

Charles L. Henry

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STATE OF NEW MEXICO

El Vadito de los Cerrillos Mutual Domestic Water Association

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

For the Year Ended December 31, 2013

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
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December 31, 2013

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STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Official Roster
December 31, 2013

Official Roster

Board Members

Position

Allen Fowler

President

Ann Murry

Vice President

Carol O'Keefe

Secretary

Ren Greene

Treasurer

Todd Brown

Director

Charles L. Henry

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Raton, New Mexico 87740
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

**Allen Fowler, President
and Members of the Board
El Vadito de los Cerrillos Mutual Domestic Water Association
and
Honorable Hector H. Balderas
New Mexico State Auditor**

I have performed the procedures enumerated below for the El Vadito de los Cerrillos Mutual Domestic Water Association (Association), for the year ended December 31, 2013. The Association was determined to be a Tier 4 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The management of the El Vadito de los Cerrillos Mutual Domestic Water Association is responsible for the organization'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:

CASH

PROCEDURES:

- a) Determined 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) Performed a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).
- c) Determined 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.

OBSERVATIONS:

- a) The Association has one checking account, and one savings account. The QuickBooks software package is used to record Association transactions. Bank reconciliations were not performed on a timely basis but were complete and on hand. (Finding - 2010-003 [10-03])
- b) Bank reconciliations were reviewed for the year and were found to be accurately prepared and balances reflected in the reconciliations were traced to the general ledger.
- c) As of January 1, 2013 the Association had not met the requirement to file a budget, or any related reports with DFA-LGD and no financial information or budget was filed as required by Section 6-6-2 (A) NMSA 1978. The association did internally prepare budgets but there was no reporting to DFA-LGD. (Finding - 2010-002 [10-02])
- d) Bank account balances did not exceed uninsured limits during the year ended December 31, 2013 and therefore, pledged collateral was not required for any bank account.

CAPITAL ASSETS

PROCEDURES:

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

OBSERVATIONS:

Although there are capital assets (one water systems and 2 water tanks) reflected on the balance sheet, the Association does not have movable chattels or equipment and is not subject to the inventory requirements of Section 12-6-10 NMSA 1978.

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 ended December 31, 2013 for each type of revenue source.

Select a sample of revenue - Based on Auditor Judgment - and test using the following attributes;

- b) Amount recorded in the general ledger agrees to 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 review work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

OBSERVATIONS:

- a) The Association provided revenue and expenditures prepared on a cash basis for the year ended December 31, 2013 but the required budget was not generated for or filed with DFA-LGD. A internally prepared budget for the year was provided and this budget was compared to actual revenue generated and classified during the year although it was determined that revenue classifications entered in the bookkeeping process did not follow budget classifications. (Finding - 2010-002 [10-02])
- b) Amounts recorded in the general ledger agreed with the bank statements.
- c) The Association provides classifications for different sources of revenue. Metered Income is the main source of revenue and income from those members who use tokens to purchase water that they haul represents the other classification of water sales. Water sales generated from those who haul water or member monthly fees were not classified separately from Metered Income. (Finding - 2010-005 [10-05])

EXPENDITURES

PROCEDURES

Select a sample of cash disbursements - Based on Auditor Judgment - and test using the following attributes:

- a) Determine that amounts recorded as disbursed agree to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

OBSERVATIONS:

- a) My test of transactions revealed that expenditures were adequately supported by Association documentation; however, the recording of sales taxes paid to the taxing authority as well as accounting policies related to returned checks were not properly recorded. (Finding - 2010-006 [10-06])
- b) The payee, date and invoice amount was found to agree with general ledger postings without exception.
- c) All tested transactions were found to be properly authorized and approved in compliance with established policies and procedures. I could not test compliance with the budget because one was not established for 2013. (Finding - 2010-002 [10-02])

OBSERVATIONS: [Continued]

- d) The bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC). Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC) were found to be compliant.

JOURNAL ENTRIES

PROCEDURES

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items 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.

OBSERVATIONS:

- a) The Association made no journal entries for the period and it is noted that journal entries are not normally prepared by the Association.

