

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS
ASSOCIATION**

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE APPLICATION OF TIER 6
AGREED-UPON PROCEDURES
AND COMPILED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

INTRODUCTORY SECTION

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
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DECEMBER 31, 2018**

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**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
DECEMBER 31, 2018**

BOARD OF DIRECTORS

Name	Title
Cisco Navarette	President
Efrain Rios	Vice President
Craig Ogden	Secretary/Treasurer
Tony Hernandez	Director
John Wright	Director

ADMINISTRATIVE OFFICIAL

Faye Arias	Office Manager
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FINANCIAL SECTION



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT ON THE
APPLICATION OF TIER 6 AGREED-UPON PROCEDURES**

Brian Colon, New Mexico State Auditor, and
Board of Directors of
Malaga Mutual Domestic Water Consumers
and Sewage Works Association
Malaga, New Mexico

We have performed the procedures enumerated below for the Malaga Mutual Domestic Water Consumers & Sewage Works Association (Association), for the year ended December 31, 2018. The Association was determined to be a Tier 6 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the Association through the Office of the New Mexico State Auditor. The Association's management is responsible for the organization'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, we 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.

Our procedures and results are detailed under Scope of Procedures and Results as noted in the table of contents.

Our findings related to the procedures in the Scope of Procedures and Results are presented in the accompanying schedule of findings and responses as listed in the table of contents.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 Association's financial position and operations as of and for the year ended December 31, 2018. 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 those parties specified in the report.

This report is intended solely for the information and use of the Malaga Mutual Domestic Water Consumers & Sewage Works Association, the New Mexico Office of the 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.

Scott Northam, CPA, PC
Ruidoso, New Mexico
March 19, 2019

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2018**

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."	
Tier 6 Requirements – Cash basis revenues of \$250,000 or more but less than \$500,000.	The Association's cash basis revenues totaled approximately \$309,019. The Association is properly categorized as a Tier 6 agency.
2. Cash Procedures	
a. Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements are complete and on-hand.	All fiscal year bank reconciliations and statements were on-hand and available for compliance examination. Reconciliations were performed timely performed within a reasonable time after the end of the month.
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.	A review of all fiscal year bank reconciliations noted the reconciliations were accurate and agreed with the general ledger and DFA reports.
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.	The Association's funds on deposit with the financial institution exceeded the \$250,000 FDIC maximum insured coverage during the year. The financial institution provided adequate additional collateralization for uninsured deposits to exceed the 50% collateralization requirement.
3. Capital Assets	
Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.	The Association provided a capital asset inventory listing as required under Section 12-6-10 NMSA 1978, which was approved by the Association Council.
4. Debt	
If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.	The Association made the required debt payments to New Mexico Finance Authority and USDA-RUS during the fiscal year. The Association is holding approximately \$15,114 in reserve to comply with debt service requirements.

**MALAGA MUTUAL DOMESTIC
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SCOPE OF PROCEDURES AND RESULTS
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5. Revenue Identify the nature and amount of revenue from all 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.	Analytical review and tests of actual revenue compared to budgeted revenue for the fiscal year noted no exceptions.
b. Select a sample equal to at least 30% of the total dollar amount and test following attributes: Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.	Revenue transactions amounting to 95% of total Association revenue recorded in the general ledger agreed with deposit slips, utility reports and other supporting documentation provided and the bank statements with no exceptions.
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 record on: cash basis, modified accrual basis, or accrual basis.	Amounts were properly recorded on the modified-accrual basis as to classification, amount and period per review of supporting documentation.

6. Expenditures Select a sample of cash disbursements equal to at least 30% of the total dollar amount and test the following:	
a. Determine that the 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.	A review of all twelve of the monthly disbursement files was conducted (100% of coverage) and no exceptions with respect to amount, payee, date and description were noted
b. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.	A review of all twelve of the monthly disbursement files was conducted (100% of coverage) and noted no exceptions as to authorization and approval for payment, budget compliance and compliance with 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).	Disbursement testwork revealed no exceptions to the process (or request for proposal process, if applicable), purchase orders, contracts and agreements being 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).

