

Llano Quemado Mutual Domestic Water Consumers Association, Inc.

**Financial Statements
For the Year Ended December 31, 2016**





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Llano Quemado Mutual Domestic Water Consumers Association, Inc.

**Official Roster
As of December 31, 2016**

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

Principal Employees

Lionides Martinez	Operator
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho de Taos, New Mexico
and
Mr. Wayne A. Johnson
New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

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, 2016, 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, 2016, 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 misstatements, 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.

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 financial position of the business-type activities of the Association as of December 31, 2016, 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

The Association has omitted Management's Discussion and Analysis which is required 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards, as listed in the table of contents, required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the other schedules required by 2.2.2. NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* and the accompanying *supplementary information* listed in the table of contents 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 schedule of expenditures of federal awards and the supplementary information listed on the table of contents and other schedules required by 2.2.2 NMAC 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 December 4, 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.

Zlotnick Lawz & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.

December 4, 2017



Assets	
Current Assets	
Cash	\$ 49,939
Accounts receivable, net	19,249
Total Current Assets	<u>69,188</u>
Capital assets, net	<u>3,050,159</u>
Total Assets	<u><u>\$ 3,119,347</u></u>
Liabilities	
Current Liabilities	
Accrued liabilities	\$ 6,764
Accrued interest	1,789
Current maturities of long-term debt	24,541
Total Current Liabilities	<u>33,094</u>
Long-term debt	<u>1,577,007</u>
Total Liabilities	<u>1,610,101</u>
Net Position	
Net investment in capital assets	1,448,611
Unrestricted	60,635
Total Net Position	<u>1,509,246</u>
Total Liabilities and Net Position	<u><u>\$ 3,119,347</u></u>



Llano Quemado Mutual Domestic Water Consumers Association, Inc.

Statement of Revenue, Expenses and Changes in Net Position Year Ended December 31, 2016

Operating Revenue	
Sales and services	\$ 92,775
	<u>92,775</u>
Total Operating Revenue	<u>92,775</u>
Operating Expenses	
Salaries and wages	12,240
Insurance expense	4,742
Depreciation expense	6,177
Utilities	8,627
Tax expense	6,702
Meter reading	5,760
Maintenance and repairs	14,391
Office Expense	4,394
License and dues	554
Operating expense	3,787
Other	1,746
Legal Expense	27,586
	<u>27,586</u>
Total Operating Expenses	<u>96,706</u>
Total Operating Loss	(3,931)
Nonoperating Revenue (Expenses)	
Rental income	36,628
Interest income	44
Federal Grants	875,935
Interest expense	(33,069)
	<u>(33,069)</u>
Total Nonoperating Revenue (Expenses)	<u>879,538</u>
Change in Net Position	875,607
Net Position, beginning	<u>633,639</u>
Net Position, ending	<u>\$ 1,509,246</u>

The accompanying notes are an integral part of these financial statements



Cash Flows From Operating Activities	
Receipts from customers and users	\$ 88,249
Payments to vendors and suppliers	(73,246)
Payments to employees	<u>(12,240)</u>
Total Cash Flows From Operating Activities	<u>2,763</u>
Cash Flows From Capital Financing Activities	
Acquisition and construction of capital assets	(1,937,738)
Grant proceeds	875,935
Proceeds from borrowings	1,052,670
Principal payments on long-term debt	(34,452)
Interest paid on long-term debt	<u>(31,280)</u>
Total Cash Flows From Capital Financing Activities	<u>(74,865)</u>
Cash Flows From Investing Activities	
Rental Income	36,628
Interest received	<u>44</u>
Total Cash Flows From Investing Activities	<u>36,672</u>
Total Cash Flows	(35,430)
Cash, beginning of the year	<u>85,369</u>
Cash, end of the year	<u><u>\$ 49,939</u></u>
Reconciliation of Operating Income to Total Cash Flows From Operating Activities:	
Operating loss	\$ (3,931)
Depreciation	6,177
Increase (Decrease):	
Accounts receivable	(4,527)
Accrued liabilities	<u>5,044</u>
Total Cash Flows From Operating Activities	<u><u>\$ 2,763</u></u>

The accompanying notes are an integral part of these financial statements



NATURE OF BUSINESS AND REPORTING ENTITY

Llano Quemado Mutual Domestic Water Consumers Association. Inc. (Association) is a not-for-profit Mutual Domestic Water Consumers Association 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 MDA 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. The Association continues to file not-for-profit tax returns, and it is not a subdivision of any governmental entity.

