

STATE OF NEW MEXICO

**PENDARIES VILLAGE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

ACCOUNTANTS' COMPILATION REPORT

FOR THE YEAR-ENDED OCTOBER 31, 2018

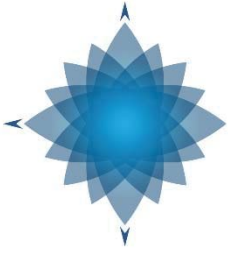


**STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TABLE OF CONTENTS
FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>Page</u>
Table of contents	i
Official roster	ii
Accountants' Compilation Report	1
Basic financial statements	
Statement of net position	2
Statement of revenues, expenses and changes in net position	3
Notes to the financial statements	4 - 8

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUATL DOMESTIC WATER CONSUMERS ASSOCIATION
OFFICIAL ROSTER
FOR THE YEAR ENDED OCTOBER 31, 2018

<u>Board of Supervisors</u>	<u>Title</u>
Ron Kveton	President
Frank Sanchez	Vice-President
Donald Williams	Treasurer
Pamela Shumard	Secretary
Mark Grohman	Member



Independent Accountants' Compilation Report

Brian S. Colon
New Mexico State Auditor
and
Ron Kveton, President
Pendaries Village Mutual Domestic Water Consumers Association
Rociada, New Mexico

Management is responsible for the accompanying financial statements of Pendaries Village Mutual Domestic Water Consumers Association (the "Association"), which comprise the statement of net position - proprietary fund as of October 31, 2018, and related statement of revenues, expenses and changes in net position- proprietary fund for the year then ended and the related notes to the financial statements in accordance with the requirements of Section 2.2.2.16 *New Mexico Administrative Code* (NMAC). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

In order to comply with the requirements of Section 12-6-3 (B) NMSA 1978 and 2.2.16 NMAC, management has presented: (1) the proprietary fund financial statements prepared using the accrual basis of accounting; and (2) only the notes related to those financial statements. However, in complying with these requirements, management has omitted the following financial statements and notes required by accounting principles generally accepted in the United States of America (GAAP): (a) the accompanying government-wide financial statements; (b) the statement of cash flows-proprietary funds; and (2) note disclosures related to items (a) and (b). These omissions result in the financial statements being presented on a basis of accounting other than GAAP.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require 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.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
March 26, 2019

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET POSITION
As of October 31, 2018

Assets

Current assets	
Cash and cash equivalents	\$ 504,898
Replacement reserve funds	62,159
Accounts receivable, net	<u>42,579</u>
Total current assets	<u>609,636</u>
Capital assets, at cost	
Equipment	35,037
Construction in progress	57,610
Production	131,087
Storage tanks	196,330
Water distribution	<u>650,857</u>
	1,070,921
Accumulated depreciation	<u>(424,849)</u>
	<u>646,072</u>
Restricted cash funds	<u>16,623</u>
Total assets	<u>\$ 1,272,331</u>

Liabilities and Net Position

Current liabilities	
Accounts payable	\$ 9,154
Prepaid assessments	117,526
Accrued liabilities	1,000
Current portion of long-term debt	<u>78,557</u>
Total current liabilities	<u>206,237</u>
Long-term Liabilities	
Long-term debt, less current portion	<u>706,625</u>
Total long-term liabilities	<u>706,625</u>
Total liabilities	<u>912,862</u>
Net Position	
Net investment in capital assets	(139,110)
Unrestricted	<u>498,579</u>
Total net position	<u>359,469</u>
Total liabilities and net position	<u>\$ 1,272,331</u>

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

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended October 31, 2018

Operating Revenues	
Assessments	\$ 218,587
Water Sales	46,532
Late fees, penalties and interest	10,210
Miscellaneous income	1,140
Total revenues	<u>276,469</u>
Operating Expenses	
Repairs and maintenance	95,819
Utilities	28,330
General administrative expenses	28,880
Professional services	9,771
Interest	10,819
Other fees	7,758
Insurance	3,143
Taxes - property	1,000
Uncollected assessments	(3,242)
Depreciation	59,577
Total operating expenses	<u>241,855</u>
Change in Net Position	34,614
Net Position	
Beginning of year	<u>324,855</u>
End of year	<u>\$ 359,469</u>

