

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

#3171

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

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Wanda M. Lucero, CPA

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To: Board of Directors of Garfield Mutual Domestic Water Consumers and Sewage Works Association and
Mr. Tim Keller, New Mexico State Auditor

I have performed the agreed-upon procedures enumerated below with respect to accrual basis financial information and state law compliance for Tier 6 of the Audit Act - Section 12-6-3B(6) NMSA 1978 and Section 2.2.2.16 NMAC which were agreed to by the management of Garfield Mutual Domestic Water Consumers and Sewage Works Association (the "Association") and the New Mexico State Auditor, solely to assist you with respect to the accounting records of Garfield Mutual Domestic Water Consumers and Sewage Works Association for the fiscal year ended June 30, 2016. The management of Garfield Mutual Domestic Water Consumers and Sewage Works Association is responsible for maintaining the financial records and complying with state law. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Garfield Mutual Domestic Water Consumers and Sewage Works Association is the responsible party, and the subject matter is the responsibility of the Association. The sufficiency of these procedures is solely the responsibility of Garfield Mutual Domestic Water Consumers and Sewage Works Association. 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. Procedure Performed: The Association has sixteen checking, savings and investment accounts. I selected six months (August 2015, October 2015, December 2015, February 2016, April 2016 and June 2016) for each of the 16 bank accounts for a total of 50% to verify that 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.

Findings: None of the bank reconciliations were performed in a timely manner. A majority (56 out of the 96) bank reconciliations tested were performed and completed during the month of August 2016. All bank and investment statements for the fiscal year were complete and on-hand. See Findings No. 2016-001.

2. Procedure Performed: I selected six months (August 2015, October 2015, December 2015, February 2016, April 2016 and June 2016) for each of the sixteen bank accounts for a total of 50% of the bank reconciliations to perform a random test of bank reconciliations for accuracy. I traced ending balances to the general ledger, supporting documentation and the quarterly financial reports submitted to DFA-Local Government Division.

Findings: There were no exceptions for accuracy of the bank reconciliations and the ending balances agreed with supporting documentation and amounts in the general ledger accounting system. However, the amounts reported for cash in the financial reports submitted to DFA-Local Government Division did reveal differences due to any reconciling items that had not yet been performed in the bank reconciliations as discussed in Findings No. 2016-001 above. See Findings No. 2016-002.

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3. Procedure Performed: I reviewed the supporting documentation provided by the financial institutions to determine if the financial institution has provided the 50% pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable. The fourteen bank and investment accounts are in two separate banking institutions and two accounts are held with New Mexico Finance Authority which hold the funds as reserve for guaranteed debt repayment.

Findings: The Agency has cash deposits (7 accounts) in Wells Fargo Bank with the total of all accounts exceeding the Federal Deposit Insurance Corporation limit of \$250,000 each month during the fiscal year ended June 30, 2016. The amount exceeding the FDIC limit varied from month to month with the smallest amount being \$13,206 and the highest amount being \$78,498 of uninsured deposits which the institution has not provided 50% pledged collateral on the uninsured amounts. The Agency has cash deposits (7 accounts) in White Sands Federal Credit Union totaling \$98,674 which is insured up to \$250,000 by the National Credit Union Administration. See Findings No. 2016-003

4. Procedure Performed: I verified that the company performs a yearly inventory of Capital Assets as required by Section 12-6-10 NMSA 1978.

Findings: No exceptions were found as a result of applying this procedure.

5. Procedure Performed: I verified that the required debt payments were made during the year and that the company was in compliance with any reserves required by debt agreements.

Findings: No exceptions were found as a result of applying these procedures.

6. Procedure Performed: I inquired about the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules and underlying documentation. I performed analytical review; tested actual revenue compared to budgeted revenue for the year for each type of revenue.

Findings: No exceptions were found as a result of applying this procedure:

7. Procedure Performed: Amounts are recorded (cash basis) to the revenue accounts on a daily basis (based on receipt of payments) and annually adjusted for accrual of the final month billing of the fiscal year end. The total revenue for fiscal year ended June 30, 2016 was \$466,882 excluding any grant revenue. I tested all revenue for six months (July 2015, September 2015, December 2015, January 2016, March 2016 and May 2016 for a total of \$241,514 (52%) of revenue to determine that the amount recorded for revenue in the general ledger agrees to the supporting documentation and the bank statement.

Findings: No exceptions were found as a result of applying this procedure.

8. Procedure Performed: I tested all revenue for six months (July 2015, September 2015, December 2015, January 2016, March 2016 and May 2016 for a total of \$241,514 (52%) to determine that the receipts of revenue were recorded to the proper classification, amount and period in the general ledger that agrees with the same basis of accounting records that the company uses.

Findings: No exceptions were found as a result of applying this procedure.

9. Procedures Performed: I selected and tested every cash disbursement in excess of \$400 which resulted in \$151,423 (53%) of total expenses \$287,345 (excluding depreciation and amortization) to determine that the amount recorded agreed to adequate supporting documentation and verified that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

Findings: No exceptions were found as a result of applying this procedure.

10. Procedures Performed: I selected and tested every cash disbursement in excess of \$400 which resulted in \$151,423 (53%) of the total expenses \$287,345 (excluding depreciation and amortization) to determine that the amount was properly authorized.

Findings: No exceptions were found as a result of applying this procedure.

11. Procedures Performed: I inquired if the bidding 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 Regulation.

Findings: The Agency did not solicit bids, quotation or proposal for the Agreed Upon Procedure Tier 6 after receiving the notification from the Office of the State Auditor that it should select an IPA to perform the agreed-upon procedures engagement. See Findings No. 2016-004.

12. Procedures Performed: I verified that journal entries appeared reasonable and had supporting documentation.

Findings: No exceptions were found as a result of applying this procedure.

13. Procedures Performed: I inquired if the company has procedures that require journal entries be reviewed and that they are being reviewed.

