

**LLANO QUEMADO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2015

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS
ASSOCIATION, INC.**

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**LLANO QUEMADO MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC.
December 31, 2015**

Official Roster

Board of Directors

Andrew Chavez, President
Alipio Mondragon, Secretary
Johnny Valerio, Treasurer
Kenneth Varos, Member
Brian Trujillo, Member

Principal Employees

Lionides Martinez, Operator



To Mr. Tim Keller, New Mexico State Auditor and
the Board of Directors
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho De Taos, New Mexico

6200 Uptown Blvd NE
Suite 400
Albuquerque, NM 87110
505.338.0800

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities for Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association), as of and for the year ended December 31, 2015, 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 have also 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 December 31, 2015, 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 an opinion 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.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Association as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States.

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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the Association's financial statements, the schedule of joint powers agreements as required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Information

The Vendor Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2017, 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.

Ricci & Company, LLC

Albuquerque, New Mexico
April 27, 2017

FINANCIAL STATEMENTS

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
STATEMENT OF NET POSITION
December 31, 2015

ASSETS

Current Assets	
Cash and cash equivalents	\$ 85,369
Accounts receivable, net	14,722
	<hr/>
Total current assets	100,091
	<hr/>
Noncurrent assets	
Capital assets, net	1,118,599
	<hr/>
Total assets	1,218,690
	<hr/>

LIABILITIES

Current Liabilities	
Accrued liabilities	1,721
Accrued interest	-
Current maturities of long-term debt	15,000
	<hr/>
Total current liabilities	16,721
	<hr/>
Long-Term Liabilities	
Long-term debt obligations, less current maturities	568,330
	<hr/>
Total liabilities	585,051
	<hr/>

NET POSITION

Invested in capital assets, net	535,269
Unrestricted	98,370
	<hr/>
Total net position	\$ 633,639
	<hr/> <hr/>

See Notes to Financial Statements.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2015

Operating Revenues	
Sales and services	\$ 76,121
	<hr/>
Total operating revenues	76,121
	<hr/>
Operating Expenses	
Salaries and benefits	12,240
Insurance expense	11,795
Depreciation expense	7,248
Utilities	7,089
Tax expense	6,803
Meter reading	5,760
Maintenance and repairs	4,770
Office expenses	3,400
License and dues	802
Other	717
Legal Expense	360
	<hr/>
Total operating expenses	60,984
	<hr/>
Operating income	15,137
	<hr/>
Nonoperating Revenue (Expenses)	
Rental income	35,842
Interest income	33
Interest expense	(7,376)
	<hr/>
Total nonoperating revenues (expenses)	28,499
	<hr/>
Change in Net Position	43,636
	<hr/>
Net position, beginning of year	586,603
	<hr/>
New memberships	3,400
	<hr/>
Net position, end of year	\$ 633,639
	<hr/> <hr/>

See Notes to Financial Statements.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 70,785
Payments to vendors and suppliers	(41,183)
Payments to employees	(12,254)
	<hr/>
Net cash provided by operating activities	17,348
	<hr/>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(382,973)
Proceeds from borrowings	568,330
Principal repayments on long-term debt	(191,714)
Interest paid on long-term debt	(19,883)
	<hr/>
Net cash used by financing activities	(26,240)
	<hr/>
Cash Flows From Investing Activities	
Rental income	35,842
Interest received	33
	<hr/>
Net cash provided by investing activities	35,875
	<hr/>
Net increase in cash and cash equivalents	26,983
	<hr/>
Cash and cash equivalents, beginning of year	58,386
	<hr/>
Cash and cash equivalents, end of year	\$ 85,369
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Used by Operating Activities	
Operating income	\$ 15,137
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	7,248
New memberships	3,400
Changes in operating assets and liabilities	
Accounts receivable	(8,736)
Accrued liabilities	299
	<hr/>
Net cash provided by operating activities	\$ 17,348
	<hr/> <hr/>

See Notes to Financial Statements.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) is a not-for-profit Mutual Domestic Water Consumers under the Sanitary Projects Act, NMSA 3-29-20 established for the purpose of constructing, maintaining, and operating a water system for members of the Association in Llano Quemado, New Mexico. The Association was incorporated in 1976. Members of the Association are also on the Board as required by State Statute. All members are also customers of the Association.

