

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

December 31, 2015

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Navajo Dam Domestic Water Consumers

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Navajo Dam Domestic Water Consumers

Official Roster
As of December 31, 2015

Board of Directors

Janie Gibbons	President
Ana Padilla	Vice President
Candy Barr	Secretary/ Treasurer
Dave Shepherd	Board Member
Thaddeus Cano	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. Timothy Keller
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, 2015. 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 2015 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 eleven (11) bank reconciliations for review of accuracy and comparison to the general ledger and bank statement balances. We identified instances where the general ledger did not agree to the supporting book balance shown on the reconciliation report and DFA financial reports. See Schedule of Finding 2015-001 in regards to difference in general ledger balance to supporting documentation and resolution to the prior year Finding 2014-001.

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 were under budgeted by \$4,407 (4%). 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 90 (10%) sales entries during the period 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)

- Nineteen expenditures were selected based on a random sample from the general ledger. Total expenditures reviewed amounted to \$53,630.02 which was 42% of total expenditures. 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)

- The 2015 budget was approved by the local public body and the DFA office as well as subsequent financial report submissions. No changes were made to the budget during the year. Prior year Finding 2014-002 related to cash flow reconciliation between DFA budget and bank balances has been resolved.
- Our review of the 2015 budget and underlying documentation prepared and submitted by the board documented that total actual expenditures were less than budgeted by \$21,999 (14%). There were no significant overages found between actual and budgeted amounts for individual budget categories.
- 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 13, 2016

Navajo Dam Domestic Water Consumers
Statement of Financial Positions
December 31, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 88,161
Accounts receivable, net of allowance for doubtful accounts of \$0	<u>10,202</u>
Total Current Assets	<u>98,363</u>

Property, Plant, and Equipment

Property and equipment	753,230
Less: Accumulated depreciation - income tax basis	<u>(252,264)</u>
Property, plant and equipment (net of accumulated depreciation)	500,966

Total Assets	<u><u>\$ 599,329</u></u>
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Liabilities and Net Assets

Current Liabilities

Accrued liabilities	\$ 4,901
Current portion long-term debt	<u>20,567</u>
Total Current Liabilities	25,468

Long-Term Liabilities Less Current Portion	<u>366,015</u>
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Total Liabilities	<u>391,483</u>
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Members' capital	207,846
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Total Liabilities and Members' Equity	<u><u>\$ 599,329</u></u>
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Navajo Dam Domestic Water Consumers
Statement of Activities
For the Year Ended December 31, 2015

Revenues	
Water sales	\$ 116,579
Coin-Op Sales	1,099
Meters and misc fees	5,956
Total revenues	123,634
Cost of goods sold:	3,108
Gross profit	120,526
Operating expenses:	
Management services	
Salaries and wages	25,320
Depreciation expense	38,465
Dues and subscriptions	590
Office supplies and expenses	1,921
Training and education	80
Telephone and utilities	8,288
Insurance	7,263
Legal and professional fees	6,392
Repairs and maintenance	4,214
Mileage reimbursement	949
Taxes, licenses and fees	11,181
Total program services	104,663
Management and general	
Salaries and wages	7,800
Total management and general	7,800
Non-operating items:	
Interest income	(41)
Interest expense	12,346
Total non-operating items	12,305
Net loss	\$ (4,242)
Members' capital at beginning of year	\$ 211,938
New memberships	150
Members' capital at end of year	\$ 207,846

Navajo Dam Domestic Water Consumers
Schedules of Revenues and Expenses-Budget and Actual
December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actuals</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Operating Revenues				
Residential Income	91,800	91,800	88,549	(3,251)
Commercial Income	26,628	26,628	28,031	1,403
Water Salesman (Coin-Op)	800	800	1,099	299
Late Fees	-	-	1,800	1,800
New Member, Transfer, Misc Fees	-	-	4,156	4,156
Total operating revenues	<u>119,228</u>	<u>119,228</u>	<u>123,635</u>	<u>4,407</u>
Operating Expenses				
Salaries and wages	34,020	34,020	33,120	900
Supplies and misc operating expenses	3,500	3,500	2,512	988
Repairs and maintenance	16,000	16,000	4,464	11,536
Water treatment supplies	5,500	5,500	2,858	2,642
Utilities	16,000	16,000	8,288	7,712
Insurance	7,250	7,250	7,263	(13)
Taxes	12,000	12,000	11,181	819
Mileage and travel	1,200	1,200	949	251
Professional fees	6,500	6,500	6,392	108
Education	500	500	80	420
Depreciation	37,254	37,254	38,465	(1,211)
Total operating expenses	<u>139,724</u>	<u>139,724</u>	<u>115,572</u>	<u>24,152</u>
Non-Operating Items				
Interest income	-	-	(41)	41
Interest expense	14,559	14,559	12,346	2,213
Total non-operating items	<u>14,559</u>	<u>14,559</u>	<u>12,305</u>	<u>2,254</u>
Excess revenues over (under) expenses	<u>(35,055)</u>	<u>(35,055)</u>	<u>(4,242)</u>	<u>(21,999)</u>

