

**State of New Mexico
La Union Mutual Domestic
Sewer and Water Association**

Independent Accountant's Report on
Applying Agreed Upon Procedures
June 30, 2016

LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

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LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

OFFICIAL ROSTER

JUNE 30, 2016

BOARD OF DIRECTORS

Jose Villalobos, President

Reynaldo Medina, Vice-President

Evangelina G. Martinez, Secretary

Georgina Galvan, Treasurer

Guillermo Garcia, Board Member

WATTS CPA, P.C.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Honorable Timothy Kelly, State Auditor and
Members of the Board of Directors
La Union Mutual Domestic Sewer and Water Association
La Union, New Mexico

I have performed the procedures enumerated below, which were agreed to by the La Union Mutual Domestic Sewer and Water Association (LUMDSWA) and the New Mexico State Auditor, solely to assist you with respect to the compliance with Tier 6 of the Audit Act - Section 12-6-3 B (5) NMSA 1978 and Section 2.2.2.16 NMAC of La Union Mutual Domestic Sewer and Water Association as of and for the year ended June 30, 2016. LUMDSWA's management is responsible for the association's accounting records. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I 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.

My procedures and findings are as follows:

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

Results

I recalculated LUMDSWA's revenue calculation and verified that tier 6 is the correct determination.

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 Government 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

- a. I obtained all bank reconciliations prepared in FY 2016 and noted that all are performed within 7 days of the end of the month which is considered timely. Also, I noted that all bank statements were complete and on hand at LUMDSWA's office.
- b. I selected 4 months of bank reconciliations and recalculated them, noting no errors. I traced the ending balance to the general ledger, the related supporting documentation including bank statements and details of reconciling items, and traced the balance to the quarterly financial reports submitted to DFA-Local Government Division.

c. As of June 30, 2016, LUMDSWA's bank has provided more than the 50% collateral on uninsured deposits required by Section 6-10-17 NMSA 1978, NM Public Money Act.

3. Capital Assets

Procedures

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

Results

LUMDSWA performs an annual capital asset inventory which I verified by I obtaining a copy of the annual capital asset inventory.

4. Debt

Procedures

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

Results

At June 30, 2016, LUMDSWA has two loans outstanding, one with NMFA and another with the USDA. I traced the annual payment on the NMFA loan to a statement provided by the NMFA and the disbursement from LUMDSWA's bank statement. I traced the monthly payments on the USDA loan to the disbursement on the bank statement. USDA provides a calendar year based statement and I also verified that the payments from July 2015 to December 2015 were included on the USDA statement. Neither of the loans require debt reserves.

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 revenue based on auditor judgment 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

I identified the types of revenue that LUMDSWA receives by reviewing the budget, agreements, rate schedules and underlying documentation. LUMDSWA receives revenues from customers for connecting to the system, water usage, membership dues, reconnection fees, federal and state grants and miscellaneous other income.

a. I performed an analytical review of revenues by comparing actual revenue to the budgeted revenue for the year for each type of revenue. The results of the analytical review were as expected except that hook-up fees were approximately double the budgeted amount and grant revenues were not budgeted.

b. I judgementally selected 42 revenue items and agreed all to their respective supporting documentation and the bank statement.

c. I judgementally selected 42 revenue items and found that each was recorded correctly in the general ledger for classification, amount and period based on the supporting documentation using the accrual basis of accounting.

6. Expenditures

Procedures

Select a sample of cash disbursements based on auditor judgment 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, contract 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

a. I judgementally selected 40 cash disbursements and determined that the amount recorded as disbursed agrees to adequate supporting documentation. I also verified that the amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

b. I judgementally selected 40 cash disbursements and determined that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c. I judgementally selected 40 cash disbursements and when applicable, I determined 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).

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

a. I judgementally selected 7 significant non-routine journal entries and determined that they were reasonable and have supporting documentation. Also, I noted that the entries are documented and reviewed by the governing board.

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, that the original budget 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 budget 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

- a. I verified by reviewing the board of director's minutes and correspondence from DFA-LGD that the original budget and subsequent budget adjustments were approved by LUMDSWA's governing body and DFA-LGD, respectively.
- b. I determined that total actual expenditures did not exceed the final budget at the legal level of budgetary control.
- c. See the attached page 7 for the statement of revenues and expenditures budget and actual - modified cash basis.

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 if 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

These procedures were not applicable because LUMDSWA had no capital outlay appropriations in the year ended June 30, 2016.

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, 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(I)(3)(C) NMAC.

Results

No information came to my attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies.

