

STATE OF NEW MEXICO

TWIN FORKS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES

FOR THE PERIOD BEGINNING JULY 1, 2013 AND ENDING JUNE 30, 2014

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
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For the Period Beginning July 1, 2013 and Ending June 30, 2014

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Official Roster  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

BOARD MEMBERS

<u>Name</u>	<u>Title</u>
David Arnold	President
Linda Praznik	Vice Pres./Asst.Treasurer
Charliss Randall	Secretary
Jerry Cox	Treasurer

ADMINISTRATION

Jared Mitchell	General Manager
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**Accounting & Consulting Group, LLP**  
Certified Public Accountants

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

Hector H. Balderas  
New Mexico State Auditor  
Board of Directors  
Twin Forks Mutual Domestic Water Consumers Association  
Twin Forks, New Mexico

We have performed the agreed-upon procedures which the Office of the State Auditor and Twin Forks Mutual Domestic Water Consumers Association (the "Association") have specified, listed in the attached schedule, as required by Tier 6 of the Audit Act-Section 12-6-3B(6) NMSA 1978 and Section 2.2.2.16 NMAC for the period beginning July 1, 2013 and ending June 30, 2014 in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Association is the responsible party, and the subject matter is the responsibility of the Association. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our findings related to the procedures in the schedule of procedures and results are presented in the accompanying schedule of findings and responses as listed in the table of contents.

We were not engaged to, and did not conduct, an audit, the objective of which would be the expression of an opinion on the accounting records. 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 those specified parties.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Alamogordo, New Mexico  
November 21, 2014

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Procedures and Results  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

The procedures and associated results are listed below. Any finding as a result of performing these procedures can be found in the attached Schedule of Findings and Responses.

**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.

No exceptions were noted testing the attribute above.

- 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.

During testwork, it was noted that tested reconciliations were accurate and agreed to the general ledger. It was also noted that no financial reports were submitted to DFA-Local Government Division. This finding has been included in the Schedule of Findings and Responses as Finding #1.

- 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.

We determined that the bank balance did not exceed \$250,000 in any of the 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.

During testwork, it was noted that an annual physical inventory of capital assets was performed. However, the inventory was not certified by the board. This finding has been included in the Schedule of Findings and Responses as Finding #3.

**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 per review of debt agreements.

**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:

	2014 Budget	2014 Actual	Difference
Charges for Services	392,460	394,425	(1,965)

All revenues tested are considered reasonable and comparable to the budget.



**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Procedures and Results  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**4. Revenues(continued)**

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.

No exceptions were noted testing the attribute above.

- 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.

No exceptions were noted testing the attribute above.

**5. Expenditures**

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

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

No exceptions were noted testing the attribute above.

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

No exceptions were noted testing the attribute above.

- 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).

No exceptions were noted testing the attribute above.

**6. 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.

No exceptions noted.

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

No exceptions noted.



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Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Procedures and Results  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**7. 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.

We verified that the Board of Directors approved the original budget. There were no budget adjustments. Approval was neither sought nor granted from DFA-LGD. This finding has been included in the Schedule of Findings and Responses as Finding #1.

- b. 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's actual expenditures did not exceed the final budget.

- c. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

See attached Statement of Revenues, Expenses, and Change in Net Position Budget (GAAP Budgetary Basis) and Actual.

**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(1)(3)(C) NMAC.

The Association failed to submit the completed required recommendation form and agreed upon procedures contract to the state auditor by the July 1<sup>st</sup> deadline. This finding has been included in the Schedule of Findings and Responses as Finding #2.

