

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

Independent Accountant's Report on  
Applying Agreed Upon Procedures  
June 30, 2018

# LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

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JUNE 30, 2018

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**LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**OFFICIAL ROSTER**

**JUNE 30, 2018**

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**BOARD OF DIRECTORS**

Jose Villalobos, President

Lydia Ramos, Vice-President

Evangelina G. Martinez, Secretary

Eduardo Guerrero, Treasurer

Guillermo Garcia, Board Member

# WATTS CPA, P.C.

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Wayne A. Johnson, New Mexico 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, 2018. 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](http://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. Test at least 30% of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local 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 2018 and noted that all are performed within 7 business 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, 2018, 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 debt payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements

Results

At June 30, 2018, LUMDSWA has one loan outstanding with the USDA and one multiple advance term promissory note with a bank. I traced the monthly payments on the USDA loan to the disbursement on the bank statements. No payments are required on the promissory note with the bank. 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 revenues equal to at least 30% of the total dollar amount and test 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. LUMDSWA does not include grants and gains on sale of assets in its operating budget.

b. I judgmentally selected 37 revenue items, which totaled greater than 30% of all revenue dollars, and agreed all to their respective supporting documentation and the bank statement.

c. I judgmentally selected 37 revenue items, which totaled greater than 30% of all revenue, 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 equals to at least 30% of the total dollar amount and test 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 judgmentally selected 16 cash disbursements, which totaled greater than 30% of all 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 judgmentally selected 16 cash disbursements, which totaled greater than 30% of all disbursements, and determined that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c. I judgmentally selected 16 cash disbursements, which totaled greater than 30% of all 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

Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger 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 & b. I tested all 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 test work:

- 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 9 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 that meet the Tier 6 criteria. Perform the following tests on all state-funding capital outlays expenditures:

- 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

- a. I determined all amounts recorded as disbursed agrees to adequate supporting documentation. I verified that amount, payee, date and description agrees to the contract and vendor's invoice/statement.
- b. I determined that all the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c. The bid process, 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. The projects were for engineering and design and in progress so there is nothing to observe.
- e. I verified 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. The project is not funded in advance.
- g. The project is not complete.
- h. Cash received for the award was maintained in a separate book account.
- i. I determined that the reimbursement requests were properly supported by costs incurred by the recipient and the costs were paid by the local public body prior to the request for reimbursement.

#### 10. Other

##### Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, 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(L) NMAC.

##### Results

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

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my 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 4, 2018

## LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

### CAPITAL OUTLAY AWARDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

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	14-1622-STB	14-1623-STB	16-A2256-STB	16-A2257-STB
Amount awarded	\$ 150,000	\$ 50,000	\$ 75,000	\$ 75,000
Received through June 30, 2018	\$ 150,000	\$ 50,000	\$ 75,000	\$ 75,000
Expended through June 30, 2018	\$ 150,000	\$ 50,000	\$ 75,000	\$ 75,000
Remaining balance as of June 30, 2018	\$ -	\$ -	\$ -	\$ -
Project effective date through	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2018

#### Legislation:

14-1622-STB - The laws of 2014, Chapter 66, Section 16, Paragraph 29 to the Department of Environment to acquire easements and rights of way for and to plan, design, construct, purchase and equip water system improvements for La Union Mutual Domestic Sewer and Water Association in Dona Ana County.

14-1623-STB - The laws of 2014, Chapter 66, Section 16, Paragraph 30 to the Department of Environment to plan and design water system improvements for La Union Mutual Domestic Sewer and Water Association in Dona Ana County.

16-A2256-STB - The laws of 2016, Chapter 81, Section 18, Paragraph 18 to the Department of Environment to plan, design, construct, purchase and install water system equipment for La Union Mutual Domestic Sewer and Water Association in La Union Dona Ana County.

16-A2257-STB - The laws of 2016, Chapter 81, Section 18, Paragraph 17 to the Department of Environment to acquire easements and rights for way and to plan, design, construct, purchase and install water system equipment improvements for La Union Mutual Domestic Sewer and Water Association in La Union in Dona Ana County.

