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Lumberton Mutual Domestic Water Consumers Association

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Fiscal Year Ending December 31, 2019

**Lumberton Mutual Domestic Water Consumers Association
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Fiscal Year Ending December 31, 2019**

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**Lumberton Mutual Domestic Water Consumers Association
Official Roster
Fiscal Year Ending December 31, 2019**

Board of Directors

Joey A. Valdez, President

Joel Valdez, Vice President

Christine Romnes, Treasurer

Mary Jane Maestas, Secretary

Ray Tafoya, Board Member

Independent Contractors

Dennis Martinez, Plant Operator

Lester W. Pendegrass, Meter Reader

William A. Lindner, Bookkeeper

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors

Lumberton Mutual Domestic Water Consumers Association

Lumberton, New Mexico

and

Brian S. Colón, Esq., New Mexico State Auditor

Santa Fe, New Mexico

I have performed the procedures enumerated below for the Lumberton Mutual Domestic Water Consumer Association (Association) for the year ended December 31, 2019, solely to assist in determining compliance with the provisions of the Audit Act for a Tier 4 entity per Section 12-6-3 B (4) NMSA 1978, Section 2.2.2.16 NMAC and Section 6-6-2 (A) NMSA 1978. The procedures were agreed to by the Association through the New Mexico Office of the State Auditor. The Association's management is responsible for its accounting records and the subject matter. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our 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."

According to the Association's profit and loss statement, total revenues for the fiscal year ending December 31, 2019 were \$53,564. Based on this information, the Association was properly determined to be a Tier 4 entity for 2019 since their revenues were between \$50,000 and \$250,000 and they did not receive or expend a capital outlay appropriation from the New Mexico State Legislature during 2019.

2. Cash

- 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.

The Association has one checking account and two savings accounts at Wells Fargo Bank, and no investment accounts. All of the bank statements for the fiscal year were complete and on hand.

The monthly bank account reconciliations were performed in a timely manner.

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P.O. Box 24164
Santa Fe, NM 87502
Phone: 505.920.4024
nmauditors@gmail.com

- b. Test at least 30% of the bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

33% of the monthly bank statements were selected for testing. The bank reconciliations were accurate. The ending cash balances on the bank reconciliations were traced to the general ledger, supporting documentation and the financial reports submitted to DFA-LGD.

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

The checking and savings account balances of the Association were fully insured by the FDIC during 2019; therefore, no pledged collateral from the bank was required.

3. Capital Assets

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

The Association performed a capital asset inventory on February 10, 2020 and the capital asset listing was approved by the Board of Directors on February 20, 2020. The Association did not have any movable chattels and equipment that cost more than \$5,000. No capital asset purchases during the fiscal year were noted during the agreed-upon procedures. However, the capital asset inventory should have been performed at the end of the fiscal year (December 31, 2019) as required by state law, Section 12-6-10 NMSA 1978. See Finding 2018-001 on p. 7.

4. Revenues

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

The revenue sources of the Association consist of monthly water usage fees, late payment fees, new membership fees and interest income.

The actual revenue in 2019 was compared to budgeted revenue for each type of revenue. According to the Association's general ledger, total revenues were \$9,936 less than budgeted revenues in 2019. The decrease in revenues was caused by several

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reasons and other variables which were adequately explained by the Association's bookkeeper as follows: 1) to reduce the accounts receivable balance in 2018, the Association increased its collection efforts on delinquent accounts which increased cash receipts and revenues in 2018; 2) in 2019, the Association reduced the price charged for water from 1.4 cents per gallon to 1.2 cents per gallon for two months in the summer which decreased total revenues in 2019; 3) during 2019, there was a decrease in the total amount of gallons used and billed for; 4) during 2019, one member switched to inactive status which reduced their monthly bill; 5) the Association has members who prepay their bills and others who pay late and haphazardly; and 6) due to an increase in late payments by members in 2019, the accounts receivable balance increased \$2,685 from the end of 2018 which reduced total cash receipts and revenues in 2019. Based on the continued trend, the Board of Directors had to increase the Association's water rates to increase its water sales revenues in 2020.

b. Select a sample of revenue equal to at least 30% of the total dollar amount and test the following attributes:

i. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

A sample of cash receipts were judgmentally selected and tested which amounted to 37% of total revenues. The amount recorded in the general ledger agreed with the supporting documentation and the bank statement.

ii. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on; cash basis, modified accrual basis, or accrual basis.

The cash receipts tested were properly classified and recorded in the general ledger.

5. Expenditures

a. Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following attributes:

i. Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to vendor's invoice, purchase order, contract and canceled check, as appropriate.

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A sample of cash disbursements were tested which amounted to 43% of total expenditures. For most of the expenditures, the amounts recorded as disbursed agreed with the supporting documentation. The amount, payee, date and description of the purchase agreed with the vendor's invoice, contract and canceled check. The Association does not use purchase order forms.