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

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

NOTE 1 – NATURE OF ORGANIZATION

Pendaries Village Mutual Domestic Water Consumers Association (Association) a corporation began its operations in November 2012 for the purpose of forming a non-profit association in accordance with the provisions of the Sanitary Projects Act, Sections 3-29-1- through 3-29-21, NMSA 1978 as amended. The Association maintains and operates a water system for the supplying and distribution of water for domestic users.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting

The financial statements of the Association are prepared on the basis of an enterprise fund as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds are used to account for operations (a) that are financial and operated in a manner similar to private business enterprises where the intent of the entity is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the entity has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Association's government-wide financial statements are designed to be corporate-like in that all business-type activities are consolidated into one column and consist of Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. No component unites exist in which the organization has any oversight responsibilities, which would require inclusion in the Organization's financial statements. It has neither fiduciary funds nor component unites that are fiduciary in nature. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. All of the Associations' revenue streams and expenses are considered operating in nature.

When both restricted and unrestricted net position are available to cover designated expense, it is the Association's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Use of estimates

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. This requires management to make estimates and assumptions that affect certain reported amounts of 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. Significant estimates and assumptions made by management include the reserve for delinquent assessments and useful lives of property and equipment.

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

C. Assets, Liabilities and Equity

Cash and Cash Equivalents

The Association maintains cash accounts with federally insured financial institutions, and such deposits do not exceed federally insured limits. The Association considers all highly liquid temporary investments of cash to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts due from members and others who have used the Association's water system. Management has established an allowance for uncollectible amounts of \$104,380 as of October 31, 2018.

Delinquent assessments receivable - members

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from property owners. The Association's credit risk is minimized by its policy of retaining legal counsel and placing liens on the lots of members whose assessments are 120 or more days delinquent. Interest at the rate of 15% per annum is also added to the delinquent assessment for any account delinquent more than 120 days. The Association has a reserve of \$104,380 at October 31, 2018, against the delinquent assessment receivable.

The Association assesses dues annually in November for the following year. In 2018, annual assessments are \$665 for improved lots and \$144 for unimproved lots.

Capital Assets

All acquisitions of capital assets in excess of \$2,500 and all expenses for repairs, maintenance and betterments that materially prolong the useful lives of assets are capitalized at cost. Depreciation is provided principally on the straight-line method over the assets estimated useful lives, which range from five to forty years.

Valuation of long-lived assets

The Association periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such an asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized in the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

Subsequent events

Subsequent events are events or transactions that occur after year end but before the financial statements are issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the financial statements, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the financial statements but arose after the financial statement date and before the financial statements are issued. The association has evaluated subsequent events for potential recognition and disclosure through March 26, 2019, the date the financial statements were issued.

NOTE 3 – CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended October 31, 2018 follows.

	<u>Balance</u> <u>10/31/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>10/31/18</u>
Capital assets being depreciated:				
Equipment	\$ 35,037	-	-	35,037
Production	131,087	-	-	131,087
Storage tanks	196,330	-	-	196,330
Construction in progress	-	57,610	-	57,610
Water distribution	650,857	-	-	650,857
Total capital assets being depreciated	1,013,311	57,610	-	1,070,921
Accumulated depreciation	(365,272)	(59,577)	-	(424,849)
Total capital assets, net of depreciation	\$ 648,039	(1,967)	-	646,072

Depreciation expense for the year ended October 31, 2018 totaled \$59,577.

NOTE 4 – LONG-TERM DEBT

Long-term liabilities for the year ended October 31, 2018 were as follows:

	<u>Balance</u> <u>10/31/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>10/31/2018</u>	<u>Current</u> <u>Portion</u>
NMFA Note	\$ 361,443	-	(76,262)	285,181	78,555
Note payable	-	500,000	-	500,000	6,115
Total	\$ 361,443	500,000	(76,262)	785,181	84,670

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

Long-term debt consists of the following as of October 31, 2018:

NMFA Note payable

New Mexico Finance Authority, payable monthly at \$7,283 until April 1, 2022, including interest at 2.75% and administrative fees of .25%. Pledged revenues are required to be maintained sufficient to pay an amount representing 130% of the combined maximum Aggregate Annual Debt Service Requirements due in subsequent year.

