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Tesuque Mutual Domestic Water Association

Independent Accountant's Report on Applying Agreed Upon Procedures

For the Fiscal Year Ending December 31, 2014

**Tesuque Mutual Domestic Water Association
Table of Contents
Fiscal Year Ending December 31, 2014**

	<u>Page</u>
Table of Contents	i
Official Roster	ii
Independent Accountant's Report	1
Schedule of Findings and Responses	6
Schedule of Revenues and Expenditures – Budget and Actual	9
Copy of Year-End Financial Report Submitted to DFA-LGD	10
Exit Conference	13

**Tesuque Mutual Domestic Water Association
Official Roster
Fiscal Year Ending December 31, 2014**

Board of Directors

Randy Buckley, President

Robert Martinez, Vice President

Marge Loehr, Treasurer

Allen Lewis, Secretary

Dominick De Santis, Board Member

Administrative Staff

Ana Berry, Contract Bookkeeper

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Randy Buckley, President
Tesuque Mutual Domestic Water Association
and
Timothy Keller, New Mexico State Auditor

I have performed the procedures enumerated below for the Tesuque Mutual Domestic Water Association (Association) for the year ended December 31, 2014, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. 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 the parties specified in this 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. Our procedures and findings are as follows

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.

The bank reconciliations were performed on a monthly basis in a timely manner. All bank statements for the fiscal year were complete and on hand. For the period January 1, 2014 through December 31, 2014, the Association had one checking account and five savings accounts at the Los Alamos National Bank which are still open as of the date of this report. The Association did not have any investment accounts.

- 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.

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. 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.

The bank account balances of the Association were fully insured by the FDIC. Pledged collateral was not required since the Association's bank balances were well below \$250,000 during the fiscal year.

2. Capital Assets

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

The Association performed a capital asset inventory for the fiscal year ending December 31, 2014. However, the date of the inventory was not documented, the inventory listing was incomplete, and the Board of Directors did not certify the correctness of the inventory. See Finding No. 2010-2.

3. Revenue

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation. Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

The revenue sources of the Association consist of monthly water dues, membership fees, transfer fees and interest income. The variances between the actual FY13 revenue and the FY14 revenue were adequately explained by the Bookkeeper; no unusual or unexplained variances were noted.

The actual revenue compared to budgeted revenue for each type of revenue was reviewed. According to the Association's general ledger, actual revenues were \$1,583 less than budgeted revenues for FY14. No significant or unusual variances were noted.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts and deposits was judgmentally selected and tested which amounted to approximately 63.7% of total revenues. The amount

recorded in the general ledger agreed with the supporting documentation and the bank statement.

- ii. 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, modified accrual or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger on the cash basis of accounting.

4. Expenditures

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

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

A sample of cash disbursements were tested which amounted to approximately 74.8% of total expenses. 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.

- ii. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

- iii. 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), State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were

processed in accordance with applicable provisions of the State Procurement Code and State Purchasing Regulations.

5. Journal Entries

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

- i. Journal entries appear reasonable and have supporting documentation.

According to the Association's Bookkeeper, the only non-routine journal entries posted to the general ledger during the fiscal year were to record the annual depreciation expense for capital assets. The journal entries and supporting documentation appear reasonable. No other non-routine journal entries were noted during the agreed-upon procedures.

- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has procedures in place to ensure that non-routine journal entries posted to the general ledger by the Bookkeeper are reviewed and approved by the governing body.

6. Budget

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

- i. 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.

The Association's Board of Directors adopted a budget in Resolution No. 2013-2 dated November 13, 2013 which was approved by DFA-LGD in a letter to the Association dated March 5, 2014. The Association did not have any budget adjustments in FY14.

- ii. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

Total expenditures for FY14 did not exceed the final approved budget. According to the Association's general ledger, actual expenditures for FY13 were \$12,024 less than budgeted expenditures.

- iii. 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, modified accrual or accrual basis) for each individual fund.

Based on the Association's general ledger, the Schedule of Revenues and Expenditures was prepared on the cash basis of accounting. See Exhibit 1 on p. 10.

7. Other

- a. 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 Section 2.2.2.10 (I)(3)(C) NMAC.

The Association did not submit the IPA Recommendation Form and Agreed-Upon Procedures contract to the NM Office of the State Auditor by the required due date. See Finding No. 2010-3.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 4 agreed upon procedures. 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 management and others with the Association, the New Mexico State Auditor, the Department of Finance and Administration – Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC

Santa Fe, New Mexico

May 29, 2015

**Tesuque Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

Status of Prior Year Findings

Finding 2010-1. Non-compliance with Budget Laws and Regulations - Resolved.

Finding 2010-2. Modified and repeated.

Finding 2010-3. Modified and repeated.

