

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER &
SEWER WORKS ASSOCIATION**

**FINANCIAL STATEMENTS, and
AGREED UPON PROCEDURES
DECEMBER 31, 2015**

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER &
SEWER WORKS ASSOCIATION**

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December 31, 2015**

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**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER &
SEWER WORKS ASSOCIATION**

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**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER &
SEWER WORKS ASSOCIATION
OFFICIAL ROSTER
December 31, 2015**

The Quemado Mutual Water & Sewer Works Association (Association) was organized on December 17, 1999 pursuant to the provisions of Section 3-29-19 of the Sanitary Projects Act NMSA 1978. The Association was created to acquire, construct, install, maintain and operate a water and/or sewer system, and to engage in any activity related thereto. The association may buy, lease, hold and exercise all privileges of ownership in real and personal property; borrow and pledge or mortgage any of its property as security; levy assessments and charges for water and sewer services; and to exercise all powers and privileges and rights conferred on non-profit association as provided by the laws of the State of New Mexico.

BOARD OF DIRECTORS

Larry Yankee	President
Tommy Padilla	Vice-Pres
Wendy Hough	Treasurer
Rodney Armstrong	Director
Marciel Montoya	Director

STAFF

Debbie Leschner	Secretary
Lance Larson	Operator

FINANCIAL SECTION

Beckham & Penner, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

103 6TH ST. N.E., P.O. BOX 179
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Independent Accountant's Compilation Report

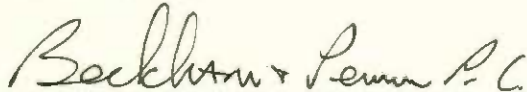
Mr. Tim Keller, State Auditor, and
Members of the Board of Directors
Quemado Mutual Water & Sewer Works Association
Quemado, New Mexico

Management is responsible for the accompanying financial statements of Quemado Mutual Water & Sewer Works Association, Quemado, New Mexico, as of and for the year ended December 31, 2015, and related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Statement of Revenue and Expenses – Budget and Actual (Non-GAAP Basis) on page 19 be presented to supplement the basic financial statements. Such 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. This information is the representation of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

Management has omitted management's discussion and analysis 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.



Beckham & Penner P.C.
Certified Public Accountants
Socorro, New Mexico
May 31, 2016

STATE OF NEW MEXICO
 QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION

STATEMENT OF NET POSITION
 AS OF DECEMBER 31, 2015

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 217,078
Receivable from customers	2,374
Inventory of system parts & supplies	2,881
Prepaid expenses	370
Total current assets	<u>222,703</u>
Other Assets:	
Capital assets not being depreciated	17,000
Capital assets (net of accumulated depreciation of \$756,660)	2,238,394
Total other assets	<u>2,255,394</u>
 Total assets	 <u><u>\$ 2,478,097</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable vendors	\$ 273
Customer meter deposits	10,255
Total current liabilities	<u>10,528</u>
Long-Term Liabilities:	
Notes payable, net of current portion	-
Total Long-Term Liabilities	<u>-</u>
Net Position:	
Net Investment in capital assets	2,255,394
Restricted:	
Debt Service	-
Unrestricted	212,175
Total net position	<u>2,467,569</u>
 Total liabilities and net position	 <u><u>\$ 2,478,097</u></u>

See Independent Accountant's Compilation Report.
 The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues:	
Charges for Water & Sewer	\$ 69,658
Other revenues	5,080
Total operating revenues	<u>74,738</u>
Operating Expenses:	
Personnel services and benefits	14,233
Operating expenses	36,953
Depreciation	60,784
Total operating expenses	<u>111,970</u>
Net Operating income (loss)	<u>(37,232)</u>
Non-Operating Revenues (Expenses):	
Recovery of Embezzlement Loss	201,000
Interest income	393
Interest expense	(966)
Total non-operating revenues (expenses)	<u>200,427</u>
Net Income (loss) before capital contributions	<u>163,195</u>
Capital Contributions:	
Grant Revenues:	
State	-
Federal	-
Total capital contributions	<u>-</u>
Change in net position	163,195
Net position - beginning of year	2,304,374
Net position - end of year	<u>\$ 2,467,569</u>

