



**KRIEDEL/GRAY/SHAW & CO., P.C.**

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**STATE OF NEW MEXICO**

**DESERT AIRE MUTUAL DOMESTIC WATER  
AND SEWER WORKS ASSOCIATION**

**AGREED UPON PROCEDURES**

**JUNE 30, 2011**

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

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JUNE 30, 2011**

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

OFFICIAL ROSTER  
JUNE 30, 2011

**Board of Directors**

<b><u>Name</u></b>	<b><u>Title</u></b>
<i>Evangelina Moreno</i>	<i>President</i>
<i>Martha Acosta</i>	<i>Vice President</i>
<i>William Miranda</i>	<i>Secretary</i>
<i>Daniel Herrera</i>	<i>Treasurer</i>

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED UPON PROCEDURES**

Desert Aire Mutual Domestic Water and Sewer Works Association  
and State of New Mexico  
Office of the State Auditor

We have performed the procedures enumerated below, which were agreed to by Desert Aire Mutual Domestic Water and Sewer Works Association and the State of New Mexico Office of the State Auditor, solely to assist you with respect to the accounting records of Desert Aire Mutual Domestic Water and Sewer Works Association as of June 30, 2011. Desert Aire Mutual Domestic Water and Sewer Works Association's management is responsible for the company'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, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results are as follows:

1. Cash

- We reviewed 100% of the bank reconciliations of Desert Aire Mutual Domestic Water and Sewer Works Association and determined that all bank reconciliations are being performed in a timely manner and that all bank and investment statements for the fiscal year are complete and on-hand.
- We randomly selected seven bank reconciliations of Desert Aire Mutual Domestic Water and Sewer Works Association to determine that they were accurate and that they agreed to the general ledger, supporting documentation, and financial reports presented to the Board of Directors.
- We reviewed the supporting documentation provided by the financial institutions of Desert Aire Mutual Domestic Water and Sewer Works Association and determined that they have provided the Association with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money-Act, where applicable. All accounts were fully insured, no pledged collateral required.

2. Capital Assets. We could not review the annual inventory of Desert Aire Mutual Domestic Water and Sewer Works Association. There was no yearly inventory performed as required by Section 12-6-10 NMSU 1978.

**Recommendation:** Obtain the capital asset schedule from the accountant and perform the inventory annually.

3. Revenue. We identified the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.
- We performed an analytical review; tested actual revenue compared to budgeted revenue for the year for each type of revenue. All revenues appeared reasonable based on the analytical performed in comparison to budgeted revenue.

We tested 53% of the total amount of revenues (on the cash basis) for the following attributes:

- Amount recorded in the general ledger agrees to the supporting documentation and the bank statement. There was one (1) exception noted. One instance in which the daily receipts report was less than the deposit taken to the bank. The client was not able to explain the error and could not find supporting documentation to resolve the discrepancy. This appears to be an isolated incident, no change in procedures necessary.
- Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Three exceptions regarding classification were noted.

For three (3) exceptions, the recording of refundable renter's deposits were posted as association fees or association fees were posted as renter's refundable deposit.

Recommendation: The Association should implement more effective procedures to distinguish renter's refundable deposits from association fees.

4. Expenditures. We selected a sample of cash disbursements and tested 49 transactions (52% of the total amount of expenditures) for the following attributes:

- Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verified that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate. Two (of 49 disbursements) had no supporting invoice or documentation.

Recommendation: Procedures should be documented and implemented that require all supporting documentation to be maintained for every disbursement.

- Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. 48 exceptions noted.

There was no approval/authorization process for disbursements. The board president writes the checks and signs the checks. All disbursements (after they have been disbursed) are presented to the board during the monthly meeting. Also there is no policy or procedures governing the use of the debit card. Per the board president the debit card will no longer be used after it expires (3/2012).

Recommendation: A board member (other than the board member assigned to run the office) should come by the office once a week to approve/authorize the disbursement checks prior to disbursing.

