

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

Financial Statements, Supplementary Information
and
Independent Auditor's Report

March 31, 2018

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

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JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

List of Principal Officials

March 31, 2018

Board of Directors

John Garcia	President
Joe Bowen	Vice President
Robert M. Wilson	Secretary/Treasurer
David Ryan	Director
John Merhege	Director

Administrative and Operational Employees

Christina Holder	Office Manager
John M. Kennedy	Systems Operator

Independent Auditor's Report

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Jemez Springs Domestic Water Association (Association) as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended March 31, 2018, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of the Jemez Springs Domestic Water Association as of March 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

Other Information

Our audit was conducted for the purpose of forming opinions the Association's financial statements and the budgetary comparisons. The schedules required by Section 2.2.2 NMAC, as listed in the Supplementary Information – Supporting Schedules section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2018 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Porch & Associates, LLC

Albuquerque, New Mexico
August 20, 2018

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION
March 31, 2018

ASSETS

Current Assets:

Cash and cash equivalents	\$ 158,812
Accounts receivable, net	33,788
Receivable, other	5,734
Prepaid expenses	5,864
Total current assets	<u>204,198</u>

Noncurrent Assets:

Cash and cash equivalents, restricted to customer deposits	2,202
Capital assets, not depreciated	253,334
Capital assets, net of accumulated depreciation	1,200,582
Total noncurrent assets	<u>1,456,118</u>

Total assets	<u><u>\$ 1,660,316</u></u>
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LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities:

Accounts payable	\$ 6,828
Accrued compensation, related taxes, and benefits	4,431
Gross receipts tax payable	3,163
Interest payable	5,763
Meter deposits payable	2,202
Escheatment payable	297
Compensated absences - current	2,077
Loans payable - current	16,665
Total current liabilities	<u>41,426</u>

Noncurrent Liabilities

Loans payable	285,906
Total liabilities	<u>327,332</u>

NET POSITION

Net investments in capital assets	1,151,346
Unrestricted	181,638
Total net position	<u>1,332,984</u>
Total liabilities and net position	<u><u>\$ 1,660,316</u></u>

The accompanying notes are an integral part of these financial statements.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended March 31, 2018

Operating Revenues:	
Water sales	\$ 271,230
Other	13,068
Total operating revenues	<u>284,298</u>
Operating Expenses:	
Wages, salaries, and related taxes	73,928
Depreciation	61,521
Repairs and maintenance	14,525
Office	13,878
Employee benefits	12,124
Plant operations	8,313
Professional services	7,500
Arsenic treatment	7,304
Insurance	4,201
Travel	2,174
Miscellaneous	1,873
Total operating expenses	<u>207,341</u>
Operating income	<u>76,957</u>
Nonoperating revenues (expenses):	
Interest income	403
Grant revenue	82,230
Bad debt	(34,263)
Interest expense	(7,908)
Total nonoperating revenues (expenses)	<u>40,462</u>
Change in net position	<u>117,419</u>
Net position, beginning of year, before restatement	1,212,780
Restatement	2,785
Net position, beginning of year, after restatement	<u>1,215,565</u>
Net position, end of year	<u><u>\$ 1,332,984</u></u>

The accompanying notes are an integral part of these financial statements.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2018

Cash Flows From Operating Activities	
Cash received from customers	\$ 276,528
Cash payments to vendors and employees	(140,435)
Net cash provided by operating activities	<u>136,093</u>
Cash Flows From Capital and Related Financing Activities	
Receivable from construction vendor	(5,734)
Purchase of capital assets	(224,312)
Proceeds from loans	54,820
Principal payments on loans	(14,932)
Interest payments on loans	(7,927)
Net cash used by capital and related financing activities	<u>(198,085)</u>
Cash Flows From Noncapital and Related Financing Activities	
Grant revenue	<u>82,230</u>
Cash Flows From Investing Activities	
Interest received	<u>403</u>
Net change in cash and cash equivalents	20,641
Cash and cash equivalents, beginning of year	<u>140,373</u>
Cash and cash equivalents, end of year	<u><u>\$ 161,014</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	<u>\$ 76,957</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	61,521
Bad debt	34,263
Changes in assets and liabilities:	
Accounts receivable	(7,870)
Receivables, other	(34,263)
Prepaid insurance	(118)
Accounts payable	2,652
Accrued compensation, related taxes, and benefits	2,616
Gross receipts tax payable	(1,021)
Meter deposits payable	100
Compensated absences	1,256
Total adjustments	<u>59,136</u>
Net cash provided by operating activities	<u><u>\$ 136,093</u></u>

