

# **OFFICE OF THE STATE AUDITOR**

**Timothy M Keller**



**Hachita Mutual Domestic Water Consumers Association**

**Financial Statements**

**For the Year Ended December 31, 2013**

**Hachita Mutual Domestic Water Consumers Association  
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December 31, 2013**

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**Hachita Mutual Domestic Water Consumers Association  
Directory of Officials  
December 31, 2013**

<b><u>Name</u></b>	<b><u>Time</u></b>	<b><u>Board Title</u></b>
Mr. Tom Nelson	(June 2013 to current)	President
Ms. Cindy Taetz	(June 2013 to December)	Secretary
Ms. Mary Snyder	(Jun3 2013 to current)	Treasurer
Mr. Tom Nelson	(May 2011- June 2013)	Secretary
Mr. LG May	(Jan – May 2013)	Vice President
Mr. Lucy Freeman	(Jan – May 2013)	Member at Large
Mr. Robert Sheppard	(Jan – May 2013)	Member at Large
Mr. Lyndon Sims	(Jan – May 2013)	President



**Timothy M. Keller**  
State Auditor

**Sanjay Bhakta, CPA, CGFM, CFE**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**INDEPENDENT AUDITOR'S REPORT**

Members of Board of Directors  
PO Box 153  
Hachita, NM

**Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Hachita Mutual Domestic Water Consumer Association (the Association), as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison statement presented as supplementary information, as defined by the Government Accounting Standards Board for the year ended December 31, 2013, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Association, as of December 31, 2013, and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the for the year ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-Matter**

The accompanying financial statements have been prepared assuming that Hachita MDWCA will continue as going concern. The Association does not have the minimum 46 users that is essential to support the system that was stated in the letter of condition from the Department of Agriculture. This raises the substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

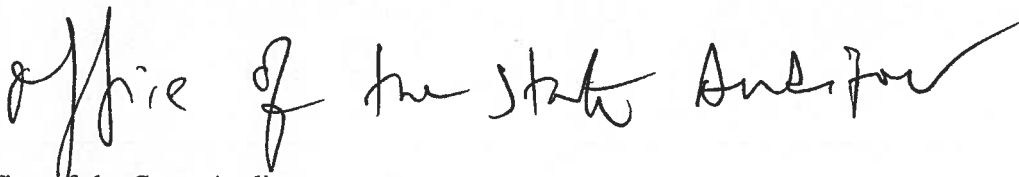
#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Association's financial statements, and the budgetary comparisons. The Schedule of Expenditures of federal awards as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and additional schedules listed as “other supplemental information” are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and additional schedules listed as “other supplemental information” are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015 on our consideration of the Association’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association’s internal control over financial reporting and compliance.



Office of the State Auditor  
Santa Fe, New Mexico  
June 18, 2015

**Hachita Mutual Domestic Water Consumers Association**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2013**

**ASSETS**

Current assets:

Cash and cash equivalents	\$	1,265
Accounts Receivable, net		-
Receivables from other governments		-
Inventories		-
Prepaid Expenses		-
Total current assets		1,265

Non-current assets:

Capital Assets:

Land and improvements		10,435
Construction in Progress		1,436,312
Buildings		-
Equipment and Furniture		-
Less: Accumulated depreciation		-
Total non-current assets		1,446,747
Total assets		1,448,012

**LIABILITIES**

Current Liabilities:

Accounts payable		-
Salaries payable		-
Accrued interest payable		-
Due to other funds		-
Payable to other governments		-
Total current liabilities		-
Total liabilities		-

**NET POSITION**

Net Investment in Capital Assets		1,446,747
Restricted for debt service		-
Unrestricted		1,265
Total Net Position	\$	1,448,012

The accompanying notes are an integral part of these financial statements

**Hachita Mutual Domestic Water Consumers Association**  
**Statement of Revenues, Expenses and Changes in Fund**  
**Net Position Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2013**

**REVENUES**

Miscellaneous	\$	501
Total operating revenues		501

**OPERATING EXPENSES**

Utilities		100
Other supplies and expenses		131
Insurance claims and expenses		221
Tax-Property Expense		543
NM Permits		357
Total Operating Expenses		1,352
Operating income (loss)		(851)

**NON-OPERATING REVENUES (EXPENSES)**

State Capital Appropriation		139,081
Federal Grant		1,297,455
Total non-operating revenue (expenses)		1,436,536

Income (loss) before contributions and transfers		1,435,685
Capital contributions		-
Transfers in		-
Transfers out		-
Special item - gain (loss) on sale of land		-
Change in net position		1,435,685
Total net position - beginning		12,327
Total net position - ending	\$	1,448,012

The accompanying notes are an integral part of these financial statements



**Hachita Mutual Domestic Water Consumers Association**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended December 31, 2013**

	<b>2013</b>
<b>Cash flows from operating activities:</b>	
Receipts from customers and users- Membership dues	\$ 501
Payments to employees for services	
Payments to suppliers and contractors	(1,312)
Net cash provided by/(used for) operating activities	(811)
<b>Cash flows from investing activities:</b>	
Investment income	-
Net cash provided by investment activities	-
<b>Cash flows from capital and financing activities:</b>	
Acquisition of capital assets	(1,436,312)
Capital grant - state	139,081
Federal Grant	1,297,455
Net cash provided by capital and financing activities	224
Net increase (decrease) in cash and cash equivalents	(587)
<b>Cash and cash equivalents, beginning of year</b>	<b>1,852</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,265</b>