Findings: No exceptions were found as a result of applying this procedure.

14. Procedures Performed: I reviewed the minutes and correspondence to determine that the original budget and subsequent budget adjustments were approved by the local public body's governing board and DFA-LGD.

Findings: The original budget was prepared and submitted to DFA-LGD on June 17, 2016 which was late and approved by DFA-LGD, however, once the Agency was notified that it had been approved, the local public body's governing board did not include the approved budget as part of the minutes. The Agency is not reviewing any budget to actual variances. See Findings No. 2016-005.

15. Procedures Performed: I verified if the total actual expenditures exceeded the final budget. I determined that actual expenditures did not exceed the final budget at the legal level of budgetary control. I have prepared a schedule of Budgetary Comparison to Actual revenues and expenditures (see pages 19 and 20)

Findings: No exceptions were found as a result of applying this procedure:

16. Procedures Performed: I inquired into any and all state-funded capital outlay awards.

Findings: The Agency was awarded a Colonias Infrastructure Grant #2974-CIF on 5/23/14 in the amount of \$100,000 of which \$84,225 was funded and expended during fiscal year 6/30/15. The balance of \$15,774.93 was funded & expended during fiscal year 6/30/16.

The Agency was awarded a Colonias Infrastructure Grant #3179-CIF on 5/22/15 in the amount of \$360,000 with a \$40,000 loan. The \$40,000 loan and \$279,236 grant revenue were funded and expended during fiscal year 6/30/16. The balance (\$80,764) of the grant was funded on 7/29/16.

The Agency was awarded a Grant #3218-PG in the amount of \$30,000 on 5/22/15 and \$29,999 was funded and expended during fiscal year 6/30/16. The unexpended grant balance in the amount of \$1 was returned to the general fund during fiscal year 6/30/16.

The Agency was awarded a Colonias Infrastructure Project Loan/Grant #3350-CIF on 3/18/16 in the amount of \$1,126,567 with a \$112,657 loan. Neither were funded during fiscal year 6/30/16 but the first loan payment was required on June 1, 2016, so the Agency set up a "due from NM Finance Authority" to recognize the awarded loan amount.

17. Procedures Performed: I tested 100% of all capital outlay expenditures during the fiscal year to determine amounts recorded as disbursed agree with supporting documentation. I verified that the amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check were properly recorded. I verified that the cash disbursements were properly authorized and approved in accordance with budget, legal requirement and established policies and procedures. I verified that the bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the NM Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC). I determined that the physical existence (by observation) of the capital asset based on expenditures to date. I verified that the 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. I verified if any of the projects were funded in advance, that the award balance (and cash balance) appropriately reflect the percentage of completion based on the project schedule and expenditures to date. I verified that if the projects were complete that any unexpended balances were reverted per statute and agreement with the grantor. I verified whether cash received for the awards were accounted for in separate funds or separate bank accounts that are non-interest bearing (if so required by the capital outlay award agreement). I determined whether reimbursement requests were properly supported by costs incurred by the recipient. I determined whether the costs were paid by the local public body prior to the request for reimbursement.

Findings: No exceptions were found in testing all capital outlay expenditures.

18. Procedures Performed: 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 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3) (C) NMAC.

Findings: No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, or any internal control deficiencies.

I was not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Garfield Mutual Domestic Water Consumers and Sewage Works Association accounting records at June 30, 2016. Accordingly, I do not express such an opinion. 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 the Management of Garfield Mutual Domestic Water Consumers and Sewage Works Association, the Board of Directors, the New Mexico State Auditor, the Department of Finance and Administration - Local Government Division, and the New Mexico Legislature, and is not intended to be, and should not be, used by anyone other than those specified parties.

Wanda M. Lucero, CPA

Wanda M. Lucero, CPA
Mesilla, NM
November 11, 2016

Wanda M. Lucero, CPA

To The Board of Directors
Garfield Mutual Domestic Water Consumers & Sewage Works Association
Garfield, New Mexico 87936

Management is responsible for the accompanying financial statements of Garfield Mutual Domestic Water Consumers & Sewage Works Association, which comprise the Statement of Net Position - Water System Fund -Proprietary Fund of Garfield Mutual Domestic Water Consumers & Sewage Works Association and the related Statement of Revenues, Expenses and Changes in Fund Net Position - Water System Fund - Proprietary Fund and the Statements of Cash Flows - Water System Fund - Proprietary Fund for the year ended June 30, 2016, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the accompanying financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, conclusion, nor provide any assurance on these financial statements.

The budgetary comparison information on Pages 19 - 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

Wanda M. Lucero, CPA

Mesilla, New Mexico
November 11, 2016

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**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
JUNE 30, 2016**

