

**STATE OF NEW MEXICO**

**NORTH STAR DOMESTIC WATER CONSUMERS  
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**

**FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2009**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**



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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
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**FOR THE YEAR ENDED DECEMBER 31, 2009**

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**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**OFFICIAL ROSTER**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Name</u>		<u>Title</u>
	<u>Board of Directors</u>	
Loren Linville		President
Earnest Smith		Vice President
Bennie Brown		Secretary/Treasurer
Kellie Campbell		Member
Wayne Bradford		Member
	<u>Administrative Employees</u>	
Lloyd Ayliffe		General Manager
Gayle Willett		Administrative Assistant
	<u>Field Employees</u>	
Nathan Yarbro		Lead Operator
Cecil J. Sanchez		Operator

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**FINANCIAL SECTION**



# Manning Accounting and Consulting Services, LLC

## INDEPENDENT AUDITOR'S REPORT

Timothy Keller, New Mexico State Auditor  
and the Board of Directors of  
North Star Domestic Water Consumers  
& Mutual Sewage Works Cooperative, Inc.  
Aztec, New Mexico

We were engaged to audit the accompanying financial statements of the business-type activities of North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc., (the "Cooperative") as of and for the year ended December 31, 2009, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Because of the matters described in the following paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

As a result of numerous material weaknesses in the internal control structure of the Cooperative and the loss of supporting records, the Cooperative's accounting records are inadequate to substantiate the account balances for cash, accounts receivable, revenues, and expenses presented in the financial statements. There is insufficient evidence available to determine that the ending account balances and account distributions for revenue and expense amounts are accurate and management assertions cannot be adequately examined to afford a basis for an opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. has not presented a Management's Discussion and Analysis required by GASB statement No. 34 that the Governmental Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Manning Accounting and Consulting Services, LLC*

Manning Accounting and Consulting Services, LLC  
Kirtland, New Mexico  
May 11, 2017



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**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2009**

**ASSETS**

*Current assets*

Cash and cash equivalents	\$	373,405
Receivables (net of allowance for uncollectibles)		146,159
Interest receivable		3,243
<i>Total current assets</i>		522,807

*Noncurrent assets*

Restricted cash and equivalents		77,988
Note receivable		64,486
Capital assets		
Land		7,436
Water rights		738,981
Buildings and system		2,052,703
Improvements other than buildings		454,544
Equipment		4,585,265
Less: accumulated depreciation and amortization		(3,205,165)
<i>Total noncurrent assets</i>		4,776,238

<i>Total assets</i>	\$	5,299,045
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**LIABILITIES**

*Current liabilities*

Accounts payable	\$	49,389
Sales tax payable		10,066
Accrued liabilities		9,739
Accrued interest payable		7,258
Current maturities of:		
Accrued leave		19,668
Loans payable		94,759
<i>Total current liabilities</i>		190,879

*Noncurrent liabilities:*

Loans payable		2,070,449
<i>Total noncurrent liabilities</i>		2,070,449

**NET ASSETS**

Invested in capital assets, net of related deb		2,468,556
Restricted for:		
Debt service		77,988
Unrestricted net assets		491,173
<i>Total net assets</i>		3,037,717

<i>Total liabilities and net assets</i>	\$	5,299,045
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
 NORTH STAR DOMESTIC WATER CONSUMERS  
 & MUTUAL SEWAGE WORKS COOPERATIVE, INC.  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDING DECEMBER 31, 2009