See Independent Accountant's Compilation Report.
The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers & others	\$ 77,178
Cash paid to suppliers for goods and services	(39,110)
Cash paid to and on behalf of employees	(14,233)
Net cash provided by operating activities	<u>23,835</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(7,487)
Principal paid on notes payable	(30,090)
Interest paid on notes payable	(966)
Recovery of Embezzlement Loss	201,000
Increase in customer meter deposits	1,120
Net cash used for capital and related financing activities	<u>163,577</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	393
Net cash provided by investing activities	<u>393</u>
Net increase in cash	187,805
Cash, Beginning of year	29,273
Cash, End of year	<u>\$ 217,078</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	(37,232)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	60,784
Change in Assets and Liabilities:	
Change in accounts receivable	2,440
Change in supply inventory and prepaid expenses	362
Change in accounts payable and accrued expenses	(2,519)
Net cash provided by operating activities	<u>\$ 23,835</u>

See Independent Accountant's Compilation Report.
The Notes to Financial Statements are an integral part of these statements.

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. PROGRAM OF THE ASSOCIATION

The Quemado Mutual Water & Sewer Works Association (Association) was organized on December 17, 1999 pursuant to the provisions of Section 3-29-19 of the Sanitary Projects Act NMSA 1978. The Association was created to acquire, construct, install, maintain and operate a water and/or sewer system, and to engage in any activity related thereto. The association may buy, lease, hold and exercise all privileges of ownership in real and personal property; borrow and pledge or mortgage any of its property as security; levy assessments and charges for water and sewer services; and to exercise all powers and privileges and rights conferred on non-profit association as provided by the laws of the State of New Mexico. The primary purpose of the Quemado Mutual Water & Sewer Works Association (Association) is to provide water and sewer services to occupants and residents within the vicinity of the community of Quemado, Catron County, New Mexico. The Association serves approximately 110 customers.

The Board of Directors consists of five members elected by the members of the Association for four year terms. The Board hires qualified personnel to manage the operations of the Association. The Board has oversight responsibility, approves the budget, all major contracts, capital outlay, and other matters involving the Association.

The financial statements of the Association have been prepared 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 principles. The financial statements and notes are the representation of the Association's management who is responsible for their integrity and objectivity.

B. FINANCIAL REPORTING ENTITY

The Association's basic financial statements include the accounts of all of its operations. In evaluating how to define the association, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB). There were no component units of Association during the fiscal year.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

C. BASIS OF PRESENTATION

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Association has only one fund, accounted for as a proprietary fund, which is a business type activity, general financed with fees charged to users. The Association does not have any governmental, internal service or fiduciary funds. The Statement of Net Position and the Statement of Activities were prepared on the economic resources measurement focus and the accrual basis of accounting.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position.

Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

E. REVENUE AND EXPENSE RECOGNITION

The Association distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds principal ongoing operations. The principal operating revenues of all the Association are charges to customers for sales and service for water and sewer, and operating grants from state and federal agencies. Operating expenses include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are treated as non-operating revenues and expenses.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grants and similar items are classified as operating or non-operating based on their purpose and restrictions.

F. CASH AND CASH EQUIVALENTS

Amounts reflected as "cash and cash equivalents" on the Statement of Net Position include amounts on hand, in demand deposits, savings accounts, as well as short-term investments with a maturity date within three months of the date acquired by the Association.

G. RECEIVABLES

Accounts receivable represents the amounts due from customers' water and sewer accounts, in the normal course of operations. There is not an allowance for doubtful accounts because management considers all outstanding amounts are collectable.

H. INVENTORY

The Association maintains an inventory of system parts and supplies, carried at cost.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

I. CAPITAL ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Infrastructure such as wells, tanks, lines and system improvements are capitalized. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Construction period interest is capitalized.

The Association does not develop any "internal use" software. Software purchased with computer hardware is capitalized. Software purchased separately with a cost greater than \$5,000 is also capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against operations. Land is not depreciated. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water & Sewer Systems	50 years
Machinery and Equipment	3-15 years
Building	40 years

J. EQUITY CLASSIFICATIONS

Equity is classified as net position and displayed in three components:

Net investment in capital assets – This category reflects the portion of net position that are associated with capital assets that were or are being used for capital assets acquisition or construction, net of related outstanding debt.