**Reconciliation of operating income to net cash provided by/(used for) operating activities:**

Operating income	\$ (851)
------------------	----------

Adjustments to reconcile operating income to net cash provided by/(used for) operating activities:

Depreciation	-
Decrease (increase) in accounts receivable	-
Decrease (increase) in inventory	-
Increase (decrease) in accounts payable	-
Increase (decrease) in accrued payroll	-
Increase (decrease) in hook-up deposits	-
Increase (decrease) in membership deposits	40
Increase (decrease) in note payable	-
Net cash provided by operating activities	\$ (811)

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

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**NOTE 1 – Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The Hachita Mutual Domestic Water Consumers Association (the Association) is a not-for-profit MDWCA, incorporated under the provisions of the Sanitary Projects Act (SPA) of the State of New Mexico on February 4, 2005. It was established for the purpose of constructing, maintaining and operating a water and wastewater system for the members of the Association in the Hachita community in Grant County, New Mexico. The business and affairs of the Association are conducted and managed by a Board Members consisting of four directors elected by the membership. Bona fide occupants and residents within and in the vicinity of the community of Hachita, New Mexico, may apply to become members of the Association by payment of a \$200, non-refundable membership fee, and must be approved by the Board. The rights, privileges, and obligations of the members are equal. No capital stock is authorized nor issued.

Mutual Domestic Water Consumers Associations created pursuant to the Sanitary Projects Act (3-29-1 NMSA 1978) defined as local public bodies subject to pursuant to Act 12-6-3 NMSA 1978 and State Audit Rule 2.2.2.16 NMAC. In April 2006, Attorney General (AG) Patricia Madrid issued AG Opinion 06-02 that indicated New Mexico's water associations: are a public body/political subdivision; have revenues generated from water fees and other sources that are "public moneys" because the purpose of those funds is to provide sanitary domestic water facilities that serve entire rural unincorporated communities; are subject to the Open Meeting Act, the Inspection of Public Records Act, the Procurement Code and the Per Diem and Mileage Act. These facts about AG Opinion 06-02 were publicized in the Albuquerque Journal on Tuesday April 18, 2006.

The Office sent a memorandum dated October 13, 2006 to all the known Mutual Domestic Water Consumer's Association (MDWCAs) informing them: of the above facts regarding AG Opinion 06-02; and that "due to the fact that MDWA's have officially been determined to be governmental nonprofit organizations, their financial statements must follow the government format (GASBS 34), not the nonprofit format for the fiscal year ended June 30, 2007 and thereafter.

The Association is considered to be a special purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No. 14. The Association is not a component unit of a governmental entity nor does it have any component units. This conclusion was reached because the Association was converted from a cooperative to an MDWA, pursuant to NMSA 3-29-20, by a vote of the Board of Directors rather than through legislative action or action by the entire membership; it does not have the ability to levy taxes but it does have the ability to set and change rates for service, it continues to file not-for-profit tax returns, and it is not a subdivision of any governmental entity.

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**B. Government-wide and fund financial statement**

The financial statements of the Hachita Mutual Domestic Water Consumers Association (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 Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Association's accounting policies are described below. Pursuant to GASB Statement No. 34, governments engaged only in business-type activities present only the financial statements for enterprise funds. For these governments, basic financial statements consist of: (a) enterprise fund financial statements consisting of the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows, and (b) notes to the financial statements. The enterprise fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with its activities are reported. Enterprise fund equity is classified as net position. When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Association first uses restricted resources and then unrestricted resources.

*Basis of Presentation -Fund Financial Statements*

The accounts of the Association are organized on the basis of one fund that is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in a manner similar to private business enterprise -where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The proprietary fund is accounted for on a flow of economic resources measurement focus and the

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

accrual basis of accounting. The revenues are recognized when earned and expenses are recognized when the liability is incurred or the economic asset is used. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Cash and Investments**

Cash and cash equivalents include amounts in demand deposits. Investments are stated at market value. For the purpose of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity date of three months or less are considered to be cash equivalents.

**Concentrations of Credit Risk**

The Association grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame.

**Receivables**

The Association's receivables are from its customers for water sales. However, for the current fiscal year the Association did not have any receivables for water sales because the water system was not operational.

**Inventory**

The inventory held by the Association is recorded at cost, with cost being determined on the first-in, first-out basis. Currently, during the calendar year 2013 the Association did not have any inventory.

**Capital Assets**

Capital assets are recorded at original costs, or fair value if donated. Effect June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000, which the Association currently follows for capitalization of assets. This total cost is depreciated over the useful life of the equipment. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful life. In the current year the Association did not have any depreciation expense because the water system was not in operation.

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**Compensated Absences**

Association employees are not entitled to sick and vacation leave. In addition, the Association does not offer a retirement plan since they currently do not have any employees.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislations or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Association's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

**Revenues**

Revenues are classified as operating or non-operating according to the following criteria:

*Operating revenues* - include activities that have the characteristics of an exchange transaction, such as charges for services and fees, net of allowance for uncollectible amounts.

*Non-operating revenues* - include activities that have the characteristics of non-exchange transactions such as capital grants and investment income.