<i>Operating revenues:</i>	
Water sales	\$ 734,332
Membership fees	19,515
Transfer fees	2,400
Fees and other charges	<u>29,066</u>
<i>Total operating revenues</i>	<u>785,313</u>
 <i>Operating expenses:</i>	
Amortization	13,779
Auto maintenance	5,950
Contract labor	45,722
Depreciation	286,512
Equipment rental	5,857
Fuel	19,383
Insurance	21,601
Legal and professional fees	21,441
Member stipends	2,750
Occupancy expenses	56,115
Office expenses	15,868
Payroll taxes and benefits	54,224
Repairs and maintenance	71,574
Safety and training	502
Salaries and wages	204,865
Supplies	57,181
Taxes, licensing, and permits	5,431
Telephone	9,776
Training and education	1,690
Travel expense	<u>2,421</u>
<i>Total operating expenses</i>	<u>902,642</u>
<i>Operating income (loss)</i>	<u>(117,329)</u>
 <i>Other income (expense)</i>	
Grant revenue	659,454
Interest income	8,096
Penalties	(1,540)
Interest expense	<u>(59,283)</u>
<i>Total other income (expense)</i>	<u>606,727</u>
<i>Change in net position</i>	<u>489,398</u>
<i>Net assets - beginning of year</i>	1,759,959
<i>Prior period adjustment</i>	<u>788,360</u>
<i>Adjusted net assets - beginning of year</i>	<u>2,548,319</u>
<i>Net assets - end of year</i>	<u><u>\$ 3,037,717</u></u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDING DECEMBER 31, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 839,799
Cash payments to employees	(260,957)
Cash payments to vendors for goods and services	(319,202)
Net cash provided (used) by operating activities	259,640

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchases of property and equipment, net of prior period adjustment	(737,911)
Capital lease payments	(14,837)
Principal payments on long-term debt	(94,807)
Interest payments on long-term debt	(60,566)
Proceeds from grants	659,454
Change in restricted cash	(19,428)
Net cash provided (used) by financing activities	(268,095)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	7,007
Net cash provided (used) by capital and investing activities	7,007

**Net increase (decrease) in cash and cash equivalents** (1,448)

**Cash and cash equivalents, beginning of period** 374,853

**Cash and cash equivalents, end of period** \$ 373,405

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income (loss)	\$ (117,329)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	300,291
(Increase) decrease in operating assets:	
Customer receivables	49,957
Increase (decrease) in operating liabilities:	
Accounts payable	24,060
Sales tax payable	4,529
Accrued payroll liabilities	(1,868)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 259,640</b>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
NORTH STAR DOMESTIC WATER CONSUMERS  
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**NOTE 1**      **Summary of Significant Accounting Policies**

A.      *Financial Reporting Entity*

The North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. (Cooperative) is a not-for-profit Mutual Domestic Association established for the purpose of construction, maintaining, and operating a water and wastewater system for members of the Cooperative in rural San Juan County. The Cooperative was incorporated as a Cooperative under the provisions of the New Mexico Cooperative Corporation Act. In October of 2007, the Board of Directors believed that it changed its form of organization from a not-for-profit cooperative to a not-for-profit company under the Sanitary Projects Act, NMSA 3-29-1 through 3-29-20. As such, the Cooperative changed its operating name from North Star DWC & MSWC Cooperative, Inc. to North Star Mutual Domestic Water Consumers Association, and has been operating under that name since 2007. The Cooperative has no component units.

Under the Sanitary Projects Act, the Association remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico.

The New Mexico State Auditor has determined, based upon the AG opinions, that mutual domestic water associations are governmental nonprofit organizations. As a result of this conclusion, as of fiscal year 2006, the Cooperative has changed their reporting format from the nonprofit format to the governmental format required by Governmental Accounting Standards Board (GASB) Statement 34. There was no effect on net assets as a result of implementing this format.

B.      *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Cooperative uses a proprietary fund to record all of its transactions.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

**STATE OF NEW MEXICO**  
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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009

**NOTE 1**      **Summary of Significant Accounting Policies (Continued)**

*B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Cooperative's enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*C. Assets, Liabilities, and Net Position or Equity*

**Cash and Temporary Investments:** The Cooperative'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.

State statutes authorize the investment of the Cooperative's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Cooperative is also allowed to invest in United States Government obligations. All funds for the Cooperative must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Cooperative. 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.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit. 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.

Investments for the Cooperative are reported at fair value.

**Accounts Receivable:** The receivables in the statement of net assets are considered fully collectable, and therefore, no allowance for doubtful accounts has been recorded. Receivables are recognized when services have been rendered and revenue has been earned.

Accounts receivable consist of the following at December 31, 2009:

Water billing receivable	\$ 72,727
Membership Receivable	<u>73,432</u>
Total	<u>\$146,159</u>

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 1      Summary of Significant Accounting Policies (Continued)**

*C.      Assets, Liabilities, and Net Position or Equity (Continued)*

**Capital Assets:** The Cooperative’s policy is to capitalize all disbursements for equipment in excess of \$5,000. Property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated services lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. The Association assets have the following estimated useful lives:

Buildings and systems	40
Furniture and fixtures	5-15
Improvements other than buildings	15-30
Machinery and equipment	5-20

Water rights of \$738,981 are not depreciated or amortized because water rights reflect renewable resources that do not deplete through use or deterioration. The Cooperative evaluates the water rights each reporting period to determine whether events or circumstances continue to support an indefinite useful life.

