

Navajo Dam Domestic Water Consumers
Independent Accountants' Report on
Applying Agreed Upon Procedures

December 31, 2013



R Shane Chance, CPA PC

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Navajo Dam Domestic Water Consumers

Official Roster
As of December 31, 2013

Board of Directors

Bob Davidson	President
Ana Padilla	Vice President
Janie Gibbons	Secretary/ Treasurer
Gail Richardson	Board Member
Kelly Dennington	Board Member

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors
Navajo Dam Domestic Water Consumers
Navajo Dam, New Mexico
And
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below, which were agreed to by Navajo Dam Domestic Water Consumers and New Mexico State Auditor; (State Auditor), solely to assist the users in evaluating the District's financial reporting to the State Auditor relating to its Cash, Capital Assets, Revenue, Expenditures, Journal Entries and Budget information and its compliance with Section 12-6-3B(4) NMSA 1978 and Section 2.2.2.16 NMAC as of and for the year ended December 31, 2013. Navajo Dam is responsible for its financial reporting to the State Auditor as described above. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 4 of the Audit Act- Section 12-6-3 B(4), and Section 2.2.2.16 NMAC, we performed the following procedures:

1. Cash

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-local Government Division
- c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978 NM Public Money Act if applicable.

Results of Procedures 1(a) - 1(c)

- Bank reconciliations were complete for 2013 and readily available for the checking, savings repay, and the savings emergency fund accounts. Reconciliations were performed in a timely manner in accordance with the board policies.
- We randomly selected seven (7) bank reconciliations for review of accuracy and comparison to the general ledger and bank statement balances. We identified two (2) instances where there were very small differences between the general ledger balance and the book balance shown on the reconciliation report. See Findings and Responses 13-01.

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

- After examination of the bank accounts, we found that average daily bank account balances do not exceed FDIC insured limits and additional collateral under the Public Money Act is not necessary at this time.

2) Capital Assets

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results of Procedure 2

- Capital assets were inventoried and reconciled at year end. We performed a physical inspection and review of capital assets located at the plant address reported and determined that the inventory is consistent with the assets inspected.

3) Revenue

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues based on auditor judgment and test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results of Procedures 3 (a) – (c)

As a result of performing the analytical review procedures in 3(a), we noted the following:

- Total revenues exceeded budgeted revenues by \$5,979 (6%). There were no significant differences between actual and budgeted amounts for individual budget categories.

As a result of performing the analytical review procedures in 3(b) and (c), we noted the following:

- We randomly selected approximately 40 sales entries per month and reviewed supporting documentation for propriety and accuracy in recording. Sales invoices were properly classified and recorded in the general ledger. Cash receipts applied to sales invoices were recorded and deposited into the bank account on a timely basis. No exceptions were noted.

4) Expenditures

Select a sample of cash disbursements based on auditor judgment and test using the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State. Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results of Procedures 4(a) – (c)

- Fifteen (15) random expenditures were chosen for a detailed review in the total amount of \$108,296.51 which represented 32% of total cash disbursements. No exceptions were noted.
- All disbursements examined were properly authorized and approved in compliance with the budget and the established policies and procedures.
- Navajo Dam does not issue per diem. The bid process and mileage reimbursement methods used by Navajo Dam were reviewed and found to be in accordance with the New Mexico Procurement Code and State Purchasing Regulations and Regulations Governing the Per Diem and Mileage Act.

5) Journal Entries

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant item for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedures 5(a) – (b)

- The Navajo Dam Domestic Water Consumers uses a bookkeeping software to record cash receipts and cash disbursements. After review of their database all journal entries recorded within the system were reasonable and agree to supporting documentation.

6) Budget

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following.