New Mexico Attorney General's (AG) opinion 90-30, dated December 27, 1990, concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, another AG opinion 68-38, states Mutual Domestic Associations (MDA) under the SPA are created for "one purpose only, and that is to establish and maintain a water system". Further, it concluded MDA's are not municipal corporations. New Mexico House Bill 297, enacted during the 2009 legislative session, exempts MDA's from being subject to ad valorem taxes.

The Association is considered to be a special-purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No.14. The Association is not a component unit of a governmental entity nor does it have any component units. This conclusion was reached because the Association was converted from a cooperative to an MDWA, pursuant to NMSA 3-29-20, by a vote of the Board of Directors rather than through legislative action or action by the entire membership; it does not have the ability to levy taxes but it does have the ability to set and change rates for service, it continues to file not-for-profit tax returns, and it is not a subdivision of any governmental entity.

AG Opinion 06-02 determined that MDWA's created pursuant to the Sanitary Projects Act, NMSA 1978 are public bodies / political subdivisions, whose revenues are "public money" and they have statutory responsibilities to abide by: the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act. Due to the fact that MDWA's have been determined to be governmental nonprofit organizations, their financial statements must follow the government format as described in GASB 34.

A. Basis of Presentation

The accounts of the Association are organized and operated on the basis of a proprietary fund type, specifically one enterprise fund. The activities of this fund are accounted for with a self-balancing set of accounts that comprise the Association's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as rental income and investment earnings, result from nonexchange transactions or ancillary activities.

B. Measurement Focus and Basis of Accounting

The Association's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the accrual basis revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

C. Cash and Cash Equivalents

Cash consists of cash on hand and demand deposits. For purposes of the statements of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

The Association has funds on deposit with local financial institutions. Amounts were fully insured under FDIC insurance coverage at December 31, 2015. The Association places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit; however, the Commission does not believe it is exposed to any significant credit risk related to cash. All such cash accounts are monitored to mitigate risk.

D. Accounts Receivable

Substantially all of the Association's outstanding receivables are due from its member customers for water sales. Receivables are shown net of an allowance for uncollectible accounts in the amount of \$224. The allowance was estimated by management based on their estimate of uncollectible accounts as of December 31, 2015.

Receivables are considered past due if any portion of the receivable balance is outstanding for more than 30 days. Accounts receivable are charged a penalty on the 20th of each month if the balance has become 30 days past due. Once a balance for water billing becomes 60 days past due, the water is turned off. Water is not turned back on until all balances are paid. The penalty and balances carry forward until the balance is either paid in full or written off. Recoveries of receivables previously written off are recorded when received.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets

Capital assets include land, water rights, buildings, water system lines and equipment, and office furniture and equipment. Capital assets are defined by the Association as assets with an initial cost in excess of \$5,000 with an estimated useful life in excess of one year. Items with a cost of less than \$5,000 are expensed in the year of acquisition. Costs associated with the installation of new water lines, pumps and tanks, are capitalized. Expenditures related to the maintenance of the existing water system are expensed in the current period.

Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Water lines and equipment	10 - 40
Furniture and equipment	4

Land is not depreciated and water rights are not amortized due to an indefinite life.

F. Revenues

Revenues are classified as operating or non-operating according to the following criteria:

- (1) Operating revenues include activities that have the characteristics of an exchange transaction, such as charges for services and fees, net of allowance for uncollectible accounts.
- (2) Non-operating revenues include activities that have the characteristics of non-exchange transactions such as capital grants and investment income.

G. Net Position

Proprietary Fund net positions are comprised of and reported as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provision or enabling legislation. The Association has no restrictions on net position at December 31, 2015.
- Unrestricted net position – This component of net position consists of net position of the Association, not restricted for any purpose or project.

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 needed.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Income Taxes

The Association operates as a not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Association has not been classified as a private foundation by the Internal Revenue Service.