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 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 exceed the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets an general ledger, prepare a schedule of revenue 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.

OBSERVATIONS:

- a) The Association did not file a budget with DFA-LGD for the fiscal year but management did prepare a budget as part of their internal procedures. A schedule of revenues and expenses - budget and actual was prepared on the cash budgetary basis from Association records and is presented in this report. (Finding - 2010-002 [10-02])

OTHER

PROCEDURES

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section 2.2.2 10(l)(3)© NMAC.

OBSERVATIONS:

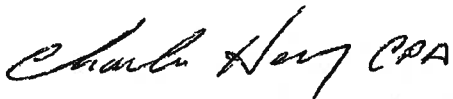
- a) No exceptions were found as a result of applying the procedures above indicating any fraud or illegal acts by the Association.

- b) Internal control deficiencies were observed.
 - 1) Revenue received from the sale of tokens used to obtain water to be hauled (Hauler income) is not adequately controlled. (Finding - 2010-008 [10-08])
 - 2) Checks received from members of the Association are often held for long periods of time before being deposited. (Finding - 2010-008 [10-08])
 - 3) The water operator provides a monthly report of water use. The "Unaccounted for water used" appears to be unquestioned. (Finding - 2010-008 [10-08])
 - 4) Returned checks are recorded as bad debts or at other times charged to bank service charges. If the checks are subsequently paid the expense as well as well as revenue will be misstated. (Finding - 2010-007 [10-07])
 - 5) Required Sales tax payments are charged to a liability account rather than being expensed or reducing related revenue.(Finding - 2010-008 [10-08])

- c) Additional noncompliance deficiencies observed.
 - 1) The Association contracts with various individuals for services. Required 1099 forms are not filed with the Internal Revenue Service. (Finding - 2010-009 [10-09])

I was not engaged to, and did not conduct an audit, the objectives of which would be the expression of an opinion on the accounting records. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have to be reported to you.

This report is intended solely for the for the information and use of the El Vadito de los Cerrillos Association, the New Mexico Office of the State Auditor and the DFA-LGD and is not intended to be, and should not be used by anyone other than those specified parties.



Charles L. Henry
Certified Public Accountant
April 18, 2014

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Statement of Revenues, Expenditures
For the Year Ended December 31, 2013

Exhibit - A

	Internal Budget	Actual Cash Basis	Variance Favorable (Unfavorable)
Revenues			
Meter Income	\$ 88,400	\$ 69,702	\$ (18,698)
Hauler Income	1,000	2,444	1,444
Membership Fees	-	100	100
Miscellaneous Income	100	45	(55)
	<u>89,500</u>	<u>72,290</u>	<u>(17,210)</u>
Expenditures			
Contracted Services:			
Bookkeeper	7,500	7,300	200
Operator	16,000	13,246	2,754
Meter Reader	5,200	5,131	69
Audit Services	3,600	11,671	(8,071)
Operating Costs			
Equipment	2,500	325	2,175
Equipment Repair	200	-	200
Other Maintenance	1,500	805	695
Water Sampling	700	519	181
Cost of Oeration	500	-	500
Electricity	500	1,619	(1,119)
Miscellaneous Operating Costs	500	2,385	(1,885)
Administrative Costs			
Office Expense	400	1,471	(1,071)
Rent	400	1,000	(600)
Bank Charges	300	351	(51)
Insurance	4,900	4,657	243
Postage	1,300	1,622	(322)
Dues & Subscriptions	250	441	(191)
Water Conservation Fees	300	135	165
Other Taxes	250	50	200
Bad Debt	500	-	500
Charitable Contributions	1,000	-	1,000
Miscellaneous Administrative Costs	250	-	250
Professional Services			
Legal Fees	1,000	-	1,000
Accounting Fees	1,500	605	895
	<u>51,050</u>	<u>53,333</u>	<u>(2,283)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>38,450</u>	<u>18,957</u>	<u>(14,926)</u>
Principal Payment on Association Loans	<u>15,555</u>	<u>1,958</u>	<u>13,597</u>
Excess (Deficiency) of Receipts over Disbursments	<u>22,895</u>	<u>17,000</u>	<u>(28,524)</u>
Cash balance beginning of Year		<u>80,513</u>	
Cash balance End of Year		<u>\$ 97,512</u>	

