

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

Independent Accountant's Report on  
Applying Agreed Upon Procedures  
June 30, 2019

# LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

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JUNE 30, 2019

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

**OFFICIAL ROSTER**

**JUNE 30, 2019**

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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

Brian S. Colón, Esq., 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, 2019. 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 2019 and noted that all are performed within 10 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, 2019, 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, 2019, 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 judgementally 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 judgementally 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 judgementally 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 judgementally 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 judgementally 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 bank 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 13, 2019

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

**CAPITAL OUTLAY AWARDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

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	<b>18-C2245-STB</b>
Amount awarded	\$ 40,000
Received through June 30, 2019	\$ 18,461
Expended through June 30, 2019	\$ 18,461
Remaining balance as of June 30, 2019	\$ 21,539
Project effective date through	June 30, 2022

**Legislation:**

18-C2245-STB - The laws of 2018, Chapter 80, Section 20, Paragraph 13 to the Department of Environment to plan, design, construct, purchase and install equipment, including a storage room for La Union Mutual Domestic Sewer and Water Association in La Union 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, 2019**

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	<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	\$ 300,000	\$ 300,000	\$ 282,227	\$ (17,773)
Hook up commercial & residential	45,000	45,000	-	(45,000)
Membership commercial & residential	2,500	2,500	-	(2,500)
Grants	-	-	29,180	29,180
Other income	-	-	22,336	22,336
Interest	<u>4,200</u>	<u>11,950</u>	<u>3,803</u>	<u>(8,147)</u>
 <b>Total revenues</b>	 <u>351,700</u>	 <u>359,450</u>	 <u>337,546</u>	 <u>(21,904)</u>
Expenditures:				
Operating expenses	246,150	245,150	216,617	28,533
Interest	<u>18,900</u>	<u>18,900</u>	<u>26,668</u>	<u>(7,768)</u>
 <b>Total expenditures</b>	 <u>265,050</u>	 <u>264,050</u>	 <u>243,285</u>	 <u>20,765</u>
Excess (deficiency) of revenues over expenditures	<u>86,650</u>	<u>95,400</u>	<u>94,261</u>	<u>(1,139)</u>
Excess (deficiency) of revenues over expenditures	86,650	95,400	\$ 94,261	\$ (1,139)
Cash - beginning of year	<u>1,256,860</u>	<u>1,256,860</u>	<u>1,256,860</u>	<u>-</u>
<b>Cash - end of year</b>	<u>\$ 1,343,510</u>	<u>\$ 1,352,260</u>	<u>\$ 1,351,121</u>	<u>\$ -</u>
Reconciliation of budgetary basis to GAAP basis:				
Excess of revenues over expenditures			\$ 94,261	
Change in:				
Revenue accruals			(14,437)	
Payables and accruals			(1,107)	
Depreciation			<u>(271,493)</u>	
Change in net position - GAAP basis			<u>\$ (192,776)</u>	

# LA UNION MUTUAL DOMESTIC SEWER AND WATER ASSOCIATION

## YEAR-END FINANCIAL REPORT SUBMITTED TO DFA JUNE 30, 2019

INSTRUCTIONS: Cells in which are meant to be filled out are explained below. All other columns are locked and not meant to be filled out.  
 Fill out the Approved Budget, 1st Qtr, 2nd Qtr, 3rd Qtr, 4th Qtr columns.  
 Enter Cash, Savings, CDs and Investments under the "APPROVED BUDGET" column, as of the beginning of year, July 1st. **THESE AMOUNTS DO NOT CHANGE THROUGHOUT THE YEAR.**  
 Fill out Reserves (if reserve amounts change throughout the year under the "Year to Date(YTD) Totals" column.