**Expenses**

Expenses are classified as operating or non-operating according to the following criteria:

*Operating expenses* - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; material and supplies; office expenses; and depreciation expenses related to Association capital assets.

*Non-operating expenses* - include activities that have the characteristics of non-exchange transactions such as interest on capital asset related debt and bond expenses that are defined as non-operating expenses.

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Grants and Contributions**

The Association had received grants as well as contributions in the course of operations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Budgetary Compliance**

An operating budget is adopted each fiscal year and is approved by the Board of Directors and the New Mexico Department of Finance and Administration. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. The Board of Directors is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by the New Mexico Department of Finance and Administration. In conjunction with this, they can overspend line items within the fund, but it is a violation of state statute to over-expend a fund total. During the current fiscal year the Association did not adopt a legal budget.

**Use of Estimates**

Management of the Association has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**Tax Status**

The Association operates as a not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Deposits**

The Association may invest idle cash under the guidelines of the State of New Mexico Statute 6-10-10 which authorizes investments in the following instruments:

- 1) Bonds or negotiable securities of the United States, the state or a county, municipality or school district that has a taxable valuation or real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or
- 2) Securities that are issued by the United States government or by its agencies or Instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government.

**NOTE 2: BUDGETS AND BUDETARY ACCOUTNING**

During the current fiscal year the Association did not adopt a legal budget. Therefore, information regarding the budgetary basis is unavailable. The Association does have a multi-year capital project budget for the construction of the new water system.

**NOTE 3: CASH AND CASH EQUIVALENTS**

**Cash**

At December 31, 2013, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts. Following is a schedule as of December 31, 2013, of the cash and cash equivalents.

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

	<b>1st New Mexico Bank</b>	<b>1st New Mexico Bank</b>
Amounts of Deposits	249	959
FDIC Coverage	(249)	(959)
Total uninsured public funds	-	-

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

***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 them. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2013, \$0 of the Association's bank balance of \$1,265 was exposed to custodial credit risk.

**NOTE 4: ACCOUNTS RECIEVABLE**

During, the current fiscal year the Association did not have any receivables for water sales because the water system was not operational.



Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

<b>Business-type Activities:</b>	<b>Beginning Balance 01/01/13</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance 12/31/13</b>
Land	\$10,435	\$ -	\$ -	\$10,435
Buildings and Improvements	-	-	-	-
Equipment and Furniture	-	-	-	-
Construction in Progress	-	1,436,312	-	1,436,312
Total Capital Assets at Historical Cost	<u>10,435</u>	<u>1,436,312</u>	<u>-</u>	<u>1,446,746</u>
Less: Accumulated Depreciation				
Land	-	-	-	-
Buildings and Improvements	-	-	-	-
Equipment and Furniture	-	-	-	-
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Enterprise Fund Capital Assets, Net	<u>10,435</u>	<u>1,436,312</u>	<u>-</u>	<u>1,446,746</u>

**NOTE 6: CAPITAL OUTLAY APPROPRIATION**

Schedule of Capital Outlay Awards to Hachita MDWCA

	<b>Note A</b>	<b>Note B</b>	<b>Total</b>
Amount Awarded for Project	\$100,000	\$ 250,000	\$350,000
Amount Received by the Association	100,000	250,000	350,000
Amount Expended by the Association	100,000	250,000	350,000
Remaining Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$-</u>

Note A: Capital Appropriation Project Agreement 2006 between the New Mexico Environment Department (NMED) and Hachita Mutual Domestic Water Consumers Association.

Legislative Authority: NM Laws of 2006, House Bill 622, Section 45, Paragraph 49 (GF)

Date of Agreement with NMED: March 20, 2008

Project Description: To plan, design, construct, and improve the water system at Hachita

Hachita Mutual Domestic Water Consumers Association  
Notes to Financial Statements  
December 31, 2013

Domestic Water Consumers Association in Grant County.

Reversion Date: June 30, 2010

Note B: Capital Appropriation Project Agreement 2007 between the New Mexico Environment Department (NMED) and Hachita Mutual Domestic Water Consumers Association.

Legislative Authority: NM Laws of 2007, Senate Bill 827, Section 59, Paragraph 63 (GF) & Reauthorized from NM Laws of 2011, Senate Bill 373, Section 54

Date of Agreement with NMED: March 20, 2008

Project Description: To plan, design, and construct a water system for Hachita Domestic Mutual Water Consumers Association in Grant County.

Reversion Date: June 30, 2013

\*A portion of the capital outlay award was paid directly to the vendor by the State of New Mexico.

**NOTE 7: CONTIGENCIES AND COMMITMENTS**

The Association has purchased commercial insurance that transfers risks of loss to an unrelated party. This coverage minimizes the Association's retained risks of loss up to the policy limits. The government participates in a federal program, the principal of which is subject to compliance requirements pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

**NOTE 8: GOING CONCERN**

The Association water system became operational in September 2014, however since the construction of the system began the community's population has decreased and currently the Association does not have the minimum 46 users that is essential to support the system that was stated in the letter of condition from the Department of Agriculture. Currently, the Association is looking into raising the water rates of the current users to keep the system financially operational.

**NOTE 9: SUBSEQUENT EVENTS**

The Association water system became operational in September 2014.

