

Accounting & Auditing Services, LLC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

El Valle Water Alliance

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ended June 30, 2012

**El Valle Water Alliance
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Fiscal Year Ended June 30, 2012**

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**El Valle Water Alliance
Official Roster
Fiscal Year Ending June 30, 2012**

Board of Directors

Ramon Lucero Jr., President

Lawrence Padilla, Vice President

Edward Sena, Secretary

Edward Madrid, Treasurer

Rick Konersman, Member

Administrative Staff

Kenneth Lucero, Business Manager

Veronica Castro, Office Administrator

Accounting & Auditing Services, LLC

Financial Audits - Agreed Upon Procedures - Tax - Consulting

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Ramon M. Lucero, President
El Valle Water Alliance
and
Honorable Hector H. Balderas
New Mexico State Auditor

I have performed the procedures enumerated below for the El Valle Water Alliance (Alliance) for the year ended June 30, 2012, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Alliance through the New Mexico Office of the State Auditor. The Alliance's management is responsible for its accounting records and the subject matter. 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 the parties specified in this 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 findings are as follows

1. Cash

- 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.

The bank reconciliations were performed on a monthly basis in a timely manner by the office administrator and reviewed by the business manager. All bank statements for the fiscal year were complete and on hand. The Alliance did not have any investment accounts.

- b. Perform 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.

The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the general ledger, supporting documentation and the year-end financial report 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.

The bank account balances of the Alliance were fully insured by the FDIC. Pledged collateral was not required since the Alliance's bank balances were well below \$250,000 during the fiscal year.

2. Capital Assets

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

The Alliance did not perform a complete capital asset inventory for the fiscal year ending June 30, 2012. See finding 2012-1 on p. 6.

3. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The major revenue sources of the Alliance consist of water user fees and contractual services. The variances between budgeted revenues and actual revenues were reasonably explained by management. No unusual or unexplained variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of 15 cash receipt journal entries were tested which included 129 bank deposits and amounted to 65% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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 basis, or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger.

4. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- i. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

A sample of 55 cash disbursements were tested which amounted to 32% of total expenditures. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceed the amounts requiring sealed bids or requests for proposals. The Alliance did not make any per diem and mileage payments to its employees during the fiscal year. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations.

5. Journal Entries

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

- i. Journal entries appear reasonable and have supporting documentation.

According to management of the Alliance, only two journal entries were posted during the fiscal year to correct two cash receipt transactions posted during the prior year by a former employee. The journal entries were reasonable according to the supporting documentation and explanations from management.

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

The Alliance has procedures in place to ensure that non-routine journal entries are reviewed by management and there was evidence that the reviews were performed.

6. Budgets

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
 - i. 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.

The minutes of the meetings showed that the original budget and a subsequent budget adjustment were approved by the governing body. However, the original budget and subsequent budget adjustments were not submitted to DFA-LGD in accordance with Section 6-6-2 (A) NMSA 1978. See finding 2012-2 on p. 7.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures did not exceed the final budget at the total fund level. See Exhibit 1 on p. 9.

- iii. 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. See Exhibit 1 on p. 9.

7. Other

- a. 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 (1)(3)(C) NMAC.

No other findings were noted during the performance of the agreed-upon procedures.

8. Report

- a. Include a copy of the year-end financial report submitted to DFA-LGD in the agreed-upon procedures report. See Exhibit 2 on p. 10-14.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed-upon procedures and the Alliance's financial statements or any part thereof including Exhibits 1 and 2. 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 management and others with the Alliance, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC
Santa Fe, New Mexico
October 12, 2012

**El Valle Water Alliance
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2012**

Status of Prior Year Findings

Not applicable.

Current Year Findings

Finding 2012-1. No Capital Asset Inventory at Fiscal Year-End

Condition

On June 30, 2012, the Alliance did not perform a complete physical inventory of its capital assets. The water systems' infrastructure has not been fully inventoried, recorded, valued and accounted for in accordance with generally accepted accounting principles and state laws and regulations.

Criteria

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies. Also, generally accepted accounting principles require assets to be capitalized in accordance with Alliance policy and properly recorded, valued and depreciated.

Effect

The Alliance does not have an established carrying amount for the value of its capital assets as of June 30, 2012 or a complete listing of its capital assets which is useful to properly control, account for and manage its capital assets in a proper manner.

