

STATE OF NEW MEXICO
TWIN FORKS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

INTRODUCTORY SECTION

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
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June 30, 2011

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STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Official Roster
June 30, 2011

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Evelyn Schultz	President
David Arnold	Vice President
Charliss Randall	Secretary/Treasurer
Jerry Cox	Assistant Secretary/Treasurer
Robby Wingate	Director

ADMINISTRATION

Cheryl Miles	Administrative Assistant
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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED UPON PROCEDURES**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the Board of Directors, Twin Forks Mutual Domestic Water Consumers Association
Mayhill, New Mexico

We have performed the procedures enumerated below, which were agreed to by the Twin Forks Domestic Water Consumers Association (the Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Auditor Rule, Tier 6, as of June 30, 2011. Twin Forks Domestic Water Consumers Association's governing board and management are responsible for the information included herein. 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.

The procedures and the associated findings are included in this report.

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 6 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 within the Association, the 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 & Consulting Group LLP
Accounting & Consulting Group, LLP
Alamogordo, New Mexico
July 24, 2013

SUPPLEMENTARY INFORMATION

TWIN FORKS DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
JUNE 30, 2011

PROCEDURES PERFORMED AND RELATED RESULTS

1. Cash

- a. Determine whether bank reconciliations being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on hand.

Bank reconciliations were not provided. We were unable to determine if bank reconciliations were being performed in a timely manner. See finding 2011-01.

- 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.

Bank reconciliations were not provided. We were unable to test bank reconciliations for accuracy. See finding 2011-01.

- c. Determine whether the local public body's financial institutions have provided the association 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.

We determined that the average running balance is below \$250,000 in all accounts. Additional procedures were not performed.

2. Capital Assets

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

An annual physical inventory of capital assets is not being completed. See Finding 2011-02.

3. Debt

- 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.

We obtained the annual debt statement and verified that all payments were made during the year. No reserves are required.

4. Revenues

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

We compared actual to budget for each type of revenue. Results are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Water use fees	\$310,400	\$309,950	(450)

TWIN FORKS DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
JUNE 30, 2011

Revenues (continued)

All revenues tested are considered reasonable.

- 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.
 - 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 basis, modified accrual basis, or accrual basis.

No exceptions were noted testing the attributes above.

5. 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 the vendor's invoice, purchase order, contract and canceled check, as appropriate.

Three expenses out of twenty-five did not have proper supporting documentation. See Finding 2011-05.

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

Six expenses tested out of twenty-five were not properly approved. See Finding 2011-05.

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

No exceptions were noted testing the attributes above.

6. 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.

No non-routine journal entries made. No exceptions noted.

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

No non-routine journal entries made. No exceptions noted.

TWIN FORKS DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
JUNE 30, 2011

7. 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.

We verified the Board of Directors approved the original budget. There were no budget adjustments. Approval was neither sought nor granted from DFA-LGD. See finding 2011-03.

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

It was determined that the Association did not exceed the final budget.

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

See attached Statement of Revenues and Expenditures – Budget and Actual- General Fund.

8. Capital Outlay

- a. 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.

We noted no capital outlay awards or expenditures and did no further testing.

9. 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. See finding 2011-06.

During the time period of November 4, 2008 through July 26, 2011 various fraudulent activities were committed by an employee of the agency. The total amount that the agency believes was fraudulently obtained was \$27,092.73.

Accounting and Consulting Group, LLP reviewed this information with Evelyn Schultz, however Accounting and Consulting Group, LLP was not engaged to perform any forensic accounting, nor did Accounting and Consulting Group, LLP perform any forensic accounting activities during the Agreed Upon Procedures or the Compilation of the Financial Statements.

TWIN FORKS DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
JUNE 30, 2011

In summary, the employee was arrested on March 3, 2012 and was charged with 77 criminal charges and the agency anticipates an insurance settlement for the full amount (as of July 9, 2013). As a result of the inadequate controls and oversight, procedures have been put in place to address this issue, which are outlined in the letter from attached Letter from Twin Forks to the State of New Mexico Office of the State Auditor and Accounting and Consulting Group LLP dated November 7, 2012.