AG Opinion 06-02 determined that MDA'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 MDA's have been determined to be governmental nonprofit organizations, their financial statements must follow the government format as described in GASB 34.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).



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. 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 Association 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, 2016.

Receivables are considered past due if any portion of the receivable balance is outstanding for more than 30 days. 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.

E. Capital Assets

Capital assets include land, water rights, buildings, water system lines, wells, 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 wells, 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:

	Years
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:

- *Net Investment in Capital Assets* – 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* – 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, 2016.
- *Unrestricted* – 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.

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, 2016, 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 December 4, 2017, the date the financial statements were available to be issued.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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).

NOTE 3. CASH AND CASH EQUIVALENTS

The Association is required 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. As of December 31, 2016 the Association had no pledged collateral as required by state statute as described above.

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, 2016 of cash and cash equivalents:

		<u>Bank Balance</u>	<u>Book Balance</u>
Centinel Bank	Checking	\$ 6,982	\$ 6,982
Peoples Bank	Checking	1,000	1,000
US Bank	Checking	330,095	41,957
		<u>\$ 338,077</u>	<u>\$ 49,939</u>

Custodial Credit Risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it.

NOTE 4. CAPITAL ASSETS

	<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2016</u>
Nondepreciable:				
Land	341,000	-	-	\$ 341,000
Water rights	85,983	-	-	85,983
Construction in progress	609,440	1,933,453	-	2,542,893
Depreciable:				
Building	20,332	-	-	20,332
Water lines and equipment	294,354	4,285	-	298,639
Office Furniture and equipment	19,320	-	-	19,320
Total Capital assets depreciated	<u>1,370,429</u>	<u>1,937,738</u>	<u>-</u>	<u>3,308,167</u>
Less accumulated depreciation for:				
Building	11,891	509	-	12,400
Water lines and equipment	220,619	5,669	-	226,288
Office Furniture and equipment	19,320	-	-	19,320
Total accumulated Depreciation	<u>251,830</u>	<u>6,178</u>	<u>-</u>	<u>258,008</u>
Total capital assets, net	<u>\$ 1,118,599</u>	<u>1,931,560</u>	<u>-</u>	<u>\$ 3,050,159</u>

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 of Llano Quemado.

The Association has determined that at present, none of the factors stipulated in Accounting Standards Codification limit the useful life of the water rights shown above; therefore, the water rights 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.

NOTE 5. LONG-TERM DEBT

During the year ending December 31, 2016 the following changes occurred in long-term debt:

	Balance 2015	Additions	Deletions	Balance 2016	Due in One Year	Accrued Interest
Personal Loan	\$ 15,000	-	15,000	\$ -	\$ -	\$ -
USDA RUS	568,330	928,670	19,452	1,477,548	22,349	1,725
USDA RUS	-	124,000	-	124,000	2,192	64
Total	<u>\$ 583,330</u>	<u>1,052,670</u>	<u>34,452</u>	<u>\$ 1,601,548</u>	<u>\$ 24,541</u>	<u>\$ 1,789</u>

A summary of notes at December 31, 2016 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.

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 construct water system improvements. The note bears interest at 2.75%. The Association made an interest only payment in April 2016, and principal and interest payments began in May of 2016, with the note maturing April 14, 2056. The Association has pledged as collateral all profits and revenues, improvements, water, water rights, water stock and irrigation equipment, and all accounts receivable.