Cause

The Alliance was unaware that the state laws and regulations cited above were applicable to Mutual Domestic Water Consumer Associations. Historical cost records are not available for all the water systems in the Alliance. The Alliance did not have the resources available to pay for appraisals and other services needed to list and value its water systems in accordance with generally accepted accounting principles.

Recommendation

The Alliance should perform a complete physical inventory of its capital assets as soon as possible, and at the end of each fiscal year. The results of the inventory shall be recorded in

El Valle Water Alliance
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2012

a written inventory report, certified as to correctness and signed by the governing authority of the Alliance. The Alliance should develop and implement written policies and procedures to perform the capital asset inventory on an annual basis and record, control and account for its capital assets in accordance with state laws, regulations and generally accepted accounting principles.

Management's Response

The capital assets in question are the water tanks and well houses for all associations managed by the El Valle Water Alliance. We currently have them documented but not valued. We have received a grant to develop an asset management plan that will identify our assets and determine their value and life of the asset. We plan on preparing the asset management plan this fiscal year.

Finding 2012-2. Non-compliance with Budget Laws and Regulations

Condition

The Alliance did not submit its FY12 annual budget to the NM Department of Finance & Administration's Local Government Division (DFA-LGD) for review and approval by June 1, 2011. The Alliance did not submit its FY12 budget amendments to DFA-LGD for review. Also, the Alliance did not submit its FY12 quarterly financial reports to DFA-LGD as required.

Criteria

Pursuant to Section 6-6-2 NMSA 1978, each local public body is required to furnish and file with DFA-LGD, on or before June 1 of each year, a proposed budget for the next fiscal year. Also, each local public body is required to submit budget adjustments, quarterly financial reports and a year-end financial report to DFA-LGD.

Effect

The Alliance is not in full compliance with New Mexico's budget laws and regulations.

Cause

The Alliance was unaware that the budget laws and reporting requirements for local governments were applicable to Mutual Domestic Water Consumer Associations.

El Valle Water Alliance
Schedule of Findings and Responses
Fiscal Year Ending June 30, 2012

Recommendation

The Alliance should adopt, approve and submit its annual budget for the next fiscal year to DFA-LGD by June 1 of each fiscal year. The Alliance should also submit its approved budget adjustments, quarterly financial reports, and year-end financial reports to DFA-LGD as required. The Alliance should develop and implement written policies and procedures to ensure that the budget laws and regulations are fully complied with in the future.

Management's Response

Because of our regionalization status, we were unaware of the requirement at the start of the fiscal year. We have submitted the year-end financial report for fiscal year 2012. We have also already submitted the approved budget for fiscal year 2013 as required. We will make sure all submittals to DFA are done on a timely manner.

El Valle Water Alliance
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis) - General Fund
For the Fiscal Year Ended June 30, 2012

Exhibit 1

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Contractual services	\$ 4,640	\$ 4,640	\$ 11,565	\$ 6,925
Water services	130,000	130,000	128,605	(1,395)
Electric Co-op Rebate	-	-	1,360	1,360
Miscellaneous	-	-	341	341
	<u>134,640</u>	<u>134,640</u>	<u>\$ 141,871</u>	<u>\$ 7,231</u>
Cash balance budgeted	<u>2,708</u>	<u>2,708</u>		
Total revenues and cash	<u>\$ 137,348</u>	<u>\$ 137,348</u>		
Expenditures				
Current:				
Personal services	\$ 58,500	\$ 58,500	\$ 58,612	\$ (112)
Contractual services - operator	26,400	26,400	26,213	187
Office expenses	10,500	4,300	6,355	(2,055)
Association expenses	18,950	25,150	25,107	43
Debt service	<u>22,998</u>	<u>22,998</u>	<u>19,215</u>	<u>3,783</u>
Total expenditures	<u>\$ 137,348</u>	<u>\$ 137,348</u>	<u>\$ 135,502</u>	<u>\$ 1,846</u>