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

The cash disbursements tested were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

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

None of the cash disbursements tested exceeded the amounts requiring sealed bids or requests for proposals. The cash disbursements tested were processed in accordance with applicable provisions of the State Procurement Code, State Purchasing Regulations and the Per Diem and Mileage Act, as applicable.

6. Journal Entries

- a. Test all non-routine journal entries, adjustments, and reclassifications posted to the general ledger for the following attributes:
 - i. Journal entries appear reasonable and have supporting documentation.

According to the Association's bookkeeper, seven non-routine journal entries totaling \$1,195.48 were posted to the general ledger in 2019 to make adjustments to member's accounts receivable balances for an inaccurate meter reading, checks returned from the bank for non-sufficient funds, and the closure of a member's account. The journal entries and supporting documentation appear reasonable.

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- ii. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

The Association has a review procedure for non-standard journal entries. The Association's bookkeeper provides the financial reports and proposed journal entries to the Board of Directors for their review during the monthly board meetings and there is evidence the reviews are being performed.

7. Budget

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

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

The Association adopted its 2019 budget on January 9, 2019 (Board Resolution #2019-002). DFA-LGD approved the Association's 2019 budget on December 14, 2018. There were no budget adjustments during the fiscal year.

- ii. Determine whether the total actual expenditures exceeded the final budget at the legal level of budgetary control; if the answer is yes, report a compliance finding.

According to the Association's general ledger, total expenditures of \$61,765 did not exceed budgeted expenditures of \$63,447. Therefore, a compliance finding was not applicable.

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

See the schedule on p. 9.

8. Other

- a. 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 all required content detailed in Section 2.2.2.10 (L) NMAC.

No other findings were noted during the performance of the agreed-upon procedures.

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We were 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 subject matter. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Accounting & Auditing Services, LLC

Accounting & Auditing Services, LLC
Santa Fe, New Mexico
March 30, 2020

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2019**

Status of Prior Year Findings

Finding 2017-001. Undocumented Bank Account Reconciliations – Resolved.

Finding 2017-003. Inaccurate Quarterly Financial Reports to DFA-LGD – Resolved.

Finding 2018-001. No Capital Asset Inventory at Fiscal Year-End – Revised and repeated.

Current Year Findings

Finding 2018-001 – Late Capital Asset Inventory

Condition

For the year ending December 31, 2019, the Association did not perform and document a physical inventory of its capital assets until February 10, 2020.

Although the physical inventory was performed after the end of the fiscal year, management made good progress to correct this prior year finding because their plant operator performed a physical inventory of its capital assets which was approved by the Board of Directors.

Criteria

Section 12-6-10.A NMSA 1978 states: “Annual Inventory. The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness.”

Effect

The Association did not fully comply with the state law by performing a timely physical inventory of its capital assets at the end of the fiscal year.

Cause

Management wasn't aware that the physical inventory had to be performed exactly on December 31, 2019.

**Lumberton Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Fiscal Year Ending December 31, 2019**

Recommendation

At the end of each fiscal year, the Association should perform and document a physical inventory of its capital assets in accordance with Section 12-6-10.A NMSA 1978. For each capital asset that cost \$5,000 or more, the description of the asset, date acquired, cost, location, useful life, and ending balance of the capital assets should be recorded on the Association's capital asset listing. The results of the inventory shall be recorded in a written inventory report, certified as to correctness and approved by the Association's Board of Directors.

Management's Response

The Association's President, Treasurer and bookkeeper discussed the requirement for an annual inventory at the end of each fiscal year and resolves that the Plant Operator will perform the next annual inventory during the last two weeks of December but no later than December 31, 2020. The results of the inventory will be recorded in a written inventory report, certified as to correctness and approved by the Association's Board of Directors during the January 2021 board meeting.

Lumberton Mutual Domestic Water Consumers Association
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP Cash Basis)
For the Fiscal Year Ending December 31, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water Usage Fees	\$ 60,000	\$ 60,000	\$ 50,816	\$ (9,184)
Late Fees and Penalties	300	300	-	(300)
Connection/Reconnection Charges	200	200	-	(200)
Gross Receipts Taxes/Water Cons. Fees	3,000	3,000	2,748	(252)
Miscellaneous	-	-	-	-
Total Revenues	\$ 63,500	\$ 63,500	\$ 53,564	\$ (9,936)
Expenditures				
Current:				
Salaries - Operator, Bookkeeper, Other	\$ 27,900	\$ 27,900	\$ 26,500	\$ 1,400
Electricity	4,300	4,300	5,357	(1,057)
Gas and Telephone	4,200	4,200	4,250	(50)
System Parts and Supplies	-	-	-	-
System Repairs and Maintenance	9,000	9,000	5,286	3,714
Vehicle Expenses	-	-	-	-
Office and Shipping Expenses	1,500	1,500	4,540	(3,040)
Professional Services - CPA	3,223	3,223	3,253	(30)
Insurance	4,300	4,300	4,361	(61)
Dues, Fees, Permits, Licenses	150	150	157	(7)
Gross Receipts Tax/Water Conservation Fee	3,000	3,000	2,529	471
Training	-	-	-	-
Miscellaneous	750	750	408	342
Debt Service - USDA Loan 1	1,968	1,968	1,938	30
Debt Service - USDA Loan 2	3,156	3,156	3,186	(30)
Total Expenditures	\$ 63,447	\$ 63,447	\$ 61,765	\$ 1,682