**MDWCA Name :** La Union MDSWA  
**Mailing Address :** 1870 Alvarez Rd. La Union NM 88021  
**Email Address :** launionwater@yahoo.com  
**Phone Number :** (575) 589-4676

**Fiscal Year :** 2018-2019

	APPROVED BUDGET	Due Oct. 31 1st QR: July - Sept	Due Jan 31 2nd QR: Oct - Dec	Due April 30 3rd QR: Jan - March	Due July 31 4th QR: April - June	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
<b>Beginning balances:</b>								
Cash	949,629							
Savings	606,440							
CDs	55,605							
Investments	0							
<b>Beginning Balance TOTAL</b>	1,611,674							
<b>REVENUES</b>								
Water Sales (Water Use Fees)	300,000	81,653	66,141	52,834	65,382	266,009	33,991	89%
Connection/Reconnection Charges	0	0	0	0	0	0	0	-
Membership and Meter Sales (Utility Service Fees)	47,500	2,229	5,101	2,677	5,972	15,980	31,520	34%
Late Fees and Penalties (Other Fines and Forfeits)	0	0	0	0	0	0	0	-
Gross Receipts Tax (Other State shared taxes)	0	(4,009)	(3,610)	(2,894)	(4,025)	(14,538)	14,538	-
Other Operating Revenue (miscellaneous - other)	11,950	1,070	1,271	1,727	1,905	5,973	5,977	50%
<b>TOTAL</b>	359,450	80,943	68,903	54,344	69,234	273,424	86,026	76%
<b>EXPENDITURES</b>								
Salaries - Operator, Bookkeeper, etc.	102,100	29,350	27,081	20,452	23,117	100,001	2,099	98%
Employee Benefits and Expenses	0	0	0	0	0	0	0	-
Electricity	30,000	7,796	6,110	6,406	6,352	26,665	3,335	89%
Other Utilities - Gas, Water, Sewer, Telephone	10,000	1,636	2,007	1,644	1,667	6,954	3,046	70%
System Parts and Supplies	12,500	6,259	1,149	411	3,913	11,732	768	94%
System Repairs and Maintenance	28,500	3,967	4,429	2,475	2,899	13,770	14,730	48%
Vehicle Expenses	0	0	0	0	0	0	0	-
Office and Administrative Expenses	16,500	2,993	2,320	3,175	3,605	12,093	4,407	73%
Professional Services - Accounting, Engineering, Legal	26,500	3,681	6,675	4,019	1,473	15,847	10,653	60%
Insurance	6,800	1,848	1,619	1,661	1,661	6,789	11	100%
Dues, Fees, Permits and Licenses	2,000	0	1,161	211	1,037	2,409	(409)	120%
Taxes - Gross Receipts Tax, Water Conservation Fee	3,500	0	2,699	0	0	2,699	801	77%
Training	3,000	817	1,725	174	205	2,921	79	97%
Miscellaneous	3,750	171	202	159	436	968	2,782	26%
<b>Loans</b>								
Annual debt service - Loan 1	18,900	1,251	1,251	1,251	(3,753)	0	18,900	0%
Annual debt service - Loan 2	0	0	0	0	0	0	0	-
<b>TOTAL</b>	264,050	59,769	58,429	42,038	42,612	202,848	61,202	77%
<b>Ending Balance</b>	1,707,074					1,682,250		
LESS: Operating Reserve	105,631							
Emergency Reserve	153,536							
Capital Improvement Reserve	120,399							
Debt Reserve	48,239							
<b>Ending Available Cash Balance</b>	1,279,268					1,682,250		

I HEREBY CERTIFY THE CONTENTS IN THIS REPORT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS REPORT DEPICTS ALL FUNDS.

\_\_\_\_\_  
 President/Chairperson

\_\_\_\_\_  
 Date

7/27/19

*Reviewed and approved cash balance differences; beginning and ending, as noted in DFA financial gtdly report and analysis from Q3, 19.*  
 Kramer  
 Vice President

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

**SCHEDULE OF FINDINGS AND RESPONSES**

**JUNE 30, 2019**

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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, 2019**

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An exit conference was conducted on December 13, 2019 with the following individuals in attendance:

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

Jose Villalobos

President

Lydia Ramos

Vice - President

Evangelina Martinez

Secretary

Veronica Menchaca

Office Manager

Veronica Villalobos

Clerk - Assistant Manager

**Watts CPA, P.C.**

Brad Watts

Shareholder

**Compiled Financial Statements**

# WATTS CPA, P.C.

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To Brian S. Colón, Esq., 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, 2019, 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.