**MALAGA MUTUAL DOMESTIC
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SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2018**

7. Journal Entries 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.	There were no non-routine journal entries posted to the general ledger and all reviewed journal entries had adequate 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.	There were no non-routine journal entries posted to the general ledger. The Association has policies in place that require any journal entries made by the contract bookkeeper to be reviewed and approved by the Board of Directors at the monthly meeting.

8. Budget Obtain the original fiscal year budget and all budget adjustments made throughout the fiscal year and perform the following:	
a. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local body's governing body and DFA-LGD.	The original budget was approved by the Board of Directors and DFA-LGD. There were no subsequent budget adjustments for the fiscal year.
b. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.	Total actual expenditures exceeded the final budget at the total fund level by \$290,894. See Finding 2018-001 (2016-001) and 2018-002
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.	The Schedules of Revenue and Expenditures – Budget and Actual accompanying these procedures are prepared on the cash basis by the Association and prepared from the original and final approved budgets and general ledger.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2018**

9. Capital Outlay Appropriations	
The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital appropriations of the New Mexico Legislature that meet TIER 6 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay funds expended by the recipient during the fiscal year that meet TIER 6 criteria. Perform the following tests on all state-funded capital outlay expenditures:	
a. Determine that the amount recorded as disbursed agrees to the adequate supporting documentation. Verify that amount, payee, date and description to agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year. All capital outlay expenditures were from loans and subsidies through New Mexico Finance Authority or New Mexico Environment Department.
b. Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
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 131-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
d. Determine the physical existence (by observation) of the capital asset based on expenditures to date.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
e. Verify that status reports were submitted to the state agency per terms of the agreement and amounts in the status report agree with the general ledger and supporting documentation.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
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	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
g. If the project is complete, determine if there is an unexpected balance and whether it was reverted per statute and agreement with the grantor.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.
h. Determine whether cash received for the award was accounted for in a separate fund or a separate bank account that is non-interest bearing if so required by the capital outlay award agreement.	The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
SCOPE OF PROCEDURES AND RESULTS
DECEMBER 31, 2018**

9. Capital Outlay Appropriations (Cont.)	
<p>The scope of the agreed-upon procedures engagement shall encompass any and all state-funded capital appropriations of the New Mexico Legislature that meet TIER 6 criteria. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay funds expended by the recipient during the fiscal year that meet TIER 6 criteria. Perform the following tests on all state-funded capital outlay expenditures:</p>	
<p>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 of the reimbursement.</p>	<p>The Association did not receive or spend any state-funded capital appropriations from the New Mexico Legislature during the fiscal year.</p>
10. Other	
<p>If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.</p>	<p>No exceptions were found as a result of applying the procedures described above (regardless of materiality) indicating any fraud, illegal acts or internal control deficiencies.</p>



SCOTT NORTHAM, CPA, PC
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Brian Colon, New Mexico State Auditor, and
Board of Directors of
Malaga Mutual Domestic Water Consumers
and Sewage Works Association
Malaga, New Mexico

Management is responsible for the accompanying financial statements of Malaga Mutual Domestic Water Consumers & Sewage Works Association, which comprise the statements of net position- proprietary fund, as of December 31, 2018 and the related statement of revenues, expenses and changes in net position - proprietary fund for the year then ended, and the related notes to the financial statements in accordance with the requirements of Section 2.2.2.16 New Mexico Administrative Code (NMAC).

We 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. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

In order to comply with the requirements of Section 12-6-3(B) NMSA 1978 and 2.2.2.16 NMAC, the proprietary fund financial statements and the notes related to those financial statements were prepared using the modified accrual basis of accounting. However, in complying with these requirements, management has omitted the following financial statements and notes required by accounting principles generally accepted in the United States of America (GAAP): the statement of cash flows - proprietary funds and note disclosures related to the cash flow statement. These omissions result in the financial statements being presented on a basis of accounting other than GAAP.

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has also omitted the Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such omitted 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context.