Restricted net position – This category reflects the portion of net position that have third party limitations on their use.

Unrestricted net position – This category reflects net position not included in the above two categories.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, continued

K. OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

L. EXPENDITURES OF RESTRICTED SOURCES

It is the Association's policy to expend restricted sources prior to unrestricted sources when both sources are available for expenditure.

M. MANAGEMENT ESTIMATES AND ASSUMPTIONS

The accompanying financial statements include estimates and assumptions by management that affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGET

Formal budget integration is employed as a management control device during the fiscal year.

The budget for the Association is adopted on the modified cash basis, because the Local Government Division of the New Mexico Department of Finance and Administration requires this method. This method does not conform to generally accepted accounting principles, which require the use of the accrual basis as described above. Under the budgetary basis of accounting, principal payments on debt and capital purchases are considered expenditures while depreciation is not recognized as an expense. The Board approves the original budget at a public meeting for which legal notices are published. The public is invited to comment

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

2. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued**

A. **BUDGET, CONTINUED**

at the meeting. The original budget approved by the Association's Board and the Local Government Division may be subsequently amended. Local Government Division approval is required for any revisions that alter the total budgeted expenditures. Actual expenditures may not legally exceed the appropriations in total.

The Association submitted its budget, as required by Section 73-21-52, NMSA 1978, to the Local Government Division of the Department of Finance and Administration of the State of New Mexico for approval and the budget was duly adopted. There were two budget amendments during the fiscal year approved by the Board, however, the budget amendments were not submitted to DFA for approval.

B. **DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS**

Deposits of funds may be made in interest or non-interest bearing accounts in one or more banks or savings and loan associations within the geographical boundaries of the Association. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the state board of finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of the deposit.

Excess funds may be temporarily invested in securities which are issued by the state or by the United States Government, or by their departments or agencies, and which are either direct obligations of the state or the United States or are backed by the full faith and credit of those governments. State statutes authorize the investment of the Association's funds in a variety of instruments including certificate of deposits and other similar obligations, state investment pool and money market accounts. The Association is also allowed to invest in United States Government obligations. All funds of the Association must follow the above investment policies.

**STATE OF NEW MEXICO
 QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
 FINANCIAL STATEMENTS, continued
 DECEMBER 31, 2015**

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

New Mexico State Statues require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Association for at least one half of the amount on deposit with the institution. According to the Federal Deposit Insurance Authority public unit, deposits are funds owned by the Association. Interest bearing accounts of a public unit in an institution in the same state will be insured separate from the public unit's demand deposits at that same institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

A. CASH AND INVESTMENTS-COLLATERALIZATION

The table presented below is designed to disclose the level of custodial credit risk assumed by the Association based upon how its deposits were insured or secured with collateral at December 31, 2015.

Total of deposits in bank	\$ 217,078
Less FDIC coverage	<u>(217,078)</u>
Uninsured public funds	\$ -
Pledged Collateral held by the pledging banks trust department or agent but not in the District's name	<u>-</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>

**STATE OF NEW MEXICO
 QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
 FINANCIAL STATEMENTS, continued
 DECEMBER 31, 2015**

3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS, continued

A. CASH AND INVESTMENTS-COLLATERALIZATION, continued

The amount identified as uninsured is subject to custodial credit risk. This is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. All of the Association's funds are on deposit with First Financial Credit Union.

The various bank account balances that exceeded the FDIC insurance amount were collateralized as shown in the following schedule:

<u>First Financial Credit Union</u>	
Deposits (per bank)	\$ 217,078
Less FDIC Insurance:	
Demand deposit	<u>(217,078)</u>
Net uninsured balance	<u>-</u>
Required collateralization at 50% of uninsured, per statute	-
Pledge Collateral held by the pledging bank's trust department but not in the Association's name	<u>-</u>
Pledge Collateral over (under) the requirement	<u>\$ -</u>

The Association did not have any investments, as defined in GASB 40, at any time during the year ended December 31, 2015, and was therefore, not subject to investment risk as described in that publication.

