

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**TIER 6 - AGREED UPON PROCEDURES REPORT**

**DECEMBER 31, 2013**

## INTRODUCTORY SECTION

**LA LUZ DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 – AGREED UPON PROCEDURES  
DECEMBER 31, 2013  
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LA LUZ DOMESTIC WATER CONSUMERS ASSOCIATION  
OFFICIAL ROSTER  
DECEMBER 31, 2013

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Edward Silva Jr.	President
Jose Martinez	Vice President
Cheri Moore	Secretary
Angel Lucero	Treasurer
Reynaldo Duran	Works Supervisor

ADMINISTRATION

Edward Lueras	Systems Manager
Carol Garcia	Administrative Advisor
Rosalie Romero	Office Administrator
Richard DeLeon	Chief Water Operator

**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## INDEPENDENT ACCOUNTANT'S REPORT

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

We have performed the procedures enumerated below, which were agreed to by the La Luz Mutual Domestic Water Consumers Association (the Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Auditor Rule, Tier 6, as of December 31, 2013. La Luz Mutual Domestic Water Consumers Association's governing board and management are responsible for the information included herein. This agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 6 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and others within the Association, the State Auditor, the Department of Finance and Administration—Local Government Division, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Alamogordo, New Mexico  
February 28, 2014

**SUPPLEMENTARY INFORMATION**

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 - AGREED UPON PROCEDURES  
DECEMBER 31, 2013

**PROCEDURES PERFORMED AND RELATED RESULTS**

**1. Cash**

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

*All reconciliations were 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 Government Division.

*No exceptions were noted testing the attribute above.*

- c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

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

**2. Capital Assets**

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

*An annual physical inventory of capital assets was completed for 2013.*

**3. Debt**

- a. If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

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

**4. Revenues**

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>Water use fees</i>	<i>\$274,400</i>	<i>\$266,777</i>	<i>\$7,223</i>



LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 - AGREED UPON PROCEDURES  
DECEMBER 31, 2013

**Revenues (continued)**

*All revenues tested are considered reasonable.*

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
  - I. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
  - II. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

*We performed the testwork above and noted no exceptions.*

**5. Expenditures**

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:
  - I. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

*We performed the testwork above and noted no exceptions.*

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

*We performed the testwork above and noted no exceptions.*

- III. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

*We performed the testwork above and noted no exceptions.*

**6. Journal Entries**

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
  - I. Journal entries appear reasonable and have supporting documentation.
  - II. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

*We noted no non-routine journal entries.*

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 - AGREED UPON PROCEDURES  
DECEMBER 31, 2013

7. **Budget**

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- I. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LDG.

*We verified that the Board of Directors approved the original budget and an amended budget.*

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

*We noted no exception. The actual expenditures did not exceed the budget.*

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

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

8. **Capital Outlay**

- a. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year.

*There were no capital outlay awards or expenditures in 2013.*

9. **Other**

- a. If information comes to the IP A's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(1)(3)(C) NMAC.

*No other information came to our attention that warranted disclosure.*

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**December 31, 2013**  
**As Provided by Client**

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Water User Fees	\$ 274,000	\$ 266,777	\$ (7,223)
Interest income	-	428	428
<b>Total Revenues</b>	<u>274,000</u>	<u>267,205</u>	<u>(6,795)</u>
<b>Expenditures</b>			
Accounting	11,500	18,600	7,100
Advertising	2,000	-	(2,000)
Auto, Truck, Backhoe exp	3,600	3,669	69
Bank charges	100	14	(86)
Dues and sub	750	1,489	739
Employee benefit	3,500	3,242	(258)
Employee Pension plan	3,000	1,912	(1,088)
Eng Fees	1,000	-	(1,000)
Insurance, general	15,500	13,752	(1,748)
Interest exp	6,000	5,508	(492)
Legal	3,500	100	(3,400)
Misc	750	788	38
Office supplies	4,000	6,006	2,006
Postage	4,000	3,327	(673)
Repairs, Infrastructure	12,000	9,072	(2,928)
Repairs, Vehicles	2,000	1,019	(981)
Rent, equip	700	520	(180)
Small tools	-	1,005	1,005
Salaries and wages	115,400	105,371	(10,029)
Taxes employment	9,100	8,298	(802)
Taxes, other	2,500	2,968	468
Taxes, State conservation	1,500	1,190	(310)
Telephone	4,500	3,752	(748)
Travel, Lodging, and training	9,000	9,221	221
Health Insurance	12,000	-	(12,000)
Uniforms	1,000	980	(20)
Utilities	1,000	812	(188)
Water samples	500	368	(132)
Electricity	18,000	17,668	(332)
Chemical/Chlorine	3,000	1,690	(1,310)
Depreciation	20,000	27,034	7,034
Operating Reserve	22,549	-	(22,549)
Vehicle Reserve	15,221	-	(15,221)
Water Tank Reserve	29,770	-	(29,770)
Office Equipment Reserve	14,446	-	(14,446)
Well Reserve	63,322	-	(63,322)
Debt Reserve	780	-	(780)
Phase IV Improvements Reserve	4,523	-	(4,523)
3/12 Reserve	46,000	-	(46,000)
Wastewater Reserve	2,500	-	(2,500)
Meter Replacement	15,000	-	(15,000)
<b>Total Expenses</b>	<u>271,400</u>	<u>249,375</u>	<u>(22,025)</u>
<b>Change in Net Position</b>	<u>\$ 2,600</u>	<u>\$ 17,830</u>	<u>\$ 15,230</u>