INCOME & EXPENSES

YEAR	2012 Actual	2013 Actual	2014 Actual	2015 Budget
No. of Residential Connections	164	164	164	160
No. of Commercial Connections	19	18	17	17
Res. Base Rate				
Res. Overage Rate				
Com. Base Rate				
Com. Overage Rate				
Res. Overage Gallons (1000s)				
Com. Overage Gallons (1000s)				
Residential Base Income	\$65,208	\$72,719	\$78,720	\$76,800
Residential Overage Income	\$15,329	\$12,092	\$15,000	\$15,000
Commercial Base Income	\$11,250	\$11,397	\$11,628	\$11,628
Commercial Overage Income	\$17,375	\$14,894	\$17,000	\$15,000
WaterSalesman (Coin-Op)	\$921	\$686	\$700	\$800
TOTAL SALES INCOME	\$110,083	\$111,787	\$123,048	\$119,228
OPERATING INCOME				
Water Sales	\$110,083	\$111,787	\$140,748	\$119,228
Fees for Service		\$0	\$0	
Late Fees	\$1,000	\$587	\$500	\$0
New Member, Transfer, Misc. Fe	\$2,205	\$2,225	\$0	\$0
Donations		\$0	\$0	\$0
TOTAL INCOME	\$113,288	\$114,599	\$141,248	\$119,228
OPERATING EXPENSES				
Salaries & Wages	\$15,809	\$36,722	\$37,000	\$34,020
Maintenance Contract	\$1,328	\$313		\$0
Supplies & Misc Op. Exp.	\$2,290	\$3,445	\$3,500	\$3,500
Repairs & Maintenance	\$6,624	\$19,094	\$21,000	\$16,000
Water Treatment Supplies	\$3,233	\$5,202	\$5,500	\$5,500
Utilities	\$5,284	\$7,836	\$8,600	\$16,000
Insurance	\$4,441	\$6,371	\$7,000	\$7,250
Taxes	\$3,721	\$5,320	\$4,000	\$12,000
Mileage & Travel Expenses	\$0	\$0	\$1,200	\$1,200
Professional Fees	\$7,249	\$5,683	\$7,250	\$6,500
Education	\$60	\$446	\$500	\$500
Depreciation			\$37,099	\$37,254
Interest Expense			\$14,559	\$14,559
TOTAL OPERATING EXPENSE	\$50,039	\$90,432	\$147,208	\$154,283
NET OPERATING INCOME	\$63,249	\$24,167	(\$5,960)	(\$35,055)
NON-OPERATING INCOME				
Interest	\$172	\$112	\$100	
Grants		\$0	\$0	
TOTAL NON-OP. INCOME	\$172	\$112	\$100	
TOTAL CASH DISTRUBISION				
Loan Payment			\$68,061	
NET INCOME PREVIOUS YEAR	\$63,421	\$24,279	(\$5,860)	
PROJECTED 2015 NET INCOME			(\$5,860)	(\$35,055)

Navajo Dam Domestic Water Consumers
 Schedule of Findings and Responses
 Year Ended December 31, 2015

	Type of Finding	Prior Year Finding Number	Current Year Finding Number
Current Year Findings:			
Bank Reconciliation Accuracy	C	2014-001	2015-001
Budget Submission/Approval and Quarterly Financial Reports	D	2014-002	Resolved
Follow-up on Prior Year Findings:			
Bank Reconciliation Accuracy	D	2014-001	2015-001
Budget Submission/Approval and Quarterly Financial Reports	D	2014-002	Resolved

- **Legend for Findings:**

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

2015-001

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 Department of Finance Administration-Local Government Division (DFA-LGD).

Condition

During our review of the bank reconciliation accuracy we found an exception where the general ledger did not agree to the supporting documentation provided by the client. The discrepancy was due to a timing difference in posting a transaction that had not cleared the bank during the period it was issued. The transaction was subsequently posted to the general ledger after the period had been closed which caused the discrepancy between the general ledger and the supporting documents. There were no exceptions found when testing the bank statements back to the general ledger. The prior year finding 2014-002 was resolved during the current year in regards to a cash flow reconciliation between the general ledger, bank statements, and financial reports submitted to the DFA-LGD.

Cause

Navajo Dam Domestic Water Consumers general ledger does not agree to the supporting documentation originally produced during the close of a monthly period.

Effect

Changes in the general ledger after a period has been closed suggests internal control deficiencies which need to be addressed. Timing differences in when transactions are initiated and when they clear the bank should be addressed.

Recommendation

We recommend that Navajo Dam Domestic Water Consumers update all transaction in the general ledger within the proper period so that supporting documentation agrees back to the general ledger in order to demonstrate the efficiency of the organizations internal control procedures.

Management's Response

The secretary agrees to verify all initiated transactions have been entered into the general ledger prior to reconciling the bank and creating changes to the general ledger after the period has been closed.

Navajo Dam Domestic Water Consumers
Exit Conference
Year Ended December 31, 2015

Exit Conference

The report contents were discussed at an exit conference held on May 13, 2016 with the following in attendance:

Representing Navajo Dam Domestic Water Consumer:

Candy Barr, 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