Scott Northam, CPA, PC
Ruidoso, New Mexico
March 19, 2019

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
STATEMENT OF NET POSITION
JUNE 30, 2018**

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 249,544
Accounts Receivable	28,401
Prepaid Insurance	2,221
Inventory	6,507
Total Current Assets	286,673
 Noncurrent Assets	
Restricted Cash and Cash Equivalents	
Asset Reserve	74,688
Debt Service	15,114
Certificates of Deposit	11,977
Capital Assets, Net	2,984,426
Total Noncurrent Assets	3,086,205
Total Assets and Deferred Outflows	\$ 3,372,878

LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities

Accounts Payable	\$ 33,262
Gross Receipts Tax Payable	946
Payroll Taxes Payable	2,420
Current Portion of Long Term Debt	7,504
Total Current Liabilities	44,132

Noncurrent Liabilities

Customer Deposits	12,525
Long-Term Debt, Net of Current Portion	321,382
Total Noncurrent Liabilities	333,907
Total Liabilities	378,039

NET POSITION

Net Investment in Capital Assets	2,655,540
Restricted	
Debt Service	15,114
Reserves	86,665
Unrestricted	237,520
Total Fund Net Position	2,994,839
Total Liabilities and Net Position	\$ 3,372,878

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018**

OPERATING REVENUES	
Charges for Services	\$ 224,590
Disconnect and Reconnection Fees	142
Late Fees and Penalties	3,441
Installations	9,251
	<hr/>
Total Operating Revenues	237,424
 OPERATING EXPENSES	
Wages and Salaries	96,018
Payroll Taxes	7,788
Advertising	2,380
Fuel and Mileage Expense	13,238
System Expense	26,276
Equipment Upgrades and Supplies	10,913
Insurance	11,015
Office Expense	10,303
Telephone	3,622
Professional Fees and Contracted Services	11,704
Repairs and Maintenance	54,212
Property and Other Taxes	2,236
Utilities	7,872
Other Expenses	14,126
Depreciation	71,616
	<hr/>
Total Operating Expenses	343,319
Operating Loss	(105,895)
 NONOPERATING REVENUE (EXPENSE)	
State Grant Income	245,271
Membership Fees	1,100
Water Rights Lease	49,651
Mineral Rights Lease	20,519
Interest Income	325
Interest Expense	(10,284)
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Total Nonoperating Revenue (Expense)	306,582
Change in Net Position	200,687
Net Position, Beginning of Year	2,794,152
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Net Position, End of Year	\$ 2,994,839
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**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This following summary presentation of significant accounting policies of the Malaga Mutual Domestic Water Consumers & Sewage Works Association (the Association) is to assist in the understanding of the Association's financial statements. The financial statements and notes are the representation of the Association's management who is responsible for their integrity and objectivity. The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, and the Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures, and Financial Accounting Standards Board (FASB) pronouncements applicable to governmental agencies.

Departure from Generally Accepted Accounting Principles - In order to comply with the requirements of Section 12-6-3(B) NMSA 1978 and 2.2.2.16 NMAC, the proprietary fund financial statements and the notes related to those financial statements were prepared using the modified accrual basis of accounting. However, in complying with these requirements, management has omitted the following financial statements and notes required by accounting principles generally accepted in the United States of America (GAAP): the statement of cash flows - proprietary funds and note disclosures related to the cash flow statement. These omissions result in the financial statements being presented on a basis of accounting other than GAAP.

Under the modified accrual method employed by the Association, the financials report the Association's revenue as it is collected on a cash basis and does not report accounts receivable on the balance sheet. This method differs from the accrual basis of accounting which reports revenues based on customer billings and reports the outstanding amount from customers on the balance sheet.

Organization - The Association is a special purpose political subdivision of the State of New Mexico and was organized under provisions of the Sanitary Projects Act of New Mexico, Section 73-21-1 through 73-21-54 NMSA 1978, as amended. The Association provides the water services to its members. The Association's basic financial statements include all activities and accounts of the Association's financial reporting entity.

The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The GASB 14 definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Based upon the GASB 14 criteria above, there are no component units of the Association, nor is the Association considered a component unit of another governmental agency during the fiscal year ended December 31, 2018.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial Statement Presentation, Basis of Accounting, and Measurement Focus

Business-Type Activities - The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position were prepared using the economic resources measurement focus and the modified accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

The Statement of Revenues, Expenses and Changes in Net Position demonstrates the degree to which the direct expense of a given function or segments is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not included among program revenues are reported as *general revenues*.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Budgetary Information - Annual budgets of the Association are prepared prior to June 1 and must be approved by resolution of the Association Board of Directors and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Association Board of Directors and the Department of Finance and Administration. Line items within each fund budget may be over-expended; however, it is not legally permissible to over-expend the fund's budget in total. Over-expending the authorized budget in the fund will result in a finding.