- 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). No exceptions noted.
5. Journal Entries. After review of the financial records of Desert Aire Mutual Domestic Water and Sewer Association we determined that there were 3 non-routine journal entries that were posted to the general ledger. We tested all three for the following attributes:
- Journal entries appear reasonable and have supporting documentation. No exceptions noted.
  - The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed. Exception Noted.

Journal entries are not being reviewed.

Recommendation: Obtain the list of journal entries posted each month from the accountant. Review the journal entries, document the review with initials or a signature and maintain documentation of reviewed journal entries in a systematic manner.

6. Budget

- Through a review of the minutes and correspondence, we verified that the original budget was approved by the Board of Directors and DFA-LGD.
- We determined that actual expenditures exceeded the final budget at the legal level of budgetary control. Management rarely compares the budget to actuals.

Recommendation: Evaluate the budget to actuals on a monthly basis to ensure spending is within the approved budget. Prepare and approve budget adjustments as necessary.

We have prepared a schedule of revenues and expenditures – budget and actual on the budgetary basis used by Desert Aire Mutual Domestic Water and Sewer Works Association for the general operating fund.

No other information came to our attention indicating any fraud or illegal acts. We were not engaged to, and did not; conduct an audit, the objective of which would be these expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Kriegel/Gray/Shaw & Co., P.C.*  
Kriegel/Gray/Shaw & Co., P.C.  
August 20, 2012

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

**GENERAL OPERATING FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS**

**BUDGETARY BASIS AND ACTUAL**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>				
Meter Hook Ups	\$5,000	\$5,000	\$14,320	\$9,320
Water Sales, Tax, & Fees	110,000	110,000	104,992	(5,008)
Reconnection Fees & Fines	1,800	1,800	1,657	(143)
Miscellaneous Income	0	0	55	55
Non-Refundable Deposits	0	0	452	452
<i>Total operating revenues</i>	<u>116,800</u>	<u>116,800</u>	<u>121,476</u>	<u>4,676</u>
<b>OPERATING EXPENSES:</b>				
Accounting Fees	2,800	2,800	3,425	(625)
Advertising	150	150	0	150
Audit	10,000	10,000	9,143	857
Auto Expenses	0	0	987	(987)
Bank Charges	120	120	1,479	(1,359)
Board Expenses-Cell Phone	1,620	1,620	1,256	364
Board Expenses-Meals & Entertainment	100	100	582	(482)
Board Expenses-Training	100	100	0	100
Board Expenses-Travel	850	850	2,355	(1,505)
Contract Labor	100	100	0	100
Dues, Fees, & Subscriptions	400	400	169	231
Insurance - Liability	3,200	3,200	5,931	(2,731)
Insurance - Worker's Comp	2,300	2,300	557	1,743
Legal Fees	500	500	1,086	(586)
License & Permits	0	0	50	(50)
Office Expense	4,000	4,000	4,124	(124)
Penalties & Fines	0	0	5	(5)
Pest Control	100	100	58	42
Postage	1,100	1,100	1,527	(427)
Repairs & Maintenance	5,000	5,000	4,926	74
Repairs & Maintenance (Well)	11,000	11,000	18,726	(7,726)
Supplies	1,800	1,800	645	1,155
Wages	24,000	24,000	26,338	(2,338)
Taxes - GRT	5,600	5,600	5,714	(114)
Taxes - Payroll	2,350	2,350	2,542	(192)
Taxes - Property	1,110	1,110	1,129	(19)
Taxes - WC1 Assessment Fee	25	25	0	25
Taxes - Water Conservation	900	900	1,006	(106)
Utilities - Disposal	275	275	187	88
Utilities - Electricity	1,000	1,000	1,524	(524)
Utilities - Electricity - Well	10,300	10,300	13,207	(2,907)
Utilities - Internet	710	710	707	3
Utilities - Telephone - Well	480	480	463	17
Utilities - Telephone -Office	2,400	2,400	2,839	(439)
<i>Total operating expenses</i>	<u>94,390</u>	<u>94,390</u>	<u>112,689</u>	<u>(18,299)</u>