**Hachita Mutual Domestic Water Consumer Association**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget (Non-GAAP Budgetary Basis) and Actual**  
**For Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<b>Actual - Budgetary Basis</b>	<b>Variance Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Operating Revenues:</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Memberships	-	-	-	-
Miscellaneous	-	-	501	501
			-	-
<b>Total Operating Revenues</b>	<u>-</u>	<u>-</u>	<u>501</u>	<u>501</u>
<b>Operating Expenses:</b>				
Postage	-	-	-	-
Utilities	-	-	100	(100)
Construction Water Service System	-	-	-	-
Other supplies and expenses	-	-	131	(131)
Insurance claims and expenses	-	-	221	(221)
Tax-Property Expense	-	-	543	(543)
NM Permits	-	-	357	(357)
<b>Total Operating Expense</b>	<u>-</u>	<u>-</u>	<u>1,352</u>	<u>(1,352)</u>
<b>Other Financing Sources (uses)</b>				
State Grant	-	-	139,081	139,081
Federal Grant	-	-	1,297,455	1,297,455
<b>Total Other Financing Sources (uses)</b>	<u>-</u>	<u>-</u>	<u>1,436,536</u>	<u>1,436,536</u>
<b>Change in Net Position (Non-GAAP Budgetary Basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,435,685</u>	<u>\$ 1,435,685</u>
<b>Adjustments for GAAP Basis</b>				
<b>Change in Net Position</b>			<u>1,435,685</u>	
<b>Net Position - beginning of year</b>			<u>12,327</u>	
<b>Net Position - end of year</b>			<u>1,448,012</u>	



**Timothy M. Keller**  
State Auditor

**Sanjay Bhakta, CPA, CGFM, CFE**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Independent Auditor's Report

Members of Board of Directors  
PO Box 153  
Hachita, NM

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Hachita Mutual Domestic Water Consumer Association (the Association) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Association 's basic financial statements, and related budgetary comparisons of the Association presented as supplemental information, and have issued our report thereon dated June 18, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-006 and 2013-007 to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-004, 2013-010 and FA 2013-012 to be significant deficiencies.

### **Compliance and Other Matters**

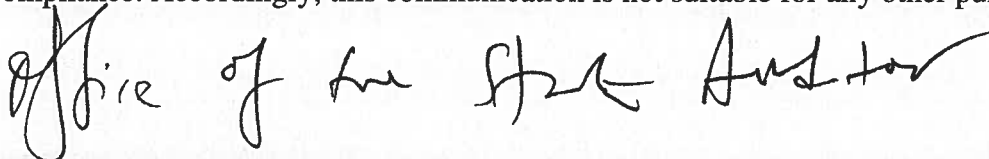
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items: 2013-002, 2013-003, 2013-005, 2013-006, 2013-008, and 2013-009.

### **The Association's Response to Findings**

The Association's response to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Office of the State Auditor  
Santa Fe, New Mexico  
June 18, 2015



**Timothy M. Keller**  
State Auditor

**Sanjay Bhakta, CPA, CGFM, CFE, CGMA**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Directors  
PO Box 153  
Hachita, NM

**Report on Compliance for Each Major Federal Program**

We have audited Hachita Mutual Domestic Water Consumer Association's (the Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Department's major federal programs for the year ended December 31, 2013. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Association's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes

examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Association's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

### **Other Matters**

The results of our auditing procedures disclosed three instances of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item FA 2013-011, FA 2013-012 and FA 2013-013. Our opinion on each major federal program is not modified with respect to these matters.

The Association's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of the compliance and, according we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a

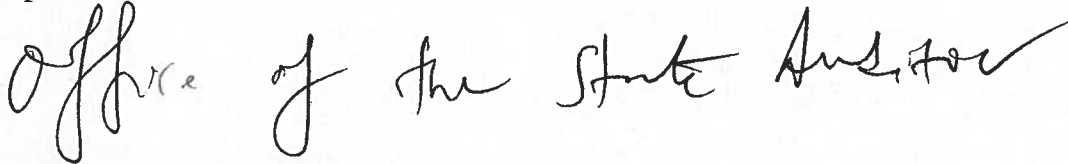


combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items FA 2013-12 that we consider to be a significant deficiency.

The Association's response to the internal control over compliance findings identified in our audit is described in the accompanying schedules of findings and questioned costs. The Association response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Office of the State Auditor", written in a cursive style.

Office of the State Auditor  
Santa Fe, NM  
June 18, 2015



**Hachita Mutual Domestic Water Consumers Association  
Schedule of Expenditures of Federal Awards  
For the Year Ending December 31, 2013**

<b>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Agriculture</b>			
Water and Waste Disposal	10.770		1,297,455

**Note to the Schedule of Expenditures of Federal Awards**

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Hachita Mutual Domestic Water Consumer Association and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts, presented in, or used in the preparation of the financial statements.

**2. Sub recipients**

The Hachita Mutual Domestic Water Consumer Association did not provide any federal awards to subrecipients during the fiscal year.