These budgets are prepared on the Non-GAAP budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. The budgetary information presented in these financial statements has been presented in accordance with the above procedures.

The accompanying Statement of Revenues, Expenses and Changes in Net Position (Non-GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended December 31, 2018 is presented.

Assets, Liabilities, Net Position or Fund Equity, Other Matters

Cash and Investments - Cash includes amounts in demand deposits and short-term investments. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

All investments are stated at fair value which is determined by using selected bases. Interest income and realized gains and losses on investment transactions are included for financial statement purposes as investment income.

Cash Flow Liquidity - For purposes of the statement of cash flows, the Association's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Restricted Cash - The Association restricts a compensating amount of cash equal to the amount of the customer deposits held on hand. These reserves are not required but are separated by management.

Use of Restricted Cash - When the Association incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

Grants and Contributions - The Association receives grants as well as contributions in the course of operations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Utility Receivables - Substantially all of the Association's outstanding utility receivables are due from its customers for water and sewer service and solid waste collection. Collateral is generally not required on receivables, but a deposit is required to activate new service.

Allowance for Doubtful Accounts - It is the opinion of management that no allowance for doubtful accounts was necessary as of December 31, 2018 because services will be disconnected should an account become delinquent.

Concentration of Credit Risk - The Association grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame. The customer deposits held by the Association helps mitigate the credit risk.

Property and Equipment - Capital assets which may include software, property, plant, equipment, vehicles, and infrastructure assets (e.g., building, roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Association as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Land owned by the Association is always capitalized.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* allows Phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The Association has elected not to retroactively record infrastructure assets since being considered a Phase III municipality.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets of the Association are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings, Structures and Improvements	10-40
Water and Wastewater Systems	25
Infrastructure	25
Office and Maintenance Equipment	7
Vehicles	5

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Analysis of Impairments - Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based on comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based on the fair value of the impaired assets. No such impairment losses were recorded during the year ended December 31, 2018.

Customer Deposits - The Association requires a deposit to establish service for the customer. Deposits are not considered revenue for the Association unless or until the customer closes their account, at which time any remaining balance due on the account is deducted from the deposit and the customer is refunded the excess.

Net Position - The proprietary funds utilize a net position presentation. Net position is reported represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net position is reported in three categories:

- ***Net investment in capital assets*** – This category reflects the portion of net position that is associated with capital assets, net of accumulated depreciation reduced by the outstanding capital asset-related debt and adding back unspent proceeds.
- ***Restricted net position*** – This category reflects the portion of net position that has third party limitations on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Unrestricted net position*** – This category reflects net position of the Association, not restricted for any project or other purpose.

Operating and Non-operating Revenues - Revenues are classified as operating or non-operating according to the following criteria:

Operating revenue - include activities which have the characteristic of exchange transactions, such as charges for services and fees, net of any allowance for uncollectible amounts.

Non-operating revenues - include activities which have the characteristics of non-exchange transactions, such as capital grants and investment income.

Operating and Non-operating Expenditures - Expenditures are classified as operating or non-operating according to the following criteria:

Operating expenditures - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; materials and supplies; office expenses; and depreciation expenses related to Association capital assets.

Non-operating expenditures - include activities that have the characteristics of non-exchange transactions such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pensions and OPEB - The Association has elected not to participate in either the New Mexico Public Employees Retirement Association (PERA) or the New Mexico Retiree Health Care Act. Therefore, the Association has elected not to implement the following GASB statements:

- GASB Statement No. 68 - *Financial Reporting for Pension Plans – An Amendment to GASB Statement 27*,
- GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date*,
- GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

Compensated Absences – The Association does not accrue compensated absences.

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

Risk Management - The Association is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any preceding years. A surety bond as required by Section 12-6-7 NMSA 1978 Compilation and the New Mexico State Auditor Rule covers the officials and certain employees of the Association.

Subsequent Events - GASB 56 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

During the fiscal year, the Association had several accounts held with a local financial institution. At December 31, 2018, the Association had cash and cash equivalents on deposit with the local financial institution in a demand deposit account and interest-bearing accounts. Following is a schedule as of December 31, 2018, of the cash and cash equivalents.