**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, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget- Favorable (Unfavorable)</b>
Revenues:				
Water sales	\$ 295,000	\$ 295,000	\$ 267,504	\$ (27,496)
Hook up commercial & residential	32,000	32,000	9,801	(22,199)
Membership commercial & residential	7,600	7,600	900	(6,700)
Grants	-	-	271,216	271,216
Other income	-	-	4,083	4,083
Interest	11,700	11,700	1,581	(10,119)
<b>Total revenues</b>	<u>346,300</u>	<u>346,300</u>	<u>555,085</u>	<u>208,785</u>
Expenditures:				
Operating expenses	277,200	277,200	202,321	74,879
Interest	-	-	5,776	(5,776)
<b>Total expenditures</b>	<u>277,200</u>	<u>277,200</u>	<u>208,097</u>	<u>69,103</u>
Excess (deficiency) of revenues over expenditures	<u>69,100</u>	<u>69,100</u>	<u>346,988</u>	<u>277,888</u>
Excess (deficiency) of revenues over expenditures	69,100	69,100	\$ 346,988	\$ 277,888
Cash - beginning of year	<u>783,998</u>	<u>783,998</u>	<u>783,998</u>	<u>-</u>
<b>Cash - end of year</b>	<u>\$ 853,098</u>	<u>\$ 853,098</u>	<u>\$ 1,130,986</u>	<u>\$ -</u>
Reconciliation of budgetary basis to GAAP basis:				
Excess of revenues over expenditures			\$ 346,988	
Change in:				
Depreciation			<u>(271,493)</u>	
Change in net position - GAAP basis			<u>\$ 75,495</u>	

**LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION**

**SCHEDULE OF FINDINGS AND RESPONSES**

**JUNE 30, 2018**

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**Summary of Findings:**

Current year findings:

None

Prior year findings:

None

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

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2018**

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An exit conference was conducted on December 4, 2018 with the following individuals in attendance:

**La Union Mutual Domestic Sewer and Water Association**

Lydia Ramos

Evangelina Martinez

Veronica Menchaca

Veronica Villalobos

Vice - President

Secretary

Office Manager

Clerk - Assistant Manager

**Watts CPA, P.C.**

Brad Watts

Shareholder

**Compiled Financial Statements**

# WATTS CPA, P.C.

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To Wayne A. Johnson, New Mexico 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, 2018, and the related statements of revenues, expenditures 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 4, 2018

## **BASIC FINANCIAL STATEMENTS**



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

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

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**ASSETS:**

Current Assets

Cash and cash equivalents	\$ 1,256,860
Certificate of deposit	55,605
Accounts receivable, net of allowance of \$0	30,541
Grant receivable	5,103
Other receivable	15,200
Prepaid expense	<u>2,598</u>

Total current assets 1,365,907

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>4,857,757</u>
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Total noncurrent assets 4,857,757

Total assets \$ 6,223,664

**LIABILITIES:**

Current Liabilities:

Accounts payable	\$ 5,224
Accrued expenses	3,688
Customer deposits	45,700
Current maturities of notes payable	<u>2,804</u>

Total current liabilities 57,416

Noncurrent liabilities:

Notes payable	<u>616,210</u>
Total liabilities	<u>673,626</u>

**NET POSITION:**

Net investment in capital assets	4,238,743
Unrestricted	<u>1,311,295</u>
Total net position	<u>5,550,038</u>

Total liabilities and net position \$ 6,223,664

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, 2018**

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Operating Revenues:	
Charges for services	\$ 278,205
Other revenues	4,083
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Total operating revenues	282,288
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Operating Expenses:	
Operating expenses	202,321
Depreciation	271,493
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Total operating expenses	473,814
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Operating loss	(191,526)
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Non-Operating Revenues (Expenses):	
Interest income	1,581
Interest expense	(5,776)
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Total non-operating expenses	(4,195)
	<hr/>
Loss before capital contributions	(195,721)
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Capital Contributions:	
Grant revenues:	
State	271,216
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Total capital contributions	271,216
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Change in net position	75,495
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Net position - beginning of year	5,474,543
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Net position - end of year	\$ 5,550,038
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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, 2018**