I was 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, I do not express such an opinion. Had I 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 Union Mutual Domestic Sewer and Water Association, the New Mexico State Auditor, the New Mexico Legislature and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.

Watts CPA, P.C.

El Paso, Texas
December 15, 2016

LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

STATEMENT OF REVENUES AND EXPENDITURES
 - BUDGET AND ACTUAL - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget- Favorable (Unfavorable)
Revenues:				
Water sales	\$ 244,274	\$ 244,272	\$ 249,148	\$ 4,876
Hook up commercial & residential	15,213	15,213	28,593	13,380
Membership commercial & residential	1,000	1,000	1,800	800
Grants	-	-	223,518	223,518
Other income	-	-	3,382	3,382
Interest	4,500	4,500	168	(4,332)
Total revenues	<u>264,987</u>	<u>264,985</u>	<u>506,609</u>	<u>241,624</u>
Expenditures:				
Operating expenses	242,768	242,768	186,135	56,633
Interest	-	-	1,987	(1,987)
Total expenditures	<u>242,768</u>	<u>242,768</u>	<u>188,122</u>	<u>54,646</u>
Excess (deficiency) of revenues over expenditures	<u>22,219</u>	<u>22,217</u>	<u>318,487</u>	<u>296,270</u>
Excess (deficiency) of revenues over expenditures	22,219	22,217	\$ 318,487	\$ 296,270
Cash - beginning of year	<u>483,667</u>	<u>483,667</u>	<u>483,667</u>	<u>-</u>
Cash - end of year	<u>\$ 505,886</u>	<u>\$ 505,884</u>	<u>\$ 802,154</u>	<u>\$ -</u>
Reconciliation of budgetary basis to GAAP basis:				
Excess of revenues over expenditures			\$ 318,487	
Change in:				
Revenue accruals			6,121	
Payables and accruals			10,227	
Debt payments			1,216	
Depreciation			(134,363)	
Change in net position - GAAP basis			<u>\$ 201,688</u>	

LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Summary of Findings:

Current year findings:

None

Prior year findings:

Number	Description	Status
FS 2013-003 (2014-003)	Pledged collateral	Resolved in current year

**STATE OF NEW MEXICO
LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2016**

An exit conference was conducted on December 15, 2016 with the following individuals in attendance:

La Union Mutual Domestic Sewer and Water Association

Jose Villalobos
Reynaldo Medina
Evangelina Martinez
Veronica Menchaca

President
Vice-President
Secretary
Office Manager

Watts CPA, P.C.

Brad Watts

Shareholder

Compiled Financial Statements

WATTS CPA, P.C.

To the Honorable Timothy Keller, State Auditor
and Members of the Board of Directors
La Union Mutual Domestic Sewer and Water Association

Management is responsible for the accompanying financial statements of the the business-type activities of La Union Mutual Domestic Sewer and Water Association, (the Association) which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and related notes to the financial statements, which collectively comprise the Association's basic financial statements, in accordance with accounting principles generally accepted in the United States of America. I 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. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

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.

Watts CPA, P.C.

El Paso, Texas
December 15, 2016

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS:

Current Assets

Cash and cash equivalents \$ 568,889
Accounts receivable, net of allowance of \$0 35,125

Total current assets 604,014

Noncurrent assets

Capital assets, net of accumulated depreciation 4,879,082

Total noncurrent assets 4,879,082

Total assets \$ 5,483,096

LIABILITIES:

Current Liabilities:

Accrued expenses \$ 3,169

Customer deposits 5,500

Current maturities of notes payable 4,565

Total current liabilities 13,234

Noncurrent liabilities:

Notes payable 126,133

Total liabilities 139,367

NET POSITION:

Net investment in capital assets 4,748,384

Unrestricted 595,345

Total net position 5,343,729

Total liabilities and net position \$ 5,483,096

See independent accountant's compilation report

**STATE OF NEW MEXICO
LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Operating Revenues:	
Charges for services	\$ 283,862
Other revenues	<u>5,182</u>
Total operating revenues	<u>289,044</u>
Operating Expenses:	
Operating expenses	174,692
Depreciation	<u>134,363</u>
Total operating expenses	<u>309,055</u>
Operating loss	<u>(20,011)</u>
Non-Operating Revenues (Expenses):	
Interest income	168
Interest expense	<u>(1,987)</u>
Total non-operating expenses	<u>(1,819)</u>
Loss before capital contributions	<u>(21,830)</u>
Capital Contributions:	
Grant revenues:	
State	212,512
Federal	<u>11,006</u>
Total capital contributions	<u>223,518</u>
Change in net position	201,688
Net position - beginning of year	<u>5,142,041</u>
Net position - end of year	<u>\$ 5,343,729</u>