The accompanying notes are an integral part of these financial statements.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity. The Jemez Springs Domestic Water Association (Association) is a nonprofit Mutual Domestic Association established for the purpose of constructing, maintaining, and operating a water system for members of the Association in rural Sandoval County. The Association was incorporated as a Cooperative Association under the provisions of the New Mexico Cooperative Corporation Act. The Board of Directors changed the Associations form of organization from a nonprofit cooperative to a nonprofit Association under the Sanitary Projects Act, NMSA 3-29-1 through 3-29-20. Under the Sanitary Projects Act, the Association remains a nonprofit organization owned and governed by its members.

Per Attorney General Opinion 90-30, entities created under the Sanitary Projects Act are subject to the New Mexico Audit Act. In Attorney General Opinion 06-02, the Attorney General of the State of New Mexico ruled that mutual domestic water associations are local public bodies considered governmental nonprofit organizations and, as such, are subject to certain state statutes and should present financial statements in a government format. The Association has a responsibility to abide by the following:

- Open Meeting Act
- Inspection of Public Records Act
- New Mexico Procurement Code
- Per Diem and Mileage Act
- Section 6-6 NMSA 1978

A. Financial Reporting Entity

The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

As required by GAAP, financial statements are presented for the primary government and its component units. A legally separate organization that does not qualify as a primary government is a potential component unit. The normal criterion for deciding whether a potential component unit is, in fact, a component unit is financial accountability. Financial accountability is determined by analyzing fiscal dependency, board appointments, financial benefit or burden relationships, or the ability of the primary government to impose its will on the potential component unit. Based on these criteria, the Association has no component units.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

A. Financial Reporting Entity (Continued)

The Association is considered a special purpose government engaged in a single business-type activity and presents only financial statements required for enterprise funds. These financial statements and corresponding required supplementary information consist of:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements
- Management's Discussion and Analysis
- Information Required by the State Auditor's Rule

The accompanying financial statements have been prepared on the accrual basis of accounting. The economic resource measurement focus is used for all assets (both financial and capital), liabilities, revenues, expenses, gains and losses. Revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of the related cash flows. The proprietary fund consists of one enterprise fund and as such does not employ any internal service funds.

The Association distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principle ongoing operations. The principal operating revenues of the Associations are members' assessments and hookup fees. Operating expenses include expenses required to operate the water system, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Cash and Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits, savings accounts, and certificates of deposit. Cash and cash equivalents are reported at carrying amount, which reasonably estimates fair value.

All investments are stated at fair value that is determined by using selected bases. Interest income, realized gains and losses on investment transactions, and amortization of premiums and discounts on investment purchases are included for financial statement purposes as investment income. The Association did not have any investments at year-end.

The Association does not have an investment policy. New Mexico State Statute 6-10-36 allows for the following investments:

1. United States Treasury Securities (Bills, Notes and Bonds) and other securities issued by the United States government or its agencies or instrumentalities that are either direct obligations of the United States of America, the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, the Federal Farm Credit Bank, or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government.
2. Insured and/or collateralized (with U.S. Government Securities and/or New Mexico Bonds) certificates of deposit of banks, savings and loan associations, and credit unions, pursuant to State Board of Finance Collateral Policies.
3. Money market funds whose portfolios consist entirely of United States Government Securities or agencies sponsored by the United States government.
4. Investments in the New Mexico State Treasurer external investment pool (Local Government Investment Pool).