The Association would record a liability for uncertain tax positions when it became probable that a loss has been incurred and the amount can be reasonably estimated. Interest would be recognized and accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Management continually evaluates expiring statutes of limitations, proposed settlements, changes in tax law and new authoritative rulings. As of December 31, 2015, no liabilities for uncertain tax positions have been recorded. Generally, the Association's tax returns remain open for federal income tax examination for three years from the date of filing.

I. 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 the 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.

J. Subsequent Events

Management has evaluated subsequent events through April 27, 2017, the date the financial statements were available to be issued.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An operating budget is adopted each fiscal year and is approved by the Board of Directors and the New Mexico Department of Finance and Administration (DFA). The budget is prepared on a cash basis as required by DFA. The Board of Directors is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by DFA. In conjunction with this, the Association can overspend line items within the fund, but it is a violation of state statute to over-expend a fund total.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - is presented on the cash budgetary basis to provide a comparison of actual results with the budget. The adjustments necessary to convert the results of operations for the year from GAAP basis to the cash budget basis are included on the Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget and Actual (Budgetary Basis).

For year ended December 31, 2015, expenditures exceeded budget by \$360 in the legal expense category.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 3. CASH AND CASH EQUIVALENTS

The Association invests its funds in accordance with state statutes which require that financial institutions pledge collateral of federal or state securities whose market value is equal to at least 50 percent of the deposits in excess of FDIC insurance coverage made by the Association with a financial institution. Also, the Association in accordance with state statutes may only have deposits in financial institutions, or invest in federal direct obligations or the New Mexico State Treasurer's Local Government Pooled Investments.

Securities which are obligations of the State of New Mexico, its agencies, institutions, counties or municipalities or other subdivisions are accepted at par value; all other securities are accepted at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration.

The Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking account. Following is a schedule as of December 31, 2015 of cash and cash equivalents:

		Bank Balance	Book Balance
Centinel Bank	Checking	\$ 7,020	\$ 7,020
Peoples Bank	Checking	1,000	1,000
US Bank	Checking	80,095	77,294
Petty Cash		-	55
Total		\$ 88,115	\$ 85,369

Custodial Credit Risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of December 31, 2015, the Association's bank balances were covered in full by FDIC insurance, thus the Association was not exposed to custodial credit risk and was in compliance with state statute.

NOTE 4. CAPITAL ASSETS

The majority of the assets of the Association are located on land not owned by the Association, but are constructed on private easements for the specific and registered use of the Association or within the public utility right-of-way associated with public roads granted by plats from the county or the Town Llano Quemado.

The Association has determined that, at present, none of the factors stipulated in Accounting Standards Codification, are evident that limit the useful life of these or any previously purchased water rights, and therefore are considered to be indefinite non-amortized intangible assets. The Association evaluates the water rights each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 4. CAPITAL ASSETS (CONTINUED)

Proprietary Fund capital asset activity for the year ending December 31, 2015 is as follows:

	Balance 12/31/14	Additions	Deletions / Transfers	Balance 12/31/15
Nondepreciable				
Land	\$ 341,000	-	-	341,000
Water rights	85,983	-	-	85,983
Construction in progress	226,467	382,973	-	609,440
Depreciable				
Building	20,332	-	-	20,332
Water lines and equipment	294,354	-	-	294,354
Furniture and equipment	19,320	-	-	19,320
Total assets	<u>987,456</u>	<u>382,973</u>	<u>-</u>	<u>1,370,429</u>
Accumulated depreciation				
Building	(11,383)	(508)	-	(11,891)
Water lines and equipment	(213,879)	(6,740)	-	(220,619)
Furniture and equipment	(19,320)	-	-	(19,320)
Total accumulated depreciation	<u>(244,582)</u>	<u>(7,248)</u>	<u>-</u>	<u>(251,830)</u>
Total capital assets, net	<u>\$ 742,874</u>	<u>375,725</u>	<u>-</u>	<u>1,118,599</u>

NOTE 5. LONG-TERM DEBT

During the year ending December 31, 2015 following changes occurred in long-term debt:

	Balance 12/31/14	Additions	Reductions	Balance 12/31/15	Due in One Year
Personal loan	\$ 30,000	-	(15,000)	15,000	15,000
RCAC	176,714	-	(176,714)	-	-
USDA / RUS	-	568,330	-	568,330	-
Total capital assets, net	<u>\$ 206,714</u>	<u>568,330</u>	<u>(191,714)</u>	<u>583,330</u>	<u>15,000</u>

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

A summary of notes at December 31, 2015 is as follows:

Personal Loan. The Association entered into an agreement with a landowner on January 1, 2015, for the purpose of acquiring two acres of the individual's land to be used for a well site and 400,000 gallon storage tank. The original amount of the loan was \$62,500, bearing interest at 0%. Payments are due annually January 1 with the note maturing January 1, 2016.