Current Year Findings

Finding 2010-2. Incomplete Capital Asset Inventory Listing and No Board Certification of Inventory at Fiscal Year-End

Condition

For the fiscal year ending December 31, 2014, the Association performed an annual inventory of its capital assets. However, the date the inventory was performed was not documented and the inventory listing was incomplete. The date acquired, cost, location and ending balance for some of its capital assets (tanks, wells, water lines, fire hydrants, valves, etc.) was not recorded on the Association's capital asset listing. Also, the governing body of the Association did not certify the correctness of the capital asset inventory after the physical inventory was performed.

Criteria

Section 12-6-10.A NMSA 1978 states: "Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness." Section 2.20.1 NMAC requires an annual inventory and establishes standards to properly record, control and account for capital assets acquired by agencies. Also, in accordance with generally accepted accounting principles, capital assets should be capitalized in accordance with Association policy and properly recorded and valued.

Effect

Since the Association's capital asset listing is incomplete, the ending balance of its capital assets for the fiscal year ending December 31, 2014 may not be accurate. A complete capital asset listing is useful for the Association to properly control, account for, and manage its capital assets.

**Tesuque Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014**

Cause

The Association was not aware of the annual physical inventory law or the capital asset listing requirements. Also, historical cost records are not available for all the capital assets and water systems in the Association which were installed back in the 1970's.

Recommendation

At the end of each fiscal year, the Association should perform and document a complete physical inventory of its capital assets as required by Section 12-6-10A NMSA 1978. The description of each capital asset, date acquired, actual or estimated cost, location, useful life and capital asset balance should be recorded on the capital asset listing as required by Section 2.20.1 NMAC. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the Association.

Management's Response

Although the association prepared an inventory listing at the end of the year it was incomplete.

Corrective Action Plan - An inventory listing will be done by the Board and water operator around the end of 2015 and will be approved by the Board at the following board meeting. The inventory listing will be updated as needed by the Accounts Manager with Board approval.

Finding 2010-3. Late Submission of Firm Recommendation Form and Agreed-Upon Procedures Contract

Condition

For the fiscal year ending December 31, 2014, the Association did not submit the Recommendation Form for Tiered System Local Public Bodies and the signed agreed-upon procedures contract to the New Mexico Office of the State Auditor (OSA) until March 2015.

Criteria

According to State Audit Rule, Section 2.2.2.16.D (6) NMAC, the Association should have submitted the completed Recommendation Form for Tiered System Local Public Bodies and the completed and signed agreed-upon procedures contract to the State Auditor by January 1, 2015.

Tesuque Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2014

According to State Audit Rule, Section 2.2.2.16 (H) NMAC, "Local public bodies with a fiscal year-end other than June 30 must submit the agreed-upon procedures report no later than 5 months after the fiscal year-end."

Effect

If the recommendation form and contract are submitted late, there is a higher risk that the agreed-upon procedures report will be submitted late.

Cause

The Association was unaware of the State Auditor's contracting requirements for agreed-upon procedures, and therefore, did not comply with the requirements by the due date.

Recommendation

The Board of Directors and Bookkeeper of the Association should read Section 2.2.2.16 NMAC of the State Audit Rule to understand the specific requirements and due dates for agreed-upon procedures. For future fiscal years, the Association shall determine its total revenues and state funded capital outlay award expenditures and apply the criteria noted in Section 2.2.2.16.B NMAC to determine what agreed-upon procedures or audits are required for the fiscal year. The Association should take the necessary steps to ensure that future IPA recommendation forms and contracts are submitted to the State Auditor by January 1.

Management's Response

The association was unaware that funding from the OSA had been provided to assist with the cost of the agreed upon procedures until after the January 1, 2015 deadline to submit the required Recommendation Form.

Corrective Action Plan - After board approval, the Accounts Manager will ensure that the Recommendation Form and contract will be submitted to the OSA by January 1, 2016.

Tesuque Mutual Domestic Water Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2014

Exhibit 1

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Membership Fees	\$ -	\$ -	\$ -	\$ -
Transfer Fee	500	500	1,500	1,000
Water Bills	63,930	63,930	61,313	(2,617)
Bank Interest	72	-	98	26
Insurance Refund	-	-	7	7
Total Revenues	\$ 64,502	\$ 64,430	\$ 62,919	\$ (1,583)
Expenditures				
Accounting Services	\$ 541	\$ 541	\$ 379	\$ 162
Audit	5,000	5,000	-	5,000
Bounced Check	-	-	1,437	(1,437)
Depreciation	-	-	-	-
Emergency Reserve Funds	12,000	12,000	-	12,000
Insurance	2,054	2,054	2,207	(153)
NMED Loan Principal	4,102	4,102	4,102	-
USDA Loan Principal	4,092	4,092	-	4,092
USDA Loan Interest	-	-	7,014	(7,014)
Meeting Space	252	252	-	252
Bookkeeping	8,640	8,640	8,916	(276)
Office Supplies	432	432	423	9
PO Box Rental and Postage	670	670	612	58
Miscellaneous Office Expenses	160	160	505	(345)
Line Locates	244	244	139	105
Materials	2,400	2,400	621	1,779
Water Operator	8,640	8,640	11,482	(2,842)
Water Testing	520	520	519	1
Well Repairs	1,392	1,392	265	1,127
Remote Sensors	300	300	447	(147)
Software Support	350	350	346	4
Repairs	1,200	1,200	-	1,200
Software for Radio Reads	-	-	2,141	(2,141)
Gross Receipts Taxes	3,336	3,336	2,946	390
Water Conservation Fee	216	216	124	92
Website	350	350	64	286
Utilities - Electricity	1,932	1,932	2,109	(176)
Total Expenditures	\$ 58,823	\$ 58,823	\$ 46,800	\$ 12,024