**RONALD GARAY
DAVID M. HOLGUIN
NGA BREWSTER
ISIDRO ALVAREZ
ERROL GONZALEZ
ROBERT SHANNON**

**PRESIDENT
VICE PRESIDENT
SECRETARY/TREAS (NON VOTING)
DIRECTOR
DIRECTOR
DIRECTOR**

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF NET POSITION
WATER SYSTEM FUND - PROPRIETARY FUND
JUNE 30, 2016

<u>ASSETS</u>	
CURRENT ASSETS	
CASH & CASH EQUIVALENTS	
UNRESTRICTED	\$272,326
RESTRICTED	13,396
TOTAL CASH & CASH EQUIVALENTS	<u>285,722</u>
INVESTMENTS:	
UNRESTRICTED	98,675
RESTRICTED	158,078
TOTAL INVESTMENTS	<u>256,753</u>
TOTAL CASH & CASH EQUIVALENTS & INVESTMENTS	542,475
ACCOUNTS RECEIVABLE	45,843
DUE FROM NMFA #3350-CIF	112,657
INVENTORY, SYSTEM MATERIAL	50,264
PREPAID EXPENSES	18,921
TOTAL CURRENT ASSETS	<u>770,160</u>
CAPITAL ASSETS	
LAND	84,207
BUILDINGS	147,207
WATER SYSTEMS	5,478,134
CONSTRUCTION INTEREST	46,526
EQUIPMENT	76,150
SYSTEM IMPROVEMENT - ENGINEERING	449,277
FURNITURE AND FIXTURES	11,335
AUTOMOBILES	80,845
FENCE	17,158
ACCUMULATED DEPRECIATION	(2,645,280)
CAPITAL ASSETS - NET OF DEPRECIATION	<u>3,745,559</u>
OTHER ASSETS	
LOAN COSTS	20,787
ACCUMULATED AMORTIZATION	(9,061)
OTHER ASSETS - NET OF AMORTIZATION	<u>11,726</u>
TOTAL ASSETS	<u>\$4,527,445</u>
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	\$13,440
REFUND AND SECURITY KEY DEPOSITS	6,694
ACCRUED INTEREST PAYABLE	3,633
PAYROLL AND GROSS RECEIPTS TAXES PAYABLE	10,213
CURRENT PORTION OF LONG-TERM DEBT	97,584
TOTAL CURRENT LIABILITIES	<u>131,564</u>
NON-CURRENT LIABILITIES	
NON-CURRENT PORTION OF LONG-TERM DEBT	916,887
TOTAL NON-CURRENT LIABILITIES	<u>916,887</u>
TOTAL LIABILITIES	<u>1,048,451</u>
NET POSITION	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	2,708,834
RESTRICTED FOR:	
DEBT SERVICE AND REPAIRS	171,474
UNRESTRICTED	598,686
TOTAL NET POSITION	<u>3,478,994</u>
TOTAL LIABILITIES & NET POSITION	<u>\$4,527,445</u>
SEE ACCOUNTANT'S COMPILATION REPORT.	

GARFIELD-MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
WATER SYSTEM REVENUE	\$446,762
PENALTY REVENUE	11,832
WATER CONNECTION REVENUE	4,000
MEMBERSHIP FEES REVENUE	1,251
DELINQUENT RECONNECT CHARGE REVENUE	1,450
TURN ON CONNECT REVENUE & RELOCATING METERS	1,462
RETURN CHECK FEE REVENUE	125
TOTAL OPERATING REVENUES	<u>466,882</u>
OPERATING EXPENSES	
ANNUAL MEETING	1,509
AMORTIZATION	533
AUTO EXPENSES	5,296
BACKHOE REPAIR	2,070
BANK CHARGES	661
CASH (OVER) SHORT	0
CHLORINE SOLUTION	2,315
SOFTWARE SERVICE AGREEMENT	4,630
DEPRECIATION	122,932
DUES AND SUBSCRIPTIONS	913
EDUCATION	250
FUEL	2,949
INSURANCE	21,451
LEGAL AND ACCOUNTING	11,226
LICENSES AND FEES	252
LOAN ADMINISTRATIVE FEE	2,376
MISCELLANEOUS	776
OFFICE	6,524
PAYROLL TAXES	12,473
PROPERTY TAXES	2,705
POSTAGE AND FREIGHT	5,782
RENT - WAREHOUSE & EQUIPMENT	3,137
REPAIRS AND MAINTENANCE	2,729
SYSTEM MATERIALS	13,451
SYSTEM REPAIRS	606
TELEPHONE	3,308
WAGES	100,299
WATER TESTING	3,585
UTILITIES	28,649
TOTAL EXPENSES	<u>363,387</u>
OPERATING INCOME	<u>103,495</u>
NONOPERATING REVENUES (EXPENSES)	
INTEREST INCOME	2,265
INTEREST EXPENSE	(47,422)
GRANT NMFA NO. 2974-CIF	15,775
GRANT NMFA NO. 3179-CIF	279,236
GRANT NMFA NO. 3218-PG	29,999
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>279,853</u>
CHANGES IN NET POSITION	383,348
TOTAL NET POSITION - JULY 1	3,095,646
TOTAL NET POSITION - JUNE 30	<u>\$3,478,994</u>

SEE ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF CASH FLOWS
WATER SYSTEM FUND – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
CASH RECEIVED FROM CUSTOMERS	\$472,605
CASH PAID TO SUPPLIERS	(143,701)
CASH PAID TO EMPLOYEES	(100,299)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>228,605</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
CAPITAL GRANTS (#2974, #3179 AND #3218)	325,010
EXPENDITURES FOR ENGINEERING (#2974, #3179 AND #3218)	(365,052)
INTEREST AND LOAN ADMIN PAYMENTS ON CAPITAL DEBT	(50,146)
ACQUISITION OF CAPITAL ASSETS	(39,821)
PRINCIPAL PAYMENTS ON CAPITAL DEBT	(88,504)
NMFA LOAN PROCEEDS FOR LONG TERM CAPITAL DEBT	40,000
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	<u>(178,513)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
INTEREST EARNINGS	2,265
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,265</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,357
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (INCLUDING \$155,5884 REPORTED IN RESTRICTED ACCOUNTS)	<u>490,118</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (INCLUDING \$171,474 REPORTED IN RESTRICTED ACCOUNTS)	<u>\$542,475</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM OPERATING ACTIVITIES	
OPERATING INCOME	<u>\$383,348</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
GRANT NO. 2974-CIF	(15,775)
GRANT NO. 3179-CIF	(279,236)
GRANT NO. 3218-PG	(29,999)
CAPITAL DEBT INTEREST AND LOAN ADMIN FEES	49,798
INTEREST EARNED ON INVESTMENTS	(2,265)
DEPRECIATION AND AMORTIZATION	123,465
CHANGES IN ASSETS AND LIABILITIES:	
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	5,723
(INCREASE) DECREASE IN INVENTORY SYSTEM MATERIAL	(4,934)
(INCREASE) DECREASE IN PREPAID EXPENSES	(361)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	(2,005)
INCREASE (DECREASE) IN DEPOSITS AND SECURITY KEY DEPOSITS	905
INCREASE (DECREASE) IN PAYROLL & GROSS RECEIPTS TAXES	(59)
TOTAL ADJUSTMENTS	<u>(154,743)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$228,605</u>

SEE ACCOUNTANT'S COMPILATION REPORT.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (a) **REPORTING ENTITY** - Garfield Mutual Domestic Water Consumers and Sewage Works Association was organized in March 1968. The organization supplies water to approximately 900 consumers from the north edge of Hatch to Exit 59 which is 1/4 mile south of I-25 Caballo Lake Exit in Sierra County. The area is known as the Hatch Valley. The organization is governed by a eight-member Board of Directors, whose members are elected to three year terms.