See independent accountant's compilation report

**STATE OF NEW MEXICO
LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows From Operating Activities:	
Cash received from customers	\$ 278,323
Cash payments to employees for services	(39,172)
Cash payments to vendors for goods and services	<u>(139,354)</u>
Net cash provided by operating activities	<u>99,797</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase and construction of capital assets	(240,147)
Payments on notes payable	(1,216)
Payments for interest on notes payable	(1,987)
Proceeds from capital grants	<u>228,607</u>
Net cash used in capital and related financing activities	<u>(14,743)</u>
Cash Flows From Investing Activities	
Interest received	<u>168</u>
Net cash provided by investing activities	<u>168</u>
Net increase in cash and cash equivalents	85,222
Cash and cash equivalents, beginning of year	<u>483,667</u>
Cash and cash equivalents, end of year	<u>\$ 568,889</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating loss	\$ (20,011)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	134,363
Change in:	
Accounts receivable	(7,011)
Prepaid expenses	1,793
Accounts payable and accrued liabilities	(4,737)
Member deposits	<u>(4,600)</u>
Total adjustments	<u>119,808</u>
Net cash provided by operating activities	<u>\$ 99,797</u>

See independent accountant's compilation report

**STATE OF NEW MEXICO
LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

The La Union Mutual Domestic Sewer and Water Association (the "Association") in La Union, New Mexico was incorporated on May 16, 1995. The Association was incorporated as a nonprofit cooperative association in accordance with the provisions of The Sanitary Projects Act 3-29-1 through 3-21-19 of the New Mexico Statutes Annotated 1953 (SPA).

Under the SPA, the Association remains a nonprofit organization owned and governed by its members. It is eligible to receive certain loans and grants from the State of New Mexico and the federal government.

The Association is governed by a Board of Directors that consists of five members who are responsible for legislative and fiscal control of the Association. The Board of Directors is also responsible for administrative control of the Association.

The purpose of the Association is to acquire, construct, install, maintain and operate a water and/or sewer system for the supply and distribution of water for domestic uses and/or collection of sewage for its members and to engage in any related activity.

The accounting policies of the Association conform to generally accepted accounting principles as applicable to governmental units. The financial statements and notes are the representation of the Association's management who is responsible for their integrity and objectivity. The following is a summary of the significant policies:

A. Reporting Entity

Criterion for determining the entity for financial reporting purposes is whether the governing body (Board of Directors) exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operation, and accountability for fiscal matters. Based on the application of these criteria, the Association has no component units, and is not a component unit of another governmental agency. For financial reporting purposes, the association is considered a special-purpose government engaged in business-type activities.

The Association is exempt from income taxes under Section 501(c)(12) of the United States Internal Revenue Code. This section exempts from income tax corporations such as "...mutual ditch or irrigation companies, mutual or corporation telephone companies, or like organizations: but on if 85% or more of income consists of amounts collected from members for the sole purpose of meeting losses and expenses."

B. Basic Financial Statements

The Association has only one fund. The operations of the Association include both water services. This activity is accounted for in a proprietary fund, which is a business type activity, generally financed with fees charged to users. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. The Association does not have any fiduciary funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of American (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial principles. GASB periodically updates its codifications of the existing Governmental Accounting and Financial Standards which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The financial statement reports were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used regardless of when the related cash flows take place. Operating income reported in the financial statements includes revenue and expenses related to the primary and continuing operation of the fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Principal operating revenues are charges to consumers for sales and services. The Association also recognizes as operating revenue, connection fees intended to recover the cost of connecting new customers to the system. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund operating revenues, such as charges for services result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants and investment earnings, result from nonexchange transactions. Grant revenues are recognized when the eligibility requirements are met. The reported net assets are segregated into invested capital assets, net of related debt, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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.

D. Cash and cash equivalents

The Association's cash is 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

E. Accounts Receivable

Accounts receivable represents the amounts due from customers' water accounts. The allowance for doubtful accounts was \$0 at year end. There was no change in the allowance for doubtful accounts during the fiscal year and management expects to collect 100% of the

receivable.

F. Capital Assets

Capital assets are valued at historical cost. The Association defines capital assets as assets with lives greater than one year and a cost or donated value greater than \$5,000. Donated capital assets are valued at their estimated fair value on the date donated. Software is capitalized and depreciated through the equipment category. Repairs and maintenance are recorded as expenditures, improvements are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	5 - 10 years
Buildings, tanks, fences, wells, pumps	10 - 40 years
Utility lines and meters	25 - 40 years

G. Compensated Absences

The Association does not have a policy for compensated absences and accordingly no liability has been accrued.