**Accumulated Compensated Absences:** The Cooperative permits certain employees to accumulate a limited amount of earned vacation leave. The cost of earned but unpaid vacation leave is normally recognized in proprietary funds when the benefit vests to the employee and becomes a legal liability to the Cooperative. At year end December 31, 2008 the amount of accumulated leave was \$19,668. However, the Cooperative did not have sufficient records for us to determine the amount of leave which was earned or used in 2009. As such we are unable to determine if the amount of liability the Cooperative had changed at year end December 31, 2009 and the \$19,668 amount was still carried in the Cooperative’s records.

Beginning	Increases	Decreases	Ending	Due within one year
\$ 19,668	\$ -	\$ -	\$ 19,668	\$ 19,668

**Accrued Liabilities:** Accrued liabilities consist of the following at December 31, 2009:

Accrued salaries and wages	\$ 5,376
Federal and state withholding payable	821
Federal unemployment taxes	460
Health insurance payable	3,065
Other	17
Total	\$ 9,739



**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

*C. Assets, Liabilities, and Net Position or Equity (Continued)*

**Use of Estimates:** The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes:** North Star Water Consumers & Mutual Sewage Works Cooperative, Inc., is exempt from Federal income taxes under the provisions of section 501(a) of the Internal Revenue Code as an entity described in section 501(c)(3). Therefore, no provision for income taxes has been made.

**NOTE 2 Stewardship, Compliance, And Accountability**

**Budget:** The Cooperative does not legally adopt a budget, and budgetary compliance is not one of the statutes which the New Mexico Attorney General has determined Mutual Domestic Associations are subject to under opinions 68-38, 90-30, and 06-02. Therefore, no comparison is made between the budget and actual expenditures.

**NOTE 3 Detailed Notes on All Funds**

*A. Cash and Temporary investments*

At December 31, 2009, the carrying amount of the Cooperative's deposits was \$451,193 and the bank balance was \$453,445. Of this balance \$400,689 was covered by federal depository insurance. NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Cooperative for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured and uninsured portion of deposits.

	Citizens Bank	Bank of Albuquerque	Washington Federal	Four Corners Community Bank	NM Finance Authority	Total
Cash on deposit	\$ 13,899	\$ 25,351	\$ -	\$ 158,544	\$ 52,756	\$ 250,550
Certificates of deposit	53,593		95,168	54,134	-	202,895
FDIC Coverage	(67,492)	(25,351)	(95,168)	(212,678)	-	(400,689)
Total uninsured and Uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,756</u>	<u>\$ 52,756</u>

	New Mexico Finance Authority
Cash on deposit with State Treasurer	\$ 52,756
Collateralized in State Treasurer accounts	(52,756)
Total uninsured and uncollateralized	<u>\$ -</u>

The Cooperative maintains petty cash of \$200.

**STATE OF NEW MEXICO**  
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**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 3 Detailed Notes on All Funds (Continued)**

A. *Cash and Temporary Investments (Continued)*

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Cooperative. Time deposits, savings deposits and interest bearing now accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

**Custodial Credit Risk-Deposits:** Custodial Credit risk is the risk that in the event of bank failure, the Cooperative deposits may not be returned. The Cooperative does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the Cooperative's bank balance of \$453,445 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateralized by FDIC	400,689
Uninsured and collateralized in State Treasurers Accounts	<u>52,756</u>
Total	<u><u>\$ 453,445</u></u>

B. *Capital Assets*

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance December 31, 2008	Additions	Deletions	Adjustments	Balance December 31, 2009
Capital assets used in governmental activities:					
Capital assets not being depreciated:					
Land	\$ 7,436	\$ -	\$ -	\$ -	\$ 7,436
Water Rights	738,981	-	-	-	738,981
Total capital assets not being depreciated	<u>746,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>746,417</u>
Capital assets being depreciated:					
Land improvements	454,543	-	-	1	454,544
Buildings and building improvements	2,052,704	-	-	(1)	2,052,703
Furniture, fixtures, and equipment	<u>3,017,149</u>	<u>803,258</u>	<u>-</u>	<u>764,858</u>	<u>4,585,265</u>
Total capital assets being depreciated	<u>5,524,396</u>	<u>803,258</u>	<u>-</u>	<u>764,858</u>	<u>7,092,512</u>
Less accumulated depreciation:					
Land improvements	157,368	35,233	-	30,038	222,639
Buildings and building improvements	214,982	52,834	-	-	267,816
Furniture, fixtures, and equipment	<u>2,502,918</u>	<u>198,445</u>	<u>-</u>	<u>13,347</u>	<u>2,714,710</u>
Total accumulated depreciation	<u>2,875,268</u>	<u>286,512</u>	<u>-</u>	<u>43,385</u>	<u>3,205,165</u>
Total capital assets, net of depreciation	<u><u>\$ 3,395,545</u></u>	<u><u>\$ 516,746</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 721,473</u></u>	<u><u>\$ 4,633,764</u></u>

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 3 Detailed Notes on All Funds (Continued)**

*B. Long-Term Debt*

A summary of loans payable at December 31, 2009:

	Balance at 12/31/08	Additions	Deletions	Balance at 12/31/09	Due Within One Year
General Obligation Bonds	\$ 2,260,015	\$ -	\$ 94,807	\$ 2,165,208	\$ 94,759

	USDA Loan NP 574 Tank 11/8/2001	USDA Loan N/P Rural development 9/30/2001	NMFA Loan DWRLF 6/27/2003
Issue Date			
Original Issue	\$242,284	\$340,400	\$1,779,798
Maturity Date	1/14/2015	5/7/2563	4/1/2028
Principal	Monthly	Monthly	1-May
Interest Rate	5.00%	6.88%	1.43%
Principal/Interest	Monthly	Monthly	1-May
Interest	N/A	N/A	1-Nov

	NMFA Loan N/P 5/1/2003	NMFA Loan WTB- 00710 9/30/2001	NMFA Loan N/P RIP J91-03 10/1/2002
Issue Date			
Original Issue	\$0	\$0	\$114,789
Maturity Date	4/1/2028	8/1/2031	10/1/2014
Principal	1-May	Monthly	12-Oct
Interest Rate	0.049300	0.068750	0.030000
Principal/Interest	1-May	Monthly	12-Oct
Interest	1-Nov	N/A	N/A

**STATE OF NEW MEXICO**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 3 Detailed Notes on All Funds (Continued)**

*C. Long-Term Debt (Continued)*

Fiscal Year Ending December 31,	USDA and NMFA Loans		Total Debt Service
	Principal	Interest	
2010	\$ 94,759	\$ 56,818	\$ 151,577
2011	97,372	54,311	151,683
2012	99,287	51,687	150,974
2013	102,132	48,527	150,659
2014	105,120	45,218	150,338
2015-2019	520,616	155,594	676,210
2020-2024	558,172	80,239	638,411
2025-2029	587,749	21,961	609,710
Totals	\$ 2,165,207	\$ 514,355	\$ 2,679,562

The New Mexico Finance Authority loans require the Cooperative to maintain reserve accounts, which consist of \$77,988 for the year ended December 31, 2009, in restricted cash on the Cooperative's statement of financial position.

**NOTE 4 Workman's Compensation**

Every employee of the Cooperative is covered by workman's compensation insurance as provided by State law. The Cooperative pays the entire insurance cost. Any employee who is injured or becomes ill from a cause arising in the course of his/her employment is eligible for benefits under workman's compensation in accordance with state worker's compensation law. Such illness or injury must be reported to the supervisor or general manager immediately.

**NOTE 5 Grants**

The Cooperative received state grant funding in the amount of \$659,454 in the current year for various projects. In 2009, the Cooperative lost \$47,881 in grant funds which were not used by the grant expiration date. Additionally, grant amounts received in previous years had not been recorded properly as many of the funds were paid directly to vendors. As such, grant revenues and fixed assets had been previously underreported.

**NOTE 6 Prior Period Adjustments**

During review of the Cooperative's capital assets and grant revenues, it was determined that some capital assets items had not been previously recorded nor properly depreciated in prior years. These items were corrected which resulted in a net increase of capital assets of \$721,473.