As required by accounting principles generally accepted in the United States of America, These financial statements present the Garfield Mutual Domestic Water Consumers and Sewage Works Association (the primary government) as a stand-alone government. The reporting entity for the organization includes all functions of government in which the Board of Directors exercise oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters. No component units exist in which the Organization has any oversight responsibilities, which would require inclusion in the Organization's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

The organization's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB). Is responsible for establishing GAAP for state and local governments through its pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements.

- (b) **WATER SYSTEM FUND - PROPRIETARY FUND FINANCIAL STATEMENTS** - The water system fund financial statements (ie., the statement of net assets and the statement of revenues, expenses and changes in fund net assets) report information on all activities of the primary government and its component units.

The statement of revenues, expenses and changes in fund net assets demonstrates the degree to which the expenses are offset by program revenues. Program revenues include: 1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or activity. Other items not properly included among program revenues are reported instead as general revenues.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Measurement focus, basis of accounting, and financial statement presentation - The Water System Fund - Proprietary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

1. Major Proprietary Funds - The Organization's Water System Fund - Proprietary Fund accounts for the operations of the water system which is funded by proceeds from operations of this facility, including user fees, meter fees, connection fees, late payment fees. The water system fund is the Organization's only enterprise fund.

The Organization utilizes the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Organization has elected not to follow subsequent private-sector guidance issued after November 30, 1989.

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

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted first, and then unrestricted resources as they are needed.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) **CASH AND CASH EQUIVALETS AND INVESTMENTS** - The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from the date of acquisition.

(e) **INVENTORIES** - Inventories in the general fund consist of expendable system materials held for the Organization's use and are carried at cost using the first-in, first-out method.

(f) **RECEIVABLES AND PAYABLES** - The Water System Fund - Proprietary Fund receivables are due from customers within the Hatch Valley. The Organization's policy for collections is limited to collecting security and key deposits, the right to discontinue service and place liens on property.

(g) **RESTRICTED ASSETS** - Certain net assets of the Organization are classified as restricted assets on the Statement of Net Assets because their use is limited either by law through constitutional provisions or enabling legislation, or by restrictions imposed externally by creditors, or laws or regulations of other governments.

(h) **PREPAID ITEMS** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The Organization uses the consumption method.

(i) **CAPTIAL ASSETS** - Capital assets, which include property, plant and equipment, and infrastructure assets (water system), are reported in the applicable business-type activities in the water system fund - proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed. There was no interest capitalized as part of the cost of capital assets under construction during the year ended June 30, 2016.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Depreciation of capital assets is computed and recorded by utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	20 - 50 years
Water System	30 - 50 years
Machinery & Equipment	5 - 10 years
Automobiles	3 - 5 years
Fence	10 - 20 years

(j) **LONG-TERM OBLIGATIONS** - In the water system fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable water system fund - proprietary fund statement of net assets. Debt and refinance issuance costs are reported as deferred charges and amortized over the term of the related debt.

(k) **FUND EQUITY** - In the fund financial statements, water system funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(l) **NET ASSETS** - In the government-wide and water system fund financial statements, net assets invested in capital assets net of related debt is equal to the depreciated carrying value of the Organization's capital assets less related debt.

(m) **BUDGETS** - Budgets are prepared for and adopted by the Board after public hearings for the governmental funds. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level. All budgeted appropriations lapse at fiscal year-end. Formal budgets are adopted for the general fund. As a result, deficits in the budget columns of the accompanying financial statements may occur. The Organization legally adopts budgets for all its funds on an annual basis.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS:

(a) **Deposits and Investments** - All deposits are held in qualified public depositories and are included in the accompanying balance sheet and statement of net assets as cash and cash equivalents. The Organization maintains cash and securities at several local financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the Organization had one Financial institution with uninsured deposits. See Findings No. 2016-003.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS: (CONTINUED)

The Association's policy is to limit cash deposits to insured and/or collateralized demand deposit accounts, certificates of deposit and money market funds. All bank balances, except one bank (Wells Fargo) were insured as required by Federal Deposit Insurance Corporation and National Credit Union Administration. The carrying amount of the Association's deposits with financial institutions and NMFA at June 30, 2016 was \$542,475.29 and the balance per the banks was \$551,260.84 and is shown as follows:

Cash Accounts	Balance per Depository	Reconciling Items Outstanding Checks	Transit Deposits	Balance per Financial Statements
Wells Fargo Bank	\$294,508.50	(\$9,034.42)	\$ 47.87	\$285,521.95
White Sands Federal CU	98,674.27			98,674.27
NMFA - Bank of NY Mellon	125,509.01			125,509.01
NMFA	32,569.06			32,569.06
	<u>\$551,260.84</u>	<u>(\$9,034.42)</u>	<u>\$ 47.87</u>	\$542,274.29
Petty Cash				201.00
				<u>\$542,475.29</u>
Financial Statements:				
Cash and Cash Equivalents				\$371,001
Restricted cash and Investments				<u>171,474</u>
Total Cash				<u>\$542,475</u>

Concentration of Credit Risk

Wells Fargo Bank - \$44,509 (\$294,509 bank statement balance is covered by \$250,000 FDIC maximum federal insurance and \$44,509 is not covered). See Schedule of Findings No 2016-003.