H. Budgets and Budgetary Accounting

Water and sanitation Associations follow procedures that are promulgated by the New Mexico Department of Finance and Administration, Local Government Division. The procedures established by the Department of Finance and Administration, Local Government Division, are not consistent with GAAP, budgets are adopted on the modified cash basis. Under the budgetary basis, principal payments on debt are considered expenditures, purchase of capital assets are expenditures and depreciation is not recognized as an expense. The Board approves the original budget at a public meeting for which legal notices are published. The public is invited to comment at the meeting. The original budget must be approved by the Association's Board and the Department of Finance and Administration - Local Government Division (DFA) and may be subsequently amended. DFA approval is required for any revisions that alter the total budgeted expenditures. Actual expenditures may not legally exceed the appropriations in total. Budget control for expenses is by category of line item. Formal budgetary integration is employed as a management control device. Appropriations lapse at the end of the fiscal year.

I. Net Position

Net position comprises the various net earnings from operating, non-operating revenues and expenses, and deferred outflows and inflows of resources. Net position is classified in the following three components: net invested in capital assets; restricted; and unrestricted. Net invested in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net assets for which constraints are placed thereon by external parties such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consist of all other net asset not include in the above categories.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. New Accounting Pronouncements

During the year ended June 30, 2016, the Association implemented the following new accounting pronouncements which did not have a material effect on the Association's financial statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*.
- 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*.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

The following pronouncements have been issued, but are not yet effective for the year ended June 30, 2016.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 77, *Tax Abatement Disclosures*
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple Employer Defined Benefit Plans*
- GASB Statement No 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- GASB Statement 82, *Pension Issues-an Amendment of GASB Statements no. 67, No. 68, and No. 73*.

The Association is evaluating the effect that these statements will have in upcoming years.

2. CASH

Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

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. State statutes authorize the investment of the Association's funds in a variety of instruments including certificate of deposits and other similar obligations, state investment pool and money market accounts. The Association must follow the above investment policies.

New Mexico State Statues require collateral pledged for deposits in excess of 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. According to the Federal Deposit Insurance Corporation public unit, deposits are funds owned by the Association. Interest bearing accounts of a public unit in an institution in the same state will be insured separate from the public unit's demand deposits at the same institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, Association or political subdivision of the State of New Mexico.

The following schedule is designed to disclose the level of custodial credit risk assumed by the Association based upon how its deposits were insured or secured with collateral at June 30, 2016:

Total deposits in bank	\$ 575,999
Less FDIC coverage	<u>(266,487)</u>
Uninsured public funds	309,512
Pledged Collateral held by the pledging bank's trust department or agent in the Association's name	<u>259,512</u>
Uninsured and uncollateralized	<u>\$ 50,000</u>

As of June 30, 2016, the Association's bank balances were exposed to custodial credit risk. The amount above identified as uninsured \$309,512 is subject to custodial credit risk. This 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.

The various bank account balances were collateralized as shown in the following schedule:

Account	Account Type	Bank of the West	Wells Fargo Bank	Total Balance per Bank
Operating	Demand	\$ 7,000	\$ 7,438	\$ 14,438
Capital improvements	Demand	135,754	1	135,755
Arsenic	Demand	-	9,048	9,048
O&M	Demand	113,182	-	113,182
Debt service	Demand	45,596	-	45,596
Short lived	Demand	58,552	-	58,552
Water rights	Demand	67,986	-	67,986
Emergency	Demand	128,442	-	128,442
Construction	Demand	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total amounts of deposits		559,512	16,487	575,999
FDIC Coverage		<u>250,000</u>	<u>16,487</u>	<u>266,487</u>
Total uninsured public funds		309,512	-	309,512
Pledged collateral held by the pledging bank's trust department or agent in the Association's name		<u>259,512</u>	<u>-</u>	<u>259,512</u>
Uninsured and uncollateralized		<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>
50% pledged collateral requirement		\$ 154,756	\$ -	
Total pledged collateral		<u>259,512</u>	<u>-</u>	
Pledged collateral exceeding the requirements		<u>\$ 104,756</u>	<u>\$ -</u>	

A description of the pledged collateral as of June 30, 2016 is as follows:

Description	CUSIP#	Maturity	Market Value
Bank of the West:			
GNMA	36179RBW	4/20/2045	\$ 47,296
GNMA	36179RLN7	8/20/2045	98,968
GNMA	36202FXJ0	9/20/2041	<u>113,248</u>
Total Bank of the West			<u>\$259,512</u>