RCAC. The Association entered into a promissory note and loan agreement with the Rural Community Assistance Corporation (RCAC), a California nonprofit public benefit corporation, on April 1, 2013. The purpose of the loan was to pay costs of predevelopment work required to satisfy conditions of funding to permit the closing and funding of financial assistance from USDA RUS to construct a water system. The original amount of the loan was \$158,681 but was later amended through a loan modification on September 2, 2014 to increase the amount to \$190,344. The note bears interest at 5.5%, payable on the last day of each month in arrears. All principal and accrued unpaid interest is due and payable no later than (a) the close of the Association's grant and loan for construction of water system improvements from USDA RUS, or (b) May 1, 2015, whichever is earlier.

USDA RUS. The Association entered into a real estate mortgage with the United States Department of Agriculture Rural Utilities Services (USDA RUS) on April 14, 2015 for an amount up to \$1,497,000 to purchase land and construct water system improvements. The note bears interest at 2.75%. Principal and interest payments are due once the full \$1,497,000 has been drawn for construction costs, with the note maturing April 14, 2055. The Association has pledged as collateral all profits and revenues, improvements, water, water rights, water stock and irrigation equipment, and all A/R.

As of December 31, 2015, the association had not completed construction of their water treatment facilities. As such, debt repayment had not yet occurred.

Principal maturities of long-term debt are as follows:

2016	\$ 15,000
2017	-
2018	-
2019	-
2020	-
Thereafter	<u>568,330</u>
Total	<u>\$ 583,330</u>

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 6. SCHEDULE OF APPROPRIATIONS

The Association received a severance tax bond appropriation as follows:

Original Appropriation	\$25,000
Type of Appropriation	STB
Appropriation Period	10/21/13 – 6/30/17
Expenditures to Date	\$25,000
Outstanding encumbrances	\$-
Unencumbered Balance	\$-

SUPPLEMENTAL INFORMATION

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND (CASH BASIS)
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Water revenue	\$ 89,300	89,300	76,121	(13,179)
Rental income	35,842	35,842	35,842	-
Interest	33	33	33	-
Total revenues	\$ 125,175	125,175	111,996	(13,179)
Expenditures				
Current:				
Salaries and benefits	\$ 12,240	12,240	12,240	-
Insurance expense	11,795	11,795	11,795	-
Depreciation expense	7,248	7,248	7,248	-
Interest expense	7,376	7,376	7,376	-
Utilities	7,089	7,089	7,089	-
Tax expense	6,803	6,803	6,803	-
Meter reading	5,760	5,760	5,760	-
Maintenance and repairs	4,770	4,770	4,770	-
Office expenses	3,400	3,400	3,400	-
License and dues	802	802	802	-
Other	717	717	717	-
Legal Expense	-	-	360	(360)
Total expenditures	\$ 68,000	68,000	68,360	(360)

OTHER SUPPLEMENTAL INFORMATION

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
SCHEDULE OF JOINT POWERS AGREEMENTS
December 31, 2015

Joint Power Agreement	Participants	Responsible Party	Description	Beginning and Ending Dates	Total Estimated Project Amount and Amount Applicable to Association	Amount Contributed by Association during Fiscal Year	Audit Responsibility	Fiscal Agent and Responsible Reporting Entity
Water Rates	Llano Quemado Mutual Domestic Water Consumers Association (LQMD) El Valle de Los Ranchos Water & Sanitation District (District)	LQMD	LQMD provides water to service to District customers from a well owned by LQMD	6/1/2015 No end date	LQMD is paid based on water rates agreed to by both parties.	\$ -	LQMD	LQMD