C. Accounts Receivable

Accounts receivables represent amounts due for member assessments, related charges, and taxes. Management has established an allowance for uncollectible accounts receivable. Management attempts to obtain a payment plan from members with past due assessments. An allowance is established for accounts for which the Association is not able to establish a payment plan.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year-end are recorded as prepaid items.

E. Capital Assets

Capital assets, which include buildings, water system, and equipment, are defined by the Association as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	10 years
Buildings and other improvements	5 - 30 years
Water system and equipment	3 - 40 years

The Audit Act, 12-6-10, NMSA 1978, requires all assets which cost more than \$5,000 and have a life greater than one year to be added to capital assets and a yearly inventory of those assets must be taken.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Association during the current fiscal year was \$7,908. Of this amount, none was included as part of the cost of capital assets under construction in connection with building projects.

F. Intangible Assets

Under Statement of ASC 350, *Intangibles - Goodwill and Other*, intangible assets with indefinite lives are no longer amortized. Indefinite lived intangible assets, such as water rights, are tested for impairment on an annual basis.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

G. Cash Flows

For purposes of the Statement of Cash Flows, the Association considers all demand deposit, savings, certificate of deposits, and highly liquid investments to be cash equivalents.

H. Accrued Employee Benefits

It is the Association's policy to permit employees to accumulate earned but unused vacation benefits. Employees that work at least 20 hours a week are entitled to 5 days of vacation after the first year of employment and 10 days of vacation after the second year. Vacation days may not accrue from one year to the next without the prior approval with a maximum of 20 days and is accrued when incurred. The cost of earned but unpaid vacation leave is normally recognized when the benefit vests to the employee and becomes a legal liability to the Association. The Association allows employees to take their leave prior to the end of the calendar year following the year in which leave is earned.

I. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on asset use either through the enabling legislation adopted by the Association or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

J. Income Taxes

The Association is exempt from Federal Income Taxes under the provisions of section 501(a) of the Internal Revenue Code as an entity described in section 501(c)(12). Therefore, no provision for income taxes has been made. The Association files Form 990 yearly. The Association's open audit periods are 2014 through 2016. Starting with the March 31, 2017 year, the Association no longer needs to file Form 990.

The Association evaluates uncertain tax positions in accordance with ASC 740 whereby the effect of the uncertainties in tax positions would be recorded if the outcome was considered probable and reasonably estimable. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

K. Budgetary Information

The Associations budget is prepared on the accrual basis. The Association is statutorily required to submit a budget to the Department of Finance and Administration for approval. The Association treats aggregate cash receipts and disbursements as one fund. The level of budgetary control is at the fund level.

The Association follows the following procedures for establishing the budgetary data reflected in the financial statements:

1. In March, the management submits to the Board of Directors a proposed operating budget of the fiscal year commencing the following April. The operating budget includes proposed expenditures and the means of financing them.
2. In April, the budget is approved by the Board of Directors.
3. The board meeting, while not intended for the general public, is open for the general public unless a closed meeting has been called for.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis is consistent with generally accepted accounting principles (GAAP).

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk. Custodial credit risk is, in the event of the failure of a depository financial institution, the Association will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Association does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Association's name. As of March 31, 2018, the Association's bank balances total of \$161,768 was fully insured by FDIC insurance and was not exposed to custodial credit risk.

The total balance in any single financial institution may at times exceed the \$250,000 in FDIC coverage available to individual depositors. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Association is required to collateralize an amount equal to one-half of the public money in excess of FDIC insurance at each financial institution.

Credit Risk. The Association has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better rating, asset backed obligations with an AAA or better rating, or repurchase agreements.

NOTE 3. ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS AND OTHER

Accounts receivable represents billings for water, related fees, and taxes. It is management's policy to cut off water service for non-payment if a payment plan cannot be established with the customer.