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015

3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS, continued

B. RESTRICTED ASSETS

The amounts reported as restricted cash and cash equivalents are amounts held for payment of debt obligations and restrictions. There were no restricted assets as of December 31, 2015.

C. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2015, was as follows:

	Balance at December 31, 2014	Additions	Deletions	Balance at December 31, 2015
Capital Assets:				
Not being depreciated:				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
Being depreciated:				
Water Rights	24,000	-	-	24,000
Water & Sewer Systems	2,907,995	-	-	2,907,995
Buildings	48,691	-	-	48,691
Machinery and equipment	6,881	7,487	-	14,368
	<u>2,987,567</u>	<u>7,487</u>	<u>-</u>	<u>2,995,054</u>
Less accumulated depreciation:				
Water Rights	(5,760)	(480)	-	(6,240)
Water & Sewer Systems	(669,478)	(58,160)	-	(727,638)
Buildings	(14,607)	(1,217)	-	(15,824)
Machinery and equipment	(6,031)	(927)	-	(6,958)
	<u>(695,876)</u>	<u>(60,784)</u>	<u>-</u>	<u>(756,660)</u>
Total capital assets being depreciated, net	<u>2,291,691</u>	<u>(53,297)</u>	<u>-</u>	<u>2,238,394</u>
Business-type capital assets, net	<u>\$ 2,308,691</u>	<u>\$ (53,297)</u>	<u>\$ -</u>	<u>\$ 2,255,394</u>

The water and sewer system is comprised of land, water rights, well, tanks, lines and equipment. All depreciation expense is charged to the operating function in the Statement of Activities.

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
FINANCIAL STATEMENTS, continued
DECEMBER 31, 2015**

3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS, continued

D. LONG TERM LIABILITIES

The following schedule details the changes in long-term liabilities during the year ended December 31, 2015.

	Balance Dec 31, 2014	<u>Increase</u>	<u>(Decrease)</u>	Balance Dec 31, 2015
USDA-Rural Development - See Below	\$ 30,090	\$ 0	\$ 30,090	\$ 0

The Association was obligated to repay a debt to the U.S. Department of Agriculture, Rural Development. The obligation was for an original amount of \$35,400 and was entered into on April 9, 2003. That obligation was subsequently paid off on August 28, 2015.

4. OTHER NOTES

A. RECOVERY OF EMBEZZLEMENT LOSS

The Association recovered restitution funds of \$201,000 from case number D-728-CR-201400008, which involved an employee embezzlement of Association funds, which occurred over a number of prior years.

B. RISK MANAGEMENT

The Association covers its insurance needs through various insurance policies. The coverage includes general liability, buildings, personal property, directors' and officers' liability and employee bonds. The premiums paid on the policies during the fiscal year were \$3,478. If the Association's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the Association's losses are low, they will not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

**STATE OF NEW MEXICO
 QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION NOTES TO
 FINANCIAL STATEMENTS, continued
 DECEMBER 31, 2015**

4. OTHER NOTES, continued

C. SUBSEQUENT EVENTS REVIEW

The Association has evaluated subsequent events through May 31, 2016, which is the date the financial statements were dated.

D. RELATED PARTY TRANSACTIONS

The Association's board members and employees are also members of the Association and are customers of the water and sewer system, just like the other members of the Association. In addition, the board members and employees may enter into other related party transaction with the Association, in the normal course of business.

E. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

Budgetary Basis-Revenue & Other over (under) expenses & Other	\$ 187,805
Increase (decrease) in assets:	
Accounts Receivable	(2,440)
Prepaid expenses	(362)
(Increase) decrease in liabilities:	
Accounts payable	2,519
Other adjustments:	
Debt service	30,090
Customer Meter Deposits	(1,120)
Capital outlay	7,487
Depreciation	(60,784)
GAAP Basis-change in Net Position	<u>\$ 163,195</u>

