

**State of New Mexico
La Luz Mutual Domestic Water Consumers Association
And Mutual Sewage Works Association**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

Year Ended December 31, 2019

Dan Austin CPA, PC
700 Mechem Drive Ste. 15
Ruidoso, NM 88345

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
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December 31, 2019

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**State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Official Roster
December 31, 2019**

Board Members

Cheri Moore	President
Reynaldo Duran	Vice President
Gary Van Stratton	Secretary
Georgene Knecht	Treasurer
Anthony Ogden	Works Supervisor

Administration

Edward Lueras	Systems Manager
Carol Garcia	Administrative Advisor
Nikki King	Officer Administrator

DAN AUSTIN CPA, P.C.
MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Brian Colón, New Mexico State Auditor
The Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

We have performed the procedures enumerated below for the La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association (LLWCAMSWA), for the year ended June 30, 2018. The GWCAMSWA was determined to be a Tier 6 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the GWCAMSWA through the Office of the New Mexico State Auditor. The La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of 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 procedures and results are detailed under Scope of Procedures and Results as noted in the table of contents.

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

This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination or review, the objective of which would be an expression of an opinion or conclusion, respectively on the District's financial position and operations as of and for the year ended December 31, 2019. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to those parties specified in the report.

This report is intended solely for the information and use of La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association, the New Mexico State Auditor's Office, the New Mexico State Legislature and the New Mexico Department of Finance and Administration-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Dan Austin CPA, PC

Dan Austin CPA, PC
Ruidoso, New Mexico
May 20, 2020

Dan Austin CPA, PC
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575-257-0081

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Brian Colon, New Mexico State Auditor
The Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

We have performed the agreed upon Which the State of New Mexico Office of the State Auditor and the La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association (Association) have specified and are listed in the attached schedule as required by the Audit Act for the year ended December 31, 2019. The Association was determined to be a **Tier 6** entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The Association's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these 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. The result of our procedures are as follows:

1. Revenue Calculation and Tier Determination Procedures

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

Results of Procedure

La Luz Mutual Domestic Water Consumers Association had revenue of \$291,863 Tier 6 revenue and total revenue of \$503,138, therefore a Tier 6 agreed upon procedure engagement is required.

2. Cash Procedures

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- b) Test at least 30% of bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial reports submitted to DFA-Local Governments Division.
- c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results of Procedure

- a) We obtained the bank statements and corresponding reconciliation's for all of the Association's accounts as of January 31, 2019, March 31, 2019, June 30, 2019, December 31, 2019 and December 31, 2019. No exceptions were noted as a result of this procedure. Bank reconciliation's were completed in a timely manner, and all bank statements and reconciliation's are complete and on hand. Noted that a December 31, 2019

- b) A random sample of four monthly bank reconciliations were selected in the fiscal year 2019 from the Association's accounts and found to be accurate. Reconciled balances were traced to the general ledger and related DFA reports. No exceptions were noted as a result of this procedure.
- c) The Association at 12/31/2019 had uninsured deposits requiring a pledge of collateral in compliance with Section 6-10-17 NMSA 1978, NM Public Money Act. No pledges were made by depositories. See Finding 2019-001.

**3. Capital Assets
Procedures**

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

Results of Procedure

The La Luz MDWCA last inventory count was completed during FYE 2019.

4. Debt

Procedures

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.

Results of Procedure

We obtained the annual debt statements, and verified that all payments were made during the year. The Association is in compliance with debt service requirements.

5. Revenue

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review, test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues equal to 30% of total dollar amount test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results of Procedure

- a) **Actual revenue compared to budgeted revenue for the fiscal year is reasonable and within expectations. The variance analysis for budgets to actual may be noted in the Budgetary analysis in pages 10.**
- b) **A sample of 75 deposits totaling \$134,476 were tested. No exceptions were noted as a result of this procedure. Amounts recorded in the general ledger agreed with supporting documents.**
- c) **A sample of revenues totaling \$134,476 were tested. No exceptions were noted as a result of this procedure. Amounts were recorded on a cash basis as to classification, amount and period per review of supporting documentation.**

6. Expenditures Procedures

Select a sample of cash disbursements equal to at least 30% of total dollar amount and test using the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contact and canceled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results of Procedure