Accounts receivable is comprised of the following at March 31, 2018:

Accounts receivable	\$ 37,150
Allowance for uncollectible accounts	<u>(3,362)</u>
Accounts receivable, net	<u>\$ 33,788</u>

The Association paid a vendor \$34,263 during the year ending March 31, 2017. The vendor will not be completing the work. The Association is not confident that it will be able to collect the receivable and has established an allowance for the entire balance.

In addition, in the year ending March 31, 2018 the Association paid \$5,734 to a vendor to do work to locate a buried line to be relocated in conjunction with road work. The NMDOT has said they will reimburse this expense because it was incurred as a result of work the NMDOT will be doing. The amount has been recorded in Receivable – Other at year-end.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ending March 31, 2018 was as follows:

	Beginning Balance	Additions	Transfers & Disposals	Ending Balance
Capital assets, not depreciated				
Land	\$ 38,337	-	-	38,337
Water rights	170,222	3,301	-	173,523
Construction in process	41,410	223,796	(223,732)	41,474
Total, not depreciated	\$ 249,969	227,097	(223,732)	253,334
Capital assets, depreciated				
Land improvements	\$ 12,690	-	-	12,690
Buildings and improvements	39,023	-	-	39,023
Water system and equipment	1,861,195	-	223,732	2,084,927
Total, depreciated	1,912,908	-	223,732	2,136,640
Accumulated depreciation				
Land improvements	(12,690)	-	-	(12,690)
Buildings and improvements	(33,463)	(967)	-	(34,430)
Water system and equipment	(828,384)	(60,554)	-	(888,938)
Total accumulated depreciation	(874,537)	(61,521)	-	(936,058)
Total capital assets, depreciated, net	\$ 1,038,371	(61,521)	223,732	1,200,582
Total capital assets, net	\$ 1,288,340	165,576	-	1,453,916

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 5. LONG-TERM DEBT

During the year ended March 31, 2018, the following changes occurred:

	Beginning Balance	Additions (Payments)	Ending Balance	Due Within One Year
Loan USDA RD 91.03 in the amount of \$72,800; monthly payments of \$355; 5% interest rate per annum; matures December 2018.	\$ 6,888	(4,007)	2,881	2,881
Loan RIP 2012-05 in the amount of \$276,699; yearly payment of \$18,599; 3% interest rate per annum; matures June 30, 2034.	255,795	(10,925)	244,870	11,252
Loan Water Trust Board in the amount of \$54,820; yearly payment of \$2,821; 0.25% interest rate per annum; matures June 1, 2038	-	54,820	54,820	2,532
Compensated absences	821	1,256	2,077	2,077
Total	\$ 263,504	41,144	304,648	18,742

The future requirements are as follows:

USDA RD 91.03

Year Ending March 31	Principal	Interest	Total
2019	\$ 2,881	56	<u>2,937</u>

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 5. LONG-TERM DEBT (CONTINUED)

RIP 2012-05

Year Ending March 31	Principal	Interest	Total
2019	\$ 11,252	7,346	18,598
2020	11,590	7,009	18,599
2021	11,938	6,660	18,598
2022	12,296	6,303	18,599
2023	12,665	5,933	18,598
2024 to 2028	69,256	23,737	92,993
2029 to 2033	80,286	12,706	92,992
2034 to 2035	35,587	1,609	37,196
	<u>\$ 244,870</u>	<u>71,303</u>	<u>316,173</u>

Water Trust Board

Year Ending March 31	Principal	Interest	Total
2019	\$ 2,532	289	2,821
2020	2,691	131	2,822
2021	2,697	124	2,821
2022	2,704	117	2,821
2023	2,711	111	2,822
2024 to 2028	13,656	451	14,107
2029 to 2033	13,829	279	14,108
2034 to 2038	14,000	105	14,105
	<u>\$ 54,820</u>	<u>1,607</u>	<u>56,427</u>

NOTE 6. RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Association has obtained insurance through a commercial carrier operating as a common risk management and insurance program. The Association pays an annual premium to a commercial carrier for its general coverage and all risk of loss is transferred. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018**