	Bank Balance December 31, 2018	Net Items Outstanding	Book Balance December 31, 2018
Western Commerce Bank			
General Demand Checking:			
General Operating Account	\$ 253,381	\$ (3,887)	\$ 249,494
Savings Accounts:			
Debt Reserve Account	15,114	-	15,114
Asset Reserve Account	74,688	-	74,688
Certificates of Deposit	<u>11,976</u>	<u>-</u>	<u>11,976</u>
Total on Deposit	<u>\$ 355,159</u>	<u>\$ (3,887)</u>	351,272
Petty Cash			<u>50</u>
Total Cash			<u>\$ 351,322</u>

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE B - CASH AND CASH EQUIVALENTS (Cont.)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk other than that of state statutes. As of December 31, 2018, the Association's bank balance of \$355,159 was fully covered by FDIC insurance and not exposed to custodial credit risk during the year.

	Demand Deposits	Savings Deposits	Totals
Deposits:	\$ 253,381	\$ 101,778	\$ 355,159
Less FDIC Coverage	<u>(250,000)</u>	<u>(101,778)</u>	<u>(351,778)</u>
Uninsured Funds	3,381	-	3,381
Collateral Pledged by Bank	<u>141,514</u>	<u>-</u>	<u>141,514</u>
Uninsured and Uncollateralized	<u>\$ (138,133)</u>	<u>\$ -</u>	<u>\$ (138,133)</u>
50% Pledged Collateral Requirement per Statute	\$ 1,691	\$ -	\$ 1,691
Pledged Collateral	<u>141,514</u>	<u>-</u>	<u>141,514</u>
(Over) Under Collateralized	<u>\$ (138,133)</u>	<u>\$ -</u>	<u>\$ (138,133)</u>

Collateralization - The FDIC provides coverage of up to \$250,000 for interest-bearing and non-interest-bearing demand accounts separately from an additional \$250,000 for interest-bearing time and savings accounts. Excess coverage from one category is not transferrable to the other. No security is required for the deposit of public money being insured by the Federal Deposit Insurance Corporation.

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value.

Western Commerce Bank Pledged Collateral*:	Maturity	Market Value	Par Value
GNMA II Pool #008434	06/20/2024	\$ 32,838	\$ 32,157
GNMA II Pool #782156	05/20/2037	46,774	44,308
GNMA II Pool #080946	5/01/2029	<u>61,902</u>	<u>58,653</u>
Total Collateral Pledged		<u>\$ 141,514</u>	<u>\$ 135,118</u>

*All securities are held by Federal Home Loan Bank, Dallas, Texas

**MALAGA MUTUAL
DOMESTIC WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE C - CAPITAL ASSETS

The following capital asset activity for the year ended December 31, 2018 was as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Non-depreciable Capital Assets				
Land and Water Rights	\$ 284,724	\$ -	\$ -	\$ 284,724
Total Non-depreciable Capital Assets	<u>284,724</u>	<u>-</u>	<u>-</u>	<u>284,724</u>
Depreciable Capital Assets				
Water System Lines	3,530,876	317,163	-	3,848,039
Tools and Equipment	33,570	-	-	33,570
Building and Well House	<u>43,004</u>	<u>-</u>	<u>-</u>	<u>43,004</u>
Total Depreciable Capital Assets	<u>3,607,450</u>	<u>317,163</u>	<u>-</u>	<u>3,924,613</u>
Less Accumulated Depreciation				
Water System Lines	(1,096,310)	(74,180)	-	(1,170,490)
Tools and Equipment	(33,570)	-	-	(33,570)
Building and Well House	<u>(19,453)</u>	<u>(1,398)</u>	<u>-</u>	<u>(20,851)</u>
Total Accumulated Depreciation	<u>(1,149,333)</u>	<u>(75,578)</u>	<u>-</u>	<u>(1,224,911)</u>
Total Depreciable Capital Assets, Net	<u>2,458,117</u>	<u>241,585</u>	<u>-</u>	<u>2,699,702</u>
Capital Assets, Net	<u>\$ 2,742,841</u>	<u>\$ 241,585</u>	<u>\$ -</u>	<u>\$ 2,984,426</u>

The Association reported approximately \$75,578 in depreciation expense during the fiscal year. This amount was reported on the financial statements as a separate line item in the expenses.