White Sands Federal CU - NONE (\$98,674.27 including Certificates of Deposit totaling \$91,950.74 are covered by \$250,000 FDIC maximum federal insurance).

NMFA - Bank of NY Mellon and NMFA - NONE (\$125,509.01 and \$32,569.06 are held as reserve funds guaranteed for debt repayment).

3. RECEIVABLES:

Receivables at June 30, 2016 consisted of 45,843 gross billings to customers for water consumption through June 30, 2016.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

4. CAPITAL ASSETS:

	<u>Balance</u> <u>7/1/15</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/16</u>
Business-type Activities:				
Capital Assets not being depreciated:				
Land	\$ 84,207	\$	\$	\$ 84,207
Capital Assets being depreciated:				
Buildings	147,207			147,207
Water System	5,524,660			5,524,660
Water System Impr	84,225	365,052		449,277
Equipment	71,950	4,200		76,150
Furniture & Fixtures	9,569	1,766		11,335
Automobiles	46,990	33,855		80,845
Fence	<u>17,158</u>			<u>17,158</u>
	5,985,966	404,873		6,390,839
Accumulated Depreciation	<u>(2,522,348)</u>	<u>(122,932)</u>		<u>(2,645,280)</u>
Capital Assets, net	<u>\$3,463,618</u>	<u>\$ 281,941</u>	<u>\$ - 0 -</u>	<u>\$3,745,559</u>

5. LONG-TERM DEBT:

Long-term liabilities for the year ended June 30, 2016 were as follows:

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/16</u>	<u>Due in</u> <u>one yr</u>
Business-type activities:					
NMFA	\$950,318	\$ 0	\$85,315	\$ 865,003	\$89,717
NMFA 3179	0	40,000	2,000	38,000	2,000
NMFA 3350	0	<u>112,657</u>	<u>1,189</u>	<u>111,468</u>	<u>5,867</u>
Total	<u>\$ 950,318</u>	<u>\$ 152,657</u>	<u>\$ 88,504</u>	<u>\$ 1,014,471</u>	<u>\$97,584</u>

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

5. LONG-TERM DEBT (cont):

The Organization at June 30, 2016 had the following terms on long-term debt:

Note- Bond payable NM Finance Authority, payable semi-annually in May and November of each year based on a restructuring DSS aggregate debt service schedule. The reserve is funded monthly according to a monthly payment schedule. Maturity is April 2024. Bond Portion Coupon varies annually. \$ 865,003

Colonias Infrastructure Project Loan/Grant No. 3179-CIF awarded \$400,000 loan/grant which included a 10% loan agreement with NM Finance Authority in the amount of \$40,000 on May 22, 2015. This is a non-interest bearing loan to the Association. The loan portion is payable in annual payments of \$2,000 beginning June 1, 2016 and due on June 1 of each year for nineteen years thus maturing 6/1/2035. These funds were used for field survey, mapping, preliminary design and geotechnical report. This note is collateralized by pledged revenues. 38,000

Colonias Infrastructure Project Loan/Grant No 3350-CIF awarded 1,126,567 loan/grant which included a 10% loan agreement with NM Finance Authority in the amount of \$112,657 on March 18, 2016. The Association is required to match \$112,657 for Phase I and II for Design and construction of waterline improvements. The loan is a non interest bearing loan to the Association and is payable annually in the amount of \$5,867 beginning on June 1, 2016 and continuing for Nineteen years, thus maturing on 6/1/35. The first payment which was due June 1, 2016 was prorated due to funding date and was reduced to \$1,189. This note is collateralized by pledged revenues. 111,468
\$ 1,014,471

The aggregate maturities of outstanding long-term debt during the next five years are as follows: 2017 - \$97,584; 2018 - \$102,257; 2019 - \$107,213; 2020 - \$112,460; 2021 - \$118,001.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

6. BUDGETS:

Garfield Mutual Domestic Water Consumers and Sewage Works Association's annual budget, a requirement of the organization's bylaws, serves as a guide to estimate and coordinate anticipated revenues and expenditures.

7. SUBSEQUENT EVENTS:

Subsequent events are events or transactions that occurred after the balance sheet date but before the financial statements are issued or available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the process of preparing financial statements. The financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date. Subsequent events were evaluated through November 11, 2016, which is the date the financial statements were available to be issued. As of November 11, 2016, there were no subsequent events to report.

8. INCOME TAXES:

The company is an organization that is exempt from Federal Income Taxes under 501(c)(12) and files federal Form 990 yearly. The federal tax returns of the company for 2013, 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

9. DUE FROM NMFA #3350-CIF:

The Association was awarded a Colonias Infrastructure Board Project No 3350-CIF: Water Infrastructure, Design and construction of Phase I-II for a new water source, storage capacity, waterline improvements and installation of SCADA on March 18, 2016 for \$1,126,267 Grant/Loan. The grant is 90% (\$1,013,910) and the loan is 10% (112,657) with the Agency required to match the loan amount. The loan is a non-interest bearing account with annual payments beginning June 1, 2016. At June 30, 2016 none of the awarded money had been funded to the Agency but the first payment was prorated and due June 1, 2016 in the amount of \$1,189 so the Agency set up a "due from NM Finance Authority" to recognize the awarded loan amount. The loan is presented on the Statement of Net Position at June 30, 2016 with \$5,867 included in current portion of long-term debt and 105,601 included in the non-current portion of long-term debt. The amount due from NMFA for nonfunded loan is shown as a current asset in the Statement of Net Position.