NOTE 7. JOINT POWERS AGREEMENTS

Participants:	Jemez Springs Domestic Water Association Village of Jemez Springs
Responsible Parties:	Both parties
Description:	Jemez Springs Domestic Water Association agrees to provide technicians to disconnect and/or remove water meters as requested by the Village of Jemez Springs (Village) for customers who do not pay their sewer bill to the Village.
Period:	November 5, 2002 until cancelled
Project Cost:	Village of Jemez Springs agrees to compensate Jemez Springs Domestic Water Association for servicing the disconnection, removal, and/or reconnection of water meters at the rate for such services stated in the Village Ordinance 17-2-9. Due to the indefinite date of cancellation of the project, and the infrequency of disconnections, removal, and/or reconnections of water meters, the total cost of the project is undeterminable and as such the cost applicable to the association is undeterminable.
Association Contributions:	None
Audit Responsibility:	Village of Jemez Springs
Fiscal Responsibility:	Both parties
Revenues and Expenses Reported:	None

NOTE 8. RESTATEMENT

During the year ended March 31, 2017 the Association expensed legal fees related to water rights. The Association corrected the posting in the current year. The amount has been added to the Water Rights capital asset in the current year. The addition increases both water rights and equity. Income is not impacted.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2018

NOTE 9. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 20, 2018 the date the financial statements were available to be issued and had not identified any material subsequent events.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
Year Ended March 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Water sales	\$ 248,315	248,315	271,230	22,915
Other income	2,000	2,000	13,068	11,068
Total revenues	250,315	250,315	284,298	33,983
Expenses				
Operating expenses	234,750	234,750	207,341	27,409
Operating income (loss)	15,565	15,565	76,957	61,392
Nonoperating revenues (expenses)				
Interest income	330	330	403	73
Grant revenue	-	-	82,230	82,230
Bad debt	-	-	(34,263)	(34,263)
Interest expense	(16,510)	(16,510)	(7,908)	8,602
Total nonoperating revenues (expenses)	(16,180)	(16,180)	40,462	56,642
Change in net position	(615)	(615)	117,419	118,034
Prior year fund balance appropriated	615	615		
	<u>\$ -</u>	<u>-</u>		

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF DEPOSIT ACCOUNTS
March 31, 2018**

Depository	Account Name	Interest Bearing	Type	Depository Balance	Reconciled Balance
Jemez Valley Credit Union	Operating Account	Yes	Checking	\$ 103,189	102,235
Jemez Valley Credit Union	Savings	Yes	Savings	4,283	4,283
US Bank	Savings	Yes	Savings	10,740	10,740
US Bank	River Basin CD	Yes	CD	43,556	43,556
Cash and cash equivalents				<u>161,768</u>	<u>160,814</u>
Petty Cash	Petty Cash			-	150
Cash in Drawer	Cash in Drawer			-	50
Total cash and cash equivalents				<u>\$ 161,768</u>	<u>161,014</u>

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF PLEDGED COLLATERAL
March 31, 2018

	Jemez Valley		
	Credit Union	US Bank	Total
Deposits at March 31, 2018	\$ 107,472	54,296	161,768
Less: FDIC coverage	107,472	54,296	161,768
Uninsured public funds	-	-	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Association's name	-	-	-
Uninsured and uncollateralized	\$ -	-	-

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS
10612 ROYAL BIRKDALE NE
ALBUQUERQUE, NM 87111

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the business-type activities of the Jemez Springs Domestic Water Association (Association) as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the related budgetary comparison of the Association, presented as supplemental information, and have issued our report thereon dated August 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not identified. However, as described in the accompany Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-004, and 2018-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-004 and 2018-006.