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Cash Flows From Operating Activities:	
Cash received from customers	\$ 307,222
Cash payments to employees for services	(38,282)
Cash payments to vendors for goods and services	<u>(158,300)</u>
<b>Net cash provided by operating activities</b>	<b><u>110,640</u></b>
Cash Flows From Capital and Related Financing Activities:	
Purchase and construction of capital assets	(402,263)
Proceeds from note payable	540,000
Payments on notes payable	(36,828)
Payments for interest on notes payable	(5,776)
Proceeds from capital grants	<u>266,113</u>
<b>Net cash provided by capital and related financing activities</b>	<b><u>361,246</u></b>
Cash Flows From Investing Activities	
Interest received	1,581
Purchase of investment	<u>(605)</u>
<b>Net cash provided by investing activities</b>	<b><u>976</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>472,862</b>
Cash and cash equivalents, beginning of year	<u>783,998</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,256,860</u></b>

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

Operating loss	\$ (191,526)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation	271,493
Change in:	
Accounts receivable	4,584
Other receivable	(15,200)
Prepaid expenses	(19)
Accounts payable and accrued liabilities	5,758
Member deposits	<u>35,550</u>
Total adjustments	<u>302,166</u>
Net cash provided by operating activities	<b><u>\$ 110,640</u></b>

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, 2018**

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**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 is 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. 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.

## **J. 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.

## **K. New Accounting Pronouncements**

During the year ended June 30, 2018, the Association implemented the following new accounting pronouncements which did not have a material effect on the Association's financial statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The following pronouncements have been issued, but are not yet effective for the year ended June 30, 2018.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 87, *Leases*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*

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

## **2. CASH AND DEPOSITS**

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 statues 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, 2018:

<b>Account</b>	<b>Account Type</b>	<b>Bank of the West</b>	<b>Wells Fargo Bank</b>	<b>1st New Mexico Bank</b>	<b>Total Balance per Bank</b>
Arsenic	Demand	\$ -	\$ 588,373	\$ -	\$ 588,373
Construction	Demand	-	-	198,237	198,237
Operating	Demand	-	-	46,965	46,965
O&M	Money Market	-	-	104,539	104,539
Short lived	Money Market	-	-	82,319	82,319
Water rights	Money Market	-	-	66,975	66,975
Emergency	Money Market	-	-	152,407	152,407
Capital outlay	Demand	-	-	489	489
Infrastructure	Demand	-	-	26,168	26,168
Capital improvements	Money Market	-	-	119,296	119,296
Debt service reserve	Money Market	-	-	35,313	35,313
Colonial debt service	Money Market	-	-	10,867	10,867
Certificate of deposit	CD	<u>55,605</u>	<u>-</u>	<u>-</u>	<u>55,605</u>
Total amounts of deposits		55,605	588,373	843,575	1,487,553
FDIC Coverage		<u>55,605</u>	<u>250,000</u>	<u>250,000</u>	<u>555,605</u>
Total uninsured public funds		-	338,373	593,575	931,948
Pledged collateral held by the pledging bank's trust department or agent in the Association's name		<u>-</u>	<u>184,436</u>	<u>696,871</u>	<u>881,307</u>
Uninsured and uncollateralized		<u>\$ -</u>	<u>\$ 153,937</u>	<u>\$ -</u>	<u>\$ 153,937</u>
50% pledged collateral requirement		\$ -	\$ 169,187	\$ 296,788	
Total pledged collateral		<u>-</u>	<u>184,436</u>	<u>696,871</u>	
Pledged collateral exceeding the requirements		<u>\$ -</u>	<u>\$ 15,249</u>	<u>\$ 400,083</u>	

As of June 30, 2018, the Association's bank balances were exposed to custodial credit risk. The amount above identified as uninsured \$931,948 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.



A description of the pledged collateral as of June 30, 2018 is as follows:

<b>Description</b>	<b>CUSIP#</b>	<b>Maturity</b>	<b>Market Value</b>
1st New Mexico Bank:			
Lea Co NM Pub Sch	521513BK6	6/15/2023	\$ 250,576
Flower Mound TX	343487E75	9/1/2025	195,564
Carlsbad NM Gross	1472PAN6	6/1/2022	<u>250,731</u>
Total 1st New Mexico Bank			<u>\$696,871</u>
Wells Fargo Bank			
FNMA FNMS	3140F4F76	5/1/2031	\$ 151,682
FNMA FNMS	31418AJN9	9/1/2022	32,754
Total Wells Fargo Bank			<u>\$184,436</u>

The various bank account reconciliations as of June 30, 2018 are as follows:

