

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

Financial Statements, Supplementary Information
and
Independent Auditor's Report

March 31, 2014

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
List of Principal Officials.....	i

FINANCIAL SECTION

Independent Auditor’s Report.....	1
-----------------------------------	---

Basic Financial Statements

Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7

Statement of Revenues and Expenses – Budget and Actual.....	19
---	----

Supplemental Schedules

Schedule of Deposit Accounts	20
Schedule of Pledged Collateral.....	21

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 <i>Government Auditing Standards</i>	22
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Summary Schedule of Prior Audit Findings.....	25
---	----

Schedule of Findings and Responses.....	26
---	----

Exit Conference	29
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JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION

List of Principal Officials

March 31, 2014

Board of Directors

John Garcia	President
Joe Bowen	Vice-president
Robert M. Wilson	Secretary/Treasurer
Emmett Cart	Director
John Merhege	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, 2014, 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, 2014, 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, 2014, and the respective changes in financial position and cash flows thereof for the year then ended March 31, 2014, 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 July 19, 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
July 19, 2014

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF NET POSITION
March 31, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 83,682
Accounts receivable, net	25,857
Special assessment receivable	10,871
Prepaid insurance	5,762
Total current assets	<u>126,172</u>

Noncurrent Assets:

Cash and cash equivalents, restricted to customer deposits	1,900
Cash and cash equivalents, restricted to River Basin litigation	43,555
Capital assets, not depreciated	779,982
Capital assets, net of accumulated depreciation	794,463
Total noncurrent assets	<u>1,619,900</u>

Total assets	<u><u>\$ 1,746,072</u></u>
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LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities:

Accounts payable	\$ 4,343
Accrued compensation, related taxes, and benefits	1,240
Gross receipts tax payable	2,255
Interest payable	215
Meter deposits payable	1,900
Compensated absences - current	4,186
Loans payable - current	19,399
Total current liabilities	<u>33,538</u>

Noncurrent Liabilities

Loans payable	292,590
Total liabilities	<u>326,128</u>

NET POSITION

Net investments in capital assets	1,262,456
Unrestricted	157,488
Total net position	<u>1,419,944</u>
Total liabilities and net position	<u><u>\$ 1,746,072</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, 2014

Operating Revenues:	
Water sales	\$ 227,238
Other	2,436
Total operating revenues	<u>229,674</u>
Operating Expenses:	
Wages, salaries, and related taxes	93,218
Employee benefits	10,910
Travel	3,412
Plant operations	19,575
Office	13,921
Arsenic treatment	3,432
Repairs and maintenance	18,027
Insurance	5,774
Professional services	510
Miscellaneous	577
Depreciation	39,684
Total operating expenses	<u>209,040</u>
Operating income	<u>20,634</u>
Nonoperating revenues (expenses):	
Interest income	297
Interest expense	(5,471)
Total nonoperating revenues (expenses)	<u>(5,174)</u>
Change in net position	15,460
Net position, beginning of year	<u>1,404,484</u>
Net position, end of year	<u><u>\$ 1,419,944</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, 2014

Cash Flows From Operating Activities	
Cash received from customers	\$ 221,027
Cash payments to vendors and employees	(173,329)
Net cash provided by operating activities	<u>47,698</u>
Cash Flows From Capital and Related	
Purchase of capital assets	(222,588)
Proceeds from loans	261,717
Payments from the New Mexico Finance Authority	5,429
Principal payments on loans	(93,436)
Interest payments on loans	(6,818)
Net cash used by capital and related financing activities	<u>(55,696)</u>
Cash Flows From Investing Activities	
Interest received	297
Net change in cash and cash equivalents	<u>(7,701)</u>
Cash and cash equivalents, beginning of year	136,838
Cash and cash equivalents, end of year	<u><u>\$ 129,137</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 20,634</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	39,684
Changes in assets and liabilities:	
Accounts receivable	1,924
Prepaid insurance	638
Special assessment receivable	(10,871)
Accounts payable	(3,104)
Accrued liabilities	(1,676)
Gross receipts tax payable	169
Customer deposits payable	300
Total adjustments	<u>27,064</u>
Net cash provided by operating activities	<u><u>\$ 47,698</u></u>