El Paso, Texas  
December 13, 2019



## **BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION  
JUNE 30, 2019**

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**ASSETS:**

Current Assets

Cash and cash equivalents	\$ 1,078,277
Certificate of deposit	56,316
Accounts receivable, net of allowance of \$0	30,119
Grant receivable	10,719
Other receivable	1,185
Prepaid expense and other assets	<u>2,751</u>

Total current assets 1,179,367

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>4,955,078</u>
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Total noncurrent assets 4,955,078

Total assets \$ 6,134,445

**LIABILITIES:**

Current Liabilities:

Accounts payable	\$ 10,719
Accrued expenses	2,581
Customer deposits	149,750
Current maturities of notes payable	<u>2,852</u>

Total current liabilities 165,902

Noncurrent liabilities:

Notes payable	<u>611,281</u>
Total liabilities	<u>777,183</u>

**NET POSITION:**

Net investment in capital assets	4,340,945
Unrestricted	<u>1,016,317</u>
Total net position	<u>5,357,262</u>

Total liabilities and net position \$ 6,134,445

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, 2019**

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Operating Revenues:	
Charges for services	\$ 281,805
Other revenues	8,321
	<hr/>
Total operating revenues	290,126
	<hr/>
Operating Expenses:	
Operating expenses	217,724
Depreciation	271,493
	<hr/>
Total operating expenses	489,217
	<hr/>
Operating loss	(199,091)
	<hr/>
Non-Operating Revenues (Expenses):	
Interest income	3,803
Interest expense	(26,668)
	<hr/>
Total non-operating expenses	(22,865)
	<hr/>
Loss before capital contributions	(221,956)
	<hr/>
Capital Contributions:	
Grant revenues:	
State	29,180
	<hr/>
Total capital contributions	29,180
	<hr/>
Change in net position	(192,776)
	<hr/>
Net position - beginning of year	5,550,038
	<hr/>
Net position - end of year	\$ 5,357,262
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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, 2019**

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Cash Flows From Operating Activities:	
Cash received from customers	\$ 408,613
Cash payments to employees for services	(38,282)
Cash payments to vendors for goods and services	<u>(175,207)</u>
<b>Net cash provided by operating activities</b>	<u>195,124</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase and construction of capital assets	(368,814)
Payments on notes payable	(4,881)
Payments for interest on notes payable	(26,668)
Proceeds from capital grants	<u>23,564</u>
<b>Net cash used in capital and related financing activities</b>	<u>(376,799)</u>
Cash Flows From Investing Activities	
Interest received	3,803
Purchase of investments	<u>(711)</u>
<b>Net cash provided by investing activities</b>	<u>3,092</u>
<b>Net decrease in cash and cash equivalents</b>	(178,583)
Cash and cash equivalents, beginning of year	<u>1,256,860</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,078,277</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (199,091)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation	271,493
Change in:	
Accounts receivable	422
Other receivable	14,015
Prepaid expenses	(153)
Accounts payable and accrued liabilities	4,388
Member deposits	<u>104,050</u>
Total adjustments	<u>394,215</u>
Net cash provided by operating activities	<u>\$ 195,124</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, 2019**

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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 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. 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, 2019, the Association implemented the following new accounting pronouncements which did not have a material effect on the Association's financial statements:

- *GASB Statement No. 83, Certain Asset Retirement Obligations*
- *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

The following pronouncements have been issued, but are not yet effective for the year ended June 30, 2019.

- *GASB Statement No. 84, Fiduciary Activities*
- *GASB Statement No. 87, Leases*
- *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)*
- *GASB Statement No. 91, Conduit Debt Obligations*

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, 2019:

Account	Account Type	1st New Mexico Bank
Construction - USDA	Demand	\$ 195,212
Construction	Demand	213,242
Operating	Demand	7,646
O&M	Money Market	104,130
Short lived	Money Market	91,873
Water rights	Money Market	75,893
Emergency	Money Market	162,566
Capital outlay	Demand	495
Infrastructure	Demand	35,517
Capital improvements	Money Market	129,261
Debt service reserve	Money Market	44,696
Colonial debt service	Money Market	20,141
Certificate of deposit	CD	<u>56,316</u>
Total amounts of deposits		1,136,988
FDIC Coverage		<u>250,000</u>
Total uninsured public funds		886,988
Pledged collateral held by the pledging bank's trust department or agent in the Association's name		<u>1,329,433</u>
Uninsured and uncollateralized		<u>\$ -</u>
50% pledged collateral requirement		\$ 443,494
Total pledged collateral		<u>1,329,433</u>
Pledged collateral exceeding the requirements		<u>\$ 885,939</u>