The Association's Response to Findings

The Association's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Mr. Wayne Johnson, New Mexico State Auditor and
Mr. Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Porch & Associates, LLC

Albuquerque, New Mexico
August 20, 2018

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended March 31, 2018**

Findings from Year Ended March 31, 2017:

Current Status:

2017-001 Inadequate Internal Controls over
Water Billing Adjustments (Significant Deficiency)

Resolved

2017-002 Procurement Code Violation
(Significant Deficiency Non-Compliance)

Resolved

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-001 Insufficient Segregation of Duties (Material Weakness)

Condition: During our testwork over internal control we noted that the Office Manager has been added to the bank account as a check signer. In addition, the Office Manager's work is not reviewed by someone on the Board on a regular basis. In addition, the Office Manager has the ability to make adjustments to both the water billing system and the QuickBooks accounting system.

Criteria: Personnel should not have access to all parts of the accounting system when they are check signers. Employees with the ability to make changes to the records should not have access to invoices and blank check stock.

The work of the Office Manager should be reviewed by someone on the Board. The Office Manager is the only administrative employee at the Association. It is possible for the Office Manager to commit fraud and cover it up by making adjustments to the water billing system or the accounting system. Therefore, all work done by the office manager should be reviewed by someone on the Board, or an entity not related to the Authority.

Effect: Fraud could be committed and not caught.

Cause: The Office Manager is the only employee at the Association. A member of the Board is not reviewing the Office Manager's work on a regular basis.

Auditor's Recommendation: The Association should remove the Office Manager as a check signer. All work performed by the Office Manager should be reviewed by the Board or an entity not related to the Authority.

Management's Response: Although the checks require two signatures, Management agrees that the Office Manager's responsibilities include access to too many accounting functions. The Office Manager will no longer have check signing authority.

In addition, Management also agrees that the Office Manager's ability to make changes to the QuickBooks General Ledger needs additional review. As a result, the Sec-Treasurer will review and approve all General Journal Entries

Corrective Action(s): Beginning immediately, the Office Manager will not sign checks. In addition, there will be numerical control over the check stock.

Also, all General Journal Entries will be numbered and approved. The exception will be the daily deposit entries. These will be reconciled as part of the bank reconciliation process. The bank accounts will be reconciled and approved within five days of the monthly closing.

Responsible person(s): The Secretary Treasurer and Office Manager.

Timeline of corrective action: August 2018.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-002 Travel and Per Diem Policy Violation (Significant Deficiency)

Condition: The Association has been paying the 2015 rate for mileage reimbursements. The 2015 rate is \$0.575. The Association should have been paying the 2017 rate of \$0.535.

Criteria: Sections 10-8-1 through 10-8-8 NMSA 1978 require that “every public officer or employee shall receive up to the internal revenue service standard mileage rate set January 1 of the previous year of each mile traveled in a privately owned vehicle.”

Effect: The Association is not in compliance with state statutes relating to travel and per diem.

Cause: The Association did not update their mileage reimbursement requests sheets when the mileage reimbursement rate changed.

Auditor’s Recommendation: The Association should obtain training on the travel and per diem policy to ensure they do not make the same mistake in the future.

Management’s Response: Management agrees with the finding.

Corrective Action(s): The Association will pay mileage and per diem according to the Association’s policies.

Responsible person(s): The Secretary Treasurer and Office Manager.

Timeline of corrective action: August 2018.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-003 Internal Control over Accounts Receivable (Material Weakness)

Condition: The Association was unable to produce a listing of utility billing accounts receivable as of March 31, 2018 that agreed to the balance in the accounting system.

Criteria: An accounts receivable aging and water revenue report should be produced as part of the monthly close procedures. The reports should be reconciled to the accounting system each month.

Effect: It is not possible to know the correct amount of revenue that should have been charged during the year. It is not possible to know the accounts receivable or sales tax payable. The difference had to be reconciled as part of the audit procedures.

Cause: Insufficient review of utility billing transactions and insufficient monthly close procedures.

Auditor's Recommendation: An accounts receivable aging and water revenue report should be produced as part of the monthly close procedures. The reports should be reconciled to the accounting system each month.

Management's Response: Management agrees that the Receivables Balances per the billing system did not agree with the account balance in the QuickBooks General Ledger. Management also agrees that this can lead to errors in the reporting of Revenues Receivables and Cash.