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 – AGREED UPON PROCEDURES  
December 31, 2013  
SCHEDULE OF FINDINGS & RESPONSES**

There are no findings as they relate to the Agreed Upon Procedures – Tier-6 performed as outlined by the Office of the State Auditor.

**LA LUZ DOMESTIC WATER CONSUMERS ASSOCIATION  
TIER 6 – AGREED UPON PROCEDURES  
YEAR ENDING DECEMBER 31, 2013  
EXIT CONFERENCE**

- I. The exit conference was held on February 26, 2014. Those present were:

Rosalie Romero, Office Administrator-La Luz MDWCA  
Angel Lucero, Treasurer, Board of Directors-La Luz MDWCA  
Cheri Moore- Director, Board of Directors-La Luz MDWCA  
Reynaldo Duran- Director, Board of Directors-La Luz MDWCA  
John R. Battle, CPA, CVA-Accounting and Consulting Group, LLP

- II. Tier 6 Agreed Upon Procedures and Compilation Report

Review of Tier 6 Agreed Upon Procedures

- III. Agreed Upon Procedures Findings Discussed

There were no findings.

- IV. Other Items

Timeline from this point forward- Submission of reports, feedback from state and issuance of reports.

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**  
**INDEPENDENT ACCOUNTANT'S COMPILATION REPORT**  
**DECEMBER 31, 2013**

## INTRODUCTORY SECTION

La Luz Mutual Domestic Water Consumers Association  
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**La Luz Mutual Domestic Water Consumers Association  
Official Roster  
December 31, 2013**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Edward Silva Jr.	President
Jose Martinez	Vice President
Cheri Moore	Secretary
Angel Lucero	Treasurer
Reynaldo Duran	Works Supervisor

ADMINISTRATION

Edward Lueras	Systems Manager
Carol Garcia	Office Administrator
Richard DeLeon	Chief Water Operator

**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**

Certified Public Accountants

## INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

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

We have compiled the accompanying financial statements of the business-type activities of the La Luz Mutual Domestic Water Consumers Association (the "Association") as of and for the year ended December 31, 2013, which collectively comprise the Association's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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

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

Management has omitted the management's discussion and analysis and budgetary comparison information that is required to be presented for purposes of additional analysis. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Alamogordo, New Mexico  
February 28, 2014

**BASIC  
FINANCIAL STATEMENTS**

La Luz Mutual Domestic Water Consumers Association  
Statement of Net Position  
December 31, 2013

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 253,132
Customer receivables, net of allowance for doubtful accounts	22,230
Prepays	9,270
Total current assets	<u>284,632</u>
Noncurrent assets:	
Bonds	5,970
Capital assets	1,107,960
Accumulated depreciation	(588,178)
Water rights, net of accumulated amortization	1,200
Total noncurrent assets	<u>526,952</u>
Total assets	<u>\$ 811,584</u>