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Statement of Revenues, Expenses, and Change in Net Position  
Budget (GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2014

	Budget Amounts		Actual Amounts	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Operating revenues:				
Charges for services	\$ 392,460	\$ 392,460	\$ 394,425	\$ (1,965)
Total operating revenues	<u>392,460</u>	<u>392,460</u>	<u>394,425</u>	<u>(1,965)</u>
Operating expenses:				
Personnel services	209,242	209,242	175,683	33,559
Depreciation	50,000	50,000	26,176	23,824
Miscellaneous	25,403	25,403	36,758	(11,355)
Supplies	20,430	20,430	24,513	(4,083)
Utilities	19,100	19,100	17,210	1,890
Contractual services	11,000	11,000	17,341	(6,341)
Fuel	10,500	10,500	7,723	2,777
Repairs and maintenance	9,200	9,200	7,317	1,883
Imported water	-	-	1,760	(1,760)
Total operating expenses	<u>354,875</u>	<u>354,875</u>	<u>314,481</u>	<u>40,394</u>
Operating income (loss)	<u>37,585</u>	<u>37,585</u>	<u>79,944</u>	<u>(42,359)</u>
Non-operating revenues (expenses):				
Interest income	200	200	173	200
Reserves	(12,500)	(12,500)	-	(12,500)
Interest expense	-	-	(4,247)	4,247
Total non-operating revenues (expenses)	<u>(12,300)</u>	<u>(12,300)</u>	<u>(4,074)</u>	<u>(8,226)</u>
Change in net position	<u>\$ 25,285</u>	<u>\$ 25,285</u>	<u>\$ 75,870</u>	<u>\$ (50,585)</u>
Net position, beginning			507,977	
Cash balance required to balance the budget	<u>\$ 25,285</u>	<u>\$ 25,285</u>	<u>-</u>	
Net position, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 583,847</u>	

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Findings and Responses  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**Finding #1 FS 2011-003 Submission of Reports to the Department of Finance and Administration (DFA) (Procedures 1 & 7)**

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

*Criteria:* Section 6-6-2 NMSA 1978 requires local public bodies to submit quarterly financial reports and an annual budget to DFA-LGD.

*Effect:* The Association is not in compliance with Section 6-6-2 NMSA 1978.

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

*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.

*Views of Responsible Officials and Planned Corrective Actions:* 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.

STATE OF NEW MEXICO  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Findings and Responses  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**Finding #2 FS 2013-003 Late Submission of IPA Recommendation Form and Agreed-Upon Procedures Contract (Other)**

*Condition:* The Association failed to submit the completed IPA recommendation form and agreed upon procedures contract to the State Auditor by the July 1<sup>st</sup> deadline.

*Criteria:* NMSA 1978, Section 2.2.2.8(G)(6)(c), requires local public bodies that qualify for the tiered system pursuant to Subsections A and B of 2.2.2.16 NMAC to follow the procedures at Subsection D of 2.2.2.16 NMAC, and submit the required recommendation form for tiered system local public bodies and the completed signed agreed upon procedures contract to the state auditor by July 1<sup>st</sup>.

*Effect:* The submission of the form and contract to the State Auditor was late.

*Cause:* The Association did not submit their IPA Recommendation and Agreed-Upon Procedures Contract until after July 1<sup>st</sup>.

*Auditors' Recommendation:* Submit the required form and contract to the State Auditor by the July 1<sup>st</sup> deadline.

*Views of Responsible Officials and Planned Corrective Actions:* The Association will submit the required recommendation form and completed contract to the State Auditor by the July 1<sup>st</sup> deadline.



**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Schedule of Findings and Responses  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**Finding #3 FS 2014-001 Capital Asset Certification (Procedure 2)**

*Condition:* It was noted in the testwork over capital assets that the client conducted an annual capital asset inventory but the report was not certified by its governing authority (the Board).

*Criteria:* The New Mexico Administrative Code (NMAC) Section 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”. Section 12-6-10 NMSA 1978 further specifies that that inventory should be done for “movable chattels and equipment costing more than \$5,000 and under the control of the governing authority.”

*Effect:* The Association is not in compliance with Section 12.6.10 NMSA 1978.

*Cause:* Management was not aware of the statute that requires a certification to be signed by the board each year.

*Auditors' Recommendation:* The Association should ensure that they perform an annual physical inventory over capital assets and have the Board certify the inventory as to correctness.