NOTE D - LONG-TERM DEBT

The Association uses funds from operations to pay for the debt service. The following long-term debt activity for the year ended December 31, 2018 was as follows:

USDA - RUS 91-04 - The Association entered into an agreement with the United States Department of Agriculture's Rural Utilities Services in October 2009 for water system improvements, which includes the acquisition of land right-of-way easements, engineering and design, water distribution system improvements, and equipment. The original amount of the note was \$350,000, bearing 3.375% interest. Principal and interest payments of \$1,330 are due monthly, with the note maturing in October 2049. Net revenues from water sales have been pledged to the repayment of the principal and interest.

NMFA - CIF-3512 - The Association entered into a grant/loan agreement with the New Mexico Finance Authority in October 2016 for improvements to the water distribution system. The original amount of the agreement is \$272,523, of which \$245,721 is grant funds, and the remaining amount is a loan for \$27,252, bearing no interest. Twenty principal and interest payments of approximately \$1,363 are due annually, with the note maturing in June 2038. Net revenues from water sales have been pledged for the payment of the loan.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE D - LONG-TERM DEBT (Cont.)

Long-term debt activity for the year ended December 31, 2018 was as follows:

Obligation	Balance December 31, 2017	Increases	Decreases	Balance December 31, 2018	Due Within One Year
USDA-RUS 91-04	\$ 307,310	\$ -	\$ (5,677)	\$ 301,634	\$ 6,141
NMFS CI-3512	<u>4,134</u>	<u>23,118</u>	<u>-</u>	<u>27,252</u>	<u>1,363</u>
Total Long-term Debt	<u>\$ 311,444</u>	<u>\$ 23,118</u>	<u>\$ (5,677)</u>	<u>\$ 328,886</u>	<u>\$ 7,504</u>

Long-term debt service requirements to maturity are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2019	\$ 7,504	\$ 9,819	\$ 17,323
2020	7,444	9,879	17,323
2021	7,652	9,671	17,323
2022	7,868	9,455	17,323
2023	8,091	9,232	17,323
2024-2028	44,074	42,541	86,615
2029-2033	50,910	35,702	86,612
2034-2038	59,001	27,609	86,610
2039-2043	61,771	18,029	79,800
2044-2049	<u>74,571</u>	<u>6,697</u>	<u>81,268</u>
Totals	<u>\$ 328,886</u>	<u>\$ 178,634</u>	<u>\$ 507,520</u>

NOTE E - RETIREE HEALTH CARE ACT CONTRIBUTIONS

The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico. The Association has elected not to participate in the program.

NOTE F – PERA PENSION PLAN

The Public Employees Retirement Association (PERA) is the administrator of the state of New Mexico public employee retirement plan, which is a cost sharing, multiple-employer defined plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. Local governments have the opportunity to participate in the plan. The Association has not elected to participate in the public employee retirement plan.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
Water Sales and Charges for Service	\$ 250,000	\$ 250,000	\$ 224,590	\$ (25,410)
Reconnect and Disconnect Fees	300	300	142	(158)
Installation Fees	15,000	15,000	9,251	(5,749)
Miscellaneous	-	-	3,441	3,441
Total Operating Revenues	<u>265,300</u>	<u>265,300</u>	<u>237,424</u>	<u>(27,876)</u>
OPERATING EXPENSES				
Wages and Salaries	89,000	89,000	96,018	(7,018)
Payroll Taxes	8,100	8,100	7,788	312
Advertising	-	-	2,380	(2,380)
Fuel and Mileage Expense	10,500	10,500	13,238	(2,738)
System Expense	12,000	12,000	26,276	(14,276)
Equipment Upgrades and Supplies	-	-	10,913	(10,913)
Insurance	10,400	10,500	11,015	(515)
Office Expense	11,000	7,500	10,303	(2,803)
Telephone	3,950	3,900	3,622	278
Professional Fees and Contracted Services	7,900	7,900	11,704	(3,804)
Repairs and Maintenance	38,500	38,500	54,212	(15,712)
Property and Other Taxes	1,500	1,500	2,236	(736)
Utilities	13,000	13,000	7,872	5,128
Asset Reserve	8,668	8,668	8,829	(161)
Debt Service Reserve	1,660	1,660	1,693	(33)
Debt Service - Principal	15,960	15,960	5,339	10,621
Bad Debts	-	-	872	(872)
Capital Outlay	-	-	245,272	(245,272)
Total Operating Expenses	<u>232,138</u>	<u>228,688</u>	<u>519,582</u>	<u>(290,894)</u>
Operating Income (Loss)	33,162	36,612	(282,158)	(318,770)
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	220	220	325	105
Sale of Water Rights	-	-	49,651	49,651
Mineral Rights Royalties	-	-	20,519	20,519
Capital Grants	-	-	245,272	245,272
Membership Fees	500	500	1,100	600
Interest Expense	-	-	(10,284)	10,284
Total Non-operating Income (Expense)	<u>720</u>	<u>720</u>	<u>306,583</u>	<u>326,431</u>
Change in Net Position	33,882	37,332	24,425	<u>\$ 7,661</u>
Cash and Cash Equivalents - Beginning	<u>326,897</u>	<u>326,897</u>	<u>326,897</u>	
Cash and Cash Equivalents - Ending	<u>\$ 360,779</u>	<u>\$ 364,229</u>	<u>\$ 351,322</u>	