- a) **A sample of 80 expenditures totaling \$316,964 were tested. No exceptions were noted as a result of this procedure. The amounts recorded as disbursed agreed to supporting documentation: amount paid, payee date and description agreed with the vendor's invoice, purchase order, contract, and cancelled check, as appropriate.**
- b) **The 80 disbursements tested were properly authorized and approved in compliance with the budget, legal requirements, and established policies and procedures.**
- c) **There were no exceptions noted as a result of this procedure for the bid process or request for proposal process, if applicable), contracts and agreements were processed in accordance with the New Mexico Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).**

7. Journal Entries Procedures

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

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedure

- a) **We reviewed all non-routine journal entries and they, all have supporting documentation and appear reasonable.**
- b) **Per inquiry with management, Association journal entries are prepared by the outside accounting firm and approved by the Board of Directors monthly.**

8. Budget Procedures

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 and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budgets at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and final approved budgets and general ledger, prepare a schedule of 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.

Results of Procedure

- a) The review of Board minutes and letter from the State indicated that the budget was approved by the board and the DFA.
- b) Total actual expenditures from the general ledger did exceeded budgeted amounts. See Finding 2019-2
- c) A schedule of revenue and expenses - budget and actual was prepared from the Association records on cash budgetary basis on page 9.

9. Capital Outlay Appropriations

Procedures

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. Test all capital outlay expenditures during the fiscal year to:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process is applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.
- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement.
- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient. Determine whether the costs were paid by the local public body prior to the request for reimbursement.

Results of Procedure

- a) Reviewed a total of 2 expenditures for SAP-18-C2263-STB Water Well totaling \$42,995. No Exceptions noted.
- b) Reviewed disbursements for proper authorization, budget requirements. No issued noted
- c) Reviewed bid process, no issued noted.
- d) No physical assets generated.
- e) Reviewed status reports. No exceptions noted.
- f) No advance payments noted.
- g) Project not complete.
- h) Separate bank account not required.
- i) Total costs of \$42,995 were verified paid prior to request for reimbursement.

10. Other Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section, 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (I) (3) (C)NMAC.

No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies.

We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion on the accounting records. Accordingly, we do not express such an opinion or conclusion. 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 La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association, the New Mexico State Auditor's Office, the New Mexico State Legislature and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.



Dan Austin CPA, P. C.
Ruidoso, New Mexico
May 20, 2020

STATE OF NEW MEXICO
 LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
 MUTUAL SEWAGE WORKS ASSOCIATION
 OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN NET POSITION
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water User Fees	\$ 351,878	\$ 351,878	\$ 291,381	\$ (60,497)
Grant Revenues	752,666	752,666	211,274	(541,392)
Interest Income	-	-	483	483
Other Revenue	-	-	-	-
Total revenue	<u>1,104,544</u>	<u>1,104,544</u>	<u>503,138</u>	<u>(601,406)</u>
Expenditures:				
Accounting Fees	27,148	27,148	24,599	2,549
Advertising	86	86	85	1
Auto Truck Expense	3,700	3,700	3,236	464
Bad Debts	-	-	1,160	(1,160)
Bank Charges	200	200	5	195
Depreciation	33,525	33,525	101,840	(68,315)
Dues and Subscriptions	2,094	2,094	2,212	(118)
Employee Benefits	5,000	5,000	2,301	2,699
Employee Pension Plan	2,500	2,500	2,147	353
Insurance-General	15,388	15,388	17,606	(2,218)
Legal	6,510	6,510	661	5,849
Miscellaneous	750	750	100	650
Office Supplies	6,774	6,774	7,480	(706)
Postage	4,000	4,000	3,412	588
Water Supplies	750	750	476	274
Repairs and Maintenance-Infrastructure	19,812	19,812	43,599	(23,787)
Repairs and Maintenance-Meters	6,500	6,500	4,993	1,507
Repairs and Maintenance-Vehicles	2,800	2,800	988	1,812
Rental Equipment	455	455	-	455
Supplies-Small Tools	1,566	1,566	1,669	(103)
Supplies-Chemicals	3,554	3,554	3,554	-
Salaries and Wages	124,000	124,000	132,265	(8,265)
Taxes-Employment	12,000	12,000	10,243	1,757
Taxes-Other	100	100	3,424	(3,324)
Taxes-State	1,500	1,500	1,160	340
Telephone	5,000	5,000	4,760	240
Travel	4,700	4,700	2,830	1,870
Uniforms	500	500	206	294
Utilities-Other	900	900	894	6
Utilities-Electric	27,863	27,863	26,890	973
Capital Outlay	-	-	-	-
Debt Service-Principal	11,994	11,994	-	11,994
Debt Service-Interest	19,709	19,709	19,926	(217)
Total expenditures	<u>351,378</u>	<u>351,378</u>	<u>424,721</u>	<u>(88,503)</u>
Excess (deficiency) of revenue and cash over e	\$ 753,166	\$ 753,166	78,417	\$ (689,909)
Net Position 12-31-2018			<u>3,589,959</u>	
Net Position 12-31-2019			<u>\$ 3,668,376</u>	

STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
MUTUAL SEWAGE WORKS ASSOCIATION
OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
FINANCIAL REPORT SUBMITTED TO DFA
DECEMBER 31, 2019

MDWCA Name: La Luz MDWC&MSWA
Mailing Address: P O Box 35, La Luz, NM 88337
Email Address: lmdwca@outlook.com
Phone number: 575-437-7717

Calendar Year
2019

	APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct - Dec	Year to Date(YTD) Totals	YTD (over/under BUDGET)	% of Budget
Beginning balances:								
Cash	16,872							
Savings	267,331							
CDs								
Investments								
Beginning Balance TOTAL	\$ 284,203							
REVENUES								
Water Sales (Water Use Fees)	351,878	56,790	80,004	80,166	68,679	285,639	66,239	81%
Connection/Reconnection Charges						0	0	-
Membership and Meter Sales (Utility Service Fees)						0	0	-
Late Fees and Penalties (Other Fines and Forfeits)						0	0	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)	752,666	31,754	16,972	130,694	32,338	211,758	540,908	28%
TOTAL	\$ 1,104,544	88,544	96,976	210,860	101,017	497,397	607,147	45%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.	124,000	34,416	31,356	35,969	30,524	132,265	(8,265)	107%
Employee Benefits and Expenses	20,000	1,331	4,458	5,206	4,949	15,944	4,056	80%
Electricity	27,863	5,690	6,381	9,093	5,726	26,890	973	97%
Other Utilities - Gas, Water, Sewer, Telephone	5,900	2,018	1,271	1,312	1,052	5,653	247	96%
System Parts and Supplies	5,120	1,499	1,518	1,677	529	5,223	(103)	102%
System Repairs and Maintenance	26,311	2,556	9,725	21,085	15,127	48,593	(22,282)	185%
Vehicle Expenses	6,500	1,304	1,154	556	1,110	4,224	2,276	65%
Office and Administrative Expenses	11,560	3,895	2,059	2,526	4,293	12,773	(1,213)	110%
Professional Services - Accounting, Engineering, Legal	33,659	3,421	16,914	2,306	2,619	25,260	8,399	75%
Insurance	15,388	1,823	2,040	3,549	4,576	11,988	3,400	78%
Dues, Fees, Permits and Licenses	2,094	806	701	173	532	2,212	(118)	106%
Taxes - Gross Receipts Tax, Water Conservation Fee	1,600	201	211	594	3,578	4,584	(2,984)	287%
Training	4,700	929	1,759	142	0	2,830	1,870	60%
Miscellaneous	35,480	41,502	22,630	24,135	7,945	96,212	(60,732)	271%
Annual debt service - Loan 1	7,740	1,935	1,935	1,935	108,512	114,317	(106,577)	1477%
Annual debt service - Loan 2	23,963	4,809	9,140	4,906	11,453	30,320	(6,357)	127%
TOTAL	\$ 351,878	108,235	113,252	115,266	202,535	539,288	(187,410)	153%
Ending Balance	1,036,869					242,312		
LESS: Operating Reserve	234,273					206,639		
Emergency Reserve								
Capital Improvement Reserve	33,058					20,042		
Debt Reserve								
Ending Available Cash Balance	\$ 769,538					\$ 15,631		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

Cheri C Moore
 President/Chairperson

1-21-2020
 Date

**STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
MUTUAL SEWAGE WORKS ASSOCIATION
OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
SCHEDULE OF RESULTS AND FINDINGS
DECEMBER 31, 2019**

The following are the results and finding for the year ended December 31, 2019:

Prior Year Findings:

None

Current Year Findings

2019-001 Credit Risk Uninsured/Uncollateralized Deposits-Significant Deficiency

Condition

The Association had uninsured/uncollateralized deposits at one financial institution. The Association failed to make corrective action during the current year. Total uninsured deposits was \$43,357.

Criteria

The Association is required to comply with Sec. 6-10-17 NMSA 1978 – The New Mexico Public Money Act which requires the local public body's financial institution to provide pledged collateral on all uninsured deposits.

