

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

Audited Financial Statements

Year Ended December 31, 2018

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

**La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
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December 31, 2018**

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**La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Official Roster
December 31, 2018**

Board Members

Cheri Moore
Reynoldo Duran
Gary Van Stratton
Geirgene Knecht
Anthony Ogden

President
Vice President
Secretary
Treasurer
Works Supervisor

Administration

Edward Lueras
Carol Garcia

Systems Manager
Administrative Advisor

Financial Section

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

INDEPENDENT AUDITOR'S REPORT

The New Mexico Office of the State Auditor
Members of the Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

Report on Financial Statements

I have audited the accompanying financial statements of the business-type activities of La Luz Mutual Domestic Water Consumers Association and Sewage Works Association (the Association), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents. I also have audited the budgetary comparison presented as supplementary information for the year ended December 31, 2018, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Association as of December 31, 2018, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons of the Association for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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. My opinion on the basic financial

statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements and the budgetary comparison. The statement of revenues, expenditures and changes in net position by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The statement of revenues, expenditures and changes in net position by fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the statement of revenues, expenditures and changes in net position by fund and the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated May 29, 2019 on my consideration of the Association's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Association's internal control over financial reporting and compliance.



Dan Austin CPA, PC
Ruidoso, New Mexico
May 29, 2019

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Statement of Net Position
December 31, 2018

Assets

Current Assets

Cash	\$ 284,203
Customer Receivables	26,569
Returned Checks	295
Prepays	<u>7,116</u>
Total Current Assets	<u>318,183</u>

Noncurrent Assets

Capital Assets	4,663,371
Accumulated Depreciaiton	<u>(777,401)</u>
Total Noncurrent Assets	<u>3,885,970</u>

Total Assets	<u>\$ 4,204,153</u>
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Liabilities and Net Assets

Current Liabilities

Account Payable	\$ 71
Unearned Revenue-Customer Deposits	6,048
Payroll Taxes Payable	1,369
Other Current Liabilities	1,754
Current Portion of Long-Term Debt	<u>7,681</u>
Total Current Liabilities	<u>16,923</u>

Long-Term Liabilities

Notes Payable Less Current Portion	<u>597,271</u>
Total Long-Term Liabilities	<u>597,271</u>

Net Assets

Restricted For Debt Service	64,932
Net Investment in Capital Assets	3,362,154
Unrestricted For Debt Service	<u>162,873</u>
Total Net Assets	<u>3,589,959</u>

Total Liabilities and Net Assets	<u>\$ 4,204,153</u>
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See Accompanying Notes to the Financial Statements and Independent Auditor's 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, 2018

Operating Revenues	
Sales and Services	\$ <u>299,797</u>
Total Operating Revenues	299,797
Operating Expenses	
Personnel Costs	141,607
Depreciation	85,404
Insurance	16,500
Utilities and Telephone	33,570
Postage and Office Supplies	11,828
Repairs and Maintenance	8,734
Property Tax	2,551
State Conservation Tax	1,006
Travel	5,437
Auto Expense	3,575
Accounting and Legal Fees	17,993
Other Operating Expense	<u>6,493</u>
Total Operating Expense	<u>334,698</u>
Total Operating Income (Loss)	<u>(34,901)</u>
Non-Operating Revenues (Expenses)	
Interest Income	475
Grant Revenues-Federal Sources	1,630,928
Grant Revenue-State Sources	921,895
Interest Expense	<u>(13,799)</u>
Total Non-operating Revenue (Expense)	<u>2,539,499</u>
Change in Net Position	2,504,598
Net Position at Beginning of Year	<u>1,085,361</u>
Net Position at End of Year	<u>\$ 3,589,959</u>

See Accompanying Notes to the Financial Statements and Independent Auditor's Report