The Association issued an additional note to the USDA RUS on December 16, 2016 for an amount up to \$124,000 to construct water system improvements. The note bears interest at 1.875%. Principal and interest payments began in January 2017, with the note maturing December 16, 2056. The Association has pledged as collateral all profits and revenues, improvements, water, water rights, water stock and irrigation equipment, and all accounts receivable.

Principal maturities of long-term debt are as follows:

Year	Payment
2017	\$ 24,541
2018	25,134
2019	25,814
2020	26,400
2021	27,229
Thereafter	<u>1,472,430</u>
Total	<u>\$ 1,601,548</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. During the year ended December 31, 2016, the Association carried insurance through a commercial carrier to cover all risks of losses. The Association has had no settled claims resulting from these risks in any of the past three fiscal years.



Llano Quemado Mutual Domestic Water Consumers Association, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016**

Federal Grantor / Pass-through Grantor / Program	CFDA Number	Federal Expenditures	Beginning Balance
U.S.D.A Rural Development / Rural Utilities Service / Water and Waste Disposal Systems for Rural Communities			
Direct Loans for Water and Waste Disposal Systems	10.760	\$ 1,052,670	<u>\$ 568,330</u>
Project Grants for Water and Waste Disposal Systems	10.760	<u>875,935</u>	
Total U.S.D.A Rural Development		<u>\$ 1,928,605</u>	
 Total Expenditures of Federal Awards		 <u>\$ 1,928,605</u>	

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Association has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Loan Balances

As of December 31, 2016, the Association had two loans outstanding with balances of \$1,477,548 and \$124,000, respectively. Further details can be found in Note 5 to the financial statements.



Llano Quemado Mutual Domestic Water Consumers Association, Inc.

**Schedule of Revenues, Expenditures Budget and Actual
Year Ended December 31, 2016**

	Original Budget	Final Budget	Budget Basis Actual	Variance Favorable (Unfavorable)
Revenues				
Water Revenue	\$ 89,300	89,300	92,775	3,475
Federal Grants	806,000	806,000	875,935	69,935
Federal Loan	928,700	928,700	1,052,670	123,970
Rental Income	36,000	36,000	36,628	628
Interest Income	34	34	44	10
Total Revenue	\$ 1,860,034	1,860,034	2,058,052	198,018
Expenditures				
Water System Improvement Project	\$ 1,734,700	1,734,700	1,965,324	(230,624)
Salaries and wages	12,240	12,240	12,240	-
Utilities	6,904	6,904	8,627	(1,723)
Tax expense	6,515	6,515	6,702	(187)
Meter reading	5,760	5,760	5,760	-
Maintenance and repairs	6,089	6,089	14,391	(8,302)
Office Expense	2,657	2,657	4,394	(1,737)
License, dues and Insurance	7,334	7,334	5,296	2,038
Other	888	888	5,533	(4,645)
Interest Expense	6,628	6,628	33,069	(26,441)
Total Expenditures	\$ 1,789,715	1,789,715	2,061,336	(271,621)

Adjustments necessary to convert the results of operations for the year from GAAP basis to the cash budget basis:

Change in Net Position	\$ 875,607
Federal Loan	1,052,670
Purchases of Capital Assets	(1,937,738)
Depreciation	6,177
Revenues Over Expenditures - Budget Basis	\$ (3,284)

See Independent Auditor's Report



Joint Power Agreement: Water Rates

Participants: Llano Quemado Mutual Domestic Water Consumers Association (Association) and El Valle de Los Ranchos Water & Sanitation District (District)

Responsible Party: The Association

Description: The Association provides water to service District customers from a well owned by the Association.

Beginning Date: 06/01/2015

End Date: None

Total Estimated Project Amount Applicable to the Association: Based on water rates agreed to by both parties.