*Views of Responsible Officials and Planned Corrective Actions:* A yearly inventory of capital assets certified by the Board will be done for fiscal year 2015.

**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Office of the State Auditor Tier 6 Agreed-Upon Procedures  
Exit Conference  
For the Period Beginning July 1, 2013 and Ending June 30, 2014

**Exit Conference**

The contents of this report were discussed on November 21, 2014. The following individuals were in attendance:

**Representing the Twin Forks Mutual Domestic Water Consumers Association**

Linda Praznik	President
Jerry Cox	Treasurer
Jared Mitchell	General Manager

**Representing Accounting & Consulting Group, LLP**

Alissandra Atkins, CPA	In-charge Senior Accountant
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**STATE OF NEW MEXICO**  
**TWIN FORKS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**ANNUAL COMPILED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
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June 30, 2014

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**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Official Roster  
June 30, 2014

BOARD MEMBERS

<u>Name</u>	<u>Title</u>
David Arnold	President
Linda Praznik	Vice Pres./Asst.Treasurer
Charliss Randall	Secretary
Jerry Cox	Treasurer

ADMINISTRATION

Jared Mitchell	General Manager
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FINANCIAL SECTION

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**Accounting & Consulting Group, LLP**

Certified Public Accountants

## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Hector H. Balderas  
New Mexico State Auditor  
Board of Directors  
Twin Forks Mutual Domestic Water Consumers Association  
Mayhill, 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, 2014, 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.

The management of the Association 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 not presented the *Management's Discussion and Analysis* and budgetary comparison information that governmental 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.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Alamogordo, New Mexico  
November 21, 2014

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**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Statement of Net Position  
June 30, 2014

Exhibit A-1

<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 118,857
Accounts receivable	4,147
Other receivables	<u>15,000</u>
Total current assets	<u>138,004</u>
Noncurrent assets	
Land and water rights	71,978
Capital assets	942,388
Accumulated depreciation	<u>(377,408)</u>
Total noncurrent assets	<u>636,958</u>
Total assets	<u><u>\$ 774,962</u></u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 5,415
Accrued expenses	16,778
Current portion of long-term debt	<u>21,515</u>
Total current liabilities	<u>43,708</u>
Noncurrent liabilities	
Loans payable	<u>150,185</u>
Total noncurrent liabilities	<u>150,185</u>
Total liabilities	<u>193,893</u>
<b>Net position</b>	
Net investment in capital assets	393,280
Unrestricted net assets	<u>187,789</u>
Total net position	<u>581,069</u>
Total liabilities and net position	<u><u>\$ 774,962</u></u>

See accompanying independent accountants' compilation report

STATE OF NEW MEXICO  
Twin Forks Mutual Domestic Water Consumers Association  
Statement of Revenues, Expenses and Change in Net Position  
For the Year Ended June 30, 2014

Exhibit A-2

Operating revenues:	
Charges for services	<u>\$ 394,425</u>
Total operating revenues	<u>394,425</u>
Operating expenses:	
Personnel services	175,683
Miscellaneous	36,758
Depreciation	26,176
Supplies	25,540
Contractual services	17,341
Utilities	17,210
Fuel	7,723
Repairs and maintenance	9,068
Imported water	<u>1,760</u>
Total operating expenses	<u>317,259</u>
Operating income	<u>77,166</u>
Non-operating revenues (expenses):	
Interest income	173
Interest expense	<u>(4,247)</u>
Total non-operating revenues (expenses)	<u>(4,074)</u>
Change in net assets	<u>73,092</u>
Net position, beginning of year	<u>507,977</u>
Net position, end of year	<u><u>\$ 581,069</u></u>

STATE OF NEW MEXICO  
Twin Forks Mutual Domestic Water Consumers Association  
Statement of Cash Flows  
For the Year Ended June 30, 2014