Effect

Non-Compliance with Sec. 6-10-17 NMSA 1978 – The New Mexico Public Money Act statutory requirements.

Cause

Failure to monitor depository account requirements

Recommendation

Establish policy to review and approve depository accounts on a quarterly basis for compliance with statutes.

Response

Board will implement a policy monitoring depository accounts quarterly.

Expected Response Completion Date June 30, 2020 **Responsible Party** System Manager

2019-002 Expenditures in Excess of Budget-Significant Deficiency

Condition

Prior year noted expenditures in excess of budget. The Association did not monitor spending and amend budgets as required thereby exceeding budgeted expenditures in violation of NMSA 6-6-6 in the following fund:

Proprietary Fund \$88,403

Criteria

Per 6-6-6 NMSA 1978 Compilation, it is unlawful for expenditures to exceed the approved budget adopted by the governing body of the Association and approved by the New Mexico Department of Finance and Administration LGD.

Effect

Expenditures in excess of approved budgets result in liability against public officials allowing claims to be paid in excess of budget.

Cause

Oversight and failure to approve amended budget.

Recommendation

Monitor budget more closely and request budget adjustments timely.

Response & Corrective Action

Management will modify the budget reports process to improve monitoring budget expenditures and will more closely monitor budget reports and request budget adjustments in a timely manner.

Expected Response Completion Date June 30, 2020

Responsible Party System Manager

**STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
MUTUAL SEWAGE WORKS ASSOCIATION
OFFICE OF THE STATE AUDITOR TIER 6 AGREED-UPON PROCEDURES
EXIT CONFERENCE
DECEMBER 31, 2019**

Exit Conference

The contents of this report were discussed on May 22, 2020 at the Association Office. The following individuals were in attendance:

Representing the Association:

Cheri Moore - President
Eddie Lueras - System Manager

Representing Dan Austin CPA PC:

Dan Austin CPA

**State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association**

Annual Compiled Financial Statements

Year Ended December 31, 2019

Dan Austin CPA, PC
700 Mechem Drive
Suite 15
Ruidoso, New Mexico 88345

Introductory Section

**State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Official Roster
December 31, 2019**

Board Members

Cheri Moore	President
Reynoldo Duran	Vice President
Gary Van Stratton	Secretary
Georgene Knecht	Treasurer
Anthony Ogden	Works Supervisor

Administration

Edward Lueras	Systems Manager
Carol Garcia	Administrative Advisor
Nikki King	Officer Administrator

Financial Section

**Dan Austin CPA, PC
700 Mechem Drive
Suite 15
Ruidoso, New Mexico 88345**

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Brian Colón, New Mexico State Auditor
Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities of the La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association (the "Association"), as of and for the year ended December 31, 2019, which comprise the Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position as listed in the table of contents, in accordance with Tier 6 of the Audit Act-Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

In order to comply with the requirements of Section 12-6-3 (B) NMSA 1978 and 2.2.216NMAC, management has presented the proprietary fund financial statements using the accrual basis of accounting and only the notes related to those financial statements. However, in complying with these requirements, management has omitted the Statement of Cash Flows and certain disclosures required by accounting principles generally accepted in the United States of America. This omission is the result of the financial statements being presented on a basis of accounting other than GAAP. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Association's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

As explained in Note I C to the financial statements, management has not recorded a liability for compensated absences in business-type activities and accordingly, has not recorded an expense for the current period change in that liability, in accordance with the special-purpose framework described above and in Note 1. Accounting principles generally accepted in the United States of America require that compensated absences attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenditures of the business-type activities. The amount by which this departure would affect the liabilities and expenses of the enterprise activities is not reasonably determinable.

Management has omitted the *Management's Discussion and Analysis* 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.