Amount Contributed by Association during Fiscal Year: \$-0-

Audit Responsibility: The Association

Fiscal Agent and Responsible Reporting Entity: The Association

See Independent Auditor's Report

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

Andrew Chavez, President
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho de Taos, New Mexico
and
Mr. Wayne A. Johnson, New Mexico State Auditor
Office of the State Auditor
Santa Fe, 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, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and related the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements and have issued our report thereon dated December 4, 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

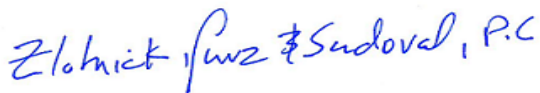
As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with *Government Auditing Standards* and *New Mexico State Auditor Rule 2.2.2 NMAC* and which are described in the accompanying schedule of findings and questioned costs as items 2010-001 through 2010-004 and 2016-005.

The Association's Response to Findings

The Association's response to the findings identified in our audit is described in the accompanying schedule of findings and 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.



Zlotnick, Laws & Sandoval, P.C.

December 4, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Andrew Chavez, President
Llano Quemado Mutual Domestic Water Consumers Association, Inc.
Rancho de Taos, New Mexico
and
Mr. Wayne A. Johnson, New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Llano Quemado Mutual Domestic Water Consumers Association, Inc.'s (Association) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2016. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Basis for Qualified Opinion on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities

As described in the accompanying schedule of findings and questioned costs, The Association did not comply with the requirements of CFDA 10.760 Water and Waste Disposal Systems for Rural Communities in finding numbers 2016-001 through 2016-003 for Program Specific Requirements. Compliance with such requirements is necessary, in our opinion, for The Association to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, The Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities for the year ended December 30, 2016.

Other Matters

The Association’s response to the noncompliance findings 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be a significant deficiency.

The Association's response to the internal control over the compliance 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 compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Zlotnick Law & Sandoval, P.C.

Zlotnick, Laws & Sandoval, P.C.

December 4, 2017



Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unmodified Opinion

Internal control over financial reporting:

Table with 2 columns: Question, Yes, No. Rows include: Material weaknesses identified?, Significant deficiencies identified that are not considered to be material weaknesses?, Noncompliance material to the financial statements noted?

Federal Awards

Type of auditors’ report issued on compliance for major programs: Qualified Opinion

Audit findings under 2 CFR 200.516(a):

Table with 2 columns: Question, Yes, No. Rows include: A. Significant deficiencies and material weaknesses in internal control over a major program?, B. Material noncompliance with federal statutes?, C. Known questioned costs greater than \$25,000 for a major program?, D. Known questioned costs greater than \$25,000 not audited as a major program?, E. Know or likely fraud affecting a federal award?, F. Significant instances of abuse over major programs?, G. Modified auditor’s report?, H. Summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding?

Identification of major programs:

- CFDA Numbers Name of Federal Program or Cluster
10.760 Direct Loans for Water and Waste Disposal Systems.
10.760 Project Grants for Water and Waste Disposal Systems.

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No



**Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

Prior Year Findings:

No.	Title	Status of Prior Year Findings	Significant Deficiency	Material Weakness	Other Compliance	Other Matters	Federal Awards Finding
2010-001	Financial Reports Not Submitted to DFA	Repeated			X		
2010-002	Expenditures in Excess of Budget	Repeated			X		
2010-003	Budgets Not Submitted to DFA for Approval	Repeated			X		
2010-004	Timeliness of Report	Repeated			X		

Current Year Findings:

No.	Title	Significant Deficiency	Material Weakness	Other Compliance	Other Matters	Federal Awards Finding
2016-001	Reserve Account					X
2016-002	Federal Reporting					X
2016-003	Pledged Collateral - Federal					X
2016-004	Written Policies and Procedures		X			
2016-005	Pledged Collateral - State			X		



Section II – Financial Statement Findings and Other Matters

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

CONDITION: Quarterly reports have not been submitted to DFA. Management is making progress in implementing the prior years corrective action plans, as agreed upon procedures from 2010-2014 and the 2015 and 2016 audit engagements were performed from September 2016 to December 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. Management has begun filing reports with DFA, and is currently working to make sure they are current with all filings.