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 375,811
Cash payments to employees for services	(175,683)
Cash payments to suppliers for goods and services	(104,484)
<i>Net cash provided (used) by operating activities</i>	<u>95,644</u>
 <i>Cash flows from capital and related financing activities:</i>	
Principal paid on capital debt	(21,036)
Interest paid on capital debt	(4,247)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(25,283)</u>
 <i>Cash flows from investing activities:</i>	
Interest income	173
<i>Net cash provided (used) by investing activities</i>	<u>173</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	70,534
<i>Cash and cash equivalents - beginning of year</i>	<u>48,323</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 118,857</u></u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 77,166
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	26,176
Changes in assets and liabilities	
Accrued expenses	10,976
Accounts payable	(60)
Customer receivables	(4,147)
Deferred revenue	(14,467)
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ 95,644</u></u>

See accompanying independent accountants' compilation report



**STATE OF NEW MEXICO**  
Twin Forks Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
June 30, 2014

**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 470 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.

During the year ended June 30, 2014, the Association adopted Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**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. 14 as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 does not have any component units, and is not a component unit of another governmental agency.

The Association's basic financial statements are prepared in accordance with GAAP as set forth or adopted by the GASB and the Financial Accounting Standards Board (FASB), and their predecessors, the National Council on Governmental Accounting (NCGA) and the Accounting Principles Board (APB), respectively.



STATE OF NEW MEXICO  
Twin Forks Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
June 30, 2014

NOTE 1. **Summary of Significant Accounting Policies (continued)**

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

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The Association's proprietary (enterprise) fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net Position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted; and unrestricted components.

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 services. 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.

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.

The Association reports the following major proprietary fund:

The *General 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.

**C. *Assets, Liabilities and Net position 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. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

**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. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5).



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NOTE 1. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, and Net Position (continued)

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, 2014, along with applicable payroll taxes.

**Long-term Obligations:** In the financial statements, long-term debt and other long-term obligations are reported as liabilities.

**Compensated Absences:** Employees of the Association are entitled to paid vacations, sick days, and other time off depending on job classification, length of service and other factors. It is not practical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements in accordance with ASC 710-10-15. The Association's policy is to recognize the costs of compensated absences when paid to employees.

**Equity Classifications:**

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

- a. Invested in capital assets, net of related debt:  
Net position 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 position:  
Consists of net position 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 position:  
All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**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.

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Notes to the Financial Statements  
June 30, 2014

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*C. Assets, Liabilities, and Net Position (continued)*

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

**NOTE 2. Stewardship, Compliance and Accountability**

Annual budgets of the Association are prepared prior to June 1 and must be approved by resolution of the Board Members and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Board Members and the Department of Finance and Administration. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total at the fund level. However, as discussed in Finding 2011-003, approval from the Department of Finance and Administration was neither sought nor granted for the Association's budget during the year ended June 30, 2014.

These budgets are prepared on the GAAP basis. The budget secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

However, as discussed in Finding 2011-003 in our Agreed-Upon Procedures report dated November 21, 2014, approval from the Department of Finance and Administration was neither sought nor granted for the Association's budget during the year ended June 30, 2014.

**NOTE 3. 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. The Association is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2014.

Deposits of funds may be made in interest or noninterest bearing checking 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 are collateralized as required by statute. The financial institution must provide pledged collateral of \$50 of the deposit amount in excess of the deposit insurance.

The rate of interest in nondemand 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 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.

All of the Authority's accounts at an insured deposit institution, including noninterest bearing transaction accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$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, 2014, none of the Association's bank balances of \$118,857 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Association's name and \$0 was uninsured and uncollateralized.



**STATE OF NEW MEXICO**  
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**NOTE 3. Deposits and Investments (continued)**

	First National Bank Checking	First National Bank Savings	Totals
Amount of deposits	\$ 495	\$ 118,362	\$ 118,857
FDIC Coverage	495	118,362	118,857
Total uninsured public funds	-	-	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	-	-	-
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -
Pledged collateral	-	-	-
Over (under) collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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. The Association was not required to have collateral pledged for the year ended June 30, 2014.