A note receivable in the amount of \$66,887 was improperly written off in previous years, this amount was added back to the financial statements in the current year.

**STATE OF NEW MEXICO**  
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**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 7**      **Subsequent Events**

In January 2016, the Cooperative found out that its tax exempt status had been revoked effective May 15, 2012 for failure to file Form 990 information returns beginning with the 2009 tax year. However, the Cooperative fought the revocation, completed the filing of all late returns, and its non-profit status was reinstated retroactively on March 16, 2017.

In October 2007 and again in September 2013, the Cooperative believed that it had changed its company status and name, changing its incorporation from a not-for-profit cooperative under the New Mexico Cooperative Corporation Act to a not-for-profit company under the Sanitary Projects Act, NMSA3-29-1 through 3-29-20 and changing its name from North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. to North Star Mutual Domestic Water Consumers Association, Inc. Since 2007, the Cooperative has operated under the name North Star Mutual Domestic Water Consumers Association, Inc. In November 2016, paperwork was again filed with the New Mexico Secretary of State to affect this change. The change in status has not yet been confirmed by the Secretary of State.

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**COMPLIANCE SECTION**



# Manning Accounting and Consulting Services, LLC

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Timothy Keller  
New Mexico State Auditor  
and the Board of Education of  
North Star Domestic Water Consumers  
& Mutual Sewage Works Cooperative, Inc.  
Aztec, New Mexico

We were engaged to audit the financial statements of the business-type activities of the North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. (the "Cooperative") as of and for the year ended December 31, 2009, and have issued our report thereon dated May 11, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Cooperative's financial statements that is more than inconsequential will not be prevented or detected by the Cooperative's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. (2008-1, 2009-2, 2009-3, 2009-4, 2009-5, 2009-6, and 2009-7)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1 and 2009-7 to be material weaknesses.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2009-1.

The Cooperative's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Cooperative's responses and, accordingly, we express no opinion on the responses.

The report is intended solely for the information and use of the Cooperative's Board of Directors, the Cooperative's Management, others within the entity, New Mexico Department of Finance and Administration, the New Mexico Legislature, federal and state grantors, and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Manning Accounting and Consulting Services, LLC*

Manning Accounting and Consulting Services, LLC  
Kirtland, New Mexico  
May 11, 2017

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**STATE OF NEW MEXICO**  
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**Section I – Financial Statement Findings**

**2008-1 – Improper Recording and Maintenance of Fixed Assets (Material Weakness)**

*Criteria:* 2.20.1.8 NMAC 1978 FIXED ASSET ACCOUNTING SYSTEM:

- A. Agencies should implement systematic and well-documented methods for accounting for their fixed assets. A computerized system is recommended, with appropriate controls on access and authorization of transactions.
- B. The information to be recorded and maintained on its fixed assets, must include at a minimum the following:
  - 1. agency name or commonly used initials used to identify the agency;
  - 2. fixed asset number or fixed asset number plus component number;
  - 3. a description using words meaningful for identification;
  - 4. location, specifically a building and room number. If the asset is movable, the name and location of the fixed asset coordinator should be used;
  - 5. manufacturer name (NOT the vendor's name, unless vendor is the manufacturer);
  - 6. model number or model name;
  - 7. serial number, or vehicle identification number (VIN) for vehicles in agency's use & possession. If the fixed asset has no serial number, e.g., a custom-built asset, absence should be acknowledged by coding this as "none";
  - 8. estimated useful life or units expected to be produced;
  - 9. date acquired (month and year)
  - 10. cost (according to the valuation methods described in section 10 [now 2.20.1.10 NMAC];
  - 11. fund and organization that purchased the asset, or to which it was transferred.
- C. The system must be capable of generating lists of fixed assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation (if needed), betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

**2.20.1.16 NMAC 1978 ANNUAL INVENTORY:**

- A. At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets consisting of those with a historical cost of one thousand dollars (\$1,000) or more, under the control of the governing authority.
- B. This inventory shall include all property procured through the capital projects fund which are assigned to the agency designated by the director of the property control division as the user agency.
- C. All passenger vehicles must be included in the inventory process. This includes all vehicles leased from the transportation services division of the general services department as required by the "Auditor's Rule" 2 NMAC 2.2.11.1.L [now Paragraph (8) or Subsection A of 2.2.2.12 NMAC].
- D. The inventory process shall produce a list of the property and the date and cost of acquisition. The annual physical inventory checks against losses not previously revealed and brings to light errors in records of accountability, but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition, with respect to their need for repairs, maintenance or replacement.
- E. The results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency. In the process of conducting their fieldwork, the state auditor or independent public accountant under a contract approved by the state auditor may test the correctness of the inventory by generally accepted auditing procedures (Laws 1999, Chapter 230).