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budgets at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Independent Accountants' Report on Applying Agreed-Upon Procedures - (continued)

Results of Procedures 6 (a) – (c)

- Prior year advice to submit annual and quarterly budgets to the DFA –LGD office was implemented into the board's procedures. The annual 2013 budget was approved by the DFA office late on December 11, 2013 after the client was made aware of the reporting requirements.
- Our review of the 2013 budget and underlying documentation prepared and submitted by the board documented that total actual expenditures were under budgeted by \$34,335 (43%). Approval from the board of directors was received when expenditures would significantly exceed the approved budget. Significant overages were noted for repairs and maintenance, depreciation expense, and interest expense. The repairs and maintenance were higher than expected due to unusually cold weather. Depreciation and interest expense paid on the construction loan began after the project was completed and no budget line item for interest had been provided on the original budget.
- A schedule of revenues and expenses – budget and actual was prepared from records on the accrual budgetary basis. This schedule is included in the Schedule of Revenues and Expenditures, page 10.

Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Sections 2.2.2.10(T)(3)(C) NMAC.

Results of Procedure-Other

No exceptions were found as a result of applying the procedures described above, regardless of materiality indicating any fraud or illegal acts. However, see the Schedule of Findings and Responses for internal control deficiencies and noncompliance issues related to the Bank Reconciliation Accuracy and Cash and Budget findings above.

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We are not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Navajo Dam's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Navajo Dam Domestic Water Consumers, the State of New Mexico, the Department of Finance and Administration – Local Government Division, and the Office of the State Auditor and their designees, and is not intended to be and should not be used by anyone other than those specified parties.

R. Shane Chance CPA PC

Aztec, New Mexico
May 30, 2014

Navajo Dam Domestic Water Consumers
Statement of Financial Positions
December 31, 2013

Assets

Current Assets

Cash and cash equivalents \$ 136,277

Accounts receivable, net of allowance for doubtful accounts
of \$0 7,645

Total Current Assets 143,922

Property, Plant, and Equipment

Property and equipment 738,756

Less: Accumulated depreciation - income tax basis (176,610)

Property, plant and equipment (net of accumulated depreciation) 562,146

Total Assets \$ 706,068

Liabilities and Net Assets

Current Liabilities

Accrued liabilities \$ 4,132

Total Current Liabilities 4,132

Long-Term Liabilities

Note payable to member 485,297

Total Long-Term Liabilities 485,297

Total Liabilities 489,429

Members' capital 216,639

Total Liabilities and Members' Equity \$ 706,068

**Navajo Dam Domestic Water Consumers
Statement of Activities
For the Year Ended December 31, 2013**

Revenues	
Water sales	\$ 112,416
Membership fees	225
Total revenues	112,641
Cost of goods sold:	10,575
Gross profit	\$ 102,066
Operating expenses:	
Management services	
Salaries and wages	22,809
Depreciation expense	23,705
Dues and subscriptions	511
Supplies	2,306
Training and education	876
Telephone and utilities	7,836
Insurance	6,371
Legal and professional fees	5,683
Repairs and maintenance	20,194
Taxes, licenses and fees	5,156
Total program services	95,447
Management and general	
Salaries and wages	7,950
Total management and general	7,950
Non-operating items:	
Interest income	(112)
Loss on disposition of assets	38,678
Interest expense	14,947
Total non-operating items	53,513
Net loss	\$ (54,844)
Members' capital at beginning of year	269,483
Contributions from members	2,000
Members' capital at end of year	\$ 216,639