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Statement of Cash Flows
December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From Customers	\$ 300,996
Cash Paid To Suppliers	(102,003)
Cash Paid To Employees	<u>(145,086)</u>
Net Cash Provided By Operating Activities	<u>53,907</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal Paid on Capital Debt	(12,332)
Debt Interest	(13,799)
Proceeds From Loans	<u>498,853</u>
Net Cash Used For Capital And Related Financing Activities	<u>472,722</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Grants Received	2,552,823
Payments For Capital Acquisitions	(3,067,450)
Proceeds from debt financing	-
Interest Income	<u>475</u>
Net Cash Provided From Investing Activities	<u>(514,152)</u>

Net Increase In Cash	12,477
Cash - Beginning Of Year	<u>271,726</u>
Cash - End Of Year	<u>\$ 284,203</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (34,901)
Noncash Items in Net Income-Depreciation	
Depreciation	85,404
(Increase) Decrease In:	
Accounts Receivable	1,199
	3,479
Increase (Decrease) In:	
Accounts Payable	(4,836)
Landfill Closure	3,444
Other Accrued Payables	<u>118</u>
Net Cash Provided From Operating Activities	<u>\$ 53,907</u>

See Accompanying Notes to the Financial Statements and Independent Auditor's Report

STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
Notes to Financial Statements
December 31, 2018

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 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 Association, 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 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, 2018, 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, 2018.

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 Association'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, 2018, none of the Association's bank balances of \$274,027 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	Reconciling Items		Balance Per
			Per Depository	Outstanding Checks	Deposits	Financial Statements
First American	Checking	Operations	\$ 10,529	\$ 3,970	\$ -	\$ 14,499
First American	Savings	Operating Reserve	202,398	-	-	202,398
First American	Checking	Operating Reserve	6,243	-	-	6,243
Bank 34	Checking	Debt Reserve	31,376	-	-	31,376
Bank 34	Checking	Operating Reserve	31,874	-	-	31,874
Bank 34	Checking	Debt Reserve	1,682	-	-	1,682
Total cash on deposit			<u>\$ 284,102</u>	<u>\$ 3,970</u>	<u>\$ -</u>	<u>288,072</u>
Petty cash						<u>100</u>
Total cash on hand and on deposit						<u>\$ 288,172</u>

Note 4. Receivables

At December 31, 2018 the Association has water billing receivables totaling \$27,768 outstanding.

Note 5. Capital Assets

Capital asset activity for the year ended December 31, 2018, 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	<u>27,482</u>	<u>-</u>	<u>-</u>	<u>27,482</u>
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	1,413,236	3,067,450	-	4,480,686
Total capital assets being depreciated	<u>1,568,439</u>	<u>3,067,450</u>	<u>-</u>	<u>4,635,889</u>
Less:				
Accumulated depreciation	691,997	85,404	-	777,401
Total accumulated depreciation	<u>691,997</u>	<u>85,404</u>	<u>-</u>	<u>777,401</u>
Total capital assets being depreciated, net	<u>876,442</u>	<u>2,982,046</u>	<u>-</u>	<u>3,858,488</u>
Capital assets, net	<u>\$ 903,924</u>	<u>\$ 2,982,046</u>	<u>\$ -</u>	<u>\$ 3,885,970</u>

Current year depreciation amounted to \$85,404

Note 6. Unearned Revenue

Unearned revenue represents revenues collected but not earned and totals \$6,048 as of December 31, 2018. 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 12/31/17	Additions	(Reductions)	Balance 12/31/18	Due Within One Year
0% Note Payable, payable to USDA - RUS in monthly installments of \$645, unsecured dated 8/13/2003 matures 8/13/2043	\$ -	\$ 84,853	\$ (6,894)	\$ 77,959	\$ -
3.625% Note Payable, payable to USDA - RUS in monthly installments of \$1,636, secured by project assets dated 8/13/2003 dated 5/15/2018, matures 5/15/2058	-	414,000	(2,677)	411,323	4,801
4.25% Note Payable, payable to USDA - RUS in monthly installments of \$645, unsecured dated 8/13/2003 matures 8/13/2043	<u>118,431</u>	<u>-</u>	<u>(2,761)</u>	<u>115,670</u>	<u>2,880</u>
Total Long-Term Obligations	<u>\$ 118,431</u>	<u>\$ 498,853</u>	<u>\$ (12,332)</u>	<u>\$ 604,952</u>	<u>\$ 7,681</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2018, is as follows:

Fiscal Year	Principal	Interest	Total
2019	11,812	19,691	31,503
2020	12,114	19,386	31,503
2021	12,426	19,076	31,500
2022	12,694	18,749	31,502
2023	13,093	18,410	31,443
2024-2028	68,034	86,478	154,512
2029-2034	87,207	78,046	165,253
2035-2039	91,420	61,428	152,848
2040-2044	72,642	46,106	118,748
There After	<u>223,510</u>	<u>62,469</u>	<u>285,979</u>
	<u>\$ 604,952</u>	<u>\$ 429,839</u>	<u>\$ 1,034,791</u>

Note 8. Joint Powers Agreements

As of the year ended December 31, 2018, 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, 2018, the Association had a significant commitment with Souder, Miller & Associates for the design phase of water system improvements. During the fiscal year the Association expended \$3,067,450 in improvements to the Association's water distribution system. Improvements were funded by federal and state grants and loans. As of December 31, 2018 the Association had unfunded grant commitments from the USDA in the amount of \$156,171. The improvement project was placed in service in May of 2018 and is virtually complete.

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 Association 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, 2018 was \$2,138.

The Association does not participate in the New Mexico Public Employees Association Pension Plans.

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, 2018 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 16. Subsequent Events

The date to which events occurring after December 31, 2018. The date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statement or disclosures is May 29, 2019, which is the date on which the financial statements were issued.

Note 17. GASB 77 Tax Abatements

NMAC 2.2.210 (BB) (3) requires government to disclose any Tax Abatements granted. The Association had none for the current fiscal year.

Supplementary Information

STATE OF NEW MEXICO
 LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
 MUTUAL SEWAGE WORKS ASSOCIATION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN CASH POSITION
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Water User Fees	\$ 310,816	\$ 310,816	\$ 302,208	\$ (8,608)
Grant Revenues	2,550,773	2,550,773	2,981,518	430,745
Interest Income	-	-	475	475
Other Revenue	-	-	-	-
Total revenue	<u>2,861,589</u>	<u>2,861,589</u>	<u>3,284,201</u>	<u>422,612</u>
Expenditures:				
Payroll	121,000	121,000	124,739	(3,739)
Employee Benefits	20,200	20,200	15,634	4,566
Other Operating Expense	100,400	100,400	103,782	(3,382)
Capital Outlay	2,590,262	2,590,262	2,985,907	(395,645)
Debt Service	<u>10,303</u>	<u>29,023</u>	<u>41,662</u>	<u>(12,639)</u>
Total expenditures	<u>2,842,165</u>	<u>2,860,885</u>	<u>3,271,724</u>	<u>(410,839)</u>
Excess (deficiency) of revenue and cash over expenditures	<u>\$ 19,424</u>	<u>\$ 704</u>	<u>12,477</u>	<u>\$ 11,773</u>
			<u>271,726</u>	
			<u>\$ 284,203</u>	

See Accompanying Notes to the Financial Statements and Independent Auditor's Report

Compliance Sections

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

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

The New Mexico Office of the State Auditor
Members of the Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the related budget comparisons of the Association, presented as supplemental information, and have issued my report thereon dated May 29, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.


We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that I have described in the accompanying schedule of results and findings as item 2018-001.

The Association' Response to Findings

The Association's response to the findings identified in my audit is described in the accompanying schedule of results and findings. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dan Austin CPA, PC". The signature is written in a cursive, flowing style.

Dan Austin CPA, PC
Ruidoso, New Mexico
May 29, 2019

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

The New Mexico Office of the State Auditor
Members of the Board of Directors
La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association
La Luz, New Mexico

Report on Compliance for Each Major Federal Program

I have audited the La Luz Mutual Domestic Water Consumers Association and Mutual Sewage Works Association (the "Association") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2018. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Association's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In my opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

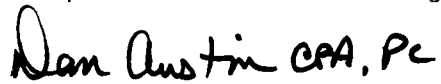
Management of the Association, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Association's internal control over compliance with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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material

weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in black ink that reads "Dan Austin CPA, PC". The signature is written in a cursive, slightly slanted style.