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

**GENERAL OPERATING FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS**

**BUDGETARY BASIS AND ACTUAL**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NON-OPERATING REVENUES (EXPENSES):**

Interest Income	0	0	21	21
Refund	0	0	2,582	2,582
Void Checks from PY's	0	0	41	41
Interest Expense	(5,800)	(5,800)	(8,473)	(2,673)
<i>Total non-operating revenues (expenses)</i>	<i>(5,800)</i>	<i>(5,800)</i>	<i>(5,829)</i>	<i>(29)</i>
<b>Change in fund net assets</b>	<b>\$16,610</b>	<b>\$16,610</b>	<b>\$2,959</b>	<b>(\$13,651)</b>



**Desert Aire Mutual Domestic Water and Sewer Works Association**

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**FINANCIAL STATEMENTS**

Twelve Months Ended

June 30, 2011

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**Cbbs, Roberts, Head & Daw, Inc.**

Certified Public Accountants

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Accountant's Compilation Report

To the Board of Directors  
Desert Aire Mutual Domestic Water and Sewer Works Association  
Chaparral, NM

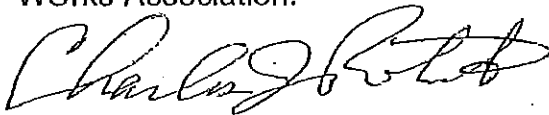
We have compiled the accompanying statement of financial position of Desert Aire Mutual Domestic Water and Sewer Works Association (a non-profit association) as of June 30, 2011, and the related statement of activities and cash flows for the twelve months then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted by the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States. If the omitted disclosures were included in the financial statements, they might influence the user's conclusion about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to Desert Aire Mutual Domestic Water and Sewer Works Association.



May 15, 2012

## Desert Aire Mutual Domestic Water and Sewer Works Association

## STATEMENT OF FINANCIAL POSITION

June 30, 2011

**ASSETS****CURRENT ASSETS**

Compass Bank	\$	3,584.53
Compass Bank - Capital Improv		12,809.50
Compass Bank - Construction		29,202.71
Compass Bank - Debt Res		972.52
Compass Bank - Emerg Res		4,982.00
Compass Bank - Oper & Maint		18,751.00
Compass Bank (Colonias Init)		100.00
Accounts Receivable		5,546.63
Allowance for Uncollectible Acc		(2,000.00)
CRS Receivable		1,017.33
WC-1 Assessment fee overpayment		34.40
<b>TOTAL CURRENT ASSETS</b>		<u>75,000.62</u>

**PROPERTY AND EQUIPMENT**

Building		1,283,647.00
Equipment		63,595.45
Furniture and Equipment		4,239.85
Improvements		1,399,410.83
Other Improvements		8,976.00
Software		767.93
Vehicles		17,054.00
Accumulated Depreciation		(463,216.89)
<b>TOTAL PROPERTY AND EQUIPMENT</b>		<u>2,314,474.17</u>
<b>TOTAL ASSETS</b>	\$	<u>2,389,474.79</u>

**LIABILITIES AND FUND BALANCE****CURRENT LIABILITIES**

Deposits	\$	1,150.00
FICA & FWH Payable		435.07
Sales Tax Payable		500.30
SUTA Payable		152.19
WC-1 Assessment Fee Payable		21.50
SWH Payable		31.34
<b>TOTAL CURRENT LIABILITIES</b>		<u>2,290.40</u>

**LONG-TERM DEBT**

N/P - USDA Loan 4		90,186.66
N/P - USDA Loan 6		40,215.86
N/P - Rural Community		96,495.02
<b>TOTAL LONG-TERM DEBT</b>		<u>226,897.54</u>

