

**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, 2016

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, 2016**

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**State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Official Roster
December 31, 2016**

Board Members

Reynaldo Duran	President
Mmichael Reinecke	Vice President
Cheri Moore	Secretary
Norma Garrett	Treasurer
Ray Sanchez	Works Supervisor

Administration

Edward Lueras	Systems Manager
Carol Garcia	Administrative Advisor
Rosalie Romero	Officer Administrator
Molly Montgomery	Water Operator

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Honorable Tim Keller, 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, 2016. 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 \$441,286, 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) Perform a random test of bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation, and the financial reports submitted to DFA-Local 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 December 31, 2016. 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.

- b) A random sample of four monthly bank reconciliations were haphazardly selected in the fiscal year 2016 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 no time had uninsured deposits requiring a pledge of collateral in compliance with Section 6-10-17 NMSA 1978, NM Public Money Act.

**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 2016.

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 based on auditor judgment and test using the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
- 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 revenues totaling \$296,684 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 \$293,684 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 based on auditor judgment and test using the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, 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 22 expenditures totaling \$83,947 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 22 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 and budget adjustments were approved by the board and the DFA.
- b) Total actual expenditures from the general ledger did exceed budgeted amounts.
- c) A schedule of revenue and expenses - budget and actual was prepared from the Association records on cash budgetary basis on pages 8.

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) There were no capital outlay expenditures and this procedure does not apply.
- b) There were no capital outlay expenditures and this procedure does not apply.

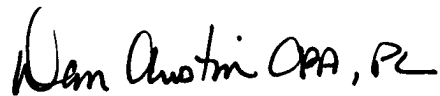
10. Other Procedures

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 audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of 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 23, 2017

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, 2016

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water User Fees	\$ 279,704	\$ 279,704	\$ 293,684	\$ 13,980
Grant Revenues	2,943,990	2,943,990	224,763	(2,719,227)
Interest Income	-	-	342	342
Other Revenue	-	-	910	910
Total revenue	<u>3,223,694</u>	<u>3,223,694</u>	<u>519,699</u>	<u>(2,703,995)</u>
Expenditures:				
Accounting Fees	15,000	15,000	13,060	1,940
Advertising	2,000	2,000	-	2,000
Auto Truck Expense	3,000	3,000	2,427	573
Bad Debts	1,000	1,000	-	1,000
Bank Charges	600	600	289	311
Depreciation	34,997	34,997	36,225	(1,228)
Dues and Subscriptions	1,000	1,000	1,826	(826)
Employee Benefits	4,700	4,700	4,420	280
Employee Pension Plan	2,500	2,500	2,030	470
Insurance-General	15,807	15,807	13,892	1,915
Interest Expense	5,500	5,500	5,205	295
Legal	3,925	3,925	(80)	4,005
Miscellaneous	750	750	671	79
Office Supplies	5,500	5,500	6,736	(1,236)
Postage	4,000	4,000	4,117	(117)
Water Supplies	750	750	93	657
Repairs and Maintenance-Infrastructure	9,482	9,482	20,385	(10,903)
Repairs and Maintenance-Meters	3,000	3,000	1,764	1,236
Repairs and Maintenance-Vehicles	2,000	2,000	1,522	478
Rental Equipment	500	500	641	(141)
Supplies-Small Tools	1,000	1,000	783	217
Supplies-Chemicals	4,095	4,095	2,003	2,092
Salaries and Wages	124,800	124,800	120,139	4,661
Taxes-Employment	15,000	15,000	13,820	1,180
Taxes-Other	1,000	1,000	2,239	(1,239)
Taxes-State	1,500	1,500	1,206	294
Telephone	5,000	5,000	3,959	1,041
Travel	4,500	4,500	2,371	2,129
Uniforms	1,000	1,000	969	31
Utilities-Other	1,000	1,000	442	558
Utilities-Electric	20,000	20,000	20,525	(525)
Capital Outlay	378,406	378,406	266,901	111,505
Debt Service	1,986	1,986	57,620	(55,634)
Total expenditures	<u>675,298</u>	<u>675,298</u>	<u>608,200</u>	<u>7,993</u>
Excess (deficiency) of revenue and cash over e	<u>\$ 2,548,396</u>	<u>\$ 2,548,396</u>	(88,501)	<u>\$ (2,696,002)</u>
			Capital Expense and Debt	324,521
			Net Position 12-31-2015	<u>798,955</u>
			Net Position 12-31-2016	<u>\$ 1,034,975</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
SCHEDULE OF RESULTS AND FINDINGS
DECEMBER 31, 2016**