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Accrual Basis

EI Valle Water Alliance
Balance Sheet
As of June 30, 2012

	Jun 30, 12
ASSETS	
Current Assets	
Checking/Savings	
Bank of Las Vegas	1.31
LANB 1st Checking Acc	48,051.30
LANB 2nd Checking Acc	45,142.25
LANB Savings	8,566.67
Total Checking/Savings	101,761.53
Accounts Receivable	
Accounts Receivable	4,529.33
Total Accounts Receivable	4,529.33
Total Current Assets	106,290.86
Fixed Assets	
Office Software&Equipm	11,512.91
Total Fixed Assets	11,512.91
TOTAL ASSETS	117,803.77
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	-0.30
Total Accounts Payable	-0.30
Other Current Liabilities	
Payroll Liabilities	1,702.28
Total Other Current Liabilities	1,702.28
Total Current Liabilities	1,701.98
Long Term Liabilities	
El Valle 3	42,934.00
El Valle 4	9,512.00
Ilfeld LOAN	104,735.89
SSY Loan 05	24,742.64
SSY Loan 1	21,643.17
Total Long Term Liabilities	203,567.70
Total Liabilities	205,269.68
Equity	
Opening Balance Equity	-202,885.89
Retained Earnings	94,929.51
Net Income	20,490.47
Total Equity	-87,465.91
TOTAL LIABILITIES & EQUITY	117,803.77

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Accrual Basis

**El Valle Water Alliance
Profit & Loss
July 2011 through June 2012**

	<u>Jul '11 - Jun 12</u>
Ordinary Income/Expense	
Income	
Contracting Services	
40 year water plan services	6,750.00
Total Contracting Services	<u>6,750.00</u>
Non Profit Income	
Capital Credit Income	
EA SM Mora Elect Capt Cred	146.90
EC SM Mora Elect Capt Cred	171.21
ENMR Capital Credits	36.36
IFSM Mora Elect Capt Cred	99.65
LC SM Mora Elec Capt Cred	61.35
SJ SM Mora Elect Capt Cred	355.18
SSY SM Mora Elec Capt Cred	83.95
VN SM Mora Elect Capt Cred	405.49
Total Capital Credit Income	<u>1,360.09</u>
El Ancon Water Revenue	13,218.35
El Coruco MDWCA Water Revenue	
EC NEW METER SERVICE	318.66
El Coruco MDWCA Water Revenue - Other	16,195.77
Total El Coruco MDWCA Water Revenue	<u>16,514.43</u>
Ilfeld MDWCA water Revenue	
New Membership	1,000.00
New Meter Service	727.52
Returned Checks	-31.66
Ilfeld MDWCA water Revenue - Other	41,276.34
Total Ilfeld MDWCA water Revenue	<u>42,972.20</u>
La Sacatosa Water Revenue	
New Membership	314.00
La Sacatosa Water Revenue - Other	4,472.79
Total La Sacatosa Water Revenue	<u>4,786.79</u>
Lower Colonias MDWCA water rev	3,192.56
San Juan MDWCA Water Revenue	
New Membership	1,800.00
San Juan MDWCA Water Revenue - Other	7,362.06
Total San Juan MDWCA Water Revenue	<u>9,162.06</u>
San Miguel Del Bado Water Reven	8,862.51
South San Ysidro Water Revenue	6,725.91
SSY Community Center Rental	100.00
Villanueva MDWCA Water Revenue	29,661.23
Non Profit Income - Other	4,815.00
Total Non Profit Income	<u>141,371.13</u>
Rebates	50.00
Refunds	23.26
Reimbursements	29.33
Total Income	<u>148,223.72</u>
Gross Profit	148,223.72
Expense	
Business Expense	
Administrative fee EVWA 3	131.66
Adminstrative Fee EVWA 4	29.19
Contracting Expense	
Field Operations	20,800.00
Office/General Administrative E	0.00
Travel	5,413.00
Total Contracting Expense	<u>26,213.00</u>