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.

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, 2016. The Association does not make budget adjustments to accommodate for the changes in federal funding amounts or other events that would require an adjustment. Management is aware of the issue and is working to make changes in the current period so that future budgets are compliant.

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.



2010-003 Budgets Not Submitted to DFA for Approval – Other 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 and 2016 audit engagements were performed from September 2016 to December 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 submit its budget to DFA-LGD for approval.

RECOMMENDATION: We recommend that the Association submit its budget to DFA- 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.

2010-004 Timeliness of Report – Other Noncompliance

CONDITION: Llano Quemado Mutual Domestic Water Consumers Association, Inc. (Association) has been working to complete and file reports required by the State Auditor from the 2010 to 2016 fiscal year. Each of these reports were contracted late and have been or will be turned in after their due date. This report represents the last of the reports that is late. Management fully intends to have all future reports turned in by the required date.

CRITERIA: The Association was required to submit the audited financial statements for the year ended December 31, 2016 on or before May 31, 2017 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: The President of the Board will be responsible for making sure the future reports, beginning with 2017, are filed timely.

2016-005 Pledged Collateral (State Statute) – Other Noncompliance

CONDITION: Project Deposits held by the Association were not collateralized by the bank holding the funds.

CRITERIA: Public Money Act, 6-10-1 to 6-10-63 NMSA 1978, including the requirements that county and municipal treasurers deposit money in their respective counties, and that the agency receive a joint safe keeping receipt for pledged collateral.



**Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

EFFECT: The deposits were at risk for all amounts over FDIC insurance. Multiple times during the year ended December 31, 2016 the Association received deposit from federal sources in excess of FDIC insurance.

CAUSE: The Association failed to review state statutes to be aware of the collateral requirement and to make needed arrangements with the bank.

RECOMMENDATION: As of the date of this report the project is largely complete; however, the Association should review the Letter of Conditions to ensure that all the conditions are met going forward and that controls are in place to help maintain compliance and to prevent and detect noncompliance.

MANAGEMENT RESPONSE: Management agrees with this finding and will make sure that if federal funds are received in the future they will be deposited in an account that is sufficiently collateralized.



Section III – Federal Award Findings

2016-001 Reserve Account – Federal Compliance

U.S.D.A Rural Development / Rural Utilities Service / Water and Waste Disposal Systems for Rural Communities

CFDA 10.760

CONDITION: The Association had not deposited the required amount of funds into a reserve account as of December 31, 2016.

CRITERIA: USDA RD Letter of Conditions date April 26, 2012 condition 6: “As a part of this Agency loan proposal you must establish a debt service reserve fund equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment.

In addition to the debt service reserve account, you must fund a short-lived asset replacement reserve by depositing a sum of \$2,852 annually.”

USDA RD Letter of Conditions date September 20, 2016 condition 4: “As a part of this Agency subsequent loan proposal. you must establish a debt service reserve fund equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. Ten percent of the proposed loan installment would equal \$39.40 per month; this amount should be deposited monthly until a total of \$4,728 has accumulated. Prior written concurrence from Rural Development must be obtained before funds may be withdrawn from this account during the life of the loan.”

EFFECT: The Association does not have the adequate reserve funds in place. The reserve is required to help ensure that the Association has adequate working capital to be able to service the debt payments.

CAUSE: The Association failed to review the letter of conditions sufficiently to be aware of the reserve requirement and to set aside the necessary funds.

RECOMMENDATION: The Association should immediately deposit an adequate amount of funds into the reserve account.

MANAGEMENT RESPONSE: The Board Treasurer set up an account in August 2017 with an initial deposit of \$1,000. Effective immediately, the Treasurer will continue to make deposits to this account as the funds become available.

2016-002 Federal Reporting – Federal Compliance

U.S.D.A Rural Development / Rural Utilities Service / Water and Waste Disposal Systems for Rural Communities

CFDA 10.760

CONDITION: The Association’s audited financial statements as required by the letter of conditions and OMB Circular A-133 were turned in late. Additionally, reports required by the USDA Letter of Conditions have not been turned in.