Payments are due as follows for the years ended October 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 78,555	8,531	87,086
2020	80,918	6,174	87,092
2021	82,974	3,747	86,721
2022	42,734	1,258	43,992
2023	-	-	-
Total	<u>\$ 285,181</u>	<u>19,710</u>	<u>304,891</u>

On November 1, 2012, Pendaries Village Community Association (PVCA) conveyed, at PVCA book values, to the Association the related indebtedness, evidenced by Drinking Water State Revolving Fund Loan Agreement dated August 16, 2002 by and between the New Mexico Finance Authority as lender and PVCA as borrower, with the remaining unpaid balance of approximately \$710,000 and secured by pledged revenues of PVCA assessments to its members, along with an adequate amount of PVCA assessments to provide for the ongoing operation and maintenance of the PVMD.

Promissory Note

The Association has the promissory note to the credit agreement dated November 21, 2017 with Cobank, ACB, a federally chartered instrumentality of the United States of America. The amount of the promissory note is not to exceed the amount of \$1,300,000.00. The rate is to be determined by the borrower when funds are borrowed. The unpaid principal balance is to be repaid in 240 consecutive monthly installments, payable on the 20th day of each month, with the first installment due on July 20, 2019 and the last installment due on June 20, 2039. At the end of the fiscal year 2018 the Association drew \$500,000 on the promissory note. The borrower's obligations will be secured by a first priority lien on all revenues and personal property of the Association, whether now existing or hereafter acquired.

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

Payments are due as follows for the years ended October 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 6,115	4977	11,092
2020	18,715	14561	33,276
2021	19,284	13991	33,275
2022	19,871	13404	33,275
2023	20,475	12800	33,275
2024-2028	112,106	54273	166,379
2029-2033	130,225	36154	166,379
2034-2038	151,271	15108	166,379
2039-2043	21,938	248	22,186
Total	<u>\$ 500,000</u>	<u>165,516</u>	<u>643,330</u>

NOTE 5 – RELATED PARTIES

A new entity, Pendaries Village Mutual Domestic Water Consumers Water Association (PVMD) was incorporated by the Pendaries Village Community Association (PVCA) Board of Directors on July 10, 2012. The PVCA water system assets and related indebtedness were conveyed, at PVCA book values, to PVMD on November 1, 2012, at which time the operation of the water system was assumed by PVMD.

PVCA and PVMD entered into a cost sharing agreement on November 1, 2012. According to the agreement all costs and expenses for the operation of the separate entities, that can be separately identified will be billed to and paid by each entity. Certain expenses, necessary for the effective and efficient operation of each, will continue to be paid by PVCA, and the portion of such costs and expenses incurred for the benefit of PVMD, will be billed to and reimbursed by PVMD on a monthly basis. PVCA billed PVMD \$28,880 for administrative costs during the fiscal year ending October 31, 2018.

In addition, PVMD pay PVCA a monthly maintenance fee of \$6,000 beginning in November 2015. A total of \$72,000 was paid for these services for the year ended October 31, 2018.

PVCA and PVMD entered into a Water Service Agreement on November 1, 2012 setting forth terms for the sale of water by PVMD to PVCA for 1) the production of water to PVCA Laguna and Spring Lake Reservoirs for golf-course irrigation, and 2) the providing of water to PVCA’s commercial facilities, proshop, snack bar, restaurant and bar, and lodge and community center. Water produced for golf course irrigation purposes was separately metered from wells number 2 and 3 and was billed on a monthly basis at a rate of \$.00075 per gallon. Water produced for domestic commercial use was billed at a flat monthly rate of \$254 for the HOA, \$150 for the pro-shop, \$175 for the snack bar, \$100 for the restaurant and bar, and \$150 for the lodge and community center. PVMD billed PVCA \$33,200 for golf course irrigation sales during the fiscal year ending October 31, 2018. PVMD billed PVCA \$5,150 for domestic commercial use during the fiscal year ended October 31, 2018.