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWER WORKS ASSOCIATION

STATEMENT OF RECEIPTS AND DISBURSEMENTS
BUDGET (NON-GAAP) AND ACTUAL (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Actual on Budgetary <u>Basis</u>	Variance Favorable <u>(Unfavorable)</u>
RECEIPTS:				
Operating Revenues:				
Charges for services	\$ 60,505	\$ 60,505	\$ 72,098	\$ 11,593
Other revenues	-	-	5,080	5,080
Non-Operating Receipts:				
Interest income	-	-	393	393
Recovery of Embezzlement Loss	-	-	201,000	201,000
Customer deposits	-	-	1,120	1,120
Grants & Loans	-	-	-	-
 Total Receipts	 <u>60,505</u>	 <u>60,505</u>	 <u>279,691</u>	 <u>219,186</u>
DISBURSEMENTS:				
Operating Expenses:				
Personnel services and benefits	18,275	18,275	14,233	4,042
Other Operating expenses	40,730	40,730	39,110	1,620
Non-Operating Disbursements:				
Customer deposits	-	-	-	-
Debt payments - principal	-	-	30,090	(30,090)
Debt payments - interest	204	204	966	(762)
Capital Asset Acquisitions	-	-	7,487	(7,487)
 Total Disbursements	 <u>59,209</u>	 <u>59,209</u>	 <u>91,886</u>	 <u>(32,677)</u>
 Excess Receipts over (under) Disbursements	 <u>\$ 1,296</u>	 <u>\$ 1,296</u>	 <u>\$ 187,805</u>	 <u>\$ 186,509</u>
 Beginning Unrestricted Cash			 29,273	
 Ending Unrestricted Cash			 <u>\$ 217,078</u>	

See Independent Accountant's Compilation Report.
The Notes to Financial Statements are an integral part of these statements.

AGREED UPON PROCEDURES SECTION

Beckham & Penner, P.C.

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

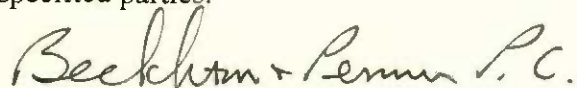
Mr. Timothy Keller, State Auditor, and
Members of the Board of Directors
Quemado Mutual Water & Sewage Works Association
Quemado, New Mexico

We have performed the procedures described in the following Schedule of Agreed Upon Procedures for the Quemado Mutual Water & Sewage Works Association (Association) for the year ended December 31, 2015, solely to assist the Association with respect to the Tier 6 requirements of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association and the New Mexico Office of the State Auditor. The Association's management is responsible for their financial records and presentation of the Tier 6 requirements. This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the following Schedule of Procedure either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following; Schedule of Agreed Upon Procedures and Results of Procedures, Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis), and the Schedule of Findings and Responses.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the schedules. 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 Quemado Mutual Water & Sewage Works Association, the New Mexico Office of the State Auditor, and the New Mexico Department of Finance and Administration – Local Government Division, and the NM Legislature, and is not intended to be and should not be used by anyone other than these specified parties.



May 31, 2016
Beckham & Penner, P.C.
Certified Public Accountants

**STATE OF NEW MEXICO
QUEMADO MUTUAL WATER & SEWAGE
WORKS ASSOCIATION
SCHEDULE OF AGREED UPON PROCEDURES
AND RESULTS OF PROCEDURES
December 31, 2015**

Procedure 1: Tiered Determination

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

Results: We obtained the tier determination document and verified that the Association is subject to the Tier 6 requirements.

Procedure 2: 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: We obtained all of the bank statements, bank reconciliations, general ledger, and bank pledged collateral statements for the fiscal year and performed the above procedures.

- a) The bank reconciliations are being performed in a timely manner and all bank statements for the fiscal year were complete and on-hand. The Association does not have any investment, thus there were no investment statements.
- b) The bank reconciliations were accurate and agreed to the general ledger, supporting documentation and financial reports submitted to DFA- Local Government Division.
- c) The pledged collateral requirements of Section 6-10-17 NMSA 1978, NM Public Money Act did not apply to the Association because all of their cash was fully insured by the FDIC coverage.

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Procedure 3: Capital Assets

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

Results: The Association has performed and maintain the yearly inventory as required by Section 12-6-10 NMSA 1978.