CRITERIA: OMB Circular A-133 and USDA RD Letter of Conditions date April 26, 2012 condition 12: “Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board or Counsel Members and their terms.

Quarterly management reports will be required until the processing office waives the required reports. You may use RD form 442-2 and complete schedule I, page 1, columns 2-6 as appropriate and page 2. The area office will notify you in writing when the Quarterly reports are no longer required.



EFFECT: The Association reports are not made available to regulators and the public as needed and in a timely manner.

CAUSE: The Association was not aware of the reporting requirements and when they did find out, they immediately contacted a qualified IPA and began to take steps to file all required reports.

RECOMMENDATION: The Association should immediately take steps to bring all required filings.

MANAGEMENT RESPONSE: The Board Treasurer will make sure that the 2016 annual report is filed as soon as possible and that all future reporting deadlines are met.

2016-003 Pledged Collateral (Federal Requirement) – Federal Compliance

U.S.D.A Rural Development / Rural Utilities Service / Water and Waste Disposal Systems for Rural Communities

CFDA 10.760

CONDITION: Project Deposits held by the Association were not collateralized by the bank holding the funds.

CRITERIA: USDA RD Letter of Conditions date April 26, 2012 Condition 3 and 31 CFR Part 202: “Financial institutions or depositaries accepting deposits of public funds and providing other financial agency services to the Federal Government are required to pledge adequate, acceptable securities as collateral. All funds in the account will be secured by a collateral pledge equaling at least 100% of the highest amount of funds expected to be deposited in the constructions account at any one time.”

EFFECT: The deposits were at risk for all amounts over FDIC insurance. Multiple times during the year ended December 31, 2016 the Association received deposit from federal sources in excess of FDIC insurance.

CAUSE: The Association failed to review the letter of conditions sufficiently to be aware of the collateral requirement and to make needed arrangements with the bank.

RECOMMENDATION: As of the date of this report the project is largely complete; however, the Association should review the Letter of Conditions to ensure that all the conditions are met going forward and that controls are in place to help maintain compliance and to prevent and detect noncompliance.

MANAGEMENT RESPONSE: Management agrees with this finding and the President and Treasurer will make sure, by January 31, 2018, that if federal funds are received in the future they will be deposited in an account that is sufficiently collateralized.

2016-004 Written Policies and Procedures – Material Weakness in Internal Control Over a Major Program

U.S.D.A Rural Development / Rural Utilities Service / Water and Waste Disposal Systems for Rural Communities

CFDA 10.760

CONDITION: The Association’s does not have in place written policies, procedures, and standards of conduct (“policies”) as required by 2 CFR 200, Subparts D and E

CRITERIA: 2 CFR 200, Subparts D and E (2 CFR sections 200.300 and 200.400, respectively)

EFFECT: The Association’s ability to monitor and communicate its system of internal control is impaired and a formal standard of accountability is not established.

CAUSE: The Association was unaware of the requirements of 2 CFR 200.



**Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

RECOMMENDATION: The Association should immediately take steps to put in place written policies, procedures, and standards of conduct (“policies”) as required by 2 CFR 200, Subparts D and

MANAGEMENT RESPONSE: The Board will work with the Treasurer to formalize policies, procedures, and standards of conduct in writing. Management expects to complete this process by March 31, 2018.



Exit Conference

An exit conference was held in a closed session on December 4, 2017. In attendance were the following:

Representing the Llano Quemado Mutual Domestic Water Consumers Association, Inc.:

Andrew Chavez President

Johnny Valerio Treasurer

Representing Zlotnick, Laws & Sandoval, P.C.:

Asa Laws, CPA

Brian Laws, CPA

FINANCIAL STATEMENTS

The accompanying financial statements of the Association have been prepared by Zlotnick, Laws & Sandoval, P.C., the Association's independent public auditors; however, the financial statements are the responsibility of management.