Dan Austin CPA, PC
Ruidoso, New Mexico
May 29, 2019

State of New Mexico
La Luz Mutual Domestic Water Consumers Association and
Mutual Sewage Works Association
Schedule of Expenditure of Federal Awards
December 31, 2018

Grantor/ Program Title	Number	Expenditures	Subrecipients	Assistance
United States Department of Agriculture		-	-	-
Water and Waste Disposal Loans and Grants(Sec 306C)	10.770	2,044,928	-	-
Total United States Department of Agriculture		\$ 2,044,928	\$ -	\$ -

Notes to Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Association and is presented on the full accrual basis of accounting, which is the same basis as was used to prepare the government-wide financial statements. The information in this Schedule is presented in accordance with the requirements of Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

10% de minimus Indirect Cost Rate

The Authority did not elect to use the allowed 10% indirect cost rate.

Federally Funded Insurance

The Authority has no federally funded insurance.

STATE OF NEW MEXICO
 LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
 MUTUAL SEWAGE WORKS ASSOCIATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2018

Section I – Summary of Auditors’ Results

Financial Statements:

1. Type of auditors’ report issued Unmodified
2. Internal control over financial reporting:
 - a. Material weaknesses identified? No
 - b. Significant deficiencies identified not considered to be material weaknesses? No
 - c. Noncompliance material to the financial statements noted? None Noted

Federal Awards:

1. Internal control over major programs
 - a. Material weaknesses identified? None Noted
 - b. Significant deficiencies identified not considered to be material weaknesses? No
2. Type of auditors’ report issued on compliance for major programs Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a)? No
4. Identification of major programs:

CFDA Number	Federal Program
10.770	Water and Waste Disposal Loans and Grants
5. Dollar threshold used to distinguish between type A and type B programs: \$750,000
6. Auditee qualified as low-risk auditee? No

STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
MUTUAL SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

The following are the results and finding for the year ended December 31, 2018:

Prior Year Findings:

None

Current Year Findings

NM 2018-001 – Budgetary Condition – Other Matter

Condition: The Association exceeded budgetary authority in the in its proprietary fund in the amount of \$410,839.

Criteria: A budget is a proposed plan of financial operations for a given period of time. The annual budget authorizes and provides the basis for control of financial operations during the fiscal year. The Association cannot exceed its budget as required by NMSA 1978 Section 6-6-1 to 6-6-19.

Effect: The Association is spending funds that were not authorized by the Board of Directors

Cause: The Association did not adequately monitor its budget in these areas. Expenditures were approved in excess of available budget or budget adjustments were not approved and journal entries were not made to cover the expenditure approved.

Auditor's Recommendation: We recommend that expenditures not be approved which would cause the budget to be exceeded. We also recommend that timely budget adjustments be prepared and approved by NMDFA when necessary.

Views of Responsible Officials and Planned Corrective Actions: In the future we request and approve budget adjustments when necessary. The Association Administrative Advisor Carol Garcia will review its current budget at the earliest date and recommend budget adjustments necessary to insure compliance with the statutes as required by 2.2.2.10(L)(1)(d)(vi) NMAC.

**STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION AND
MUTUAL SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE AND OTHER DISCLOSURES
DECEMBER 31, 2018**

Financial Statement Preparation

Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District's personnel did not have the time to prepare them. Therefore, the outside auditor prepared the GAAP basis financial statements and footnotes for inclusion in the annual audit report from the original books and records provided to them by the management of the District. Management of the District has reviewed and approved these financial statements and related notes and believes they are adequately supported by the books and records of the government.

Exit Conference

An exit conference was held on May 31, 2019 to discuss the financial report. Attending were Cheri Moore, President, Carol Garcia, Administrative Advisor and auditor Dan Austin, CPA.