Dan Austin CPA PC
Ruidoso, New Mexico
May 20, 2020

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Statement of Net Position
December 31, 2019

Assets

Current Assets

Cash	\$	242,312
Customer Receivables		27,372
Prepays		8,335
Total Current Assets		278,019

Noncurrent Assets

Capital Assets		4,761,176
Accumulated Depreciation		(879,241)
Total Noncurrent Assets		3,881,935

Total Assets

\$ 4,159,954

Liabilities and Net Assets

Current Liabilities

Account Payable	\$	649
Payroll Taxes Payable		3,531
Customer Prepayments		6,131
Other Current Liabilities		1,163
Current Portion of Long-Term Debt		8,956
Total Current Liabilities		20,430

Long-Term Liabilities

Notes Payable - USDA/NMFA		471,148
Total Long-Term Liabilities		471,148

Net Assets

Restricted For Debt Service		-
Net Investment in Capital Assets		-
Unrestricted		3,668,376
Total Net Assets		3,668,376

Total Liabilities and Net Assets

\$ 4,159,954

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Statement of Revenues, Expenses and Change in Net Position
December 31, 2019

Operating Revenues	
Sales and Services	\$ 291,361
Total Operating Revenues	<u>291,361</u>
Operating Expenses	
Personnel Costs	142,498
Depreciation	101,841
Utilities and Telephone	34,544
Postage and Supplies	10,893
Repairs and Maintenance	49,582
Property Tax	3,334
Insurance-General	17,806
State Conservation Tax	1,160
Travel	2,830
Accounting and Audit	24,599
Auto Expense	3,236
Other Operating Expense	<u>12,453</u>
Total Operating Expense	<u>404,776</u>
Total Operating Income (Loss)	<u>(113,415)</u>
Non-Operating Revenues (Expenses)	
Interest Income	483
Grant Revenues	211,275
Interest Expense	<u>(19,926)</u>
Total Non-operating Revenue (Expense)	<u>191,832</u>
Change in Net Position	78,417
Net Position at Beginning of Year	<u>3,589,959</u>
Net Position at End of Year	<u>\$ 3,668,376</u>

See accountant's compilation report.

STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
Notes to Special Purpose Financial Statements
December 31, 2019

NOTE 1. Summary of Significant Accounting Policies

La Luz 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 in 1952 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 700 members. The water service delivery area is restricted to La Luz 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 Tier 6 of the Audit Act -Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, which is a special-purpose framework.

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 Tier 6 of the Audit Act - Section 12-6-3 B (6)NMSA 1978 and Section 2.2.2.16 NMAC, which is a special-purpose framework.

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 How 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) is 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 its proprietary fund as a major fund. The proprietary, fund is: The *La Luz Mutual Domestic Water Consumers Association Fund* accounts for a water system for the supply and distribution of water for domestic use to its members, including constructing, maintaining and operating the system

C. Assets, Liabilities and Net Positions 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.

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.

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

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

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

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

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>
Furniture and Fixtures	5-10
Automobiles	10
Wells	40
Plant and Water System	5-40

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through December 31, 2019, along with applicable payroll taxes.

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

Compensated Absences: Management has not recorded a liability for compensated absences in business-type activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that compensated absences attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenditures of the business-type activities. The amount by which this departure would affect the liabilities and expenses of the business-type activities is not reasonably determinable.

Equity Classifications:

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

- a. Net investment in capital assets:
Capital assets, net of accumulated depreciation is 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.

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

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

Note 2. Stewardship and Accountability

Annual budgets of the Association are prepared prior to December 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.

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.

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 December 31, 2019.

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 by statute. The financial institution must provide pledged collateral of 50% of the deposit in excess of the deposit insurance.

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

Excess 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.

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, NMS A 1978). At December 31, 2019, \$ 43,357 of the Association's bank balances of \$359,071 was exposed to custodial credit risk. \$43,357 was uninsured and uncollateralized by the Association's depositories.

Depository	Account Type	Account Name	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
				Outstanding Checks	Deposits	
First American	Checking	Operations	\$ 130,910	\$ (116,860)	\$ -	\$ 14,050
First American	Savings	Operating Reserve	1,480	-	-	1,480
Bank 34	Checking	Debt Reserve	45,672	-	-	45,672
First American	Checking	Operating Reserve	160,967	-	-	160,967
Bank 34	Checking	Debt Reserve	20,042	-	-	20,042
Total cash on deposit			\$ 359,071	\$ (116,860)	\$ -	242,211
FDIC Insurance			(315,714)			
Uninsured Deposits			\$ 43,357			
Petty cash						100
Total cash on hand and on deposit						\$ 242,311

Note 4. Receivables

At December 31, 2019 the Association has water billing receivables totaling \$26,935 outstanding.