GARFIELD DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
BUDGETARY COMPARISON SCHEDULE
WATER SYSTEM FUND - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance (Over) Under
REVENUE:				
40000 • Membership Fee Revenue	\$20	\$20	\$1,251	(\$1,231)
40100 • Penalty Revenue	11,000	11,000	11,832	(832)
40150 • Delinquent Reconnect Charge	1,750	1,750	1,450	300
40300 • Turn on Charge Revenue	400	400	552	(152)
40400 • Water Connection Revenue	15,000	15,000	4,000	11,000
40500 • Water System Revenue	440,827	440,827	448,762	(5,935)
41000 • Misc. Income	450	450	910	(460)
41500 • Returned check fee	100	100	125	(25)
49000 • Re-connect charge	3,500	3,500	0	3,500
Total Revenue	473,047	473,047	466,852	6,195

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.
SEE INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.

GARFIELD DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
BUDGETARY COMPARISON SCHEDULE
WATER SYSTEM FUND - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance
			(Budgetary Base)	(Over) Under
EXPENSES:				
80500 - Amortization Expense	533	533	533	0
80700 - Annual / REGULAR Meeting Exp	800	800	1,509	(709)
81000 - Auto Expenses	9,500	9,500	5,296	4,204
81200 - BACKHOE REPAIR	3,093	3,093	2,070	1,023
82000 - Bank Charges	621	621	661	(40)
82600 - Cash Over and Short	(7)	(7)	0	(7)
83100 - Chlorine/Solution	2,458	2,458	2,315	143
83700 - Software Serv. Agreem	5,000	5,000	4,630	370
84000 - Depreciation Expense	109,428	109,428	122,832	(13,504)
84600 - Dues and Subscriptions Exp	899	899	913	(14)
84700 - Education	420	420	250	170
86200 - Engineering Fee	2,713	2,713	0	2,713
86300 - Fuel Expense	8,001	8,001	2,949	5,052
86600 - Freight Expense	0	0	59	(59)
87000 - Insurance Expenses	24,879	24,879	21,451	3,428
88000 - Laundry and Cleaning	1,500	1,500	1,712	(212)
88100 - Clothes	450	450	0	450
88600 - Legal and Accounting Fees	10,378	10,378	11,227	(848)
89000 - Licenses and Fees Expense	1,072	1,072	252	820
89100 - Loan Admin. Fee	2,340	2,340	2,376	(36)
70000 - Maintenance Expense	5,000	5,000	750	4,250
70500 - Meals and Entertainment Expense	200	200	334	(134)
70600 - Miscellaneous	214	214	442	(228)
70700 - Pest Control and Weed Killer	0	0	264	(264)
71000 - Office Expense	4,184	4,184	6,524	(2,330)
72000 - Payroll FICA Taxes	5,993	5,993	6,219	(228)
72010 - Payroll Expenses	0	0	0	0
72100 - Payroll Medicare Tax	1,401	1,401	1,454	(53)
72200 - Payroll Work Comp Tax	69	69	90	(21)
72300 - Payroll SUTA Tax	4,538	4,538	4,571	(33)
72400 - Payroll FUTA Tax	133	133	139	(6)
72800 - Property Taxes	2,500	2,500	2,705	(205)
73800 - Postage Expense	5,682	5,682	5,724	(42)
74000 - Rent - WAREHOUSE	3,000	3,000	3,000	0
74100 - Rent - Machine/Equipment	0	0	137	(137)
74600 - Repairs Expense	1,095	1,095	0	1,095
75600 - System Materials	25,251	25,251	13,451	11,800
75700 - System Repair	33,282	33,282	607	32,675
76000 - Telephone Exp & Internet	3,820	3,820	3,308	512
77600 - Wages Expenses	98,650	98,650	100,299	(3,649)
77800 - Water Testing	3,381	3,381	3,685	(204)
78000 - UTILITIES - Electric	31,194	31,194	28,295	2,899
78100 - UTILITIES - FNM gas	369	369	364	45
Total Operating Expenses	412,075	412,075	393,387	48,688
Operating Income (loss)	60,972	60,972	109,495	(42,523)
Non-Operating Revenue(Expenses):				
40880 - Interest Income	1,302	1,302	2,265	963
67500 - Interest Expense	(47,074)	(47,074)	(47,422)	(348)
42000 - NMFPA Grant Revenue			325,010	325,010
Capital Outlay - Grant expended			(325,010)	(325,010)
Capital Outlay - Loan expended			(40,042)	(40,042)
Acquisition of Capital Assets			(39,821)	(39,821)
Changes in current Assets and Liabilities			7,829	7,829
Net Change in Debt			65,953	65,953
Total non-operating revenues(expenses)	(45,772)	(45,772)	(51,198)	(5,988)
Net Change	15,200	15,200	52,357	(\$47,889)
Cash, beginning of year	490,118	490,118	490,118	
Cash, end of year	\$505,318	\$505,318	\$542,475	

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.
SEE INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF CAPITAL OUTLAY AWARD:
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Capital Appropriations Project Title	Date	Project # Award	Amount Received Prior Years	Amount Expended Prior Years	Amount Received Current Year	Amount Expended Current Year	Total Amount Received	Total Amount Expended	Balance 06/30/16	
NMFA CIF Grant (Water Plan)	7/1/2014	2974-CIF	\$100,000	\$84,225	\$84,225	\$15,775	\$15,775	\$100,000	\$100,000	\$0
NMFA CIF Grant (Environmental Report)	5/22/2015	3218-PG	30,000	0	29,999	29,999	29,999	29,999	29,999	1 *
NMFA CIF Grant (Design)	7/1/2015	3179-CIF	360,000	0	279,236	279,236	279,236	279,236	279,236	80,764
NMFA CIF (Phase I & II Design & Construction)	3/18/2016	3350-CIF	1,013,910	0	0	0	0	0	0	1,013,910
			\$1,503,910	\$84,225	\$84,225	\$325,010	\$325,010	\$409,235	\$409,235	\$1,094,675

* returned to main fund 8/14/15

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED JUNE 30, 2016**

Item 2016-001 - Bank reconciliations performed in a timely manner

Criteria

Section 2.2.2.10.D NMAC states that the Financial Statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States of America. Section 6-10-2 NMSA 1978 requires that cash records be maintained listing all items of receipts and disbursements of public money. The cash record must also be balanced daily to show the balance of public money on hand at the close of each business day.