**FUND BALANCE**

Unrestricted Net Assets		2,287,201.06
Net Income/(Loss)		(126,914.21)
<b>TOTAL FUND BALANCE</b>		<u>2,160,286.85</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$	<u>2,389,474.79</u>

Desert Aire Mutual Domestic Water and Sewer Works Assoc  
STATEMENT OF ACTIVITIES

	12 Months Ended Jun. 30, 2011
<b>REVENUE</b>	
Meter Hook Ups	\$ 14,320.00
Miscellaneous Income	54.71
Non-refundable deposits	452.00
Reconnection fees & fines	1,657.30
Refund	2,582.19
Water sales, tax, & fees	104,992.40
<b>TOTAL REVENUE</b>	<b>\$ 124,058.60</b>
 <b>EXPENSES</b>	
Accounting Fees	\$ 3,424.52
Audit	9,143.32
Auto Expense	987.23
Bank Charges	1,478.99
Board Expenses:Meals & Entertainment	582.02
Board Expenses:Travel	2,355.44
Board Expenses:Cell Phone	1,256.05
Depreciation	129,873.00
Dues, Fees, & Subscriptions	169.20
Insurance - Liability	5,931.33
Insurance - Worker's Comp	557.00
Legal Fees	1,086.38
License & Permits	50.00
Office Expense	4,123.77
Penalties & Fines	5.00
Pest Control	58.44
Postage	1,527.42
Repairs & Maintenance	4,925.70
Repairs & Maintenance (Well)	18,726.39
Supplies	644.75
Taxes - GRT	5,713.90
Taxes - Payroll	2,541.63
Taxes - Property	1,128.90
Taxes - Water Conservation	1,005.83
Utilities: Electricity	1,524.49
Utilities:Electricity - Well	13,207.01
Utilities:Telephone- Well	462.94
Utilities:Telephone-Office	2,839.12
Utilities:Internet	707.05
Utilities:Disposal	187.00
Wages	26,338.03
<b>TOTAL EXPENSES</b>	<b>242,561.85</b>
<b>INCOME/(LOSS) FROM OPERATIONS</b>	<b>(118,503.25)</b>

See Accountants' Compilation Report

Desert Aire Mutual Domestic Water and Sewer Works Assoc  
STATEMENT OF ACTIVITIES

	<u>12 Months Ended</u> <u>Jun. 30, 2011</u>
<b>OTHER INCOME/(EXPENSE)</b>	
Interest Income	20.66
Interest Expense	(8,472.58)
Void cks from prey yrs	<u>40.96</u>
<b>TOTAL OTHER INCOME/(EXPENSE)</b>	<u>(8,410.96)</u>
 <b>NET INCOME/(LOSS)</b>	 <b>\$ (126,914.21)</b>

Desert Aire Mutual Domestic Water and Sewer Works Assoc  
STATEMENT OF CASH FLOWS

12 Months Ended  
Jun. 30, 2011

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Income (Loss)	\$ (126,914.21)
Adjustments to reconcile Net Income (Loss) to net Cash:	
Accumulated Depreciation	129,873.00
(Increase) Decrease in Accounts Receivable	(3,016.26)
(Increase) Decrease in CRS Receivable	(465.56)
Increase (Decrease) in Deposits	300.00
Increase (Decrease) in Payroll Liabilities	125.71
Increase (Decrease) in Sales Tax Payable	<u>(92.39)</u>
<b>Total Adjustments</b>	<u>126,724.50</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>(189.71)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Furniture and Equipment	(4,239.85)
Improvements	<u>(92,772.66)</u>
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u>(97,012.51)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

N/P - USDA Loan 4	(993.05)
N/P - USDA Loan 6	(475.73)
N/P - Rural Community	<u>96,495.02</u>
<b>Net Cash Provided By (Used In) Financing Activities</b>	<u>95,026.24</u>