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

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

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, 2014

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, 2014

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, 2014

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, 2014**

**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 2012 through 2014.

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, 2014**

**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, 2014

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, 2014, the Association's bank balance total of \$136,679 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, 2014

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, 2014:

Accounts receivable	\$ 29,216
Allowance for uncollectible accounts	<u>(3,359)</u>
Accounts receivable, net	<u>\$ 25,857</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ending March 31, 2014 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	372,360	214,285	-	586,645
Total, not depreciated	<u>\$ 565,697</u>	<u>214,285</u>	<u>-</u>	<u>779,982</u>
Capital assets, depreciated				
Land improvements	\$ 12,690	-	-	12,690
Buildings and improvements	39,023	-	-	39,023
Water system and equipment	1,431,950	8,303	-	1,440,253
Total, depreciated	<u>1,483,663</u>	<u>8,303</u>	<u>-</u>	<u>1,491,966</u>
Accumulated depreciation				
Land improvements	(12,690)	-	-	(12,690)
Buildings and improvements	(28,542)	(1,403)	-	(29,945)
Water system and equipment	(616,587)	(38,281)	-	(654,868)
Total accumulated depreciation	<u>(657,819)</u>	<u>(39,684)</u>	<u>-</u>	<u>(697,503)</u>
Total capital assets, depreciated, net	<u>\$ 825,844</u>	<u>(31,381)</u>	<u>-</u>	<u>794,463</u>
Total capital assets, net	<u>\$ 1,391,541</u>	<u>182,904</u>	<u>-</u>	<u>1,574,445</u>

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

NOTE 5. LONG-TERM DEBT

During the year ended March 31, 2014, 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.	\$ 21,057	(3,281)	17,776	3,449
Loan RIP 94.08 in the amount of \$197,821; yearly payment of \$17,494; 3% interest per rate per annum; matures February 2016.	48,651	(16,155)	32,496	15,950
Loan RIP 2012-05 in the amount of \$340,000; yearly payment of \$22,853; payments begin one year after final draw; 3% interest per rate per annum; matures 20 years after final draw.	-	261,717	261,717	-
Short term loan from a credit union in the amount of \$74,000; 7% interest per annum; matures August 2013.	74,000	(74,000)	-	-
Compensated absences	4,186	-	4,186	4,186
Total	<u>\$ 147,894</u>	<u>168,281</u>	<u>316,175</u>	<u>23,585</u>

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

The future requirements are as follows:

USDA RD 91.03

Year Ending March 31	Principal	Interest	Total
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	2,881	56	2,937
	<u>\$ 17,776</u>	<u>2,201</u>	<u>19,977</u>

RIP 94.08

Year Ending March 31	Principal	Interest	Total
2015	\$ 15,950	1,544	17,494
2016	16,546	948	17,494
	<u>\$ 32,496</u>	<u>2,492</u>	<u>34,988</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, 2014**

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, 2014

NOTE 8. 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 9. 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 10. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 19, 2014, the date the financial statements were available to be issued. No material subsequent events have occurred since March 31, 2014.

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
Year Ended March 31, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Revenues				
Water sales	\$ 234,225	227,674	227,238	(436)
Other income	519	2,641	2,436	(205)
Total revenues	234,744	230,315	229,674	(641)
Expenses				
Operating expenses	203,580	216,807	209,040	7,767
Operating income	31,164	13,508	20,634	7,126
Nonoperating revenues (expenses)				
Interest income	274	296	297	1
Interest expense	(7,200)	(7,557)	(5,471)	2,086
Total nonoperating revenues (expenses)	(6,926)	(7,261)	(5,174)	2,087
Change in net position	\$ 24,238	6,247	15,460	9,213