Copy of Year-End Financial Report Submitted to DFA-LGD

Tesuque Domestic Mutual Water Consumers Association

Balance Sheet

As of December 31, 2014

	<u>Dec 31, 14</u>
ASSETS	
Current Assets	
Checking/Savings	
LANB Capital Improvements	93,481.80
LANB Checking	9,511.78
LANB Insurance Reserve	7,466.48
LANB Operations & Maintenance	6,422.59
LANB State of NM Loan Reserve	14,114.30
LANB USDA Reserve	4,100.04
Total Checking/Savings	<u>135,096.99</u>
Accounts Receivable	
Accounts Receivable	320.02
Total Accounts Receivable	<u>320.02</u>
Other Current Assets	
NSF Checks	2,861.47
Total Other Current Assets	<u>2,861.47</u>
Total Current Assets	138,278.48
Fixed Assets	
Accumulated Depreciation	-107,683.00
Computer	1,097.11
Fencing 1	5,900.00
Handhold and Meters	32,373.18
Improvements 2007	12,432.04
Storage Tank	50,000.00
Well	20,000.00
Total Fixed Assets	<u>14,119.33</u>
TOTAL ASSETS	<u><u>152,397.81</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
NMED Current Portion	4,101.73
Total Other Current Liabilities	<u>4,101.73</u>
Total Current Liabilities	4,101.73
Long Term Liabilities	
N/P USDA	
USDA Interest	18.54
USDA Principle	6,768.19
Total N/P USDA	<u>6,786.73</u>
NMED Loan Payable	20,508.62
Total Long Term Liabilities	<u>27,295.35</u>
Total Liabilities	31,397.08
Equity	
Unrestricted Net Assets	104,881.69
Net Income	16,119.04
Total Equity	<u>121,000.73</u>
TOTAL LIABILITIES & EQUITY	<u><u>152,397.81</u></u>

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Tesuque Domestic Mutual Water Consumers Association

Profit & Loss

January through December 2014

	Jan - Dec 14
Ordinary Income/Expense	
Income	
Transfer fee	1,500.00
Water bills	61,313.44
Total Income	62,813.44
Gross Profit	62,813.44
Expense	
Accounting Services	379.00
Bounced check	1,437.45
Insurance Expense	
Liability Insurance	2,107.00
Surety Bond	100.00
Total Insurance Expense	2,207.00
Loans	
NMED loan principal	4,101.73
USDA Loan interest	0.00
USDA Loan principal	7,014.35
Total Loans	11,116.08
Office expenses	
Annual meeting supplies	110.16
Bookkeeping	8,915.70
Corporate filing fees	20.00
Liens	75.00
Office Supplies	422.87
PO Box rental	122.00
Postage	490.00
Storage unit	300.00
Total Office expenses	10,455.73
Operations and Maintenance	
Line locates	138.67
Materials	
Fire hydrant locks	621.00
Total Materials	621.00
Water Operator	11,481.94
Water testing	519.32
Well repairs	265.32
Total Operations and Maintenance	13,026.25
Remote sensors	447.44
Software support	346.13
Software for radio reads	2,141.26
Taxes	
Gross receipts	2,946.35
Water Conservation fee	124.31
Total Taxes	3,070.66
Utilities	
Electricity	2,108.74
Total Utilities	2,108.74
Web site expenses	63.81
Total Expense	46,799.55
Net Ordinary Income	16,013.89

Copy of Year-End Financial Report Submitted to DFA-LGD

Tesuque Domestic Mutual Water Consumers Association

Profit & Loss

January through December 2014

	<u>Jan - Dec 14</u>
Other Income/Expense	
Other Income	
Bank Interest	98.15
Insurance refund	7.00
Total Other Income	<u>105.15</u>
Net Other Income	<u>105.15</u>
Net Income	<u><u>16,119.04</u></u>

**Tesuque Mutual Domestic Water Association
Exit Conference
Fiscal Year Ending December 31, 2014**

On May 29, 2015, an exit conference was held with the following individuals to discuss the results of the agreed upon procedures and the contents of this report:

Tesuque MDWA

Randy Buckley, President
Marge Loehr, Treasurer
Ana Berry, Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Engagement Manager