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Statement of Revenues and Expenses, Budget and Actual
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>
Operating revenues:		
Charges for services	\$ 310,400	\$ 309,950
Total operating revenues	<u>310,400</u>	<u>309,950</u>
Operating expenses:		
Personnel services	174,773	169,950
Supplies	6,000	41,306
Depreciation		26,176
Miscellaneous	26,300	20,765
Utilities	16,100	18,141
Repairs and maintenance	9,400	17,228
Fuel	15,000	8,241
Imported water	1,200	4,934
Contractual services	18,500	1,735
Loan payments	35,127	0
Total operating expenses	<u>302,400</u>	<u>308,476</u>
Operating income (loss)	<u>8,000</u>	<u>1,474</u>
Non-operating revenues (expenses):		
Use of cash reserves	25,000	-
Interest income	1,000	124
Reserves	(34,500)	
Miscellaneous	500	20
Total non-operating revenues (expenses)	<u>(8,000)</u>	<u>144</u>
Change in net assets	\$ -	\$ 1,618

Twin Forks Tier 6 AUP
Findings
June 30, 2011

2011-01 Unable to determine if bank reconciliations were completed in a timely manner TW-01a

Condition: The Agency was unable to provide any bank reconciliations.

Criteria: According to Tier 6 of the Audit Act bank reconciliations must be prepared in a timely manner.

Cause: There wasn't a control in place to verify reconciliations were being performed in a timely manner.

Effect: A determination could not be made as to the existence, let alone timeliness, of the preparation of the reconciliations.

Auditors' Recommendation: Future bank reconciliations should be prepared in a timely manner with a date stamped on them.

Agency's Response: Future bank reconciliation will be prepared timely and will be reviewed by a board member.

2011-02 No yearly inventory is being performed TW-02a

Condition: The Agency does not perform yearly inventory counts.

Criteria: Section 12-6-10. NMSA 1978 states that "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."

Cause: The Agency was unaware of the requirement to perform inventory counts.

Effect: Inventory balances may not represent actual.

Auditors' Recommendation: We recommend that the Agency perform yearly inventory counts.

Agency's Response: Agency will perform yearly inventory counts.

2011-03 Submission of Reports to the Department of Finance and Administration (DFA) TW-07a

Condition: It was noted that the Twin Forks Water Consumers Association does not file any financial and budgetary reports with DFA-LGD.

Criteria: NMSA 6-6-2 requires local public bodies to submit quarterly financial reports and an annual budget to DFA-LGD.

Cause: The Association was unaware it should be submitting reports and budgets.

Effect: The Association is not in compliance with NMSA 6-6-2.

Auditors' Recommendation: The Association should establish a working relationship with its DFA analyst to help the Association file all required reports accurately and in a timely manner.

Agency's Response: The Association will establish a working relationship with its DFA analyst to help the Association file all required reports accurately and in a timely manner.

2011-04 Late Submission of Report

Condition: The agreed upon procedures report for the fiscal year ended June 30, 2011 was not filed timely by November 30, 2011.

Criteria: The due date of November 30, 2011 is established in Section 2.2.2.9 NMAC of the 2011 State auditor rule.

Cause: The Association needed time to comply with regulations they were not previously aware of.

Effect: The report was not made available on a timely basis for use by the Legislature, the administration, or by other users.

Auditors' Recommendation: Future required reports should be filed timely.

Agency's Response: Future reports will be filed timely.

2011-05 Expenses

Condition: Six expenses tested out of twenty five were not properly approved and three expenses tested out of twenty five did not have proper supporting documentation.