Unaudited - see Independent Accountant's Report on Applying Agreed-Upon Procedures

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

STATUS OF PRIOR YEAR FINDINGS

- 2010-001 [10-01] - Failure to File Tier 4 Engagement Report by the Required Due Date -- Resolved
- 2010-002 [10-02] - Failure to File Annually a Proposed Budget with DFA - LGD -- Repeated
- 2010-003 [10-03] - Bank Reconciliations Not Prepared on a Timely Basis -- Repeated
- 2010-004 [10-04] - Selected Revenue Transactions not Located for Testing -- Resolved
- 2010-005 [10-05] - Misclassification of Revenue Transactions -- Repeated
- 2010-006 [10-06] - Expenditures Not Properly Classified -- Repeated
- 2010-007 [10-07] - Lack of Oversight of Unaccounted Water Use -- Repeated
- 2010-008 [10-08] - Poor Controls Over Receipts from Water Sales -- Repeated
- 2010-009 [10-09] - Failure to File Informaton with the Internal Revenue Service -- Repeated

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-002 [10-02] - Failure to File Annually a Proposed Budget with DFA - LGD - Compliance

Condition:

The Association did not submit their 2013 budget to DFA-LGD for approval as required by state statute. A internally prepared budget was provided and used for presentation purposes only. Had this internally prepared budget been filed with DFA-LGD a finding would be required because actual expenditures exceeded budgeted amounts by \$ 2,283.

Criteria:

Section 6-6-2 (A) NMSA 1978 requires each local public body to furnish and file with the division, on or before June 1 of each year, a proposed budget for the next fiscal year.

Effect:

The Association has not complied with the filing requirement and the benefit of filing such budgetary information for review and approval has not occurred.

Cause:

The Association became aware of the requirement to file budgets with DFA - LGD in August 2013 and to date has not met the filing requirement because of a lack of understanding of the budgetary process although an internal budget is prepared as a matter of Association internal procedure.

Recommendation:

The Association contact DFA as soon as possible and begin the process of preparing and filing the required budget information.

Management Response:

The Association will contact DFA and begin the process of becoming compliant with the budgetary requirements.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-003 [10-03] - Bank Reconciliations Not Prepared on a Timely Basis
- Material Weakness & Compliance

Condition:

The Association did not prepare monthly bank reconciliations on a timely basis. As prescribed by the agreed upon procedures I selected four bank statements for review to determine if bank reconciliations were being performed on a timely basis. Of these one was reconciled within an acceptable time and the other were 70, 68 and 48 days after statement date.

Criteria:

Section 6-10-2 NMSA 1978 states every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance on hand at the close of each day's business.

Effect:

The balance in the Association bank account is not provided on a regular basis to those charged with governance and proper management of Association assets. The lack of timely reconciliations and the lack of reporting over cash is also a internal control issue that could create an opportunity for error or misuse of funds or fraud that would not be detected during the normal course of business.

Cause:

The procedures used by the Association for reporting monthly financial position was directly from bank statements. The reconciled balance was not provided monthly and there was no pressure by those charged with governance to prepare or update financial reports from a reconciled information.

Recommendation:

The Directors require that complete bank reconciliations be provided with each bank statement used in generating the Association monthly financial reports.

Management Response:

The Association has corrected this deficiency and bank all banks are timely reconciled at this time.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-005 [10-05] - Misclassification of Revenue Transactions - Significant Deficiency

Condition:

The Association provides classifications for different sources of revenue. Metered Income is the main source of revenue but income from those members who use tokens to purchase water that they haul represents the other classification of water sales. Water sales generated from those who haul water is included in Metered Income and not separately accounted for.

