

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

Financial Statements, Supplementary Information
and
Independent Auditor's Report

March 31, 2013

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

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JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

List of Principal Officials

March 31, 2013

Board of Directors

Emmett Cart	President
John Garcia	Vice-president
Robert M. Wilson	Secretary/Treasurer
John Merhege	Director
Joe Bowen	Director

Administrative and Operational Employees

Yvonne Dickey-Folks	System Administrator
John M. Kennedy	Systems Operator

Independent Auditor's Report

Mr. Hector H. Balderas, State Auditor and
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, 2013, 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, 2013, 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. Hector H. Balderas, State Auditor and
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.

Opinions

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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended March 31, 2013, 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. Hector H. Balderas, State Auditor and
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 listed as supplemental schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules 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 June 9, 2014 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.



Albuquerque, New Mexico
June 9, 2014

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION
March 31, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 91,683
Accounts receivable, net	27,781
Prepaid insurance	6,400
Due from New Mexico Finance Authority	5,429
Total current assets	<u>131,293</u>

Noncurrent Assets:

Cash and cash equivalents, restricted to customer deposits	1,600
Cash and cash equivalents, restricted to River Basin litigation	43,555
Capital assets, not depreciated	565,697
Capital assets, net of accumulated depreciation	825,844
Total noncurrent assets	<u>1,436,696</u>

Total assets	<u><u>\$ 1,567,989</u></u>
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LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities:

Accounts payable	\$ 7,447
Accrued compensation, related taxes, and benefits	2,916
Gross receipts tax payable	2,086
Interest payable	1,562
Meter deposits payable	1,600
Compensated absences - current	4,186
Loans payable - current	93,315
Total current liabilities	<u>113,112</u>

Noncurrent Liabilities

Loans payable	<u>50,393</u>
Total liabilities	<u>163,505</u>

NET POSITION

Net investments in capital assets	1,247,833
Unrestricted	<u>156,651</u>
Total net position	<u>1,404,484</u>
Total liabilities and net position	<u><u>\$ 1,567,989</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, 2013

Operating Revenues:	
Water sales	\$ 223,232
Other	831
Total operating revenues	<u>224,063</u>
Operating Expenses:	
Wages, salaries, and related taxes	84,592
Employee benefits	12,017
Travel	2,286
Plant operations	17,451
Office	16,828
Repairs and maintenance	9,278
Insurance	5,148
Professional services	7,382
Miscellaneous	1,073
Depreciation	37,805
Total operating expenses	<u>193,860</u>
Operating income	<u>30,203</u>
Nonoperating revenues (expenses):	
Interest income	273
Transfer in: severance tax appropriations	105,582
Interest expense	(4,603)
Total nonoperating revenues (expenses)	<u>101,252</u>
Change in net position	131,455
Net position, beginning of year	<u>1,273,029</u>
Net position, end of year	<u><u>\$ 1,404,484</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, 2013**

Cash Flows From Operating Activities	
Cash received from customers	\$ 214,864
Cash payments to vendors and employees	(150,242)
Net cash provided by operating activities	<u>64,622</u>
Cash Flows From Capital and Related	
Purchase of capital assets	(163,163)
Proceeds from loans	74,000
Payments to the New Mexico Finance Authority	(5,429)
Principal payments on loans	(18,437)
Interest payments on loans	(3,318)
Severance tax appropriations	105,582
Net cash used by capital and related financing activities	<u>(10,765)</u>
Cash Flows From Investing Activities	
Interest received	273
Net change in cash and cash equivalents	54,130
Cash and cash equivalents, beginning of year	82,708
Cash and cash equivalents, end of year	<u>\$ 136,838</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 30,203</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	37,806
Changes in assets and liabilities:	
Accounts receivable	(8,459)
Prepaid insurance	(413)
Customer deposits	1,350
Accounts payable	6,854
Accrued liabilities	(622)
Compensated absences	(2,093)
Gross receipts tax payable	2,086
Deferred revenue	(2,340)
Customer deposits payable	250
Total adjustments	<u>34,419</u>
Net cash provided by operating activities	<u>\$ 64,622</u>

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

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

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, the financial statements present the Association and entities for which the Association is considered to be financially accountable. There are no component units as defined in governmental accounting principles.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

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, 2013

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, 2013

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 \$4,603. 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. There were no intangible assets at year-end.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013**

**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 Authority files Form 900 yearly. The Authority's open audit periods are 2011 through 2013.