**NET INCREASE (DECREASE) IN CASH** (2,175.98)

**CASH AT BEGINNING OF PERIOD** 72,578.24

**CASH AT END OF PERIOD** \$ 70,402.26

Desert Aire Mutual Domestic Water and Sewer Works Association  
**STATEMENT OF ACTIVITIES - Budget vs Actual**  
 June 30, 2011

	Year to Date Actual	Fiscal Year Budget	\$ over/(under) Budget	% of Budget
<b>REVENUE</b>				
Meter Hook Ups	14,320.00	5,000.00	9,320.00	286.40
Miscellaneous Income	54.71	0.00	54.71	0.00
Reconnection fees & fines	1,657.30	1,800.00	(142.70)	92.07
Refund	2,582.19	0.00	2,582.19	0.00
Non-refundable deposits	452.00	0.00	452.00	0.00
Water sales, tax, & fees	104,992.40	110,000.00	(5,007.60)	95.45
<b>TOTAL REVENUE</b>	<b>\$ 124,058.60</b>	<b>\$ 116,800.00</b>	<b>\$ 7,258.60</b>	<b>106.21</b>
<b>EXPENSES</b>				
Accounting Fees	\$ 3,424.52	\$ 2,800.00	\$ 624.52	122.30
Advertising	0.00	150.00	(150.00)	0.00
Audit	9,143.32	10,000.00	(856.68)	91.43
Auto Expense	987.23	0.00	987.23	0.00
Bank Charges	1,478.99	120.00	1,358.99	1,232.49
Board Expenses:Meals & Entertainment	582.02	100.00	482.02	582.02
Board Expenses:Travel	2,355.44	850.00	1,505.44	277.11
Board Expenses:Cell Phone	1,256.05	1,620.00	(363.95)	77.53
Board Expenses:Training	0.00	100.00	(100.00)	0.00
Contract Labor	0.00	100.00	(100.00)	0.00
Depreciation	129,873.00	0.00	129,873.00	0.00
Dues, Fees, & Subscriptions	169.20	400.00	(230.80)	42.30
Insurance	5,931.33	3,200.00	2,731.33	185.35
Insurance - Worker's Comp	557.00	2,300.00	(1,743.00)	24.22
Legal Fees	1,086.38	500.00	586.38	217.28
License & Permits	50.00	0.00	50.00	0.00
Office Expense	4,123.77	4,000.00	123.77	103.09
Penalties & Fines	5.00	0.00	5.00	0.00
Pest Control	58.44	100.00	(41.56)	58.44
Postage	1,527.42	1,100.00	427.42	138.86
Repairs & Maintenance	4,925.70	5,000.00	(74.30)	98.51
Repairs & Maintenance (Well)	18,726.39	11,000.00	7,726.39	170.24
Supplies	644.75	1,800.00	(1,155.25)	35.82
Taxes - GRT	5,713.90	5,600.00	113.90	102.03
Taxes - Payroll	2,541.63	2,350.00	191.63	108.15
Taxes - Property	1,128.90	1,110.00	18.90	101.70
Taxes - Water Conservation	1,005.83	900.00	105.83	111.76
Taxes - WC-1 Assessment Fee	0.00	25.00	(25.00)	0.00
Utilities: Electricity	1,524.49	1,000.00	524.49	152.45
Utilities:Electricity - Well	13,207.01	10,300.00	2,907.01	128.22
Utilities:Telephone- Well	462.94	480.00	(17.06)	96.45
Utilities:Telephone-Office	2,839.12	2,400.00	439.12	118.30
Utilities:Internet	707.05	710.00	(2.95)	99.58
Utilities:Disposal	187.00	275.00	(88.00)	68.00
Wages	26,338.03	24,000.00	2,338.03	109.74
<b>TOTAL OPERATING EXPENSES</b>	<b>242,561.85</b>	<b>94,390.00</b>	<b>148,171.85</b>	<b>256.98</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>\$ (118,503.25)</b>	<b>\$ 22,410.00</b>	<b>\$ (140,913.25)</b>	<b>(528.80)</b>