As of June 30, 2019, the Association's bank balances were exposed to custodial credit risk. The amount above identified as uninsured \$886,988 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, 2019 is as follows:

Description	CUSIP#	Maturity	Market Value
1st New Mexico Bank:			
Lea Co NM Pub Sch	521513BK6	6/15/2023	\$ 250,751
Flower Mound TX	343487E75	9/1/2025	198,311
Mosquero NM Mun Sch	61963DT7	8/15/2020	246,448
Gallup NM Gross	364034AN8	6/1/23	256,688
Bloomfield NM	094072BV6	8/15/19	244,928
Carlsbad NM Gross	1472PAN6	6/1/2022	<u>132,307</u>
Total 1st New Mexico Bank			<u>\$ 1,329,433</u>

The various bank account reconciliations as of June 30, 2019 are as follows:

Account	Account Type	Balance per Bank	Deposits in Transit	Outstanding Checks	Total Balance per Bank
1st NM Bank USDA					
Construction	Demand	\$ 195,212	\$ -	\$ -	\$ 195,212
1st NM Bank Construction	Demand	213,242	-	-	213,242
1st NM Bank Operating	Demand	7,646	-	2,645	5,001
1st NM Bank O&M	Money Market	104,130	-	-	104,130
1st NM Bank Short lived	Money Market	91,873	-	-	91,873
1st NM Bank Water rights	Money Market	75,893	-	-	75,893
1st NM Bank Emergency	Money Market	162,566	-	-	162,566
1st NM Bank Capital outlay	Demand	495	-	-	495
1st NM Bank Infrastructure	Demand	35,517	-	-	35,517
1st NM Bank Capital improvements	Money Market	129,261	-	-	129,261
1st NM Bank Debt service reserve	Money Market	44,696	-	-	44,696
1st NM Bank Colonial debt service	Money Market	<u>20,141</u>	<u>-</u>	<u>-</u>	<u>20,141</u>
Total amounts of deposits		<u>\$ 1,080,672</u>	<u>\$ -</u>	<u>\$ 2,645</u>	1,078,027
Petty Cash					<u>250</u>
Total cash					<u>\$ 1,078,277</u>

### 3. CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2019:

	<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>475,008</u>	<u>368,814</u>	<u>-</u>	<u>843,822</u>
<b>Total capital assets, not being depreciated</b>	<u>509,590</u>	<u>368,814</u>	<u>-</u>	<u>878,404</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>1,748,581</u>	<u>271,493</u>	<u>-</u>	<u>2,020,074</u>
<b>Total capital assets being depreciated, net</b>	<u>4,348,167</u>	<u>(271,493)</u>	<u>-</u>	<u>4,076,674</u>
<b>Business-type capital assets, net</b>	<u>\$ 4,857,757</u>	<u>\$ 97,321</u>	<u>\$ -</u>	<u>\$ 4,955,078</u>

### 4. LONG TERM OBLIGATIONS

The Association's long-term liabilities consist of the following at June 30, 2019:

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.	\$ 74,133
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	614,133
Less current portion of long-term debt	<u>2,852</u>
Total long-term debt	<u>\$ 611,281</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, 2020	\$ 2,852	\$ 14,367
June 30, 2021	542,963	8,134
June 30, 2022	3,045	1,976
June 30, 2023	3,130	1,891
June 30, 2024 - 2028	3,217	8,100
June 30, 2029 - 2033	17,482	5,596
June 30, 2034 - 2038	20,055	2,723
June 30, 2039 - 2040	21,389	198
<b>Total</b>	<b>\$ 614,133</b>	<b>\$ 42,985</b>

Changes in long-term debt activity for the ended June 30, 2019, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reduction</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
USDA	\$ 79,014	\$ -	\$ 4,881	\$ 74,133	\$ 2,852
CoBank	<u>540,000</u>	<u>-</u>	<u>-</u>	<u>540,000</u>	<u>-</u>
Total notes payable	<u>\$ 619,014</u>	<u>\$ -</u>	<u>\$ 4,881</u>	<u>\$ 614,133</u>	<u>\$ 2,852</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 13, 2019, 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.