Navajo Dam Domestic Water Consumers
Schedules of Revenues and Expenses-Budget and Actual
December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actuals</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Operating Revenues				
Residential Income	79,944	79,944	84,891	4,947
Commercial Income	27,800	27,800	26,234	(1,566)
Water Salesman (Coin-Op)	900	900	704	(196)
Late Fees	-	-	587	587
New Member, Transfer, Misc Fees	-	-	225	225
Total operating revenues	<u>108,644</u>	<u>108,644</u>	<u>112,641</u>	<u>3,997</u>
Operating Expenses				
Salaries and wages	29,905	29,905	30,759	(854)
Operator contract	5,059	5,059	5,059	-
Maintenance contract	1,400	1,400	313	1,087
Supplies and misc operating expenses	2,290	2,290	2,818	(528)
Repairs and maintenance	14,000	14,000	20,194	(6,194)
Water treatment supplies	3,233	3,233	5,202	(1,969)
Utilities	6,000	6,000	7,836	(1,836)
Insurance	4,500	4,500	6,371	(1,871)
Taxes	4,000	4,000	5,156	(1,156)
Mileage and travel	1,200	1,200	-	1,200
Professional fees	7,250	7,250	5,683	1,567
Education	800	800	876	(76)
Depreciation	-	-	23,705	(23,705)
Total operating expenses	<u>79,637</u>	<u>79,637</u>	<u>113,972</u>	<u>(34,335)</u>
Non-Operating Items				
Interest income	(110)	(110)	(112)	2
Interest expense	-	-	14,947	(14,947)
Loss on disposition of fixed assets	-	-	38,678	(38,678)
Total non-operating items	<u>(110)</u>	<u>(110)</u>	<u>53,513</u>	<u>(14,945)</u>
Excess revenues over (under) expenses	<u>29,117</u>	<u>29,117</u>	<u>(54,844)</u>	<u>53,277</u>

Navajo Dam Domestic Water User
 PO Box 6308
 Navajo Dam, NM 87419

OPERATING BUDGET 2013				INCOME & EXPENSES		
YEAR	2010 Actual	2011 Actual	2012 Actual	2013 BUDGET	Year to Date	YTD % of Budget
No. of Residential Connections	162	165	164	164	164	
No. of Commercial Connections	20	19	19	18	17	
Residential Base Income		\$64,581	\$65,208	\$64,944	\$59,839	92%
Residential Overage Income		\$11,392	\$15,329	\$15,000	\$11,607	77%
Commercial Base Income		\$11,700	\$11,250	\$10,800	\$9,458	88%
Commercial Overage Income		\$16,115	\$17,375	\$17,000	\$13,704	81%
WaterSalesman (Coin-Op)		\$880	\$921	\$900	\$546	61%
TOTAL SALES INCOME	\$100,599	\$104,668	\$110,083	\$108,644	\$95,154	88%
OPERATING INCOME						
Water Sales	\$100,179	\$104,668	\$110,083	\$108,644	\$95,154	88%
Fees for Service	\$420			\$0	\$0	
Late Fees		\$1,280	\$1,000	\$0	\$477	
New Member, Transfer, Misc. Fees		\$4,110	\$2,205	\$0	\$2,225	
Donations		\$80		\$0	\$0	
TOTAL INCOME	\$100,599	\$110,138	\$113,288	\$108,644	\$97,856	90%
OPERATING EXPENSES						
Salaries & Wages	\$17,150	\$15,165	\$15,809	\$29,905	\$25,834	86%
Operator Contract	\$14,746	\$16,503	\$12,640	\$5,059	\$5,059	100%
Maintenance Contract	\$1,336	\$1,395	\$1,328	\$1,400	\$313	22%
Supplies & Misc. Op. Exp.	\$6,099	\$2,175	\$2,290	\$2,290	\$2,895	126%
Repairs & Maintenance	\$17,063	\$21,896	\$6,624	\$14,000	\$18,385	131%
Water Treatment Supplies		\$3,793	\$3,233	\$3,233	\$5,066	157%
Utilities	\$5,782	\$5,779	\$5,284	\$6,000	\$7,033	117%
Insurance	\$3,169	\$3,265	\$4,441	\$4,500	\$6,371	142%
Taxes	\$7,852	\$3,729	\$3,721	\$4,000	\$2,476	62%
Mileage & Travel Expenses	\$1,155	\$176	\$0	\$1,200	\$0	0%
Professional Fees	\$6,502	\$3,470	\$7,249	\$7,250	\$2,831	39%
Education	\$770		\$60	\$800	\$446	56%
TOTAL OPERATING EXPENSE	\$81,624	\$77,346	\$62,679	\$79,637	\$76,709	96%
NET OPERATING INCOME	\$18,975	\$32,792	\$50,609	\$29,007	\$21,147	73%
NON-OPERATING INCOME						
Interest	\$15	\$121	\$172	\$110	\$96	87%
Grants				\$0	\$0	
TOTAL NON-OP. INCOME	\$15	\$121	\$172	\$110	\$96	87%
NET INCOME PREVIOUS YEAR	\$18,990	\$32,913	\$50,781			
PROJECTED 2013 NET INCOME				\$29,117	\$21,243	73%