Corrective Action(s): The Office Manager will reconcile Receivables Balances, Revenues and payments to the figures produced in the billing system. The Sec-Treasurer will review and approve the reconciliations. These reconciliations will be documented and kept with the Journal Entries.

Responsible person(s): The Secretary Treasurer and Office Manager.

Timeline of corrective action: Will be implemented as part of the August 2018 close.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-004 Compliance with Restrictive Covenants (Significant Deficiency, Non-Compliance)

Condition: The Association entered into a loan agreement requiring it to file a water conservation plan with the State Engineer's Office. However, the Association is unaware of whether they have a water conservation plan on file with the State Engineer's Office.

Criteria: Article II(x) of the loan agreement entered into on April 21, 2017 between the Association and the New Mexico Finance Authority. "The Borrower/Grantee has submitted a water conservation plan or one is on file with the State Engineer, as required by NMSA 1978 section 72-4A-7, as amended."

Effect: The Association may not in compliance with their loan agreement.

Cause: The Association is unaware of whether they have a water conservation plan on file with the State Engineer's Office.

Auditor's Recommendation: The Association should determine if they have a water conservation plan on file with the State Engineer.

Management's Response: Management agrees with the finding.

Corrective Action(s): The Association will contact the State Engineer's Office. If the Association does not have a water conservation plan on file then the Association will ask to have this requirement waived.

Responsible person(s): The Board of Directors.

Timeline of corrective action: To be completed by December 31, 2018.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-005 Lack of Internal Controls over Payroll (Significant Deficiency)

Condition: As part of our testwork over internal controls for payroll processing we tested hourly employee's timesheets. For the hourly employees, two of the eight timesheets tested were not approved.

Criteria: State Auditor Rule 2.2.2.10 J, and Section 12-6-5, NMSA 1978, require good accounting practices to be followed. Timesheets should be approved.

Effect: The Association is at risk of that employees will add time that they do not work to their timesheet.

Cause: Insufficient review of timesheets.

Auditor's Recommendation: We recommend all timesheets be reviewed and signed.

Management's Response: Management agrees with this finding.

Corrective Action(s): The Office Manager will assure that all approvals are present prior to check signing.

Responsible person(s): The Secretary Treasurer and Office Manager.

Timeline of corrective action: This will be implemented as part of the next payroll.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2018**

2018-006 Lack of Review over Old Outstanding Items (Control Deficiency)

Condition: The Association has several three checks totaling \$193.83 that are outstanding more than 90 days, and three deposits totaling \$146.88 that are outstanding more than 90 days.

Criteria: Bank reconciliations are an important element of internal control, facilitating timely detection of book/bank differences so they can be investigated and resolved. Such reconciliations are consistent with New Mexico statutes, Section 6-6-3 A NMSA 1978, which require that the Association “keep all the books, records, and accounts in their respective offices in a form as prescribed by the Local Government Division.” Reconciliations should be reviewed for old outstanding items. Those items should be researched and cleared.

Effect: The Association’s bank balances are greater than the reconciliations show available.

Cause: Insufficient review of bank reconciliations.

Auditor’s Recommendation: We recommend the board review the monthly bank reconciliations closely and investigate any old outstanding items.

Management’s Response: Management agrees with this finding.

Corrective Action(s): The Association will resolve all outstanding items currently on the list. Secondly, all items over 90 days will be researched and resolved in a timely manner.

Responsible person(s): The Secretary Treasurer and Office Manager.

Timeline of corrective action: To be completed by September 30, 2018 for all current items. New items to be reviewed quarterly.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
EXIT CONFERENCE
Year Ended March 31, 2018**

An exit conference was held on August 22, 2018, and attended by the following:

Jemez Springs Domestic Water Association

Robert M. Wilson, Secretary/Treasurer

Porch & Associates LLC

Thad Porch, Managing Principal

* * * * *

The financial statements were prepared by Porch & Associates LLC from the books and records of the Jemez Springs Domestic Water Association. However, the contents of these financial statements remain the responsibility of the Association's management.