Hachita Mutual Domestic Water Consumer Association  
 Schedule of Findings and Questioned Costs  
 For Year Ended December 31, 2013

**A. SUMMARY OF AUDIT RESULTS**

***Financial Statements:***

- |   |            |
|---|------------|
| 1. Type of auditor's report issued                                  | Unmodified |
|   |            |
| 2. Internal Control over Financial Reporting                        |            |
| a. Material Weakness Identified?                                    | Yes        |
| b. Significant Deficiencies not considered to be material weakness? | Yes        |
| c. Noncompliance Material to the financial statements noted?        | Yes        |

***Federal Programs:***

- |   |            |
|---|------------|
| 1. Internal Control over major programs:  |            |
| a. Material Weakness Identified?  | No         |
| b. Significant Deficiencies not considered to be material weakness?   | Yes        |
|   |            |
| 2. Type of auditor's report issued on compliance for major program  | Unmodified |
|   |            |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No         |

4. Identification of Major Programs:

<u>Program Name</u>	<u>CFDA Number</u>
Water & Waste Disposal Loans & Grants	10.770

- |  |           |
|--|-----------|
| 5. The threshold for distinguishing Types A & B programs:  | \$300,000 |
|  |           |
| 6. The Department was determined to be a low-risk auditee? | No        |

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**B. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

**Finding 2013- 001 Accounting for Cash Disbursements (Significant Deficiency)**

**Condition:**

During our test work of cash disbursements, we noted the following out of five items tested:

- One disbursement did not have two signatures on the check in the amount of \$221.

**Criteria:**

The Association qualifies as a local public body/political subdivision and, therefore, has statutory responsibilities to abide by open government laws (Attorney General Opinion 06-02). Furthermore, under NMSA 6-6-3, a local body shall keep all books, records and accounts in their respective offices in the form prescribed by the local government division, make all reports as may be required by the local government divisions and conform to the rules and regulations adopted by the local government division. The Association By-Laws, Section 4. Duties of the Treasurer Section F states “an invoice or written request, must be presented to the Treasurer” and “two signatures are required on Association checks”.

**Cause:**

The Association has failed to properly establish and follow policies and procedures over the internal control structure over the disbursements,

**Effect:**

The Association internal controls over disbursements were are not properly followed which could also in an increased risk of financial statement misstatements going undetected.

**Recommendation:**

The Association should follow the state procurement standards along and implement internal controls over disbursements.

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has now implemented internal controls to insure two signatures are required prior to issuing checks and Section 4-F-1 of the HMDWCA Bylaws will be revised to state: Checks will bear two valid Signatures. Currently, three signatures are required before funds can be disbursed from Association checking accounts.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**2013-002 - Lack of maintaining a tracking log for receiving checks or cash to ensure properly making deposits within the required time periods. (Other Matters)**

**Condition:**

During our testwork of the Association, membership cash receipts, we noted one instances out of eleven tested totaling \$11 in which there was no cash receipts slip. Therefore we were unable to determine if the receipts were deposited before the close of the next succeeding business day as required by Section 6-10-3 NMSA 1978. In addition, three instances out eleven tested totaling \$139,092 that were not properly logged to identify the date received and therefore we were unable to determine if the receipts were deposited as required by Section 6-10-3 NMSA 1978. Furthermore, in one instance out of eleven tested totaling \$50 due to the lack of documentation we were unable to determine if receipts were deposited as required by Section 6-10-3 NMSA 1978.

During testwork over cash receipts we also observed that cash receipts were not always used in numerical order, which circumvents the internal control process in place. In addition, in one instance the entity used \$9 of the \$20 membership fee for petty cash. Furthermore, we were unable to trace one of the cash receipts slips to the bank statements for a total of \$11.

**Criteria:**

Section 6-10-2 NMSA 1978, of the Public Money statute requires the maintenance of a record in which is entered daily, in detail, all items of cash receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. According to Section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury, before the close of the next succeeding business day after the receipt of the money. Also, it is good accounting practice to have accurate referenced documentation to ensure the funds are properly recorded and deposited timely.

**Cause:**

The Association has failed to implement effective and maintain effective internal controls over cash receipt.

**Effect:**

The Association is not maintain adequate controls over cash receipts, which increase the risk of misappropriations of assets

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Recommendation:**

The Association should ensure staff is properly trained and properly deposits monies in a timely manner. The Association should establish consistent and thorough policies and procedures related to controls over cash receipts.

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. All funds have been accounted for and payment has been made to vendors. Management has since obtained bookkeeping software to track all deposits and payments.

**Finding 2013-003 Pledged Collateral – (Other Matters)**

**Condition:**

During our testwork of compliance requirements relating to pledged collateral it was noted that the Association was not ensuring that public money was adequately collateralized in the event of bank failure. During the months of April and May of 2013 the bank balance was not properly collateralized by \$59,002 and \$185,336.

**Criteria:**

Section 6-10-17 NMSA 1978 states that any bank designated a deposit of public money shall deliver pledged collateral with a value equal to one half the amount of the public money in excess of insurance, to a custodial bank and a joint safekeeping receipt issued by the custodial bank to the Association.

**Cause:**

The Association was not aware of the collateral requirements and was not aware it was required to monitor the collateral in comparison to the bank balances.

**Effect:**

Without periodic monitoring of collateral in comparison with bank balances, the Association's bank collateral at any point in time could be below the legal requirements.

**Recommendation:**

We recommend the Association monitor bank balances to ensure the bank balances are properly collateralized.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Funds received from USDA-RD were in excess of pledged collateral and this was brought to our attention. All efforts are made to avoid deposits exceeding pledged collateral by monitoring deposits from USDA-RD versus pledged collateral.