**NOTE 4. Receivables**

Receivables as of June 30, 2014, are as follows:

	Total
Water billings	<u>\$ 4,147</u>

All of the above receivables are deemed by the Association to be fully collectible.

**NOTE 5. 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, 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 6. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2014, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and water rights are not subject to depreciation.

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**NOTE 6. Capital Assets (continued)**

	Balance, June 30, 2013	Additions	Deletions	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Water rights	51,978	-	-	51,978
<b>Total capital assets not being depreciated</b>	<b>71,978</b>	<b>-</b>	<b>-</b>	<b>71,978</b>
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	826,269	-	-	826,269
<b>Total capital assets being depreciated</b>	<b>942,388</b>	<b>-</b>	<b>-</b>	<b>942,388</b>
Less accumulated depreciation:				
Building and improvements	(13,241)	(921)	-	(14,162)
Office furniture and equipment	(19,111)	-	-	(19,111)
Heavy equipment	(36,824)	(159)	-	(36,983)
Automobiles	(13,194)	-	-	(13,194)
Water system and components	(268,862)	(25,096)	-	(293,958)
<b>Total accumulated depreciation</b>	<b>(351,232)</b>	<b>(26,176)</b>	<b>-</b>	<b>(377,408)</b>
<b>Total capital assets, net of depreciation</b>	<b>\$ 663,134</b>	<b>\$ (26,176)</b>	<b>\$ -</b>	<b>\$ 636,958</b>

Depreciation expense for the year ended June 30, 2014 was \$26,176.

**NOTE 7. Long-term Debt**

During the year ended June 30, 2014, the following changes occurred in the liabilities reported in the statement of net position:

	Balance, June 30, 2013	Additions	Retirements	Balance, June 30, 2014	Due Within One Year
NMED Loan	141,549	-	15,917	125,632	16,396
Tank 3 Loan 210-49	40,100		4,010	36,090	4,010
Tank 3 Loan 209-161	11,087		1,109	9,978	1,109
<b>Totals</b>	<b>\$ 192,736</b>	<b>\$ -</b>	<b>\$ 21,036</b>	<b>\$ 171,700</b>	<b>\$ 21,515</b>

**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%.

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**NOTE 7. Long-term Debt (continued)**

**Loans Payable (continued)**

On October 16, 2012, the Association borrowed \$40,100 from the State of New Mexico. The loan is payable in annual installments of \$4,010 and matures on August 15, 2022. No interest is due and payable for this loan.

On October 22, 2012, the Association borrowed \$11,087 from the State of New Mexico. The loan is payable in annual installments of \$1,109 and matures on August 15, 2022. No interest is due and payable for this loan.

**Debt Service Requirements**

Debt service requirements on long-term debt at June 30, 2014 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2015	21,516	3,768	25,284
2016	22,007	3,277	25,284
2017	22,514	2,770	25,284
2018	23,035	2,249	25,284
2019	23,573	1,711	25,284
2020-2023	59,055	1,745	60,800
Total	\$ 171,700	\$ 15,520	\$ 187,220
Less current portion	21,515		
Total notes payable	\$ 150,185		

**NOTE 8. Joint Powers Agreements and Memorandums of Understanding**

As of the year ended June 30, 2014, the Association was not involved in any Joint Powers Agreements or Memorandums of Understanding.

**NOTE 9. Construction and Other Significant Commitments**

As of the year ended June 30, 2014, the Association had no construction or other significant commitments in progress.

**NOTE 10. Contingent Liabilities**

There is no pending litigation that would warrant disclosure in the notes to the financial statements.

**NOTE 11. Subsequent Pronouncements**

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local government pension plans. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Association is analyzing the effects that this pronouncement will have on their financial statements.



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**NOTE 11. Subsequent Pronouncements (continued)**

In January 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Association is analyzing the effects that this pronouncement will have on their financial statements.

In November 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68*, effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Association is analyzing the effects that this pronouncement will have on their financial statements.