Condition

Bank reconciliations are not being performed monthly or in a timely manner. The Agency has seven checking accounts, one savings account, one money market account, five certificates of deposits and two accounts held with NM Finance Authority (held as reserve accounts for guaranteed debt repayment). All cash accounts are maintained using Quick Books Accounting Software and the bank reconciliations are performed using the program within Quick Books. The bank accounts were reconciled and all statements were complete and on hand for each month for fiscal year ended June 30, 2016 but the majority of the reconciliations were performed during the month of August 2016.

Cause

The Office Manager performed a majority of the bank account reconciliations after the end of the fiscal year during the month of August 2016 after having a difficult period beginning in December 2015 and continuing with personal issues concerning illness and eventual death of her husband in May 2016. The Office Manager did however, maintain a daily cash balance update which was reported to the governing board.

Effect

Garfield Mutual Domestic Water Consumers and Sewage Works Association has not complied with Section 2.2.2.10.D NMAC and Section 6-10-2 NMSA, 1978 by not maintaining adequate controls over cash or facilitating prompt and accurate reporting. Bank and cash reconciliations should be performed monthly to compare bank balances to balances in the general ledger cash accounts to ensure accuracy and accountability for all cash transactions.

Recommendation

It is recommended that Garfield Mutual Domestic Water Consumers and Sewage Works Association establish a policy that requires monthly bank reconciliations on all bank accounts and that they be performed within a reasonable time after receiving the bank statements from the financial institutions. Accurate records will keep the Agency's Governing Board more informed, and allow them to make better financial decisions.

Entity Response

The Agency will actively establish a policy that requires that the monthly bank reconciliations be performed within two weeks of receiving the bank statements from the financial institutions and that they be filed in a logical sequence. The Agency will begin verifying that reconciliations are being performed timely at the monthly board meeting beginning January 2017.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED JUNE 30, 2016**

Item 2016-002 - Reports Submitted to DFA-LGD

Criteria

Section 6-6-2(F) NMSA, 1978 requires each local public body to submit periodic financial reports, at least quarterly, to the DFA-LGD. Section 6-6-3 NMSA, 1978 compilation states that every local public body shall make all reports as may be required by the Department of Finance and Administration - Local Government Division (DFA-LGD) and conform to the rules and regulations adopted by the DFA-LGD.

Condition

Periodic quarterly financial reports were submitted timely but because most of the bank accounts had not been reconciled until August 2016 (as noted in Findings No. 2016-001), the amount reported in the bank accounts may or may not have been correct due to reconciling items.

Cause

The Office Manager performed a majority of the bank account reconciliations after the end of the fiscal year during the month of August 2016 after having a difficult period beginning in December 2015 and continuing with personal issues concerning illness and eventual death of her husband in May 2016. The Office Manager did however, maintain a daily cash balance update which was reported to the governing board.

Effect

Garfield Mutual Domestic Water Consumers and Sewage Works Association has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978. The financial reports were submitted to DFA-LGD on a quarterly basis but without performing the required bank reconciliations.

Recommendation

It is recommended that Garfield Mutual Domestic Water Consumers and Sewage Works Association make every effort to perform the required monthly bank reconciliations on all bank accounts before submitting the financial reports on a quarterly basis to the Department of Finance and Administration - Local Government Division (DFA-LGD).

Entity Response

The Agency will actively establish an effort to perform the required monthly bank reconciliations on all bank accounts before submitting the financial reports on a quarterly basis to the Department of Finance and Administration - Local Government Division (DFA-LGD). The Agency will verify that the bank reconciliations are being performed timely beginning with the January 2017 board meeting.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED JUNE 30, 2016**

Item 2016-003 - Credit Risk - additional 50% pledged collateral

Criteria

Section 6-10-17 NMSA 1978, NM Public Money Act requires the local public body's financial institutions provide 50% of pledged collateral on all uninsured deposits.

Condition

The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 of cash deposits held in a banking institution. The Agency has seven bank accounts at Wells Fargo Bank and the total cash deposits for all accounts exceeded the \$250,000 FDIC limit every month during the fiscal year ended June 30, 2016. The amount exceeding the FDIC limit varied from month to month with the smallest amount being \$13,206 and the highest amount being \$78,498 of uninsured deposits.

Cause

Garfield Mutual Domestic Water Consumers and Sewage Works Association maintained cash deposits in seven checking accounts at Wells Fargo Bank during fiscal year ended June 30, 2016 with amounts that exceeded the Federal Deposit Insurance Corporation limit and thus exposed the Agency to the risk of uninsured deposits because it did not secure 50% pledged collateral from Wells Fargo Bank for all uninsured deposits.

Effect

Garfield Mutual Domestic Water Consumers and Sewage Works Association has not complied with Section 6-10-17 NMSA 1978 which requires the local public body's financial institutions provide 50% pledged collateral on all uninsured deposits exceeding FDIC.

Recommendation

It is recommended that Garfield Mutual Domestic Water consumers and Sewage Works Association establish a system with the financial institutions that it banks with that will provide the necessary 50% pledged collateral on all deposits that exceed the Federal Deposit Insurance Corporation (FDIC) limit which is currently \$250,000.