Copy of Year-End Financial Report Submitted to DFA-LGD

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.

- 1 Fill out the Approved Budget, 1st Qtr, 2nd Qtr, 3rd Qtr, 4th Qtr columns.
- 2 Fill out Cash, Savings, CDs, Investments under the "Approved Budget" column with APPROVED BUDGET at beginning of yr. **THESE AMOUNTS DO NOT CHANGE THROUGHOUT THE YEAR.**
- 3 Fill out Reserves (if reserve amounts change throughout the year under the "Year to Date(YTD) Totals" column.

MDWCA Name: Lumberton MDWCA
Mailing Address: 245C County Road 357, Dulce NM 87528
Email Address: lumbertonwater@gmail.com
Phone number: 505-592-2183

Calendar Year 2019

		APPROVED BUDGET	1st QR: Jan - Mar	2nd QR: Apr - Jun	3rd QR: Jul - Sept	4th QR: Oct - Dec	Year to Date(YTD) Totals	YTD (over)/under BUDGET	% of Budget
Beginning balances:	Cash	13,223							
	Savings	16,085							
	CDs								
	Investments								
Beginning Balance	TOTAL	\$ 29,308							
REVENUES									
	Water Sales (Water Use Fees)	60,000	9,520	12,366	15,358	13,572	50,816	9,184	85%
	Connection/Reconnection Charges	200					0	200	0%
	Membership and Meter Sales (Utility Service Fees)						0	0	-
	Late Fees and Penalties (Other Fines and Forfeits)	300					0	300	0%
	Gross Receipts Tax (Other State shared taxes)	3,000	492	604	902	751	2,748	252	92%
	Other Operating Revenue (miscellaneous - other)						0	0	-
	TOTAL	\$ 63,500	10,012	12,970	16,260	14,323	53,564	9,936	84%
EXPENDITURES									
	Salaries - Operator, Bookkeeper, etc.	27,900	6,600	6,600	6,700	6,600	26,500	1,400	95%
	Employee Benefits and Expenses						0	0	-
	Electricity	4,300	1,468	1,460	1,132	1,297	5,357	(1,057)	125%
	Other Utilities - Gas, Water, Sewer, Telephone	4,200	2,195	880	426	749	4,250	(50)	101%
	System Parts and Supplies						0	0	-
	System Repairs and Maintenance	9,000	1,391	2,369	1,300	226	5,286	3,715	59%
	Vehicle Expenses					0	0	0	-
	Office and Administrative Expenses	1,500	1,015	945	1,054	1,526	4,540	(3,040)	303%
	Professional Services - Accounting, Engineering, Legal	3,223		3,253			3,253	(30)	101%
	Insurance	4,300		4,361			4,361	(61)	101%
	Dues, Fees, Permits and Licenses	150				157	157	(7)	105%
	Taxes - Gross Receipts Tax, Water Conservation Fee	3,000	546	608	683	692	2,529	471	84%
	Training						0	0	-
	Miscellaneous	750	384		24		408	342	54%
	Loans								
	Annual debt service - Loan 1	1,968	492	492	492	492	1,968	0	100%
	Annual debt service - Loan 2	3,156	789	789	789	789	3,156	0	100%
	TOTAL	\$ 63,447	14,880	21,757	12,600	12,528	61,765	1,682	97%
	Ending Balance	29,361					21,108		
	LESS: Operating Reserve	7,028					4,029		
	Emergency Reserve								
	Capital Improvement Reserve								
	Debt Reserve	9,058					9,061		
	Ending Available Cash Balance	\$ 13,275					8,018		

Lumberton Mutual Domestic Water Consumers Association
Exit Conference
Fiscal Year Ending December 31, 2019

On March 30, 2020, the following officials held an exit conference and discussed the results of the agreed upon procedures and the contents of this report:

Lumberton MDWCA

Joey A. Valdez, President
Christine Romnes, Treasurer
Bill Lindner, Bookkeeper

Accounting & Auditing Services, LLC

Steve B. Archibeque, CPA, Audit Manager