PVMD and PVCA entered into an agreement on November 1, 2012 for water assessments on PVCA owned lots. Under the agreement PVMD shall bill PVCA the annually established amount of \$144 for water assessments to members, on each undeveloped lot PVCA. PVMD billed PVCA \$7,488 during the fiscal year ended October 31, 2018.

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 2018

PVMD and PVCA entered into a water rights lease on October 18, 2012. PVCA leased to PVMD the exclusive right to the use of certain water rights as evidenced by Declaration of Owner of Underground Water Right No. CR-2380, No. CR-2381, No. CR-2382 all dated March 31, 1993. The ownership of such rights remained with PVCA, PVMD was entitled to the full benefit from the use of the Declared Water Rights in the operation of the PVMD (formerly called Pendaries Village Water System) in accordance with the terms of the Agreement for Conveyance of Pendaries Village Water System, Assignment of the PVCA/RPI water rate agreement and the Cost Sharing Agreement, during the term of the lease. The term of the lease is ten (10) years, but may be revoked by PVCA for good cause, which may include, but not be limited to failure to uphold the provisions of the Agreement for Conveyance of Pendaries Village Water System, Assignment of the PVCA/RPI Water Rate Agreement, the Costs Sharing Agreement or any other action which places PVCA water rights in jeopardy with the OSE. The lease may be extended for additional ten (10) year terms. On June 17, 2018, the PVCA formally transferred the water rights to the PVMD through the issuance of a quit-claim deed and subsequent filings with the County and Office of the State Engineer.

STATE OF NEW MEXICO

**PENDARIES VILLAGE MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES REPORT**

FOR THE YEAR-ENDED OCTOBER 31, 2018

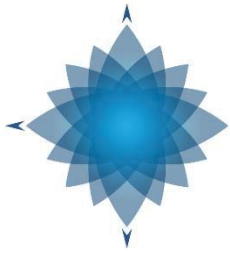


**STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TABLE OF CONTENTS
FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>Page</u>
Table of contents	i
Official roster	ii
Independent accountant's report on applying agreed upon procedures	1-7
Schedule of revenues and expenditures - budget and actual (Cash basis)	8
Year-end Financial Report Submitted to DFA	9
Schedule of Findings and Responses	10
Exit conference	13

**STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
OFFICIAL ROSTER
FOR THE YEAR ENDED OCTOBER 31, 2018**

<u>Board of Supervisors</u>	<u>Title</u>
Ron Kveton	President
Frank Sanchez	Vice-President
Donald Williams	Treasurer
Pamela Shumard	Secretary
Mark Grohman	Member



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

Brian S. Colon
New Mexico State Auditor
and
Ron Kveton, President
Pendaries Village Mutual Domestic Water Consumers Association
Rociada, New Mexico

We have performed the procedures enumerated below, which were agreed to by Pendaries Village Mutual Domestic Water Consumers Association (Association) and the New Mexico State Auditor (the specified parties), solely to assist you in evaluating the Association's financial reporting relating to its Cash, Capital Assets, Debt, Revenue, Expenditures, Journal Entries, Budget and Capital Outlay Appropriations information for compliance with Section 12-6-3B(6) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended October 31, 2018. The Association is responsible for its financial reporting to and compliance with the New Mexico State Auditor rules as described above. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, the procedures and the associated findings are as follows:

1. Verify Tier

Procedures

- a. Verify the local public body's revenue calculation and tier determination documented on the form provided at www.osanm.org under "Tiered System Reporting Main Page."

Results of Procedures Performed

- a. Based on a review of the Association 's general ledger, the Association was properly determined to be a Tier 6 entity for FY18 since their total revenues were between \$250,000 and \$500,000 during the fiscal year.

2. Cash

Procedures

- 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. Test at least 30% of the 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 Performed

- a. We obtained the bank statements and corresponding bank reconciliations for the Association's bank accounts for five months. We noted that in June 2018 bank reconciliations were not performed for three of the Association's bank accounts. See Schedule of Findings and Responses on page 10. Aside from those three, bank statements for the fiscal year were complete and on hand. For the period November 1, 2017 through October 31, 2018, the Association had four checking accounts and opened a new account with the Community 1st Bank at the end of October 2018. The Association had no investment accounts.
- b. The randomly selected bank reconciliations were accurate, and the ending balances on the bank reconciliations agreed with the Association's general ledger, supporting documentation and the financial reports submitted to DFA-LGD.
- c. We observed that the Association's cash balances of New Well Account held at Community First Bank of Las Vegas were undercollateralized by \$96,228 as of October 30, 2018. All other Association's cash accounts held by various banks were determined to have adequate additional collateralization as required by Section 6-10-17 NMSA 1978, NM Public Money Act.