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
YEAR-END FINANCIAL REPORT SUBMITTED TO DFA
YEAR ENDED DECEMBER 31, 2018**

MDWCA Name: Malaga MD & S Water
Mailing Address: P.O. Box 70 Malaga NM 88263
Email Address: malagawater@windstream.net
Phone number: 575.745.2913

Calendar Year
2018

	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	235,771							
Savings	79,279							
CDs	11,847							
Investments	-							
Beginning Balance TOTAL	\$ 326,897							
REVENUES								
Water Sales (Water Use Fees)	250,000	51,210	70,276	58,829	44,274	224,590	25,410	90%
Connection/Reconnection Charges	300	94	47	0	0	142	158	47%
Membership and Meter Sales (Utility Service Fees)	500	350	350	200	300	1,200	(700)	240%
Late Fees and Penalties (Other Fines and Forfeits)	0					0	0	-
Gross Receipts Tax (Other State shared taxes)						0	0	-
Other Operating Revenue (miscellaneous - other)	15,220	4,711	11,653	60,612	251,533	328,509	(313,289)	2158%
TOTAL	\$ 266,020	56,366	82,326	119,641	296,107	554,440	(288,420)	208%
EXPENDITURES								
Salaries - Operator, Bookkeeper, etc.	89,000	23,665	20,927	26,330	25,096	96,018	(7,018)	108%
Employee Benefits and Expenses	8,100	2,024	1,697	2,104	2,536	8,361	(261)	103%
Electricity						0	0	-
Other Utilities - Gas, Water, Sewer, Telephone	16,950	3,541	3,629	3,754	1,330	12,255	4,695	72%
System Parts and Supplies	12,000	1,722	519	4,782	19,775	26,798	(14,798)	223%
System Repairs and Maintenance	38,500	8,453	2,567	34,035	9,346	54,400	(15,900)	141%
Vehicle Expenses	10,500	2,923	2,841	4,096	3,377	13,238	(2,738)	126%
Office and Administrative Expenses	11,000	1,998	3,745	2,650	1,949	10,342	658	94%
Professional Services - Accounting, Engineering, Legal	7,900	5,541	3,014	5,040	10,360	23,954	(16,054)	303%
Insurance	10,400	0	1,972	6,243	2,800	11,015	(615)	106%
Dues, Fees, Permits and Licenses	-					0	0	-
Taxes - Gross Receipts Tax, Water Conservation Fee	1,500	333	416	458	235	1,442	58	96%
Training	-					0	0	-
Miscellaneous			50	166	245,977	246,194	(246,194)	-
Annual debt service - Loan 1	15,960	3,990	3,990	3,990	3,753	15,723	237	99%
Annual debt service - Loan 2	10,328	2,582	2,582	2,582	2,582	10,327	1	100%
TOTAL	\$ 232,138	56,771	47,950	96,230	329,116	530,066	(297,928)	228%
Ending Balance	360,779					351,271		
LESS: Operating Reserve								
Emergency Reserve	11,977					11,977		
Capital Improvement Reserve	74,688					74,688		
Debt Reserve	15,114					15,114		
Ending Available Cash Balance	\$ 259,000					\$ 249,492		

INTERNAL CONTROL AND COMPLIANCE

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2018**

CURRENT YEAR FINDINGS:

2018-001 (2016-001) - Expenses in Excess of Authorized Budget – Other Non-Compliance (Revised and Repeated)

CONDITION – The Association exceeded its authorized budget approximately \$287,484.