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Accrual Basis

El Valle Water Alliance
Profit & Loss
July 2011 through June 2012

	Jul '11 - Jun 12
Membership Dues	10.00
Reconciliation Discrepancies	-0.08
Water Distrubution Maintance	58.65
Total Business Expense	26,442.42
EI Ancon MDWCA	
Contract services distribution	302.50
Contracted service back hoe	412.50
EA Certified mail	12.74
EA NM GRT	814.55
EA Penalties and Interest	33.76
EA Water Testing	224.49
EA WCF	57.38
EA Well House Elec Bill	854.29
EA Well house repair & Maint	106.37
EI Ancon Membership Dues	31.28
NPCR	10.00
Total EI Ancon MDWCA	2,859.86
EI Corruco MDWCA	
EC GRT	1,233.87
EC Membership Dues	32.40
EC Well House Electric bill	1,043.72
NPCR	10.00
Water Testing	337.62
Total EI Corruco MDWCA	2,657.61
Ilfeld MDWCA	
Accounting Fees	433.00
IF Certified Mail	16.77
IF Contracting Services	300.00
IF Insurance	1,959.00
IF Loan Interest	3,252.79
IF Maintance software/equi	1,982.70
IF Membership dues	34.02
IF Meter Parts	607.80
IF METER PURCHASE	454.24
IF New Membership Meter Purchas	500.40
IF NM GRT	2,241.49
IF Nonprofit corp Report	10.00
IF Storage Rental	405.00
IF WCF	119.24
IF Well House Elec Bill14170001	2,001.51
IF Well House Elec Bill18877001	1,117.99
Website	360.00
Total Ifield MDWCA	15,795.95
La Sacatosa MDWCA	
LS GRT	333.36
LS Well House Electric bill	1,116.86
LS Well House Repair and Maint.	167.26
Total La Sacatosa MDWCA	1,617.48
Lower Colonias MDWCA	
LC GRT	150.60
LC Membership dues	41.53
LC NPCR	10.00
LC Water Testing	13.70
LC WCF	3.80
LC Well house elect bill	174.45
Lower Colonias MDWCA - Other	23.48
Total Lower Colonias MDWCA	417.56

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Accrual Basis

El Valle Water Alliance
Profit & Loss
July 2011 through June 2012

	<u>Jul '11 - Jun 12</u>
Office Expenses	
Payroll Expenses	58,612.02
Postal box	105.00
Reimbursements	6.48
shipping and billing	977.10
Stationery & Printing	1,201.74
Supplies	755.63
Tech support	
Software updates	709.50
Total Tech support	<u>709.50</u>
Utilities	
EVWA Light bill	644.86
EVWA Propane Bill	303.11
office ENMR bill	1,651.76
Total Utilities	<u>2,599.73</u>
Total Office Expenses	64,967.20
San Juan MDWCA	
SJ Engineer & Design	120.00
SJ GRT	690.03
SJ Membership dues	34.46
SJ Shipping and billing	12.85
SJ WCF	168.32
SJ Well house electric bill	1,089.07
SJ Well house repair & maint	31.98
Total San Juan MDWCA	<u>2,146.71</u>
SM MDWCA	
SM GRT	421.98
SM NPCR	10.00
SM WCF	29.75
SM Well house electric	647.10
Total SM MDWCA	<u>1,108.83</u>
South San Ysidro MDWCA	
SSY equipment & parts	976.37
SSY Gross receipts tax	494.77
SSY Loan Interest 01	714.08
SSY Loan Interest 05	1,126.40
SSY Membership Dues	38.06
SSY NPCR	10.00
SSY San Miguel County Taxes	5.00
SSY water system repairs & main	361.00
SSY Water Testing	93.91
SSY WCF	41.05
SSY Well house Electric bill	792.96
Total South San Ysidro MDWCA	<u>4,653.60</u>
Villanueva MDWCA	
NPCR	10.00
VN Board Insurance	783.00
VN Meetings	25.00
VN Membership dues	33.34
VN NM GRT	2,248.83
VN water system repairs & maint	226.50
VN WCF	180.12
VN Well house electric bill	1,697.44
Total Villanueva MDWCA	<u>5,204.23</u>
Total Expense	<u>127,871.45</u>
Net Ordinary Income	20,352.27

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Accrual Basis

El Valle Water Alliance
Profit & Loss
July 2011 through June 2012

	<u>Jul '11 - Jun 12</u>
Other Income/Expense	
Other Income	
Interest Earned	138.20
Total Other Income	<u>138.20</u>
Net Other Income	<u>138.20</u>
Net Income	<u><u>20,490.47</u></u>

**El Valle Water Alliance
Exit Conference
Fiscal Year Ended June 30, 2012**

On October 12, 2012, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

El Valle Water Alliance

Ramon M. Lucero, President
Ken Lucero, Business Manager
Veronica Castro, Office Administrator

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, General Manager