The amounts of the expenses without proper authorization were:

\$ 32,379.67 (bank transfer to savings)
\$ 1,401.63
\$ 211.81
\$ 1,228.34
\$ 4,565.28 (bank transfer to savings)
\$ 509.49

The amounts of the expenses without proper supporting documentation were:

\$ 1,228.34
\$ 4,565.28 (bank transfer to savings)
\$ 509.49

Criteria: According to Tier 6 of the Audit Act expenses must be properly approved and amount, payee, date and description must agree to the canceled check.

Cause: Proper internal controls were not in place to prevent expenses from being paid without approval or insure that proper record keeping was taking place.

Effect: Expenses could be paid without approval and invoices could be lost.

Auditors' Recommendation: Place proper internal controls in place to insure expenses are approved and record keeping is taking place.

Agency's Response: The agency will put proper internal controls in place to insure expenses are approved and record keeping is taking place.

2011-06 Other Information Coming to the IPA's Attention

Condition: During the time period of November 4, 2008 through July 26, 2011 various fraudulent activities were committed by an employee of the agency. The total amount that the agency believes was fraudulently obtained was \$27,092.73. Accounting and Consulting Group, LLP reviewed this information with Evelyn Schultz, Board President, however Accounting and Consulting Group, LLP was not engaged to perform any forensic accounting, nor did Accounting and Consulting Group, LLP perform any forensic accounting activities during the Agreed Upon Procedures or the Compilation of the Financial Statements.

Criteria: 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.

Cause: Inadequate control environment.

Effect: Defalcation of funds.

Auditors' Recommendation: Ensure procedures are in place to ensure that controls are not over-ridden.

Agency's Response: In accordance with 12-6-6 NMSA 1978, the agency sent a letter to the Office of State Attorney outlining the issues at hand. See attached letter to the State Auditor from Twin Forks MDWCA dated November 7, 2012 as part of AUP report which provides the required content per Section 2.2.2.10(I)(3)(c). In summary, the employee was arrested on March 3, 2012 and was charged with 77 criminal charges and the agency anticipates an insurance settlement for the full amount (as of July 9, 2013). As a result of the inadequate controls and oversight, procedures have been put in place to address these issues, which are outlined in the letter from the agency mentioned previously. Accounting and Consulting Group, LLP reviewed this information with Evelyn Schultz, however Accounting and Consulting Group, LLP was not engaged to perform any forensic accounting, nor did Accounting and Consulting Group, LLP perform any forensic accounting activities during the Agreed Upon Procedures or the Compilation of the Financial Statements.

Twin Forks
Exit Conference
June 30, 2011

I. The exit conference was held on July 22, 2013. Those present were:

Jared Mitchell – Operations Manager
Jerry Cox – Treasurer
David Arnold - President
John R. Battle, CPA, CVA – Accounting and Consulting Group, LLP

II. Tier 6 Agreed Upon Procedures and compilation

Review of Tier 6 Agreed Upon Procedures

III. Agreed Upon Procedures Findings

Finding 1- Bank reconciliations not provided; therefore unable to determine if bank reconciliations were completed in a timely manner

Finding 2- No yearly inventory is being performed.

Finding 3- Submission of Reports to the Department of Finance and Administration (DFA) not properly submitted.

Finding 4- Late Submission of Report to DFA

Finding 5 – Expenses not properly approved and some expenses lacked proper supporting documentation.

Finding 6 – Other information coming to IPA's attention

IV. Other Items

Timeline of from this point forward

STATE OF NEW MEXICO
TWIN FORKS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
ACCOUNTANT'S COMPILATION REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Official Roster
June 30, 2011

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Evelyn Schultz	President
David Arnold	Vice President
Charliss Randall	Secretary/Treasurer
Jerry Cox	Assistant Secretary/Treasurer
Robby Wingate	Director

ADMINISTRATION

Cheryl Miles	Administrative Assistant
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FINANCIAL SECTION

ACCOUNTANT'S COMPILATION REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the Board of Directors, Twin Forks Mutual Domestic Water Consumers Association
Twin Forks, New Mexico

We have compiled the accompanying financial statements of the business-type activities of the Twin Forks Mutual Domestic Water Consumers Association (the "Association") as of and for the year ended June 30, 2011, which collectively comprise the Association's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has omitted the management's discussion and analysis and budgetary comparison information that is required to be presented for purposes of additional analysis. 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.