The Authority 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 Authority 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, 2013**

**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, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

M. Implementation of New Accounting Standards

During the year ended March 31, 2013, the Association adopted Government Accounting Standards Board Statement (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The statement will not have a material impact on the Association's financial statements.

During the year ended March 31, 2013, the Association adopted Government Accounting Standards Board Statement (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will not have a material impact on the Association's financial statements.

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, 2013, the Association's bank balance total of \$138,473 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.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

NOTE 3. ACCOUNTS RECEIVABLE – PROPRIETARY FUNDS

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, 2013:

Accounts receivable	\$ 31,142
Allowance for uncollectible accounts	<u>(3,361)</u>
Accounts receivable, net	<u>\$ 27,781</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ending March 31, 2013 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not depreciated				
Land	\$ 38,337	-	-	38,337
Water rights	155,000	-	-	155,000
Construction in process	209,198	163,162	-	372,360
Total, not depreciated	<u>\$ 402,535</u>	<u>163,162</u>	<u>-</u>	<u>565,697</u>
Capital assets, depreciated				
Land improvements	\$ 12,690	-	-	12,690
Buildings and improvements	39,023	-	-	39,023
Water system and equipment	1,431,950	-	-	1,431,950
Total, depreciated	<u>1,483,663</u>	<u>-</u>	<u>-</u>	<u>1,483,663</u>
Accumulated depreciation				
Land improvements	(12,690)	-	-	(12,690)
Buildings and improvements	(27,103)	(1,439)	-	(28,542)
Water system and equipment	(580,221)	(36,366)	-	(616,587)
Total accumulated depreciation	<u>(620,014)</u>	<u>(37,805)</u>	<u>-</u>	<u>(657,819)</u>
Total capital assets, depreciated, net	<u>\$ 863,649</u>	<u>(37,805)</u>	<u>-</u>	<u>825,844</u>
Total capital assets, net	<u>\$ 1,266,184</u>	<u>125,357</u>	<u>-</u>	<u>1,391,541</u>

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

NOTE 5. LONG-TERM DEBT

During the year ended March 31, 2013, 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.	\$ 23,931	(2,874)	21,057	3,281
Loan RIP 94.08 in the amount of \$197,821; yearly payment of \$17,494; 3% interest per rate per annum; matures February 2016.	64,214	(15,563)	48,651	16,034
Short term loan from a credit union in the amount of \$74,000; 7% interest per annum; matures August 2013.	-	74,000	74,000	74,000
Compensated absences	6,279	(2,093)	4,186	4,186
Total	<u>\$ 94,424</u>	<u>53,470</u>	<u>147,894</u>	<u>97,501</u>

The short term loan of \$74,000 was paid off in August of 2013.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

NOTE 5. LONG-TERM DEBT (CONTINUED)

The future requirements are as follows:

USDA RD 91.03

Year Ending March 31	Principal	Interest	Total
2014	\$ 3,281	979	4,260
2015	3,449	811	4,260
2016	3,627	633	4,260
2017	3,812	448	4,260
2018	4,007	253	4,260
2019 to 2023	2,881	56	2,937
	<u>\$ 21,057</u>	<u>3,180</u>	<u>24,237</u>

RIP 94.08

Year Ending March 31	Principal	Interest	Total
2014	\$ 16,034	1,460	17,494
2015	15,945	1,549	17,494
2016	16,672	822	17,494
	<u>\$ 48,651</u>	<u>3,831</u>	<u>52,482</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, 2013**

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

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2013

NOTE 8. EXPENSES IN EXCESS OF BUDGET

The Association's expenses were greater than the approved final budget.

NOTE 9. COMMITMENTS

Water from one of the Association's sources is not in compliance with the New Mexico State Environment Department's maximum contaminant level for arsenic. The Association discloses this matter to its members on a regular basis. The Association sought to drill a well to replace this water, but the well failed. The Association has contracted for the construction of an arsenic removal treatment plant. The total anticipated cost of the plant will be approximately \$410,000 to \$450,000. Financing for the plant will be provided by a \$150,000 appropriation from the State of New Mexico, and a \$350,000 loan from the New Mexico Environment Department.