3. Capital Assets

Procedures

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

Results of Procedures Performed

- a. The Association did perform a capital asset inventory for the fiscal year ending October 31, 2018 as required by Section 12-6-10 NMSA 1978.

4. Debt

Procedures

- a. If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

Results of Procedures Performed

- a. The required debt payments were made during the year on existing loans. No instances of noncompliance were noted as a result of performing the procedures described in 4.

5. Revenue

Procedures

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 equal to at least 30% of the total dollar amount and test 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 Performed

- a. An analytical review of prior-year to current-year revenue revealed no unexplained or unusual variations. The test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed no exceptions.
- b. We requested supporting documentation for thirty (30) deposits (41% of total revenue) from a total of 112 deposit days for the year. For the sample selected, the amount recorded in the general ledger agreed with the supporting documentation and the bank statement.
- c. Per review of supporting documentation for the transactions tested, amounts were properly recorded as to classification, amount and period.

6. Expenditures

Procedures

Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test 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 canceled check, as appropriate.
- 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 Performed

- a) We requested supporting documentation for thirty (30) disbursements (43% of total expenses) out of a total of 93 disbursements for the year. The amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms.
- b) For the sample selected, disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) 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 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

7. Journal Entries

Procedures

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger 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 Performed

All entries were routine journal entries such as assessments, debt service payments, depreciation, etc. Journal entries are reviewed in conjunction with the approval of disbursements, and during the review of monthly financial statements.

No instances of noncompliance were noted as a result of performing the procedures described in 7a-7b.

8. Budget

Procedures

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 budget 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.

Results of Procedures Performed

- a) The Association's Board of Directors approved its FY18 budget on September 15, 2017 which was approved by DFA-LGD on January 25, 2018. The Association did not have any budget adjustments in FY18.
- b) We noted that the total actual expenditures did exceed the final budget at the total fund level, the legal level of budgetary control. See schedule of Findings and responses on page 10.
- c) A schedule of revenues and expenditures – budget and actual (Exhibit A) was prepared on the cash budgetary basis used by the Association.

9. Capital Outlay Appropriations

Procedures

The scope of the agreed-upon procedures engagement shall encompass any and all state funded capital outlay appropriations of the New Mexico Legislature that meet Tier 6 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence

and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year. Test all capital outlay expenditures during the fiscal year to:

- a. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b. Determine that the cash disbursements were properly authorized and approved in accordance 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 and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e. Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f. If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g. If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h. Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i. Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results of Procedures Performed

Based on discussion with the Business Manager and review of the accounting records, the Association did not receive or expend any amounts related to capital outlay appropriations in the year ended October 31, 2017. As a result, no other procedures were performed.

10. Other

Procedures

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 all required content detailed in Section 2.2.2.10(L) NMAC.

Results of Procedures Performed

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, noncompliance or any internal control deficiencies.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Association's financial reporting as of and for the year ended October 31, 2018, to the New Mexico State Auditor as described above. Accordingly, we do not express such an opinion or conclusion. 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 Pendaries Village Mutual Domestic Water Consumers Association, the New Mexico State Auditor's Office and the Department of Finance and Administration, Local Government Division and the New Mexico Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM

March 26, 2019

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET (CASH BASIS) AND ACTUAL
For the Year Ended October 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenues:				
Assessments	\$ 250,006	250,006	249,784	(222)
Water Sales	24,900	24,900	27,619	2,719
Other revenue	(3,477)	(3,477)	68,212	71,689
Proceeds from issuance of debt	-	-	500,000	500,000
Total revenues	<u>271,429</u>	<u>271,429</u>	<u>845,615</u>	<u>574,186</u>
Expenditures:				
Current:				
General government	227,751	227,751	319,209	(91,458)
Debt Service				
Principal payments	76,266	76,266	76,262	4
Interest	10,824	10,824	3,916	6,908
Total expenditures	<u>314,841</u>	<u>314,841</u>	<u>399,387</u>	<u>(84,546)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(43,412)	(43,412)	<u>446,228</u>	<u>489,640</u>
Budgeted cash carryover	<u>43,412</u>	<u>43,412</u>		
Net change in fund balance	\$ <u>-</u>	<u>-</u>		
Net change in fund balance (Non-GAAP budgetary basis)			446,228	
Adjustment to GAAP				
Adjustments to revenues for accruals			(569,146)	
Adjustments to expenditures for accrued wages and expenditures			<u>157,532</u>	
GAAP Basis Change in Net Position			<u>34,614</u>	

MDWCA Name:
 Mailing Address:
 Email Address:
 Phone number:

Pendaries Village Mutual Domestic
 P O Box 93488 Albuquerque, NM 87199
 cawco@cwca1.com
 505-342-2797

Calendar Year

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct -Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:								
Cash	75,184							
Savings	62,268							
CDs								
Investments								
Beginning Balance TOTAL	\$ 137,452							
REVENUES								
Water Sales (Water Use Fees)	24,900	12,421		3,434	11,764	27,619	(2,719)	111%
Connection/Reconnection Charges						0	0	-
Membership and Meter Sales (Utility Service Fees)	250,006	116,753	24,278	(3,214)	111,967	249,784	222	100%
Late Fees and Penalties (Other Fines and Forfeits)						0	0	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)	(3,477)	27,424	26,410	891	513,487	588,212	(571,689)	#####
TOTAL	\$ 271,429	156,598	50,688	1,111	637,218	845,615	(574,186)	312%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.						0	0	-
Employee Benefits and Expenses						0	0	-
Electricity	14,000	1,035	4,380	8,719	11,825	25,959	(11,959)	185%
Other Utilities - Gas, Water, Sewer, Telephone	3,500					0	3,500	0%
System Parts and Supplies						0	0	-
System Repairs and Maintenance	84,700	22,721	28,607	12,646	26,966	90,940	(6,240)	107%
Vehicle Expenses						0	0	-
Office and Administrative Expenses	28,000	13,792	5,472	5,032	11,303	35,600	(7,600)	127%
Professional Services - Accounting, Engineering, Legal	14,500	972	1,636	6,797	366	9,771	4,729	67%
Insurance	6,000		3,143			3,143	2,857	52%
Dues, Fees, Permits and Licenses	3,000	36	198			234	2,766	8%
Taxes - Gross Receipts Tax, Water Conservation Fee	1,000	5,074	1,342	563	73	7,051	(6,051)	705%
Training						0	0	-
Miscellaneous	149,317	27,373	34,221	12,440	72,477	146,511	2,806	98%
Annual debt service - Loan 1	10,824	22,123	14,513	14,514	29,028	80,178	(69,354)	741%
Annual debt service - Loan 2						0	0	-
TOTAL	\$ 314,841	93,125	93,512	60,712	152,038	399,387	(84,546)	127%
Ending Balance	94,040					583,680		
LESS: Operating Reserve								
Emergency Reserve								
Capital Improvement Reserve	(30,900)							
Debt Reserve								
Ending Available Cash Balance	\$ 124,940					\$ 583,680		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

Cynthia Allen
 President/Chairperson

2/18/19
 Date

**STATE OF NEW MEXICO
 PENDARIES VILLAGE MUTUATL DOMESTIC WATER CONSUMERS ASSOCIATION
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED OCTOBER 31, 2018**

SECTION II FINDINGS – FINANCIAL STATEMENTS

<u>Finding</u>	<u>Status of Current and Prior Year Findings</u>
Prior Year Findings	
None	
Current Year Findings	
2018-001 Cash Reconciliations	Current
2018-002 Under-collateralized Accounts	Current
2018-003 Budgetary Compliance	Current

PRIOR YEAR FINDINGS

No unresolved prior year findings.