Navajo Dam Domestic Water Consumers
 Schedule of Findings and Responses
 Year Ended December 31, 2013

	Type of Finding	Prior Year Finding Number	Current Year Finding Number
Current Year Findings:			
Bank Reconciliation Accuracy	C		13-01
Budget Submission/Approval and Quarterly Financial Reports	D	12-02	13-02
Follow-up on Prior Year Findings:			
Supporting Documentation and Revenue	C	12-01	Resolved
Budget Submission/Approval and Quarterly Financial Reports	D	12-02	13-02
Late Report	D	10-03	Resolved

• **Legend for Findings:**

- A. Fraud
- B. Illegal Act(s)
- C. Internal Control Deficiency(ies)
- D. Noncompliance

13-01

Bank Reconciliation Accuracy

Criteria

Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to the DFA-Local Government Division

Condition

During our review of the bank reconciliation accuracy we found no exceptions. The prior year finding 12-01 was resolved during the current year and no exceptions were found in reference to variations of revenue supporting documentation and the general ledger. However, an additional finding was determined upon tracing ending balances to the general ledger and supporting documentation, we found variances in timing of data entry into the general ledger. There were 2 instances in which electronic withdrawal transactions and a bank deposit were entered as of the ending date of a prior period after the reconciliation was completed, while the transactions did not clear the bank until the following period. Navajo Dam Domestic Water Consumers did submit and receive approval of their final annual 2013 budget, but did not submit quarterly financial reports to the DFA-Local Government Division. See Schedule and Findings 13-02 in references to DFA compliance.

Cause

Supporting documentation prepared during the completion of the bank reconciliation process did not agree to the general ledger.

Effect

Initial review of the general ledger to supporting documentation did not agree which implies a deficiency in internal control procedures.

Recommendation

We recommend that Navajo Dam Domestic Water Consumers update all transactions in the general ledger within the proper period so that supporting documentation agrees back to the general ledger.

Management's Response

The bookkeeper has agreed to verify all processed transactions to be entered into the general ledger prior to reconciling the bank.

13-02

Budget Submission/Approval and Quarterly Financial Reports

Criteria

Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

Condition

During our review of the budget, we determined that the Navajo Dam Domestic Water Consumers board approves the budget and references it in the minutes provided for each month. Last year, the entity was notified of their non-compliance with the DFA-LGD as they were not submitting their budget and financial statements on a quarterly or annual basis. The recommendation from prior year agreed upon procedures was implemented and the annual budget for 2013 was approved by the DFA-LGD late on December 11, 2013. In addition, the entity had under budgeted repairs and maintenance due to unusually cold weather and expected depreciation and interest expense on the construction loan which recently became active by \$34,335 which required written approval to approve an increase in the budget.

Cause

The entity resolved the issue of complying with the annual reporting requirements of the DFA-LGD, but did not comply with the quarterly reporting requirements.

Effect

The Navajo Dam Domestic Water Consumers has not complied with Sections 6-6-2 and 6-6-3 NMSA 1978.

Recommendation

We recommend that the entity submit quarterly financial cash activity and budget to actual reports as required by the DFA-LGD and refine their budgeting process to include additions of annual expenditures.

Management's Response

The Navajo Dam Domestic Water Consumers has corrected this finding and will submit refined Budget and Quarterly Financial Reports from this date forward.

Navajo Dam Domestic Water Consumers
Exit Conference
Year Ended December 31, 2013
Exit Conference

The report contents were discussed at an exit conference held on May 29, 2014 with the following in attendance:

Representing Navajo Dam Domestic Water Consumer:

Janie Gibbons, Secretary/ Treasurer

Representing R Shane Chance CPA PC:

R Shane Chance, CPA, President

The Schedules of Revenues and Expenditures were prepared with the assistance of R Shane Chance, CPA PC