**LIABILITIES AND NET POSITION**

Liabilities:	
Current liabilities:	
Accounts payable	\$ 315
Accrued expenses	4,206
Deferred revenue	5,727
Current portion of long-term debt	2,329
Total current liabilities	<u>12,577</u>
Noncurrent liabilities:	
Notes and loans payable	<u>126,043</u>
Total liabilities	<u>138,620</u>
Net position:	
Net investment in capital assets	393,739
Unrestricted net position	<u>279,225</u>
Total net position	<u>672,964</u>
Total liabilities and net position	<u>\$ 811,584</u>

See accompanying independent accountant's compilation report

La Luz Mutual Domestic Water Consumers Association  
Statement of Revenues, Expenses and Changes in Net Positions  
For the Year Ended December 31, 2013

Operating revenues:	
Charges for services	\$ 266,777
Total operating revenues	<u>266,777</u>
Operating expenses:	
Personnel services	132,575
Contractual services	18,700
Postage and Supplies	12,028
Repairs and maintenance	10,091
Auto	3,669
Travel	9,221
Utilities	22,232
Depreciation	27,034
Taxes	4,158
Miscellaneous	<u>4,159</u>
Total operating expenses	<u>243,867</u>
Operating income	<u>22,910</u>
Non-operating revenues (expenses):	
Interest income	428
Interest expense	<u>(5,508)</u>
Total non-operating revenues (expenses)	<u>(5,080)</u>
Change in net positions	17,830
Net positions, beginning of year	655,134
Net positions, end of year	<u>\$ 672,964</u>

See accompanying independent accountant's compilation report

La Luz Mutual Water Consumers Association  
Statement of Cash Flows  
For the Year Ended December 31, 2013

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 267,521
Cash payments to employees for services	(132,253)
Cash payments to suppliers for goods and services	(81,443)
<i>Net cash provided (used) by operating activities</i>	<u>53,825</u>
<i>Cash flows from capital and related financing activities:</i>	
Acquisition of capital assets	(31,850)
Principal paid on capital debt	(2,232)
Interest paid on capital debt	(5,508)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(39,590)</u>
<i>Cash flows from investing activities:</i>	
Interest income	428
Purchase of investments	-
Operating Reserve Funding	-
<i>Net cash provided (used) by investing activities</i>	<u>428</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	14,663
<i>Cash and cash equivalents - beginning of year</i>	<u>238,469</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 253,132</u></u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 22,910
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	27,034
Changes in assets and liabilities	
Receivables	113
Prepaid expenses	3,281
Accounts payable	(466)
Accrued expenses	322
Deferred revenue	631
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ 53,825</u></u>

See accompanying independent accountant's compilation report

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

**A. Financial Reporting Entity**

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

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

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



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

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

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

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

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

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

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

The *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.

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

**C. Assets, Liabilities and Net 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.

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

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

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

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

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

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

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

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

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

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

<u>Assets</u>	<u>Years</u>
Furniture and fixtures (including software)	5-7
Automobiles	5
Plant and water system	5-50

**Accrued Expenses:** Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through December 31, 2012, along with applicable payroll taxes.

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

**Equity Classifications**

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

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

La Luz Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
December 31, 2013

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

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

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

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

**NOTE 2. Deposits and Investments**

State statutes authorize the investment of Association funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Association properly followed State investment requirements as of December 31, 2013.

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

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

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Association for at least one half of the amount on deposit with the institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. At December 31, 2013, the Association did not have any deposits in excess of the federal deposit insurance.

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

*Custodial Credit Risk – Deposits* Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At December 31, 2013, none of the Association's bank balances of \$253,032 was exposed to custodial credit risk.

La Luz Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
December 31, 2013

**NOTE 2. Deposits and Investments (continued)**

	First American Bank Checking	First American Bank Savings	Wells Fargo	Bank 34	Totals
Amount of deposits	\$ 28,827	\$ 168,231	\$ 7,774	\$ 48,200	\$ 253,032
FDIC Coverage	250,000	250,000	250,000	250,000	-
Total uninsured public funds	-	-	-	-	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	-	-	-	-	-
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -	\$ -	\$ -
Pledged collateral	-	-	-	-	-
Over (under) collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Reconciliation to the Statement of Net Positions

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 253,132.00
Restricted cash and cash equivalents per Exhibit A-1	-
Less U.S. Treasury Money Market Mutual Funds	-
Less deposits in transit	-
Less petty cash	(100)
Bank balance of deposits	<u>\$ 253,032</u>

**NOTE 3. Receivables**

Proprietary fund receivables are shown as follows:

	Total
Water billings	<u>\$ 22,230</u>
Gross accounts receivable	22,230
Allowance for doubtful accounts	-
Net accounts receivable	<u>\$ 22,230</u>

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

La Luz Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
December 31, 2013

**NOTE 4. Capital Assets**

A summary of capital assets and changes occurring during the year ended December 31, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and construction in progress are not subject to depreciation.