Accounting & Consulting Group, LLP
Alamogordo, New Mexico
July 24, 2013

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,466
Customer receivables, net of allowance for doubtful accounts	18,788
Other receivables	22,340
Total current assets	<u>43,594</u>
Noncurrent assets:	
Land and water rights	71,978
Capital assets	891,201
Accumulated depreciation	(298,987)
Total noncurrent assets	<u>664,192</u>
Total assets	<u><u>\$ 707,786</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Accounts payable	\$ 760
Accrued expenses	11,878
Current portion of long-term debt	37,270
Total current liabilities	<u>49,908</u>
Noncurrent liabilities:	
Loans payable	<u>157,005</u>
Total liabilities	<u>206,913</u>
Net assets:	
Invested in capital assets, net of related debt	472,479
Unrestricted net assets	28,394
Total net assets	<u>500,873</u>
Total liabilities and net assets	<u><u>\$ 707,786</u></u>

See accompanying accountant's compilation report

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

Exhibit A-2

Operating revenues:	
Charges for services	<u>\$ 309,950</u>
Total operating revenues	<u>309,950</u>
Operating expenses:	
Personnel services	169,950
Supplies	41,306
Depreciation	26,176
Miscellaneous	20,765
Utilities	18,141
Repairs and maintenance	17,228
Fuel	8,241
Imported water	4,934
Contractual services	1,735
Total operating expenses	<u>308,476</u>
Operating income	<u>1,474</u>
Non-operating revenues (expenses):	
Interest income	124
Miscellaneous	20
Interest expense	<u>(5,537)</u>
Total non-operating revenues (expenses)	<u>(5,393)</u>
Change in net assets	(3,919)
Net assets, beginning of year	<u>504,792</u>
Net assets, end of year	<u><u>\$ 500,873</u></u>

See accompanying accountant's compilation report

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Statement of Cash Flows
For the Year Ended June 30, 2011

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 304,136
Cash payments to employees for services	(169,950)
Cash payments to suppliers for goods and services	(124,246)
<i>Net cash provided (used) by operating activities</i>	<u>9,940</u>
 <i>Cash flows from noncapital financing activities:</i>	
Net miscellaneous income and expenses	20
<i>Net cash provided (used) by noncapital financing activities</i>	<u>20</u>
 <i>Cash flows from capital and related financing activities:</i>	
Principal paid on capital debt	(19,617)
Interest paid on capital debt	(5,537)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(25,154)</u>
 <i>Cash flows from investing activities:</i>	
Interest income	124
<i>Net cash provided (used) by investing activities</i>	<u>124</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	 (15,070)
 <i>Cash and cash equivalents - beginning of year</i>	 17,536
 <i>Cash and cash equivalents - end of year</i>	 <u>\$ 2,466</u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 1,474
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	26,176
Changes in assets and liabilities	
Customer receivables	(5,814)
Gross receipts tax refund	(7,340)
Accounts payable	(1,204)
Accrued expenses	(3,352)
 <i>Net cash provided (used) by operating activities</i>	 <u>\$ 9,940</u>

See accompanying accountant's compilation report

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies

Twin Forks Mutual Domestic Water Consumers Association (the “Association”) is a political subdivision of the State of New Mexico established and regulated by the constitution of the State of New Mexico. The Association was incorporated for the purpose of constructing, maintaining, and operating a water system for the supply and distribution of water for domestic use to its members. The Association has a Board of Directors and approximately 500 members. The water service delivery area is restricted to Twin Forks rural district in Otero County, New Mexico.