NOTE 10. DUE FROM NEW MEXICO FINANCE AUTHORITY

The Association obtained a loan from the New Mexico Finance Authority (NMFA) during the year under audit. The loan was to be drawn for construction of the arsenic plant. The Authority made payments on the loan, but did not draw any principal on the loan. The NMFA cancelled the loan because it was not used and refunded the loan payments during the year ending March 31, 2014. The refunded loan payments are shown as Due From New Mexico Finance Authority on the Statement of Net Position.

NOTE 11. CASH AND CASH EQUIVALENTS RESTRICTED TO RIVER BASIN LITIGATION

The Association was involved in water rights litigation during the 1980s. Money for a defense fund was collected from water customers and invested in a certificate of deposit. There is no written agreement governing the CD. The lawsuit is not settled as of the date of the audit. Once the lawsuit settles, the Association must give the money back to the customers.

NOTE 12. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through June 9, 2014, the date the financial statements were available to be issued. No material subsequent events have occurred since March 31, 2013.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
Year Ended March 31, 2013

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Water sales	\$ 225,385	223,732	223,232	(500)
Other income	519	2,560	831	(1,729)
Total revenues	225,904	226,292	224,063	(2,229)
Expenses				
Operating expenses	217,274	190,917	193,860	(2,943)
Operating income	8,630	35,375	30,203	(5,172)
Nonoperating revenues (expenses)				
Interest income	200	273	273	-
Transfer in - severance tax appropriation	-	-	105,582	105,582
Interest expense	(7,200)	(7,200)	(4,603)	2,597
Total nonoperating revenues (expenses)	(7,000)	(6,927)	101,252	108,179
Change in net position	\$ 1,630	28,448	131,455	103,007

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF DEPOSIT ACCOUNTS
March 31, 2013

Type	Depository	Account Name	Depository Balance	Reconciled Balance
Interest bearing checking	Jemez Valley Credit Union	Operating Account	\$ 78,370	76,535
Interest bearing savings	Jemez Valley Credit Union	Savings	2,332	2,332
Interest bearing checking	Jemez Valley Credit Union	Tank Reserve	617	617
Non-int. bearing checking	Jemez Valley Credit Union	Construction Checking	1,529	1,529
Interest bearing checking	Jemez Valley Credit Union	Regular Reserve	1,894	1,894
Interest bearing savings	US Bank	Savings	10,175	10,175
Certificate of deposit	US Bank	River Basin CD	43,556	43,556
Cash and cash equivalents			138,473	136,638
	Petty Cash	Petty Cash	-	150
	Cash in Drawer	Cash in Drawer	-	50
Total cash and cash equivalents			\$ 138,473	136,838

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF PLEDGED COLLATERAL
March 31, 2013

	Jemez Valley		
	Credit Union	US Bank	Total
Deposits at March 31, 2013	\$ 84,742	53,731	138,473
Less: FDIC coverage	84,742	53,731	138,473
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	\$ -	-	-

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
 SCHEDULE OF APPROPRIATIONS
 March 31, 2013**

Appropriation	Beginning Date	Ending Date	Original Amount	Funds Expended	Funds Remaining
SAP 09-3812-STB	9/13/2009	06/30/2013	\$ 150,000	150,000	-

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. Hector H. Balderas, State Auditor and
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, 2013, 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 June 9, 2014.

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 opinion 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Mr. Hector H. Balderas, State Auditor and
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 to be material weaknesses: 2013-002 and 2013-003.

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 to be significant deficiencies: 2013-001.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instances 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 2009-001, 2010-002, 2013-004, and 2013-005.

The Association's Responses to Findings

Responses to findings identified in our audit are described in the accompanying schedule of findings and responses. Responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Mr. Hector H. Balderas, State Auditor and
Robert M. Wilson, Secretary/Treasurer and
the Board of Directors
Jemez Springs Domestic Water Association

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.

Perch & Associates LLC

Albuquerque, New Mexico
June 9, 2014

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended March 31, 2013**

2009-001 [2009-01]	Late Audit Report	Repeated and updated
2010-002 [2010-02]	Lack of Timely Monitoring of Budget Line Items	Repeated and updated

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2013**

2009-001 [2009-1] Late Audit Report (Findings that Do Not Rise to the Level of a Significant Deficiency)

Criteria: Section 2.2.2.9A (1) (g) of the Audit Rule 2014, Requirements for Contracting and Conducting Audits of Agencies, requires that annual audit reports be received in the Office of the State Auditor no later than 5 months after the fiscal year-end, which is August 30th.