OTHER INFORMATION (UNAUDITED)

LUANO GUERRERO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
 VENDOR SCHEDULE
 December 31, 2015

Agency Number	Agency Name	Agency Type	RFP/Quote (If applicable)	Type of Procurement	Bidder/Vendor Name	Did Bidder/Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veteran preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
3240	Luano Guerrero Mutual Domestic Water Consumers Association, Inc.	Water	2012-1	Competitive (RFQ or RFP)	Burton Engineers, LLC	Winner	\$ 134,259.00	\$ 134,259.00	2900 Vista Grande Dr. N. Ys	No	No	Engineering services	

Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD. NE - SUITE 400
ALBUQUERQUE, NM 87110

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*

Independent Auditor's Report

Mr. Timothy Keller, State Auditor and
To the Board of Directors
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho de Taos, New Mexico

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, the financial statements of the business-type activities of the Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) as of and for the year ended December 31, 2015, 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, as presented as supplemental information, and have issued our report thereon dated April 27, 2017.

Internal Control Over Financial Reporting

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

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. 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.

Mr. Timothy Keller, State Auditor and
To the Board of Directors
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho de Taos, New Mexico

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 over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weakness 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 which is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses item 2010-001, 2010-002, 2010-003, 2010-004.

Management's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Ricci & Company LLC

Albuquerque, New Mexico
April 27, 2017

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
SUMMARY SCHEDULE OF PRIOR AUP FINDINGS
Year Ended December 31, 2015

A. PRIOR YEAR AUP FINDINGS

2010-001	Financial Reports Not Submitted to DFA – Material Noncompliance	Repeated
2010-002	Expenditures in Excess of Budget – Other Noncompliance	Repeated
2010-003	Budgets Not Submitted to DFA for Approval – Material Noncompliance	Repeated
2010-004	Timeliness of Report – Other Noncompliance	Repeated

B. CURRENT YEAR AUDIT FINDINGS

2010-001	Financial Reports Not Submitted to DFA – Material Noncompliance
2010-002	Expenditures in Excess of Budget – Other Noncompliance
2010-003	Budgets Not Submitted to DFA for Approval – Material Noncompliance
2010-004	Timeliness of Report – Other Noncompliance

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015

A. FINDINGS – FINANCIAL STATEMENTS

2010-001 Financial Reports Not Submitted to DFA – Material Noncompliance

CONDITION

Quarterly reports have not been submitted to DFA. Management has not made progress in implementing the prior year corrective action plan, as agreed upon procedures from 2010-2014 and the 2015 audit engagement were performed from September 2016 to April 2017. Therefore, management was unable to correct any of the findings for the past years, since all of the engagements were not completed until 2017.

CRITERIA

Chapter 6, Article 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of the New Mexico Department of Finance and Administration (DFA) to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. All local governments are required to submit operating budgets to LGD, operate within LGD approved budget unless adjustments are needed, which might require LGD approval; submit quarterly financial reports; and to conform to rules and regulations as required by LGD.

EFFECT

The Association is not in compliance with DFA - LGD rules relating to financial reporting.

CAUSE

The Association was not aware of this requirement to provide financial reports to DFA - LGD.

RECOMMENDATION

We recommend that the Association provide all information required in accordance with DFA - LGD rules.

MANAGEMENT RESPONSE

Effective immediately, the Association will submit all required reports to DFA -LGD and initiate a system whereby these items are submitted on a timely basis. The Board President will ensure that this action is undertaken as required.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended December 31, 2015

A. FINDINGS – FINANCIAL STATEMENTS (CONTINUED)

2010-002 Expenditures in Excess of Budget (Other Noncompliance)

CONDITION

The Association had net expenditures in excess of the final budget during the year ended December 31, 2015. The Association did not budget for legal expenses and the actual legal expenses were \$360. It does not appear that any budget adjustments were made. Management has not made progress in implementing the prior year corrective action plan, as agreed upon procedures from 2010-2014 and the 2015 audit engagement were performed from September 2016 to April 2017. Therefore, management was unable to correct any of the findings for the past years, since all of the engagements were not completed until 2017.