The summary of significant accounting policies of the Association is presented to assist in the understanding of the Association’s financial statements. The financial statements and notes are the representation of the Association’s management and Board of Directors who are responsible for their integrity and objectivity. 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 governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to this same limitation. The Association has elected to utilize alternative #2 under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*. Under alternative #2, the governmental entities using proprietary fund accounting must follow 1) all GASB pronouncements and 2) all FASB Statements and Interpretations issued after November 30, 1989, APB Opinions, and ARB’s, no matter when issued, except those that conflict with a GASB pronouncement. The more significant of the Association’s accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

In evaluating how to define the Association, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No.’s 14 and 39.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Association and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Association and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Association is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Association has no component units, and is not a component unit of any other entity.

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Measurement focus, basis of accounting, and financial statement presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered to be an enterprise fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Association's enterprise fund is charges for services for the Association's water. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The enterprise fund is accounted for using the full accrual basis of accounting. Revenues are recognized when the related service is completed and billed. Expenses are recorded when an item is utilized or a liability is incurred.

The Association reports its proprietary fund as a major fund. The proprietary fund includes:

The Twin Forks Mutual Domestic Water Consumers Association Fund accounts for a water system for the supply and distribution of water for domestic use to its members, including constructing, maintaining and operating the system.

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

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The Association's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Association to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Association are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Receivables and Payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory: The Association's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

STATE OF NEW MEXICO
Twin Forks Mutual Domestic Water Consumers Association
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets or Equity (continued)

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Because the Association is a phase III government for purposes of implementing GASB 34, it is not required to retroactively report its major general infrastructure assets. However, it must report all infrastructure assets purchased or built after July 1, 2003. Donated capital assets are recorded at estimated fair market value at the date of donation. The Association does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	50 years
Office furniture and equipment	5-10 years
Heavy equipment	10 years
Automobiles	5 years
Plant and water system	7-50 years

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through June 30, 2011, along with applicable payroll taxes.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. For bonds issued after the Association implemented GASB 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

C. Assets, Liabilities and Net Assets or Equity (continued)

Equity Classifications

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

- a. Invested in capital assets, net of related debt:
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets:
Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets:
All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

STATE OF NEW MEXICO
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NOTE 1. Summary of Significant Accounting Policies (continued)

Water Rights: The Association annually reviews the impairment of all water rights and adjusts the carrying values as necessary.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the Association's financial statements include management's estimate of depreciation on assets over their estimated useful lives and the allowance for uncollectible accounts.

Reclassifications: Certain amounts included in the financial statements have been reclassified to conform to the current year presentation.

NOTE 2. Deposits and Investments

State statutes authorize the investment of Association funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Association properly followed State investment requirements as of June 30, 2011.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute.

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 deposit.

Excess of 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.

New Mexico State Statutes 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. 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. At June 30, 2011, the Association did not have any deposits in excess of the federal deposit insurance.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on July 21, 2010 President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raises the standard maximum deposit insurance amount to \$250,000.

Custodial Credit Risk – Deposits Custodial credit risk 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, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2011, none of the Association's bank balances of \$2,466 was exposed to custodial credit risk.

STATE OF NEW MEXICO
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Notes to the Financial Statements
June 30, 2011

NOTE 2. Deposits and Investments (continued)

	<u>First National Bank Checking</u>	<u>First National Bank Savings</u>	<u>Totals</u>
Amount of deposits	\$ 856	\$ 1,610	\$ 2,466
FDIC Coverage	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged collateral	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) collateralized	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Reconciliation to the Statement of Net Assets

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 2,466
Restricted cash and cash equivalents per Exhibit A-1	-
Less U.S. Treasury Money Market Mutual Funds	-
Less deposits in transit	-
Less petty cash	<u>-</u>
Bank balance of deposits	<u><u>\$ 2,466</u></u>

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NOTE 3. Customer Receivables

Proprietary fund receivables are shown as follows:

	Total
Water billings	\$ 18,788
Allowance for doubtful accounts	-
Net accounts receivable	\$ 18,788

The vast majority of all receivables are concentrated in one geographical region, specifically Otero County.