**Finding 2013-004 Bank Reconciliations – (Significant Deficiency)**

**Condition:**

During our testwork of cash we, noted that one of the Association's bank accounts was not being reconciled for three months at the beginning of the calendar year. In addition, during our testwork we were unable to determine if the bank reconciliations were being properly reviewed throughout the year.

**Criteria:**

Per Section 6-6-3 NMSA 1978, every local public body, shall keep all the books records and accounts in their respective offices in the form prescribed by the local government division, make all reports as may be required by the local government division, and conform to the rules and regulations adopted by the local government division.

**Cause:**

The Association's board members did not have proper training related to internal controls.

**Effect:**

The Association is not maintaining adequate controls over cash to safeguard cash and provide prompt and accurate reporting. In addition, unreconciled bank accounts could increase the risk of fraud going undetected and cash balances could be misstated.

**Recommendation:**

We recommend the Association establish internal controls over cash which requires bank reconciliations to be reviewed by a person other than the person that prepares the reconciliation. As well as, establishing procedures to ensure cash reconciliations are performed timely.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has since obtained bookkeeping software to track all deposits and payments. Since July 2013, all bank statements have been reconciled and continue to be reconciled on a monthly basis. Reconciliation report will now be reviewed by President and filed with monthly meeting financial report and/or in checking files.

**Finding 2013-005 Stale -Dated Checks – (Other Matters)**

**Condition:**

During review of the Association's bank reconciliations, we noted 1 check which was dated April 2012, for a total of \$10, that was not properly cancelled after one year.

**Criteria:**

New Mexico Statutes, Section 7-8A-2 through 7-8A7, NMSA 1978 states property held by a court, government, governmental subdivision, agency or instrumentality, one year after the property becomes distributable is presumed abandoned if it is unclaimed by the apparent owner. Once the property is presumed abandoned the holder shall report the amounts and funds to New Mexico Taxation and Revenue Department as unclaimed property. The report must be filed before November 1 of each year and cover the twelve months next preceding July 1 of that year.

**Cause:**

The Association was not properly monitoring outstanding checks to ensure compliance with state statute.

**Effect:**

The Association is not in compliance with state statute regarding stale-dated checks.

**Recommendation:**

We recommend that Association implement a procedure to monitor outstanding checks for the Association's bank accounts for compliance with state statute.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has since obtained bookkeeping software to track all deposits and payments. Since July 2013, all bank statements have been reconciled and continue to be reconciled on a monthly basis. 1<sup>st</sup> New Mexico Bank will be notified to cancel the check in question. Management knew about the outstanding check but failed to cancel after one year as we expected the appropriate New Mexico state agency to deposit the check.

**Finding 2013-006 Capital Assets – (Material Weakness)**

**Condition:**

During the capital assets test work we noted that sixteen disbursements out of sixteen tested were not properly capitalized as construction in progress but were classified as construction system expenditures for an adjustment of \$1,436,311.

**Criteria:**

Management is responsible for establishing and maintaining internal controls that requires the reconciliation of capital expenditures to capital assets additions is performed. Such expenditures should be classified as capital when purchased. The audit Act (Section 12-6-10 NMSA 1978) requires agencies to capitalize only chattels and equipment that costs over \$5,000.

**Cause:**

The Association's board and staff lacked training on proper classification of capital assets. As a result the capital assets were not properly recorded.

**Effect:**

The Association is noncompliant with generally accepted accounting standards and state statute. There is an increased risk that the loss or theft of capital assets would be undetected. In addition, Association's capital assets were materially misstated.

**Recommendation:**

The Association should review its expenditures to ensure that purchases that should be capitalized are properly added to the capital asset listing.



Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has since obtained bookkeeping software to track all capital assets. Efforts were made to record all assets in an Asset Management database. These records were not provided to auditors at time of audit but are recorded.

**Finding - 2013-007 Accounts Payable – (Material Weakness)**

**Condition:**

During our testwork of accounts payable we noted that the accounts payable balance included amounts that had been paid. The account payable balance improperly included \$ 1,638,725 of paid items.

**Criteria:**

Management is responsible for establishing and maintaining internal controls that requires the reconciliation of the accounts payables account balance to actual outstanding payable. Section 12-6-5 NMSA 1978 requires a finding for any violation of good accounting practices found by the auditor.

**Cause:**

The Association accounting system improperly included paid invoices in the accounts payable balance at the year end. In addition, a proper review of the accounts payable balance was not completed before auditor's testing of the balance.

**Effect:**

When sufficient controls over the preparation of financial statements are not designed, implemented and operating effectively, the Association's ability to detect or prevent misstatements in the financial statements is limited.

**Recommendations:**

We recommend the Association develop and implement procedures to prevent or detect misstatements in financial statements. In addition, we recommend the Association develop procedures to reconcile the general ledger account balances to what the balances should actually be.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has since obtained bookkeeping software to track accounts payable. With additional use of the software management has been able to accurately show accounts payable and will seek professional bookkeeping services to validate our entries as funding allows.

**Finding 2013-008 Budget - (Material Non-compliance)**

**Condition:**

We were unable to determine if the Association approved a budget for the calendar year 2013. In addition, we were unable to locate any documentation that a budget was submitted to the Department of Finance and Administration – Local Government Division for calendar year 2013.