CRITERIA

State Statute 6-6-6, NMSA 1978 requires the expenditures of public bodies not to exceed budget authority.

EFFECT

The Association violated its budget constraints during the current year that it was not authorized to spend.

CAUSE

The Association was not aware that subsequent budget adjustments had to be approved by the local public body's governing body and DFA-LGD.

RECOMMENDATION

We recommend that the Association monitor its budgeted costs more closely and that changes be made in the accounting methodologies to facilitate this monitoring. We also recommend that adjustments be made to the budget when it becomes apparent that the cost will exceed the budgeted amounts and proper approvals for any changes obtained.

MANAGEMENT RESPONSE

The Association agrees to monitor expenditures, make adjustments to the budget, and obtain paper approvals when necessary. The Board President will ensure that this action is undertaken as required.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended December 31, 2015

A. FINDINGS – FINANCIAL STATEMENTS (CONTINUED)

2010-003 Budgets Not Submitted to DFA for Approval – Material Noncompliance

CONDITION

Original budget was not submitted to DFA for approval. Management has not made progress in implementing the prior year corrective action plan, as agreed upon procedures from 2010-2014 and the 2015 audit engagement were performed from September 2016 to April 2017. Therefore, management was unable to correct any of the findings for the past years, since all of the engagements were not completed until 2017.

CRITERIA

Chapter 6, Article 6 of the New Mexico Statutes Annotated (NMSA) 1978 requires the Local Government Division (LGD), Financial Management Bureau of the New Mexico Department of Finance and Administration (DF A) to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. All local governments are required to submit operating budgets to LGD, operate within LGD approved budget unless adjustments are needed, which might require LGD approval; submit quarterly financial reports; and to conform to rules and regulations as required by LGD.

EFFECT

The Association is not in compliance with DFA - LGD rules relating to financial reporting.

CAUSE

The Association was not aware of this requirement to submit its budget to DFA-LGD for approval.

RECOMMENDATION

We recommend that the Association submit its budget to DF A- LGD for approval, together with any budget amendments which may be required during the year, in accordance with DFA-LGD rules.

MANAGEMENT RESPONSE

Effective immediately, the Association will submit its budget and any budget amendments, to DFA - LGD and initiate a system whereby these items are submitted on a timely basis. The Board President will ensure that this action is undertaken as required.

LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended December 31, 2015

2010-004 Timeliness of Report (Other Noncompliance)

CONDITION

Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) submitted the required audited financial statements for the year ended December 31, 2015 after the deadline of May 31, 2016. Management has not made progress in implementing the prior year corrective action plan, as agreed upon procedures from 2010-2014 and the 2015 audit engagement were performed from September 2016 to April 2017. Therefore, management was unable to correct any of the findings for the past years, since all of the engagements were not completed until 2017.

CRITERIA

The Association was required to submit the audited financial statements for the year ended December 31, 2015 on or before May 31, 2016 in accordance with Section 2.2.2.16 of the New Mexico State Auditor's Rule.

EFFECT

The Association is not in compliance with the New Mexico State Auditor's Rule and State Statutes. In addition, the users of the report, such as legislators, creditors, and grantors do not have a current report for analysis.

CAUSE

The Association was not aware of the reporting requirements and when they did find out, they immediately contacted a qualified IPA.

RECOMMENDATION

The Association should continue its efforts to get reports completed in a timely manner.

MANAGEMENT RESPONSE

We were not aware of the requirements for filing with the State Auditor's Office. We will now report timely. The President of the Board, Andrew Chavez will be responsible for making sure the future reports, beginning with 2016, are filed timely.

**LLANO QUEMADO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended December 31, 2015**

An exit conference was held on April 27, 2017, to discuss the annual financial report. Attending were the following:

Representing the Association:

Andrew D. Chavez
Johnny Valerio

Board President
Board Treasurer

Representing the Independent Auditor:

Lee Baldwin, CPA

Manager

A. PREPARATION OF FINANCIAL STATEMENTS

The financial statements were prepared with the assistance of Ricci & Company, LLC from the books and records of the Llano Quemado Mutual Domestic Water Consumers Association, Inc. The financial statements and related footnotes remain the responsibility of management.