NOTE 4. Other Receivables

On September 12, 2009 the Association entered into a preliminary agreement to purchase land, a building, and a well. The agreement called for a down payment of \$15,000, which the Association paid. However, the agreement was never finalized. The Association expects to be refunded the \$15,000 and is therefore, a receivable at year-end.

NOTE 5. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and construction in progress are not subject to depreciation.

	Balance, June 30, 2010	Additions	Deletions	Balance, June 30, 2011
Capital assets not being depreciated:				
Land	20,000	\$ -	\$ -	\$ 20,000
Water rights	51,978	-	-	51,978
Total	71,978	-	-	71,978
Capital assets being depreciated:				
Building and improvements	46,038	-	-	46,038
Office furniture and equipment	19,111	-	-	19,111
Heavy equipment	37,776	-	-	37,776
Automobiles	13,194	-	-	13,194
Water system and components	775,082	-	-	775,082
Total	891,201	-	-	891,201
Less accumulated depreciation:				
Building and improvements	(10,478)	(921)	-	(11,399)
Office furniture and equipment	(18,289)	(299)	-	(18,588)
Heavy equipment	(36,347)	(159)	-	(36,506)
Automobiles	(10,499)	(980)	-	(11,479)
Water system and components	(197,198)	(23,817)	-	(221,015)
Total	(272,811)	(26,176)	-	(298,987)
Total capital assets, net of depreciation	\$ 690,368	\$ (26,176)	\$ -	\$ 664,192

Depreciation expense for the year ended June 30, 2011 was \$26,176.

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June 30, 2011

NOTE 6. Long-term Debt

During the year ended June 30, 2011, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance, June 30, 2010	Additions	Retirements	Balance, June 30, 2011	Due Within One Year
Caterpillar Financial Loan	26,036	-	13,876	12,160	12,160
NMED Loan	186,577	-	4,568	182,009	25,004
Subtotal	212,613	-	18,444	194,169	37,164
Capital Lease	1,279	-	1,173	106	106
Totals	<u>\$ 213,892</u>	<u>\$ -</u>	<u>\$ 19,617</u>	<u>\$ 194,275</u>	<u>\$ 37,270</u>

Loans Payable

On September 19, 2001, the Association borrowed \$300,000 from the New Mexico Environmental Department (NMED). The loan is payable in annual installments of \$20,165 and matures on June 13, 2021. The annual interest rate on the loan is 3.00%.

On June 11, 2007, the Association borrowed \$65,273 from Caterpillar Financial Services towards the purchase of equipment. The loan is payable in monthly installments of \$1,247 and matures in April of 2012. The annual interest rate on the loan is 5.5%.

Capital Lease

Capital lease obligations as of June 30, 2011 are as follows:

Present value of lease payments \$5,483 payable in 60 monthly installments of \$106 at 13.11% interest through July 2011, secured by copier.

Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2011 are as follows:

Loans Payable

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2012	37,164	5,160	42,324
2013	15,455	4,710	20,165
2014	15,918	4,247	20,165
2015	16,396	3,769	20,165
2016	16,888	3,277	20,165
2017-2021	92,348	8,476	100,824
Total	<u>\$ 194,169</u>	<u>\$ 29,639</u>	<u>\$ 223,808</u>
Less current portion	37,164		
Total notes payable	<u>\$ 157,005</u>		

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NOTE 6. Long-term Debt (continued)

<u>Capital Lease</u>			
<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest Payment</u>	<u>Total Debt</u>
2012	106	-	106
Total	\$ 106	-	\$ 106
Less current portion	106		
Total notes payable	\$ -		

NOTE 7. Subsequent Events

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The Association is analyzing the effect that this standard will have on the financial statements.