Condition: The March 31, 2013 audit for the Association was not submitted to the New Mexico Office of the State Auditor by the August 30, 2013 submission deadline.

Cause: The Association's March 31, 2013 audit report was not submitted by the due date due to technical difficulties at the prior auditor's firm.

Effect: The Association is not in compliance with the New Mexico State Auditor Rule.

Auditor's Recommendations: The Association should have its audit performed in July 2014 in order to ensure that the March 31, 2014 audit is submitted timely.

Management's Response: We have worked with our new audit firm, Porch & Associates LLC to develop a schedule that will allow our audit to be submitted on time. Porch & Associates will have our full cooperation and assistance to meet the scheduling requirement.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2010-002 [2010-2] Lack of Timely Monitoring of Budget Line Items (Findings that Do Not Rise to the Level of a Significant Deficiency)

Criteria: Section 6-3-1 to 6-3-25 NMSA State Budgets, requires the Association to submit quarterly budget reporting to the New Mexico Department of Finance and Administration's Local Government Division (DFA), requires budget adjustments to be approved, and requires the Association not to overspend its approved budget.

Condition: The Association received approval for its 2012 – 2013 budget from the DFA. However, the Association did not submit quarterly reports, request approval for budget adjustments, and actual expenses exceeded budgeted expenses by \$2,943.

Cause: The Association was not aware of the quarterly reporting or budget adjustment requirements.

The Association prepares its annual budget on the accrual basis of accounting. During audit testwork it was found that two invoices totaling \$7,447 were not included in accounts payable at year-end. The inclusion of these invoices in the year-end financial statements caused the Association's expenses to exceed its budget.

Effect: Budgets were overspent in violation of State Statute. In addition, the Association is not in compliance with the state statutes concerning budgets.

Auditor's Recommendations: The Association should consider contacting the New Mexico Department of Finance and Administration's Local Government Division and ask for help with complying with the statutes. In addition, Association personnel should consider taking training on the budget statutes.

Management's Response: Upon discovering this condition, we contacted Larry Marshall, a Budget and Finance Analysis with the New Mexico Department of Finance and Administration. Mr. Marshall has provided some guidance regarding compliance, and Association personnel will look into scheduling training immediately.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2013-001 Information Technology Controls and Security (Significant Deficiency)

Criteria: Adequate safeguards over electronic data is essential to the Association's ability to continue operations after a disaster.

Adequate separation of duties should exist to mitigate the likelihood of fraud in the Quickbooks system.

Condition: The Association uses a backup process to ensure that electronic records are safeguarded in the event of a computer virus or error. The backups are kept in a fireproof cabinet that is made for documents, but not electronic media. In the event of a fire, the computer backups would not survive. Both the computer in the office and the backups in the office would be destroyed, leaving the Association without its electronic data.

The Association has a shared password for Quickbooks. Employees do not have individual passwords.

Cause: The Association has not been made aware of the need for a fireproof media safe, or for separate passwords for each employee using Quickbooks.

Effect: The Association's electronic data would be destroyed if a fire destroyed the office.

A person could commit fraud, post entries into Quickbooks to cover it up, and it would not be possible to determine who committed the fraud because the password is shared.

Auditor's Recommendations: The Association should take the electronic backups offsite, or consider purchasing a fireproof media safe.

The Association should assign separate passwords to each person using Quickbooks, and employees should not share those passwords.

Management's Response: Separate passwords have been assigned. The Association has purchased a fireproof media safe that will protect the portable hard drive used for backups from fire.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2013-002 Bank Reconciliation Approval and Old Outstanding Items (Material Weakness)

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.”

Adequate separation of duties and should exist to mitigate the likelihood of fraud in the bank reconciliation process.

Condition: The bank reconciliations at year-end contain \$1,175 in reconciling items that are more than 90 days old.

Bank reconciliations are not reviewed each month. The bank reconciliations that have been reviewed do not show evidence of the review.

Cause: The Inadequate review of outstanding items on the bank reconciliations. Inadequate follow up on clearing outstanding items.

The Association has one employee who staffs the office on a daily basis. There is no other operational staff to review this employee’s work. As a result, it is necessary for the board to take an active role in reviewing all reconciliations, adjustments, and transactions.

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

Fraud could be committed and not caught by the internal controls as they currently exist.