The following are the results and finding for the year ended December 31, 2016:

Prior Year Findings:

2014-002 Budget Adjustment was not approved by DFA – Resolved
2015-001 Exceeded Budget Authority - Resolved

Current Year Findings

None

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, 2016

Exit Conference

The contents of this report were discussed on May 23, 2017. The following individuals were in attendance:

Representing the Association:

Reynaldo Duran - President
Carol Garcia - Administrative Advisor
Norma Garrett - Treasurer

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, 2016

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, 2016**

December 31, 2016

Board Members

Reynaldo Duran	President
Mmichael Reinecke	Vice President
Cheri Moore	Secretary
Norma Garrett	Treasurer
Ray Sanchez	Works Supervisor

Administration

Edward Lueras	Systems Manager
Carol Garcia	Administrative Advisor
Rosalie Romero	Officer Administrator
Molly Montgomery	Water Operator

Financial Section

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

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

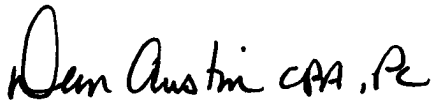
Tim Keller
New Mexico State Auditor
Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

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, 2015, 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, which is a special-purpose framework. 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.

Management has elected to omit 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 23, 2017

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Statement of Net Position
December 31, 2016

Assets

Current Assets

Cash	\$	240,895
Customer Receivables		25,529
Prepays		<u>7,558</u>
Total Current Assets		<u>273,982</u>

Noncurrent Assets

Capital Assets		1,549,728
Accumulated Depreciaton		<u>(656,245)</u>
Total Noncurrent Assets		<u>893,483</u>

Total Assets	\$	<u>1,167,465</u>
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Liabilities and Net Assets

Current Liabilities

Account Payable	\$	6,625
Payroll Taxes Payable		1,607
Current Portion of Long-Term Debt		2,536
Other Current Liabilities		<u>3,181</u>
Total Current Liabilities		<u>13,949</u>

Long-Term Liabilities

Note Payable - USDA		<u>118,541</u>
Total Long-Term Liabilities		<u>118,541</u>

Net Assets

Restricted For Debt Service		121,076
Net Investment in Capital Assets		665,811
Unrestricted For Debt Service		<u>248,088</u>
Total Net Assets		<u>1,034,975</u>

Total Liabilities and Net Assets	\$	<u>1,167,465</u>
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See Accountant's Compilation Report

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, 2016

Operating Revenues	
Sales and Services	\$ 293,684
Total Operating Revenues	<u>293,684</u>
 Operating Expenses	
Personnel Costs	140,409
Depreciation	36,225
Utilities	20,967
Postage and Supplies	10,853
Contractual Services	26,872
Repairs and Maintenance	23,671
Property Tax	2,239
State Conservation Tax	1,206
Travel	2,371
Other Operating Expense	11,237
Auto Expense	<u>2,427</u>
Total Operating Expense	<u>278,477</u>
Total Operating Income (Loss)	<u>15,207</u>
 Non-Operating Revenues (Expenses)	
Interest Income	342
Grant Revenues	224,763
Other Revenue	910
Interest Expense	<u>(5,205)</u>
Total Non-operating Revenue (Expense)	<u>220,810</u>
Change in Net Position	236,017
Net Position at Beginning of Year	<u>798,958</u>
Net Position at End of Year	<u>\$ 1,034,975</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, 2016

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, 2015, 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, 2016.