CURRENT YEAR FINDINGS

2018-001 Cash Reconciliations – Finding that does not rise to the level of a significant deficiency

Condition

While performing procedures related to the Association’s cash balances, it was observed that bank reconciliations were not available for the month of June 2018 for the following three accounts: Community 1st Bank-Restricted Contingency Account; Community 1st Bank-Replacement Reserve Account, and Southwest Capital Bank.

Criteria

Bank reconciliations are to be performed and completed in a timely manner for all bank accounts.

Cause

The Association’s Management Company did not provide the bank reconciliation for June 2018 for the following three accounts: Community 1st Bank-Restricted Contingency Account; Community 1st Bank-Replacement Reserve Account, and Southwest Capital Bank. The bank balance agreed to the balance per general ledger.

Effect

The Association is not in compliance with the Tier 6 Agreed-Upon Procedures requirements for cash.

Recommendation

Management should ensure that bank reconciliations are provided by the Management Company and that bank statements are received timely so that bank reconciliations can be performed.

**STATE OF NEW MEXICO
 PENDARIES VILLAGE MUTUATL DOMESTIC WATER CONSUMERS ASSOCIATION
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED OCTOBER 31, 2018**

Management Response

Effective immediately, the Association’s management company will ensure bank reconciliations are prepared for each bank account on a monthly basis and submitted to the Board for review/approval. The General Manager will monitor this for compliance.

2018-002 Under-collateralized Accounts – Other non-compliance

Condition

It was observed that the Association’s New Well Account held at First Community Bank in Las Vegas did not have collateralization in place as of October 31, 2018. As a result, the account was under-collateralized by \$96,228 as of October 31, 2018.

Criteria

Section 6-10-17 NMSA 1978 provides that any financial institution designated as a depository of public money shall deliver securities having an aggregate value of at least one-half amount of public money to be deposited to a custodial bank and shall deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom the public money is received for deposit.

Cause

The Association was not aware of the need to establish a collateralization arrangement with the bank.

Effect

The Association is not in compliance with Section 6-10-17 NMSA 1978 and is exposed to potential loss in the event of failure of the financial institution.

Recommendation

It is recommended that the Association contact First Community Bank in Las Vegas and ensure that the collateral is provided by the bank at the appropriate level as determined by the Office of the State Treasurer.

Management Response

As of March 28, 2019, we have contacted the bank in question to provide the necessary collateral coverage. Continued compliance will be monitored by the General Manager.

2018-003 Budgetary Compliance – Other non-compliance

Condition

The Association’s actual expenditures exceeded approved budgeted expenditures. There did not appear to be an effective process in place to monitor budgetary activity and make adjustments, as necessary.

<u>Fund</u>	<u>Category</u>	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Over Expended</u>
General Fund	Expenditures	\$ 314,841	399,387	(84,546)

STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUATL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED OCTOBER 31, 2018

Criteria

New Mexico State Statutes Section 6-6-6 NMSA 1978 restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits any payments in excess of the approved budget. Association's officials and governing authorities have the obligation to follow applicable state statutes.

Effect

The Association was in violation of State Statute and could be subject to fines or other restrictions.

Cause

The Association's management did not identify the budget overruns in a timely manner.

Recommendation

It's recommended that the Association implement a process for routine monitoring of its budgetary compliance. Further, it is recommended that the Association review its budgetary performance mid-year and at year end to determine if budget adjustments are needed to ensure adequate budget level are maintained.

Management Response

The Association will ensure budgetary performance is monitored throughout the year and any necessary budget adjustments will be made to ensure budgetary compliance. This process will be implemented at the Board's April 2019 meeting going forward and will be monitored by the General Manager.

**STATE OF NEW MEXICO
PENDARIES VILLAGE MUTUATL DOMESTIC WATER CONSUMERS ASSOCIATION
OTHER DISCLOSURES
FOR THE YEAR ENDED OCTOBER 31, 2018**

B. EXIT CONFERENCE

The contents of the report for the Pendaries Village Mutual Domestic Water Consumers Association were discussed on March 26, 2018. The following individuals were in attendance.

Pendaries Village Mutual Domestic Water Consumers Association

Ron Kveton – President

Paul Aragon – General Manager

Integrity Accounting & Consulting Personnel

Erick Robinson, CPA, CFE – Partner

Jela Basista, CPA, – Staff Auditor