Desert Aire Mutual Domestic Water and Sewer Works Association  
**STATEMENT OF ACTIVITIES - Budget vs Actual**  
 June 30, 2011

	<u>Year to Date Actual</u>	<u>Fiscal Year Budget</u>	<u>\$ over/(under) Budget</u>	<u>% of Budget</u>
<b>OTHER INCOME (EXPENSE)</b>				
Interest Income	\$ 20.66	\$ 0.00	\$ 20.66	0.00
Interest Expense	(8,472.58)	(5,800.00)	(2,672.58)	146.08
Void cks from prey yrs	40.96	0.00	40.96	0.00
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(8,410.96)</u>	<u>(5,800.00)</u>	<u>5,820.66</u>	<u>145.02</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (126,914.21)</u>	<u>\$ 16,610.00</u>	<u>\$ (135,092.59)</u>	<u>(764.08)</u>
 <b>Supplementary Information:</b>				
Less Debt Principal Payments	(1,468.78)	(16,610.00)	15,141.22	8.84
	<u>\$ (128,382.99)</u>	<u>\$ 0.00</u>	<u>\$ (119,951.37)</u>	<u>0.00</u>



Desert Aire Mutual Domestic Water and Sewer Works Association  
NOTES TO FINANCIALS  
June 30, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Activities

Desert Aire Mutual Domestic Water and Sewer Works AssocDesert Aire Mutual Domestic Water and Sewer Works Association uses the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

Estimates

The preparation of financial statement in conformity with generally accepted accounting principles require the use of management's estimates.

Income Taxes

Desert Aire Mutual Domestic Water and Sewer Works Association is exempt from federal income taxes under section 501(c)12 of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

**NOTE 2. PROPERTY AND EQUIPMENT**

Property and equipment are recorded at historical costs. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Building	39 years
Equipment	7 years
Improvements	15 years
Vehicles	5 years

**STATE OF NEW MEXICO**  
**DESERT AIRE MUTUAL DOMESTIC WATER AND**  
**SEWER WORKS ASSOCIATION**  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**CURRENT YEAR SIGNIFICANT DEFICIENCIES:**

**2011-01 Inadequate Tracking of Refundable Renter's Deposits**

**Statement of Condition** – Client is not adequately tracking renter's refundable deposits.

**Criteria** – The client should have adequate procedures to track renter's refundable deposits.

**Cause** – Lack of procedure over distinguishing between renter's refundable deposits and association fees.

**Effect** – The association cannot accurately determine the liability that is due to renters.

**Recommendation** – The Association should implement more effective procedures to distinguish renter's refundable deposits from association fees.

**Management's Response** – We concur and have developed a spreadsheet to distinguish and document the renters refundable deposits from the association fees.

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**CURRENT YEAR SIGNIFICANT DEFICIENCIES (CONTINUED):**

**2011-02 Budget Compliance**

**Statement of Condition** – Client’s aggregate expenses exceeded budget.

**Criteria** – Client is required by DFA to operate within the approved annual budget.

**Cause** – Lack of budget monitoring. Client receives monthly financial statements from fee accountant but rarely compare to budget.

**Effect** – The association is not in compliance with state law.

**Recommendation** – The Association should evaluate the budget to actuals on a monthly basis to ensure spending is within the approved budget. In addition, budget adjustments should be approved as necessary.

**Management’s Response** – The Board will review budget to actual schedules monthly and approve budget adjustments as necessary.

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SCHEDULE OF FINDINGS AND RESPONSES  
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**CURRENT STATUS ON PRIOR YEAR FINDINGS:**

**2010-01 Disbursement Policy and Procedures Inadequate**

Repeated with modification.