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.

All of the Authority's accounts at an insured deposit institution, including noninterest bearing transaction accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

Custodial Credit Risk Deposits Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMS A 1978). At December 31, 2016, none of the Association's bank balances of \$240,794 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Association's name and \$0 was uninsured and uncollateralized.

Depository	Account Type	Account Name	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
				Outstanding Checks	Deposits	
First American	Checking	Operations	\$ 25,192	\$ (628)	\$ -	\$ 24,564
Wells Fargo	Savings	Operating Reserve	1,535	-	-	1,535
Wells Fargo	Checking	Const Ckg	429			429
First American	Checking	Operating Reserve	1,279			1,279
Wells Fargo	Checking	Operating Reserve	30,962	-	-	30,962
Wells Fargo	Checking	Operating Reserve	150,650			150,650
First State Bank	Checking	Operating Reserve	31,375	-	-	31,375
Total cash on deposit			\$ 241,422	\$ (628)	\$ -	240,794
Petty cash						100
Total cash on hand and on deposit						\$ 240,894

Note 4. Receivables

At December 31, 2016 the Association has water billing receivables totaling \$25,529 outstanding.

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 26,282	\$ -	\$ -	\$ 26,282
Construction in progress	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	74,138	-	-	74,138
Plant and Water System	1,126,008	263,897	-	1,389,905
Total capital assets being depreciated	1,258,349	263,897	-	1,522,246
Less:				
Accumulated depreciation	620,020	36,225	-	656,245
Total accumulated depreciation	620,020	36,225	-	656,245
Total capital assets being depreciated, net	638,329	227,672	-	866,001
Capital assets, net	\$ 665,811	\$ 227,672	\$ -	\$ 893,483

Note 6. Unearned Revenue

Unearned revenue represents revenues collected but not earned and totals \$3,180 as of December 31, 2016. 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 12/31/15	Additions	(Reductions)	Balance 12/31/16	Due Within One Year
4.25% Note Payable, payable to USDA - RUS in monthly installments of \$645, unsecured dated 8/13/2003 matures 8/13/2043	\$ 123,612	\$ -	\$ (2,536)	\$ 121,076	\$ 2,536
0.00% Note Payable, payable to NMFA in annual installments of \$687 Monthly, unsecured dated 2/12/2015, matures 6/01/2034	<u>13,039</u>	-	<u>(13,039)</u>	-	-
Total Long-Term Obligations	<u>\$ 136,651</u>	<u>\$ -</u>	<u>\$ (15,575)</u>	<u>\$ 121,076</u>	<u>\$ 2,536</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2016, is as follows:

Fiscal Year	Principal	Interest	Total
2017	2,536	5,095	7,631
2018	2,760	4,980	7,631
2019	2,880	4,860	7,740
2020	3,004	4,736	7,740
2021	3,115	4,625	7,740
2022-2026	18,950	19,750	38,700
2027-2031	21,750	16,950	38,700
2032-2036	27,123	11,577	38,700
2037-2041	33,180	5,520	38,700
2042-2043	<u>5,778</u>	<u>255</u>	<u>6,033</u>
	<u>\$ 121,076</u>	<u>\$ 78,348</u>	<u>\$ 199,315</u>

Note 8. Joint Powers Agreements

As of the year ended December 31, 2016, 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, 2016, 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, 2016 was \$2,029.

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, 2015 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. Subsequent Pronouncements

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The Association is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 with earlier application being encouraged. The Association is still evaluating how this pronouncement will affect the financial statements.

Note 16. Subsequent Events

The date to which events occurring after December 31, 2016. The date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statement or disclosures is May 23, 2017, which is the date on which the financial statements were issued.