PROGRESS TOWARD RESOLVING FINDING – No progress was made during the year regarding adjusting the budget for cost overruns. The board is being presented with budget to actual comparisons at the monthly board meetings but are not adjusting the budget to compensate for the overage.

CRITERIA – Section 6-6-6 of the New Mexico State Statutes prohibits any payments in excess of the approved budget unless budget adjustments are made and approved by Department of Finance and Administration's Local Government Division.

CAUSE – The Association prepared its budget on the cash basis but did not properly adjust the budget for additional expenses and vendor-direct capital outlay paid by NMFA during the fiscal year.

EFFECT – The Association is not in compliance with state statute. The Association's board is provided a monthly budget to actual comparison to review during its monthly board meetings but did not act on adjusting the budget for additional wages and other items during the year.

RECOMMENDATION – We discussed with the Board Treasurer at the prior year and current year exit conferences to properly utilize the reports provided by the outside fee accountant to evaluate the budget position at least quarterly and adjust the budget as necessary to acknowledge and accommodate any overages in the line item expenditures.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Board Treasurer discussed amending the budget during board meetings at different times throughout the year, but no budget amendments were proposed. The Treasurer will again stress the importance of maintaining a proper budget for compliance purposes in upcoming board meetings. The finding should be resolved by December 2019.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2018**

2018-002 - Late Final Budget Report Submission – Other Non-Compliance

CONDITION – The Association was late on submitting the final budget to the Local Government Division of the Department of Finance and Administration.

CRITERIA – Section 6-6-2 NMSA 1978 grants the DFA-LGD the powers and to regulate the budget reporting of the local public body. The fourth quarter and final budget report for the Association is due to the DFA-LGD by January 31st following the close of the fiscal year.

CAUSE – The Association has its budget reports prepared by an outside accountant, who had unforeseen circumstances arise and was not able to provide the report by the required deadline.

EFFECT – The Association is not in compliance with state statute.

RECOMMENDATION – The outside account and the Association management should coordinate at or about year-end to expedite the final budget report and submit by the prescribed deadline.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION – The Association’s Treasurer and Office Manager will work with the outside accountant to ensure that the final budget report and resolution is presented to the board for approval before the budget deadline. This finding should be resolved by February 2020.

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
DECEMBER 31, 2018**

PRIOR YEAR FINDINGS:

Finding	Status
2017-001 (2016-001) – Expenses in Excess of Authorized Budget	Revised and Repeated

**MALAGA MUTUAL DOMESTIC
WATER CONSUMERS & SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
DECEMBER 31, 2018**

The contents of this report were discussed with the Malaga Mutual Domestic Water Consumers & Sewage Works Association, New Mexico representatives on February 28, 2019 (Tier 4) and March 19, 2019 (Tier 6). The following individuals were present for the conference:

**Malaga Mutual Domestic Water Consumers
and Sewage Works Association**

Scott Northam, CPA, PC

Craig Ogden - Secretary Treasurer
Faye Arias - Office Manager

Scott Northam, CPA

The agreed-upon procedures, compiled financial statements and budgetary comparisons of the Malaga Mutual Domestic Water Consumers & Sewage Works Association were prepared by Scott Northam, CPA, PC, from original books and records provided by and with assistance from the management of the Association.

Although standards strongly emphasize the Association prepare its own financial statements, the consensus between Association management and the auditor was that it would be more time and cost efficient for the auditor to prepare the financial statements and the related notes. Accordingly, the Association designated a competent management-level individual to oversee the auditor's services, make all management decisions and perform all management functions. The Association reviewed, approved, and accepted responsibility for the accompanying compiled financial statements and related notes, supplemental budgetary comparisons, and for ensuring that the underlying accounting records adequately support the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance.