenue (expenditures)				
State grants	-	-	149,046	149,046
Capital outlay expenditures	-	-	(149,046)	(149,046)
Total non-operating	-	-	-	-
Increase in cash	\$ -	\$ -	\$ 27,562	\$ 27,562
				Concluded

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**YEAR END FINANCIAL REPORT AS SUBMITTED TO DFA
JUNE 30, 2016**

Desert Aire Mutual Domestic Water and Sewer Works Association did not submit a year-end financial report to DFA.

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Summary of Findings:

Current year findings:

2016-001 Lack of Documentation for Capital Outlay Grants

Condition - The Association could not provide copies of reimbursement requests and documentation of approval of disbursements under capital outlay grants. The Association received and disbursed \$149,096 in capital outlay awards in FY 2016.

Criteria - Good internal controls over grant management require that supporting documentation be maintained.

Cause - Lack of appropriate supervision and review

Effect - Future grant funding could be reduced or delayed.

Recommendation -The Association's management should become more involved in the day to day operations and designate someone to be in charge of the grant programs.

Management's response - The Office Manager at AWS D has been placed in charge of the grant programs and his work is supervised by AWS D's superintendent. All supporting documentation for capital outlay is being maintained.

Position responsible for implementation: Office Manager

Date of Implementation: February 1, 2017

2015-001 Receipt Documentation Inaccurate

Condition - I noted that on 2 of the tested days cash receipts that the bank deposit did not agree to the daily cash receipts report. Also, the entire month of August's supporting documentation related to cash receipts could not be provided.

The Association is making progress in correcting this finding by contracting with the Anthony Water and Sanitation District ("AWS D") to perform operating and administrative functions for the Association. AWS D has stated that they are maintaining all cash receipts documentation effective February 2017.

Criteria - Good internal controls require that all receipts transactions have accurate supporting documentation. Also, the New Mexico Public Money Act 6-10-2 NMSA 1978 requires the Association maintain cash record in detail of all receipts of public money.

Cause - Lack of appropriate supervision and review.

Effect - Increased opportunity for fraud, theft or errors and violation of state laws.

Recommendation - The Association should have someone other than who prepared the deposit and cash receipts review the transactions.

Management's response - All receipt documentation is currently being reviewed to ensure accuracy and proper supporting documentation is included with each receipt.
Position responsible for implementation: Office Manager
Date of Implementation: February 1, 2017

2014-001 Bank reconciliations Not Proper

Condition - One bank account was missing six months reconciliations and three bank accounts were missing three months reconciliations. There were also three accounts that did not have three months of bank statements. In addition, I noted that the reconciliations had no documentation as to when they were prepared, who prepared them and if they were reviewed. And finally, the Association did not prepare and submit three quarterly financial reports to DFA, so cash balances cannot be tied to them.

The Association is making progress in correcting this finding by contracting with the Anthony Water and Sanitation District ("AWSD") to perform operating and administrative functions for the Association. AWSD has stated that they are maintaining all bank documentation and preparing bank reconciliations for the Association effective February 2017.

Criteria - Good internal controls require that bank accounts be reconciled to the general ledger in a timely manner and on a regular basis and that the supporting documentation be maintained, The Association is required to submit quarterly financial reports to the DFA.

Cause - Lack of appropriate supervision and review

Effect - Increased opportunity for fraud, theft or errors. Non compliance with DFA reporting requirements.

Recommendation - The Association should prepare reconciliations with proper supporting documentation and have someone other than who prepared the deposit and cash receipts review the transactions. DFA reports should be submitted as required.

Management's response - All bank reconciliations are currently being properly documented and reviewed to ensure correctness and accuracy. DFA reports are being submitted when due.
Position responsible for implementation: Office Manager
Date of Implementation: February 1, 2017

2012-002 Grant Status Reports Not Available/Provided

Condition - The Association received funding from three grants during FY 2016 and did not provide quarterly status reports for any of the grants.