The various bank account reconciliations as of June 30, 2016 are as follows:

Account	Account Type	Balance per Bank	Deposits in Transit	Outstanding Checks	Total Balance per Bank
Wells Fargo Operating	Demand	\$ 7,438	\$ -	\$ 7,360	\$ 78
Wells Fargo Cap Imp	Demand	1	-	-	1
Wells Fargo Arsenic	Demand	9,048	-	-	9,048
BOTW O&M	Demand	113,182	-	-	113,182
BOTW Debt service	Demand	45,596	-	-	45,596
BOTW Short lived	Demand	58,552	-	-	58,552
BOTW Water rights	Demand	67,986	-	-	67,986
BOTW Emergency	Demand	128,442	-	-	128,442
BOTW Cap imp	Demand	135,754	-	-	135,754
BOTW Construction	Demand	3,000	-	-	3,000
BOTW Operating	Demand	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
Total amounts of deposits		<u>\$ 575,999</u>	<u>\$ -</u>	<u>\$ 7,360</u>	568,639
Petty Cash					<u>250</u>
Total cash					<u>\$ 568,889</u>

3. CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type capital assets, not being depreciated				
Land	\$ 34,582	\$ -	\$ -	\$ 34,582
Construction in progress	<u>1,177,436</u>	<u>-</u>	<u>(1,177,436)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,212,018</u>	<u>-</u>	<u>(1,177,436)</u>	<u>34,582</u>
Business-type capital assets, being depreciated				
Office site	453,495	9,500	-	462,995
Water system	4,122,315	1,408,083	-	5,530,398
Water rights	50,150	-	-	50,150
Equipment	<u>8,773</u>	<u>-</u>	<u>-</u>	<u>8,773</u>
Total business-type capital assets, being depreciated	<u>4,634,733</u>	<u>1,417,583</u>	<u>-</u>	<u>6,052,316</u>
Less Accumulated Depreciation	<u>1,073,453</u>	<u>134,363</u>	<u>-</u>	<u>1,207,816</u>
Total capital assets being depreciated, net	<u>3,561,280</u>	<u>1,283,220</u>	<u>-</u>	<u>4,844,500</u>
Business-type capital assets, net	<u>\$ 4,773,298</u>	<u>\$ 1,283,220</u>	<u>\$ (1,177,436)</u>	<u>\$ 4,879,082</u>

4. LONG TERM OBLIGATIONS

The Association's long-term liabilities consist of the following:

Note payable to United States Department of Agriculture maturing March 25, 2040, payable in monthly installments of \$417, including interest at 2.75% secured by all of the assets and revenues of the Association.	\$ 90,710
Note payable New Mexico Finance Authority maturing June 30, 2034, payable in annual principal only installments of \$2,222, secured by revenues of the system.	<u>39,988</u>
Total debt	130,698
Less current portion of long-term debt	<u>4,565</u>
Total long-term debt	<u>\$ 126,133</u>

Following is a summary of principal and interest maturities of long-term liabilities:

Years Ending	Interest	Principal
June 30, 2017	\$ 2,661	\$ 4,565
June 30, 2018	2,380	4,846
June 30, 2019	2,306	4,920
June 30, 2020	2,232	4,994
June 30, 2021	2,154	5,072
June 30, 2022 - 2026	9,536	26,594
June 30, 2027 - 2031	7,256	28,874
June 30, 2032 - 2036	4,642	27,036
June 30, 2037 - 2041	1,573	23,797
Total	<u>\$ 34,740</u>	<u>\$ 130,698</u>

Changes in long-term debt activity for the ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
USDA	\$ 89,704	\$ 1,006	\$ -	\$ 90,710	\$ 2,343
NM Finance Authority	<u>42,210</u>	<u>-</u>	<u>2,222</u>	<u>39,988</u>	<u>2,222</u>
Total notes payable	<u>\$ 131,914</u>	<u>\$ 1,006</u>	<u>\$ 2,222</u>	<u>\$ 130,698</u>	<u>\$ 4,565</u>

5. RISK MANAGEMENT

The Association covers its insurance needs through various insurance policies. The coverage includes worker's compensation, general liability, buildings and improvements, personal property, automobiles, directors' and officers' liability, and employee bonds. If the Association's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the Association's losses are low, they will not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

6. SUBSEQUENT REVIEW

La Union Mutual Domestic Sewer and Water Association has evaluated subsequent events through December 15, 2016, which is the date the financial statements were available to be issued.

7. NEW MEXICO RETIRE HEALTHCARE

The Association does not participate in the NM Retirement Health Care Act.