**Statement of Condition** – We selected a sample of 49 disbursements and noted the following:

- There was no approval/authorization process for disbursements. All disbursements checks were written and signed by the same person. Disbursements were not presented to the board until after they were disbursed. In addition, there is no policy or procedures governing the use of the debit card.
- 2 disbursements had no supporting invoice or documentation.

**Criteria** – Good internal controls require effective policies and procedures in place and supporting documentation for each transaction.

**Cause** – Oversight.

**Effect** – Increased opportunity for theft or errors.

**Recommendation** – A board member (other than the board member assigned to run the office) should come by the office once a week to approve/authorize and sign the disbursement checks prior to disbursing. All support documentation should be maintained for each transaction.

**Management's Response** – Management has implemented an approval in which a board member (besides the check signer) pre-approve invoices for payment on a weekly basis and sign and date a schedule of payments to be made noting their approval. All supporting documentation will be carefully maintained.

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**2010-02 Failure to Perform Yearly Inventory of Capital Assets**

Repeated.

**Statement of Condition** – Desert Aire Mutual Domestic Water and Sewer Works Association did not perform a yearly inventory of capital Assets.

**Criteria** – Section 12-6-10 NMSA 1978 requires a local body to conduct an annual physical inventory of all its capital assets.

**Cause** – The association contracted an external CPA in the prior year and they maintain and update the association's capital asset. The association was unaware of the annual inventory requirement.

**Effect** – Non compliance with Section 12-6-10 NMSA 1978.

**Recommendation** – Obtain the capital asset schedule from the external accountant and perform inventory observation annually.

**Management's Response** – Management concurs and has performed and documented inventory but is still in the process of capturing and documenting the assets for the infrastructure (water system).

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SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**2010-03 Journal Entries not Being Reviewed**

Repeated.

**Statement of Condition** – Journal entries are not being reviewed.

**Criteria** – Good internal controls require that journal entries are reviewed monthly to minimize the opportunity for fraud or errors to occur.

**Cause** – Lack of review and oversight over external accounting.

**Effect** – Increased opportunity for fraud or errors.

**Recommendation** – Obtain the list of journal entries posted each month from the accountant. Review the journal entries and document the review with initials or a signature and maintain documentation of reviewed journal entries in a systematic manner.

**Management's Response** – Management concurs and will request a list of journal entries from the accountant monthly for review by the Board.

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**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**2010-04 Reports Not Submitted Timely to New Mexico State Auditor's Office**

Repeated.

**Statement of Condition** – The report for the Agreed Upon Procedures engagement was not submitted to the State Auditor's office by the December 1, 2011 due date.

**Criteria** – Agreed Upon Procedures engagements are due to the State Auditor's Office by December 1, 2011 for June 30, 2011 fiscal year ends per 2.2.2.16 NMAC.

**Cause** – Association was unaware of the new agreed upon procedures engagement requirements.

**Effect** – Noncompliance with engagement due date requirements.

**Recommendation** – The Association should contract on a timely basis for all services necessary under the New Mexico State Auditor Rule.

**Management's Response** – Future years will be contracted on a timely basis.

**STATE OF NEW MEXICO  
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EXIT CONFERENCE  
JUNE 30, 2011**

**EXIT CONFERENCE:**

The exit conference was held September 24, 2012 and was attended by the following:

**From Desert Aire Mutual Domestic Water and Sewer Works Association:**

Evangelina Moreno, President

Miztly Estrada, Billing Clerk

**From Kriegel/Gray/Shaw & Co., P.C.:**

Debbie Gray, CPA/Shareholder

**FINANCIAL STATEMENT PREPARATION**

The financial statements of Desert Aire Mutual Domestic Water and Sewer Works Association were prepared from original books and records provided by and with assistance from the management of the Association and Kriegel/Gray/Shaw & Co., P.C. as of and for the year ended June 30, 2011.