Procedure 4: Debt

Verify that the required payments were made during the year.

Results: The Association paid off the debt to USDA Rural Development in year 2015.

Procedure 5: 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.

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Results: We obtained the internal budget, agreements, underlying documentation, general ledger, and bank statements for the fiscal year and performed the above procedures.

- a) Actual revenue compared to budget is presented as supplementary information in the accompanying Schedule of Revenue and Expenditures – Budget and Actual.
- b) The sample of revenue was found to be recorded in the general ledger and agreed to the supporting documentation and bank statements.
- c) The sample of revenue was properly classified and recorded in the general ledger and presented in the financial statements on the budgetary basis of accounting which is a modified accrual basis.

Procedure 6: 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, contact 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: We obtained the paid vouchers for the fiscal year and performed the above procedures on a sample of the vouchers.

- a) For the vouchers examined, we determined that the amounts recorded in the accounting records agreed to the supporting documentation and verified that the amount, payee, date and description agreed to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

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Procedure 6: Expenditures Results, continued

- b) For the vouchers examined, we determined that the disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures, except total disbursements exceeded the approved DFA budget. Budget amendments were not submitted to DFA for approval. See finding 2010-006.
- d) For the vouchers examined, we determined that, when applicable, the bid process or request for proposal process, purchase order, 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).

Procedure 7: Journal Entries

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items 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: The Association has procedures that require journal entries to be reviewed and approved by the Board. All of the journal entries were approved by the Board, appear reasonable and have supporting documentation.

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Procedure 8: 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 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 revenue 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: We obtained the original budget, the budget amendment, minutes and budget correspondence, and general ledger for the fiscal year and performed the above procedures.

- a) The original budget was approved by the Association and DFA, however, the budget amendment were NOT submitted to or approved by DFA-LGD. See Finding number 2010-006
- b) We determined that the actual expenditures for the fiscal year exceeded the final budget at the legal level of budgetary control. See Finding number 2010-006
- c) We prepared a Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) for each individual fund (the Association has only one fund) and it is presented as Supplementary information in the Compilation section of the report.

SCHEDULE OF FINDINGS AND RESPONSES
&
EXIT CONFERENCE AND OTHER INFORMATION

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SCHEDULE OF FINDINGS AND RESPONSES
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PRIOR YEAR FINDINGS

STATUS

2010-002 Capital Assets	Resolved
2010-006 DFA Budget Approval and Reporting	Repeated
2010-008 Untimely Submission of AUP Report	Resolved

CURRENT YEAR FINDINGS

2010-006 DFA Budget Approval and Reporting

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2010-006 DFA Budget Approval and Reporting

Statement of Condition:

The Association's 2010 AUP report was issued on February 7, 2014. Prior to February 7, 2014 the Association had not submitted any of their annual budgets to the New Mexico Department of Finance and Administration (DFA) for approval. The Association, for the first time, submitted their 2015 annual budget to DFA for approval. The budget was approved by DFA, however, the Association did not submit their budget amendments to DFA for approval.

Criteria:

Governmental entities must submit budget amendments to DFA for approval.

Effect:

Budget Amendments for the payoff of the USDA Rural Development loan and use of the State Auditor Grant for AUP services did not receive DFA approval and caused the total budgetary disbursements to exceed the DFA approved budget.

Cause:

The Association was unaware of the requirement to submit their budget amendments to DFA for approval.

Recommendation:

The Association should contact DFA and comply with the requirements to submit their budget amendments to DFA for approval.

Response:

The Association has established procedures to submit their annual budget to DFA for approval. Procedures will be established by the Board to also require their administrative employee to submit budget amendments to DFA for approval. Procedures will also be established by the Board to monitor the budget and actual expenditures during the year.

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Preparation of Schedules

The accompanying schedules were substantially prepared by the Accountants; however, management acknowledges and accepts responsibility for the schedules.

EXIT CONFERENCE

An exit conference was held on May 31, 2016, at the Association Board room.

In attendance for the Association:

Larry Yankee	Board President
Debbie Leschner	Secretary

In attendance for the Accountants:

Rick Penner, CPA	Accountant
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