<b>Account</b>	<b>Account Type</b>	<b>Balance per Bank</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Total Balance per Bank</b>
Wells Fargo Operating	Demand	\$ 588,373	\$ -	\$ 131,047	\$ 457,326
1st NM Bank Construction	Demand	198,237	-	-	198,237
1st NM Bank Operating	Demand	46,965	-	44,291	2,674
1st NM Bank O&M	Money Market	104,539	-	-	104,539
1st NM Bank Short lived	Money Market	82,319	-	-	82,319
1st NM Bank Water rughts	Money Market	66,975	-	-	66,975
1st NM Bank Emergency	Money Market	152,407	-	-	152,407
1st NM Bank Capital outlay	Demand	489	-	-	489
1st NM Bank Infrastructure	Demand	26,168	-	-	26,168
1st NM Bank Capital improvements	Money Market	119,296	-	-	119,296
1st NM Bank Debt service reserve	Money Market	35,313	-	-	35,313
1st NM Bank Colonial debt service	Money Market	<u>10,867</u>	<u>-</u>	<u>-</u>	<u>10,867</u>
Total amounts of deposits		<u>\$ 1,431,948</u>	<u>\$ -</u>	<u>\$ 175,338</u>	1,256,610
Petty Cash					<u>250</u>
Total cash					<u>\$ 1,256,860</u>

### 3. CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2018:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Business-type capital assets, not being depreciated				
Land	\$ 34,582	\$ -	\$ -	\$ 34,582
Construction in progress	<u>72,745</u>	<u>402,263</u>	<u>-</u>	<u>475,008</u>
<b>Total capital assets, not being depreciated</b>	<u>107,327</u>	<u>402,263</u>	<u>-</u>	<u>509,590</u>
Business-type capital assets, being depreciated				
Office site	462,995	-	-	462,995
Water system	5,574,830	-	-	5,574,830
Water rights	50,150	-	-	50,150
Equipment	<u>8,773</u>	<u>-</u>	<u>-</u>	<u>8,773</u>
<b>Total business-type capital assets, being depreciated</b>	<u>6,096,748</u>	<u>-</u>	<u>-</u>	<u>6,096,748</u>
Less Accumulated Depreciation	<u>1,477,088</u>	<u>271,493</u>	<u>-</u>	<u>1,748,581</u>
<b>Total capital assets being depreciated, net</b>	<u>4,619,660</u>	<u>(271,493)</u>	<u>-</u>	<u>4,348,167</u>
<b>Business-type capital assets, net</b>	<u>\$ 4,726,987</u>	<u>\$ 130,770</u>	<u>\$ -</u>	<u>\$ 4,857,757</u>

### 4. LONG TERM OBLIGATIONS

The Association's long-term liabilities consist of the following at June 30, 2018:

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.	\$ 79,014
Multiple advance term promissory note payable to a bank with allowable advances up to \$3,077,000, maturing December 31, 2020, with outstanding principle amounts payable on maturity. Interest only payments at 2.250%, secured by the Association's equity in the bank.	<u>540,000</u>
Total debt	619,014
Less current portion of long-term debt	<u>2,804</u>
Total long-term debt	<u>\$ 616,210</u>

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

<b>Years Ending</b>	<b>Principal</b>	<b>Interest</b>
June 30, 2019	\$ 2,804	\$ 14,367
June 30, 2020	542,852	8,214
June 30, 2021	2,963	2,059
June 30, 2022	3,045	1,976
June 30, 2023	3,130	8,560
June 30, 2024 - 2028	17,008	8,100
June 30, 2029 - 2033	19,512	5,596
June 30, 2034 - 2038	22,383	2,723
June 30, 2039 - 2040	5,317	198
<b>Total</b>	<b>\$ 619,014</b>	<b>\$ 51,793</b>

Changes in long-term debt activity for the ended June 30, 2018, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reduction</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
USDA	\$ 84,742	\$ -	\$ 5,728	\$ 79,014	\$ 2,804
CoBank	-	540,000	-	540,000	-
NM Finance Authority	<u>31,100</u>	<u>-</u>	<u>31,100</u>	<u>-</u>	<u>-</u>
<b>Total notes payable</b>	<b>\$ 115,842</b>	<b>\$ 540,000</b>	<b>\$ 36,828</b>	<b>\$ 619,014</b>	<b>\$ 2,804</b>

## 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 4, 2018, 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.