Auditor’s Recommendations: All bank reconciliations should be reviewed by a member of the board, or someone outside the Association, in order to determine that all reconciliations are performed correctly and all outstanding items are cleared in a reasonable period of time. Review of the reconciliations should be evidenced by signature and date by the person performing the review.

Management’s Response: We have revised our policy such that the Secretary/Treasurer will review bank reconciliations each month.

Items over 90 days old will be resolved by June 30, 2014.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2013-003 Adjustments to Water Billing Revenue and Accounts Receivable (Material Weakness)

Criteria: Adequate separation of duties should exist to mitigate the likelihood of fraud in the water billing system.

Water bills should be reviewed to ensure the amounts processed are correct.

Condition: Adjustments customer accounts in the water billing system are not being reviewed before the adjustment is made. In addition, an overall list of adjustments made is not being reviewed by someone outside of the water billing process.

During our testwork of the internal controls over water billing we found that the water bills were not calculated correctly for the June 30, 2012 billing cycle. A water rate increase was processed that month.

Cause: The Association has one employee who staffs the office on a daily basis. There is no other operational staff to review this employee's work. As a result, it is necessary for the board to take an active role in reviewing all reconciliations, adjustments, and transactions.

A water rate increase was implemented for the month of June 2012. We could not determine why that month's bills did not calculate correctly. Bills for all other months tested calculated correctly, so this was isolated to June 2012.

Effect: Water billing payments could be stolen and concealed by adjustments to the water billing system.

The Association under billed water revenue by approximately \$500 for the month of June 2012.

Auditor's Recommendations: Adjustments to water accounts should be presented to the board and approved before they are posed to customer accounts. In addition, a listing of all adjustments in the water billing system for the year should be presented at each board meeting so that the year-to-date adjustments may be reviewed and approved.

Water bills should be recalculated by hand for the month any future rate increases are processed in order to ensure the rate change processes correctly.

Management's Response: To be sure rate changes process correctly, a sample of bills will be hand-calculated before the billing is finalized in any month when a rate change occurs.

Any adjustments will be approved by a member of the board of directors.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2013-004 Internal Controls over Payroll Processing (Findings that Do Not Rise to the Level of a Significant Deficiency)

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, and payrates should be documented.

Condition: As part of our testwork over internal controls for payroll processing we tested both salaried and hourly employees. For the hourly employees, five of the six timesheets tested were not approved.

For all employees tested the Association did not have a listing of approved payrates.

Cause: The design of the internal controls over payroll processing has not been reviewed to ensure they are sufficient for the operations of the Association.

Effect: Incorrect timesheets could be processed. Incorrect payrates could be paid.

Auditor's Recommendations: All timesheets should be approved before payroll is processed. Individual payroll files should be kept that include approved payrates, or a list of approved payrates should be kept each time there is a raise.

Management's Response: Timesheets will be reviewed and approved by the employee's supervisor before payroll is processed. For the System Administrator, the Secretary/Treasurer is the supervisor. For Assistant Operators, the Operator is the supervisor.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED
Year Ended March 31, 2013**

2013-005 Per Diem and Mileage Act (Findings that Do Not Rise to the Level of a Significant Deficiency)

Criteria: State Auditor Rule 2.2.2.10 G, and Section 10-8-1 to 10-8-8, NMSA 1978, require the Per Diem and Mileage Act to be followed by the Association.

Condition: The Association is reimbursing employees for mileage. The Association did not violate the Per Diem and Mileage Act, but was unaware of its provisions. The Association could violate the act with future travel reimbursements if it does not review the provisions of the Per Diem and Mileage Act.

Cause: The Association was not familiar with the provisions of the Per Diem and Mileage Act.

Effect: None.

Auditor's Recommendations: The Association should obtain a copy of the Per Diem and Mileage Act and understand its compliance requirements. The Association should consider sending an employee to Per Diem and Mileage Act training.

Management's Response: The Association was not aware that the Per Diem and Mileage Act was the guideline to follow, and had been reimbursing mileage incorrectly. The System Administrator will obtain a copy of the act and use that as a guideline for future reimbursements. Training will also be sought as soon as possible.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
EXIT CONFERENCE
Year Ended March 31, 2013**

An exit conference was held on June 20, 2014, and attended by the following:

Jemez Springs Domestic Water Association

John Garcia, President

Robert M. Wilson, Secretary/Treasurer

Yvonne Dickey-Folks, System Administrator

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.