Criteria:

Classification of revenue is a key element of financial management and budgeting. Section 6-6-2 NMSA (1978) provides for the requirement of each public body to furnish and file with the division a proposed budget and Section 6-6-3 NMSA (1978) provides that every public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Effect:

The Association is not able to determine the amount of revenue from different sources and makes the ability to generate useful information difficult. Without proper classification addressing required budgetary requirements is impaired.

Cause:

The Association was not aware of the filing and reporting requirements of DFA - LGD and the records were being kept for the needs of preparing forms requested by the Internal Revenue Service.

Recommendation:

The Association classify financial transactions in accordance with classifications used to prepare Association budgets.

Management Response:

A revised chart of accounts will agree with the budget categories once established and hereafter all transactions will be recorded properly to those categories.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-006 [10-06] - Expenditures Not Properly Classified - Significant Deficiency

Condition:

Recording Sales Taxes by the Association:

The Association records amounts paid to the State of New Mexico for required sales taxes by charging a liability account for the expenditures. This generates a debit balance in a liability account and the expense is not recorded.

Recording Returned Checks:

The Association does not have a consistent method to record checks returned. At times the checks are recorded as bad debts, but if that amount is subsequently collected the amount charged to bad debts is not removed. Three other instances were found where returned items totalling \$ 356.35 were recorded as bank service charges.

Criteria:

Classification of expenditures is a key element of financial management and budgeting. Section 6-6-2 NMSA (1978) provides for the requirement of each public body to furnish and file with the division a proposed budget and Section 6-6-3 NMSA (1978) provides that every public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Section 6-5-2 (C) NMSA 1978 provides that state agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect:

By recording expenditures to a liability account the expense related to the expenditure is not recognized and without adjustment the balance reflected in the balance sheet will be carried forward to future periods resulting in a misstatement of revenue determined.

The procedures applied to returned items as either service charges or bad debts does not properly reflect the revenue generated by the Association.

STATE OF NEW MEXICO
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Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-006 [10-06] - Expenditures Not Properly Classified - Significant Deficiency

[Continued]

Cause:

The bookkeeper is not familiar with the process of recording transactions using the cash basis of accounting and the chart of accounts reflecting sales taxes payable was utilized for the expense transaction.

Recommendation:

If the Association desires to remain on the cash basis of accounting checks that are returned should reduce the appropriate revenue account that gave rise to the initial deposit rather than charging an expense account and payments to the State of New Mexico for sales taxes should either be charged directly to revenue or by establishing

Management Response:

The Association is currently upgrading the water billing program and the accounting program so they will be interactive. That should resolve this accounting issue associated with returned items.

The procedure of recording payment of sales taxes amounts to Sales Taxes Payable will be changed to record such payments in the income statement.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-007 [10-07] - Lack of Oversight of Unaccounted Water Use - Material Weakness

Condition:

Each month a report is provided to the Directors of the Association that summarizes water use. A summary of all reports provided for 2013 is presented below:

Gallons Consumed	5,773,820
Gallons Produced	6,145,720
Gallons Sold	4,901,960
Water Unaccounted for Per Report	1,243,760 - (Produced less Sold)

The percentage of Unaccounted for water per the report is 20.24% making the amount of water unaccounted for the largest single user of the Association.

Criteria:

Section 6-5-2 (C) NMSA 1978 provides that state agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect:

The reports provided to the Association by the Water Operator do not provide an accurate accounting of the water used. Water use information is used by the Directors to make the many critical decisions about future capital needs and charges for water used by Association members. Without reliable information informed decisions are not possible. Additionally it is probable that if, through error, misuse or fraud, misstatement of reports would not be detected.

Cause:

There are numerous elements to the water reports and the amount of water that is not accounted for is not a focal point of the monthly review. The reports have become

Recommendation:

The reports provided by the operator be evaluated for accuracy and the Association make a effort to determine the reason for such a large amount of unaccounted for water use.

Management Response:

The Board of Directors believes the reports are accurate but will review them again. A plan will be put in place as soon as possible to determine the reason for the large amount of unaccounted for water use and a corrective action plan be put in place.