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF DEPOSIT ACCOUNTS
March 31, 2014

Type	Depository	Account Name	Depository Balance	Reconciled Balance
Interest bearing checking	Jemez Valley Credit Union	Operating Account	\$ 74,059	66,317
Interest bearing savings	Jemez Valley Credit Union	Savings	4,238	4,238
Interest bearing checking	Jemez Valley Credit Union	Tank Reserve	618	618
Non-int. bearing checking	Jemez Valley Credit Union	Construction Checking	2,009	2,009
Interest bearing checking	Jemez Valley Credit Union	Regular Reserve	1,904	1,904
Interest bearing savings	US Bank	Savings	10,295	10,295
Certificate of deposit	US Bank	River Basin CD	43,556	43,556
Cash and cash equivalents			136,679	128,937
	Petty Cash	Petty Cash	-	150
	Cash in Drawer	Cash in Drawer	-	50
Total cash and cash equivalents			\$ 136,679	129,137

JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF PLEDGED COLLATERAL
March 31, 2014

	Jemez Valley		
	Credit Union	US Bank	Total
Deposits at March 31, 2014	\$ 82,828	53,851	136,679
Less: FDIC coverage	82,828	53,851	136,679
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. 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, 2014, 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 July 19, 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.

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: 2013-003.

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.

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 2010-002, and 2014-001.

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
July 19, 2014

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended March 31, 2014**

2009-001 [2009-01]	Late Audit Report	Resolved
2010-002 [2010-02]	Lack of Timely Monitoring of Budget Line Items	Updated and repeated
2013-001	Information Technology Controls and Security	Resolved
2013-002	Bank Reconciliation Approval And Old Outstanding Items	Resolved
2013-003	Adjustments to Water Billing Revenue and Accounts Receivable	Updated and repeated
2013-004	Internal Controls over Payroll Processing	Resolved
2013-005	Per Diem and Mileage Act	Resolved

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended March 31, 2014**

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).

Condition: The Association has not filed the budget reports required by DFA.

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

Effect: The Association is not in compliance with the state statutes concerning budgets.

Auditor's Recommendations: The Association's personnel should consider taking training on the budget statutes. The Association should file the reports required by DFA.

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, 2014**

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 out testwork of the internal controls over water billing that one of twenty-five water bills did not recalculate correctly. The water rate table in the billing system is incorrect for water bills with greater than 30,000 billed gallons per month. The association has one or two bills a month in this range. The bills were lower than they should be by approximately \$40 per 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.

The water rate tables need to be corrected.

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 the year.

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.

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, 2014**

2014-001 Compliance with IRS Requirements for Form's W-9 and 1099 (Findings that Do Not Rise to the Level of a Significant Deficiency)

Criteria: Internal Revenue Service (IRS) instructions for 1099-MISC requires a 1099 to be filed for each entity who received at least \$10 in royalties, \$600 in rents, services, prizes or awards, or gross proceeds of \$600 or more paid to an attorney. Certain entity types are exempt from 1099 reports. An IRS Form W-9 should be obtained from entities for which payments are made to determine if the entity is exempt or reportable.

Condition: The Association does not have a process in place to ensure that a W-9 is obtained from entities the Association pays. The Association does not understand which entities should receive 1099s at year-end, or a process to ensure that 1099 reporting is complete.

Cause: The Association was not familiar with the IRS's requirements for Forms W-9 and 1099.

Effect: None.

Auditor's Recommendations: The Association should obtain training on IRS forms W-9 and 1099. The Association should develop a process to ensure they obtain W-9 from entities, and for filing 1099s as required.

Management's Response: The System Administrator has been directed by the board to schedule training immediately. This will allow the association to develop a plan to obtain W-9s from vendors and file 1099s as needed.

**JEMEZ SPRINGS DOMESTIC WATER ASSOCIATION
EXIT CONFERENCE
Year Ended March 31, 2014**

An exit conference was held on July 18, 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

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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.