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 26,282	\$ -	\$ -	\$ 26,282
Water Rights	1,200	-	-	1,200
Total capital assets not being depreciated	27,482	-	-	27,482
Capital assets being depreciated:				
Automobiles	34,901	-	-	34,901
Furniture and equipment	23,302	-	-	23,302
Wells and dams	97,000	-	-	97,000
Plant and Water System	4,480,686	96,605	-	4,577,291
Total capital assets being depreciated	4,635,889	96,605	-	4,732,494
Less:				
Accumulated depreciation	777,401	101,840	-	879,241
Total accumulated depreciation	777,401	101,840	-	879,241
Total capital assets being depreciated, net	3,858,488	(5,235)	-	3,853,253
Capital assets, net	\$ 3,885,970	\$ (5,235)	\$ -	\$ 3,880,735

Total Depreciation for fiscal year ended December 31, 2019 was \$101,840

Note 6. Unearned Revenue

Unearned revenue represents revenues collected but not earned and totals \$6,131 as of December 31, 2019. This is composed of customer payments received before the end of the year but for services for the next fiscal year.

Note 7. Long-Term Debt

Long-term obligations of the Association are as follows:

	Balance 12/31/18	Additions	(Reductions)	Balance 12/31/19	Within One Year
0% Note Payable, payable to NMFA 2293CIF in annual installments of \$4331, unsecured dated 8/16/2016 matures 8/13/2043	77,959	-	(4,331)	73,628	4,331
3.625% Note Payable, payable to USDA - RUS in monthly installments of \$1,636, secured by project Assets dated 5/15/2018 matures 5/15/2058	411,323	-	(4,847)	406,476	4,624
4.25% Note Payable, payable to USDA - RUS in monthly installments of \$645, unsecured dated 8/13/2003 matures 12/31/2019	115,670	-	(115,670)	-	-
Total Long-Term Obligations	<u>\$ 604,952</u>	<u>\$ -</u>	<u>\$ (124,848)</u>	<u>\$ 480,104</u>	<u>\$ 8,955</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2019, is as follows:

Fiscal Year	Principal	Interest	Total
2020	9,309	14,654	23,963
2021	9,492	14,471	23,963
2022	9,682	14,281	23,963
2023	9,880	14,083	23,963
2024	10,084	13,879	23,963
2025-2029	59,516	79,931	139,447
2030-2034	68,027	72,420	140,447
2035-2039	54,373	63,419	117,792
2040-2044	73,823	52,632	126,455
Thereafter	175,918	3,971	179,889
	<u>\$ 480,104</u>	<u>\$ 343,741</u>	<u>\$ 823,845</u>

Note 8. Joint Powers Agreements

As of the year ended December 31, 2019, 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 December 31, 2019, the Association had a significant commitment with Souder, Miller & Associates for the design phase of water system improvements.

Note 10. Retirement Plan

The Association offers a retirement plan in the form of a SIMPLE IRA through Edward Jones. The Association matches up to 3% of the employee's contributions. The employees are allowed to contribute up to 6%. The Association's Board of Directors has the authority to amend the terms and conditions of the retirement plan annually in accordance with guidelines established by the Internal Revenue Service. Retirement plan expense for the year ended December 31, 2019 was \$2,147.

Note 11. Contingent Liabilities

The Association is party to various claims and lawsuits arising in the normal course of business. In the opinion of management, the outcome of these matters will not have a material effect on the financial position of the Association.

Note 12. Risk Management

The Association is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The Association purchases commercial liability insurance.

The Association has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the Association which exceeds the insurance coverage, the Association would not be responsible for a loss in excess of the coverage amounts. As claims are filed, commercial liability insurance company assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverages have not changed significantly from prior years and coverages are expected to be continued.

At December 31, 2019 no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Association.

The commercial liability insurance company has not provided information on an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

Note 13. Concentrations

The Association depends on financial resources flowing from, or associated with, both the State of New Mexico and residents that are using the system. Because of this dependency, the Association is subject to changes in the specific flows of intergovernmental revenues based on modifications to State laws and State appropriations as well as water usage from the residents which are using the system.

Note 14. Federal and State Grants

In the normal course of operations, the Association receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. The purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Note 15. New Mexico Capital Outlay Grants

The Association was the beneficiary of capital outlay grant SAP 18-C2263-STB for the acquisition of services and completion of a water well in the amount of \$132,000. Laws 2018 Chapter 80 Section 20, Paragraph 31 describes the appropriation with a reversion date of June 30, 2022. During the fiscal year, the Association expended \$42,995 which was reimbursed by the State of New Mexico.

Note 16. Subsequent Events

The date to which events occurring after December 31, 2019. The date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statement or disclosures is May 20, 2020, which is the date on which the financial statements were issued.