	Balance, December 31, 2012	Additions	Deletions	Balance, December 31, 2013
Capital assets not being depreciated:				
Land	\$ 26,282	\$ -	\$ -	\$ 26,282
Wells	57,767			57,767
Total	<u>84,049</u>	<u>-</u>	<u>-</u>	<u>84,049</u>
Capital assets being depreciated:				
Furniture and fixtures	13,356	5,686	-	19,042
Automobiles	34,901	-	-	34,901
Plant and water system	943,804	26,164	-	969,968
Total	<u>992,061</u>	<u>31,850</u>	<u>-</u>	<u>1,023,911</u>
Less accumulated depreciation:				
Furniture and fixtures	3,869	2,660	-	6,529
Automobiles	28,997	2,361	-	31,358
Plant and water system	528,278	22,013	-	550,291
Total	<u>561,144</u>	<u>27,034</u>	<u>-</u>	<u>588,178</u>
Total capital assets, net of depreciation	<u>\$ 514,966</u>	<u>\$ 4,816</u>	<u>\$ -</u>	<u>\$ 519,782</u>

Depreciation expense for the year ended December 31, 2013 was \$27,034.

**NOTE 5. Long-term Debt**

During the year ended December 31, 2013, the following changes occurred in the liabilities reported in the statement of net positions:

**La Luz Mutual Domestic Water Consumers Association  
Long Term Debt Rollforward  
December 31, 2013**

	Balance, December 31, 2012	Additions	Retirements	Balance, December 31, 2013	Due Within One Year
USDA, Rural Development	\$ 128,372	\$ -	\$ 2,329	\$ 126,043	\$ 2,329
Totals	<u>\$ 128,372</u>	<u>\$ -</u>	<u>\$ 2,329</u>	<u>\$ 126,043</u>	<u>\$ 2,329</u>

La Luz Mutual Domestic Water Consumers Association  
Notes to the Financial Statements  
December 31, 2013

**NOTE 5. Long-term Debt (continued)**

**Loans Payable**

On August 13, 2003, the Association borrowed \$148,400 from the United States Department of Agriculture, Rural Development for the purpose of the Phase II construction project for water systems. The loan is payable in monthly installments of \$645 and matures on August 13, 2043. The annual interest rate on the loan is 4.25%.

**Debt Service Requirements**

Debt service requirements for the next five years and thereafter are as follows:

<b>Loans Payable</b>			
Fiscal Year Ending	Principal	Interest Payment	Total Debt
December 31,	Payment		Service
2014	\$ 2,329	\$ 5,411	\$ 7,740
2015	2,443	5,297	7,740
2016	2,548	5,192	7,740
2017	2,659	5,081	7,740
2018	2,774	4,966	7,740
2019-2043	115,619	67,837	183,456
Total	<u>\$ 128,372</u>	<u>\$ 93,784</u>	<u>\$ 222,156</u>

**SUPPORTING SCHEDULE**

La Luz Mutual Domestic Water Consumers Association  
 Schedule of Deposit and Investment Accounts  
 For the Year Ended December 31, 2013

Bank Account Type/Name	Deposits				Totals
	First American Bank Checking	First American Bank Savings	Wells Fargo	Bank 34	
General - Checking	\$ 28,827	\$ -	\$ -	\$ -	\$ 28,827
General - Savings		168,231	7,774	48,200	224,205
Total on deposit	28,827	168,231	7,774	48,200	253,032
Reconciling items	-	-	-	-	-
Reconciled balance	\$ 28,827	\$ 168,231	\$ 7,774	\$ 48,200	\$ 253,032
*Account is U.S. Treasury MMA Mutual Funds and is considered cash equivalents					
Petty cash					100
Total deposits and investments					\$ 253,132
Total unrestricted cash and cash equivalents per Exhibit A-1					253,132
Total restricted cash and cash equivalents per Exhibit A-1					-
Total deposits and investments					\$ 253,132

See accompanying independent accountants' compilation report