The Association is making progress in correcting this finding by contracting with the Anthony Water and Sanitation District ("AWSD") to perform operating and administrative functions for the Association. AWSD has stated that they are preparing any required status reports and maintaining the documentation for the Association effective February 2017.

Criteria -The grant agreements require quarterly status reports to be submitted to the Colonias Infrastructure Board.

Cause - Lack of appropriate supervision and review

Effect - Not complying with grant requirements could cause future funding to be reduced and / or delayed.

Recommendation - The Association's management should become more involved in the day to day operations and designate someone to be in charge of the grant monitoring and reporting.

Management's response - Grant status reports currently are being completed in a timely manner by AWSD to ensure compliance with grant requirements and continuity in business activities.

Position responsible for implementation: Office Manager

Date of Implementation: February 1, 2017

2010-001 Disbursement Policy and Procedures Inadequate

Condition - Disbursements are not being properly approved and authorized and supporting documentation is not being maintained. Of 30 disbursements selected, 14 disbursements did not have the supporting invoice or purchase voucher totaling \$4820.50 and an additional one disbursement totaling \$159.27 had a purchase voucher but did not have an invoice.

The Association is making progress in correcting this finding by contracting with the Anthony Water and Sanitation District ("AWSD") to perform operating and administrative functions for the Association. AWSD has stated that they are maintaining all supporting documentation for expenditures for the Association effective February 2017.

Criteria - Good internal controls require effective policies and procedures to be in place and supporting documentation be maintained. The policies should require that disbursements be supported by a purchase voucher and invoice that has been approved by management.

Cause - The Association has experienced turnover and a lack of staff. Proper supervision is not being performed.

Effect - Increased opportunity for fraud, theft or errors.

Recommendation - The Association's management should become more involved in the day to day operations. Checks should not be signed unless the proper authorizations have been obtained.

Management's response - Currently, AWSD is maintaining the supporting documentation for disbursements and requiring that Board members review and sign purchase orders and disbursement checks prior to disbursement.

Position responsible for implementation: Office Manager

Date of Implementation: February 1, 2017

2010-004 Reports Not Submitted Timely to New Mexico State Auditor's Office

Condition - The report for the agreed upon procedures was not submitted to the State Auditor's Office by the December 15, 2016 due date.

The Association is making progress in correcting this finding by contracting with the Anthony Water and Sanitation District ("AWSD") to perform operating and administrative functions for the Association. AWSD has stated that they are prepared to meet the due date for the FY2017 report.

Criteria - Per 2.2.2.16 NMAC the report due date is December 15, 2016.

Cause - The Association has experienced turnover and a lack of staff.

Effect - A finding on the report, which could lead to future funding cuts and delays.

Recommendation - The Association's management should become more involved in the day to day operations and ensure that reports are prepared in a timely manner.

Management's response - All services involving the AUP will be submitted in a timely manner.
Position responsible for implementation: Office Manager
Date of Implementation: July 1, 2017 for FY 2017.

Prior year findings:

<u>Finding</u>	<u>Status</u>
2015-001 Receipt documentation inaccurate	Repeated
2014-001 Bank reconciliations not proper	Repeated
2012-002 Grant status reports not available/provided	Repeated
2010-001 Disbursement policy and procedures inadequate	Repeated
2010-002 Failure to perform yearly inventory of capital assets	Resolved
2010-003 Journal entries not being reviewed	Resolved
2010-004 Reports not submitted timely to New Mexico State Auditor's Office	Repeated

**STATE OF NEW MEXICO
DESERT AIRE MUTUAL DOMESTIC
WATER AND SEWER WORKS ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2016**

An exit conference was conducted on August 23, 2017 with the following individuals in attendance:

Desert Aire Mutual Domestic Water and Sewer Works Association

Daniel Herrera	President
Jose Terrones	Superintendent
Victor Chavarria	Office Manager

Watts CPA, P.C.

Brad Watts	Shareholder
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