Entity Response

The Agency will actively seek to get Wells Fargo Bank to provide it with the 50% of pledged collateral on all uninsured deposits and review cash balances held within all financial institutions to verify that all deposits are insured. The Agency has begun the process with Wells Fargo Bank to establish the necessary pledged collateral and plans to have the necessary collateral by June 30, 2017.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED JUNE 30, 2016**

Item 2016-004 - Bidding Process according to NM Procurement Code

Criteria

Section 13-1-28 through 13-1-199 NMSA 1978 and State Regulations (1.4.1 NMAC) require that Agencies upon receipt of written notification from the office of the State Auditor to proceed, the agency shall identify all elements or services to be solicited pursuant to Subsection A of 2.2.2.10 NMAC or Subsections A and B of 2.2.2.16 NMAC if applicable, and request quotations or proposals for each applicable element of the annual audit or agreed upon procedures engagement. The Agency is encouraged to obtain no fewer than three written or oral quotations to be recorded and placed in the procurement file. The Agency shall evaluate all competitive proposals or quotations received pursuant to this Subsection H of 2.2.2.8 NMAC using an evaluation process, preferably executed by a selection committee. After completing the evaluations for each IPA and making the IPA selection, each agency must enter the appropriate requested information online on the OSA-Connect website. The OSA will notify the agency as to the office's approval or rejection of the selected IPA and contract.

Condition

The Agency did not solicit any quotations or proposals for the agreed upon procedure engagement from any independent public accountant (IPA) but instead selected the IPA that had prepared prior year agreed upon procedures and submitted the requested information to the Office of the State Auditor who rejected the IPA selection because the IPA failed to meet the auditor rotation requirement and had performed Tier 6 Agreed Upon Procedures for the past six years for the Agency. The Agency submitted a request to the state auditor for reconsideration of the disapproval. Pursuant to NMSA 1978, Section 12-6-3 and -14, and NMAC 2.2.2.8, the Office of the State Auditor approved the request to contract the IPA.

Cause

Garfield Mutual Domestic Water Consumers and Sewage Works Association did not solicit any quotations or proposals for the agreed upon procedure engagement from any independent public accountant (IPA) for the Tier 6 Agreed Upon Procedures because the deadline was missed due to the manager dealing with personal issues concerning the health and death of her spouse in May 2016.

Effect

Garfield Mutual Domestic Water Consumers and Sewage Works Association has not complied with Section 13-1-28 through 13-1-199 NMSA 1978 and State Regulations (1.4.1 NMAC).

Recommendation

It is recommended that the Agency follow the required procedures to obtain professional services from an IPA pursuant to Subsection J of 2.2.2.8 NMAC.

Entity Response

The Agency agrees to follow the required procedures to obtain professional services from an Independent Public Accountant pursuant to 2.2.2.8 (J) NMAC beginning with the next fiscal year ending June 30, 2017 by submitting the IPA selection and contract using the online OSA-Connect website by May 31, 2017.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED JUNE 30, 2016**

Item 2016-005 - Approval of Budget

Criteria

Section 6-6-2(A) NMSA, 1978 and Section 6-6-5 NMSA, 1978 require that the local public body furnish and file with the Department of Finance and Administration - Local Government Division (DFA-LGD) a proposed budget by June 1. The annual budget submitted to the DFA-LGD must be approved by the DFA-LGD. Upon receipt of any budget approved by DFA-LGD, the local public body shall cause such budget to be made a part of the minutes of such body. This budget should be monitored, reviewed and adjusted in the normal course of the fiscal year by the Board of Directors and any adjustments due to variances should be approved by DFA-LGD.

Condition

The proposed budget for fiscal year June 30, 2016 was not submitted to DFA-LGD by June 1 but was subsequently submitted and approved by DFA-LGD however, once approved, the local public body did not include the approved budget as part of the minutes of the board. The budgetary process of managing the revenues, expenditures, and non-operating revenue and expenses, which should be compared to the approved budget so that the Agency can monitor its progress.

Cause

The Agency did not meet the deadline for submitting the proposed budget to the Department of Finance and Administration - Local Government Division (DFA-LGD) and after receipt of the notification of approval of the budget from DFA-LGD, failed to include the approved budget as part of the minutes. The Agency is not reviewing any variances from budget to actual revenue and expenses and should make adjustments for any unfavorable variances.

Effect

Garfield Mutual Domestic Water Consumers and Sewage Works Association has not complied with Sections 6-6-2(A) and 6-6-5 NMSA, 1978. The proposed budget was not submitted before the due date of June 1 and upon receipt of the approval from the Department of Finance and Administration - Local Government Division (DFA-LGD) was not included as part of the minutes of the local public body. The Agency is not reviewing any variances from comparing budget to actual revenue and expenses during the fiscal year.

Recommendation

It is recommended that the Agency make an effort to meet the June 1 deadline in submitting the proposed budget to DFA-LGD and upon receipt of the authorization form DFA-LGD, include the approved budget in the board minutes. It is also recommended that the Agency review on a monthly basis, if possible, the variances in budget compared to actual revenue and expenses.

Entity Response

The Agency will make an effort to submit the proposed budget to the DFA-LGD by June 1, 2017 and include as part of the minutes once the approval has been received by DFA-LGD for budget year 2017/2018. The Agency will actively review any variances from budget compared to actual revenue and expenses during its scheduled board minutes beginning January 2017 for fiscal year 2016/2017.

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
ENTRANCE CONFERENCE
FOR YEAR ENDED JUNE 30, 2016**

An entrance conference was held on September 13, 2016 at 7:00 pm at the office of Garfield Mutual Domestic Water Consumers Association at 8580 N. Hwy 187, Garfield, NM 87936 which was a closed session. Three members of the Six members of the governing board in attendance were:

Ronald Garay	President
Nga Brewster	Secretary - Treasurer (Non voting)
Isidro Alvarez	Director

**GARFIELD MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
FOR YEAR ENDED JUNE 30, 2016**

An exit conference was held on November 15, 2016 at 7:00 pm at the office of Garfield Mutual Domestic Water Consumers Association at 8580 N. Hwy 187, Garfield, NM 87936 which was a closed session. 5 members of the governing board in attendance were:

Ronald Garay	President
Nga Brewster	Secretary - Treasurer (non voting)
Robert Shannon	Director
Isidro Alvarez	Director
Robert Shannon	Director