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CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-008 [10-08] - Poor Controls Over Receipts from Water Sales - Material Weakness

Condition:

Four bank statements were selected to review for test of cash elements of the agreed upon procedures. In February five deposits were made on the 13th, and five on the 28th. The June statement reflected two deposits on the 6th and 17th with two additional single deposits. The September statement reflected four deposits on the 5th and all other were single deposits. In December three deposits were recorded on 24th, two on the 13th and two additional single deposits.

The reason for numerous deposits on a single day is that cash is being received and held for various periods of time until being deposited. In addition to cash received from billings associated with metered sales an additional element of revenue of the Association is from the sale of tokens. These tokens are used to purchase water that is then hauled by the purchaser. Association members who "Haul" water pay a small base monthly fee then purchase tokens that can be used to obtain water. There is no separation in the accounting of revenue from those who purchase tokens and haul water from those who received their water from the Association water systems and billed by the Association.

Criteria:

Section 6-5-2 (C) NMSA 1978 provides that state agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Section 6-10-2 NMSA 1978 states every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance on hand at the close of each day's business.

6-10-36.1 NMSA 1978 States the following: A municipality or village having within its boundaries no suitable banking facility in which to deposit collected receipts of public money shall deposit receipts within a period not to exceed five days from the date of collection, except when inclement weather or natural disaster conditions exist, in which case the period is extended to ten days; provided the municipality or village adopts a reasonable administrative policy approved by the local government division of the department of finance and administration establishing procedures for the safeguarding of the public funds prior to deposit.

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Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-008 [10-08] - Poor Controls Over Receipts from Water Sales - Material Weakness - [Continued]

Effect:

By holding any revenue from any source before depositing and recording the ability to forecast, budget, or plan for future business decisions is compromised. Holding funds prior to deposit generates a greater possibility for loss of funds, errors, and misuse.

Cause:

The Association is located in a small village in New Mexico and its banks is not visited every day. Regular deposits are not convenient or considered economically practical given the small amounts of money involved.

Recommendation:

Holding funds prior to deposit is not an acceptable option given Section 6-10-2 NMSA. The problem of timely deposits associated with rural communities and state agencies is not unique but it is necessary to develop a plan to allow for deposits to be made as required by law.

Management Response:

The Association has determined a more efficient means of making deposits timely. We are a volunteer organization with a part time bookkeeper that has a full time job and we all are 30 miles from the nearest bank. The costs to the association to make daily deposits would probably exceed the receipt for the day.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Schedule of Findings and Responses
December 31, 2013

CURRENT STATUS OF PRIOR YEAR FINDINGS:

2010-009 [10-09] - Failure to File Informaton with the Internal Revenue Service
- Significant Deficiency & Compliance

Condition:

The Associaton has various contracted servcies including the water operator, meter reader and bookkeeper and have not filed required form 1099 MISC forms with the Internal Revenue Service.

Criteria:

The Internal Revenue Code require that Form 1099-MISC must be filed for each person who is paid at least \$ 600 for services. This form is required when payments are made in the course of a trade or business and a nonprofit organization is considered to be engaged in a trade or business and is subject to these reporting regulations.

Effect:

Taxable income earned by individuals doing business with the Association is not being reported to the Internal Revenue Service as required by the Internal Revenue Code. Penalties for failure to file the required form 1099 MISC can be imposed.

Cause:

The Association CPA who prepares required tax returns had not informed the Association of the requirement to file the information returns with the Internal Revenue Service.

Recommendation:

The Association take steps to become knowledgeable of the requirements for filing required forms with the Internal Revenue Service. File required forms and maintain copies of all filed forms for future reference.

Management Response:

The Association will prepare 1099's for all of our contractors in the future.

STATE OF NEW MEXICO
El Vadito de los Cerrillos Mutual Domestic Water Association
Exit Conference
December 31, 2013

FINANCIAL STATEMENT PREPARATION

The accompanying financial information was prepared by Charles L. Henry CPA. However, the contents remain the responsibility of the Association.

EXIT CONFERENCE

On April 18, 2014 an exit conference was held in the residence of Ren Greene who serves the Association as Treasurer as well as Charles Henry CPA.