Since, the Association did not properly approve a budget we were unable to determine if total actual expenditures exceeded the final budget at the legal level of budgetary control.

**Criteria:**

Pursuant to Section 6-6-2 NMSA 1978 all Association funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the State of New Mexico Department of Finance and Administration – Local Government Division for approval. Once adopted, any claims or warrants in excess of budget are a violation of Section 6-6-6 NMSA 1978, as the fund level has been established as the legal level of budgetary control.

**Cause:**

The Association did not properly prepare a budget for the calendar year 2013.

**Effect:**

The Association is unable to comply with state statute and the internal control established by the use of a budget has been comprised.

**Recommendation:**

We recommend the Association implement a process to create and maintain a budget and regularly compare actual expenditures to the budget throughout the fiscal year.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Management Response:**

Management will review training opportunities and material at <http://www.generalservices.state.nm.us/statepurchasing/trainingmaterial.aspx>. Management has prepared budgets for every calendar year 2005-2015, to date. Previous years were prepared for record and analysis and 2014, and 2015 was prepared and submitted to USDA-RD using USDA Form RD 442-2.

**2013-009 – Failure to File Audit Report by the Required Due Date (Other Matters)**

**Condition:**

The audit report for the fiscal year ended December 31, 2013, was due to the New Mexico State Auditor's office by June 1, 2014.

**Criteria:**

New Mexico State Statutes Section 12-6-12 requires that state auditor to promulgate reasonable regulations necessary to carry out the duties of the office. In addition, Section 2.2.2.9 NMAC states the deadline for submission of the report was June 1, 2014.

**Cause:**

The Association was unaware of the requirement.

**Effect:**

The Association was not in compliance with State of New Mexico requirements and could potentially jeopardize future state and federal funding.

**Recommendation:**

The Association should ensure that the annual audit report be completed and submitted to the Office of the State Auditor no later than five months after fiscal year-end.

**Management Response:**

In late 2014, Management has worked with the New Mexico Secretary of State(SOS) to submit Tier Certification documents. It was determined that 2013 funding required an audit. Also, USDA-RD requested this audit. As soon as we became aware that an audit was necessary Management took steps to acquire the 2013 audit. Tier Certifications will be submitted to NM SOS annually.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**2013-010 Segregation of Duties (Significant Deficiency)**

**Condition:**

The same individual who receives and records cash receipts, also reconciles the general ledger for all bank accounts, prepares the deposit slips, transfers funds between accounts, and prepares journal entries to correct errors in posting transactions.

**Criteria:**

A system of internal controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review can be used to compensate for the lack of separation of duties.

**Cause**

Separation of duties over cash receipts is difficult to achieve in a small office environment.

**Effect**

The Association is not maintain adequate controls over cash receipts, bank reconciliations, deposit slips and transfers which increase the risk of misappropriations of asset

**Recommendation**

Although the Association's staff is only one individual, steps could be taken to help mitigate the risk of one individual performing all duties with the exception of depositing the monies into the bank. The basic premise is that no one individual should have access to both physical assets and the related accounting records or all phases of a transaction without a mitigating control.

**Management Response**

Currently the Treasurer receives cash/check receipts, records amount received into accounting software, records amount onto deposit slip, records amount into customer accounts ledgerbook, and makes deposits to a checking account in a bank located 50 miles from Hachita, on a weekly basis. Copies of all receipts (checks) and cash, along with deposit slip are made prior to deposit. After bank receipt is obtained from bank, it is attached to copies of checks and deposit slip. Also, the Treasurer goes on line to obtain printout of deposits and payments which is also filed with copies of checks, on a weekly basis. Management will ask the contractor, the water operator, to verify deposits on a weekly basis using the electronic print out, copies of checks, and once a month using the bank statement. On occasion, contractor does make deposits and that is acceptable if he

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

is going to Deming. Getting the money into the bank as soon as possible is a priority as well as verification of deposits.

**C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**FA 2013-011 Late Filed Data Collection and Other Reporting Package to the Federal Clearinghouse (Non-Compliance)**

Federal Program Information:

Funding Agency: U.S. Department of Agriculture  
Title: Water and Waste Disposal Loans & Grants  
CFDA Number: 10.770

**Condition:**

The Data Collection and Reporting Package for calendar year-end 2013 have not yet been submitted to the Federal Clearing House. In addition, it does not appear that the Association submitted Form RD 442-2 and Form RD 442-3 during the calendar year 2013 as required by grant agreement.

**Criteria:**

OMB Circular A-133 Section .320(a) states that the audit be completed and the data collection form and reporting package be submitted by the earlier date of either 30 days after the receipt of the auditor's report or nine months after the end of the fiscal year end date, unless a longer period is agreed in advance by the cognizant or oversight department for the audit. The A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Questioned Costs:**

None

**Cause:**

The Data Collection Form was not filed timely because the audit report was not completed by the due date. In addition, there was turnover in the board members that caused the other federal reports to be submitted late.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Effect:**

The Association is in violation of OMB Circular A-133 Section .320(a). This violation could potentially jeopardize the Association's eligibility to receive federal funding.

**Recommendation:**

We recommend that the audits for the Association be completed timely and the Association ensures that the Data Collection Form and other reports are completed and filed timely.

**Management Response:**

The Data Collection and Reporting Package for calendar year-end 2013 have not yet been submitted to the Federal Clearing House as we were not aware of this requirement. Management will determine the requirements for this finding and comply as soon as possible. Form RD 442-2 and Form RD 442-3 for calendar year 2013, has been prepared and will be submitted.

**FA 2013- 012 Federal Disbursements (Significant Deficiency, non-compliance)**

Federal Program Information:

Funding Agency: U.S. Department of Agriculture  
Title: Water and Waste Disposal Loans & Grants  
CFDA Number: 10.770

**Condition:**

During testwork performed on federal program disbursements we noted the following.

- In nine out of twelve disbursements the payment amount did not agree to the Contractor's Application for Payment for a total of \$ 1,203,444.
- In nine out of twelve disbursements for a total of \$1,121,945 the invoices did not show that two board members approved the expenditure.
- In nine out of twelve disbursements for a total of \$815,070 it does not appear that the board approved the expenditure and reviewed the amount for budget availability.
- In eight out of twelve disbursements for a total of \$1,203,443 it does not appear that the Association reviewed the detail expenditure of the invoices, such as the hours worked on the project by the contractor.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Criteria:**

Per OMB Circular A-87 Cost principles for State, Local and Indian Tribal Governments, Attachment A, Section C.1.j, costs must be adequately documented to be considered to be allowable for federal programs. OMB Circular A-133 Section .300 (b) requires the auditee to maintain Internal Control over Federal Programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreement that could have a material effect on each of its federal programs.

**Question Costs:**

Unknown

**Cause:**

The Association has failed to properly establish and follow internal control policies and procedures over the federal disbursements.

**Effect:**

The Association by not properly ensuring that proper payments of federal expenditures could result in noncompliance and loss of funding.

**Recommendation:**

The Association should consider proving training for personnel responsible for grant funds to ensure awareness and compliance with grant requirements.

**Management Response:**

Management has since obtained bookkeeping software to track all transactions. The particular transactions mentioned in this finding cannot be addressed because we have no detailed information. However, management has taken steps to document each transaction with specific invoice. Each checking transactions has appropriate invoice attached to the check and are filed together. These documents can be provide to you if requested. We will seek training regarding grant funds and insure the proper procedures are performed.

Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**FA 2013-013 Suspension and Debarment Finding – (Non-compliance)**

Federal Program Information:

Funding Agency: U.S. Department of Agriculture  
Title: Water and Waste Disposal Loans & Grants  
CFDA Number: 10.770

**Condition:**

During our single audit testing over compliance, we noted one of two vendors awarded, totaling approximately \$51,505 which lacked evidence that the Association checked the vendor against the excluded party list for federally suspended or debarred vendors, in order to ensure federal funds were not being awarded to suspended or debarred parties.

**Criteria:**

A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. A-133 prohibits non-Federal entities from contracting with or making sub-awards under covered transactions, with vendors that are suspended or debarred or whose principals are suspended or debarred. OMB Cost Circular A-102 states, "Debarment and Suspension. Federal agencies shall not award assistance to applicants that are debarred or suspended or otherwise excluded from or ineligible for participation in Federal Assistance programs under Executive Order 12459. Agencies shall establish procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and sub-grantees (including contractors) at any time do not make awards in violation of the non-procurement debarment and suspension common rule.

**Question Costs:**

Unknown

**Cause:**

The lack of effective internal controls associated with procurement function regarding with federal grant funds.

**Effect:**

Possible non-compliance with federal laws.



Hachita Mutual Domestic Water Consumer Association  
Schedule of Findings and Questioned Costs  
For Year Ended December 31, 2013

**Recommendation:**

We recommend that the Association establish effective controls over the procurement function that requires staff to determine that entities receiving sub-awards of any value and procurement contracts equal to or exceeding \$25,000, and their principals not be suspended or debarred. We also recommend that controls specify the means that will be used to make that determination; i.e. checking the Excluded Parties Listing System and obtaining a printout indicating status.

**Management Response:**

The Hachita Mutual Domestic Water Consumers Association relied heavily on our engineers, Souder, Miller, and Associates (SMA) in guiding us through the grant process. In fact, that was one of the determining factors when selecting SMA as our engineer. At a meeting with all parties (USDA, SMA, SmithCo, HMDWCA) a document was signed that we, as Owners were to make requests to the Contractor, SmithCo, through SMA. Management realized it is our responsibility to insure grant is executed in accordance with the grant letter of conditions and it is our ultimately responsibility to insure all conditions and standards are met. In the future, we will act to the best of our knowledge and continue to educate ourselves on these grant procedures including seeking appropriate training and working with USDA-RD and the State of New Mexico.

**D. PRIOR YEAR AUDIT FINDINGS.**

No prior year audit findings.

Hachita Mutual Domestic Water Consumer Association  
Other Disclosures  
For Year Ended December 31, 2013

**E. Other Disclosures**

An exit conference was held on June 18, 2015 via telephone. In attendance were the following:

**Representing Hachita MDWCA**

Mary Snyder –Treasurer

Tom Nelson – President

LC May – Former Vice President

**Representing OSA**

Anna Williams, CPA - Audit Manager

**Auditor prepared the financial statements**

OSA prepared the GAAP-basis financial statements and footnotes of the Hachita MDWCA from the original books and records provided to them by the management of Hachita MDWCA. The responsibility for the financial statements remains with Hachita MDWCA.