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**Section I – Financial Statement Findings**

**2008-1 – Improper Recording and Maintenance of Fixed Assets (Material Weakness) (continued)**

**2.20.1.18 NMAC 1978 DISPOSITION OF FIXED ASSETS:**

- A. Sections 13-6-1 through 13-6-2 NMSA 1978, and the procurement code govern the disposition of fixed assets.
- B. For property whose fair market value is under \$5,000 and obsolete, or unusable, disposition may be made by:
  - 1. negotiated sale to any governmental unit of an Indian nation, tribe or pueblo in New Mexico, or by negotiated sale or donation to other state agencies, local public bodies, school districts, state educational institutions or municipalities,
  - 2. sale at public auction,
  - 3. destruction,
  - 4. disposal of hazardous materials in compliance with environmental regulations, and
  - 5. sale through solicitation of written bids through the state purchasing division.
- C. For property whose fair market value is over \$5,000, disposition may be made only through written approval by the state budget division.
- D. All dispositions must be recorded in the fixed asset inventory records. Appropriate entries must also be made in the financial accounts to reflect the disposition of the property. Gains or losses on disposal must be recorded in funds where such accounting is required.
- E. Dispositions of property whose method is found to be theft or embezzlement should be recorded in the inventory and financial accounts. Associated documentation such as police and insurance reports should be kept as part of the audit trail of the disposition.

**Additionally 12-6-10 NMSA 1978 Annual inventory.**

- A. 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. This inventory shall include all movable chattels and equipment procured through the capital program fund under Section [15-3B-16](#) NMSA 1978, which are assigned to the agency designated by the director of the property control division of the general services department as the user agency. The inventory shall list the chattels and equipment and the date and cost of acquisition. No agency shall be required to list any item costing five thousand dollars (\$5,000) or less. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files. At the time of the annual audit, the state auditor shall satisfy himself as to the correctness of the inventory by generally accepted auditing procedures.

**Condition:** During review of the Cooperative’s capital assets, it was determined that some items had not been previously recorded nor properly depreciated in prior years. These items were corrected which resulted in a net increase of capital assets of \$721,473.

**Cause:** The Cooperative has not kept proper records on its capital asset and inventory detail. A year-end review to verify assets is not completed.

**Effect:** Fixed assets are materially misstated in previous financial statements and not all assets have been properly recorded and tracked in the fixed asset inventory system.

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**2008-1 – Improper Recording and Maintenance of Fixed Assets (Material Weakness) (continued)**

***Auditors’ Recommendation:*** We recommend that the Cooperative ensure compliance with the above statutes by implementing internal control processes that will safeguard and record all fixed asset inventory. Additionally, we stress the importance of conducting annual physical inventories of fixed assets to ensure proper asset values are presented to the Board as they bear responsibility for all assets of the Cooperative.

***Responsible Official’s View:***

- Specific corrective action plan for finding:

**North Star has applied for and received a New Mexico Finance Authority Grant to complete an Asset Management Plan (“AMP”). North Star has entered into an agreement with Bohannon Huston, Inc. to construct a Project consisting of development of an Asset Management Plan (AMP) for North Star’s water infrastructure based on the New Mexico Infrastructure Finance Center, A.M Can Work Guide. The Asset Management Plan is being developed in conjunction with Shane Chance CPA and the installation of a new accounting program Account Edge. The account numbering and nomenclature is being developed to match the asset inventory for direct asset management between assets and asset accounting for depreciation, inventory and reporting accountability as part of the Asset Management Plan.**

- Timeline for completion of corrective action plan:

**The corrective action plan is a plan in progress and has been since August 1, 2016. The completion timeline for the corrective action plan is July 21, 2017. That is the closing deadline for the New Mexico Finance Authority Asset Management Plan Grant. This is with the understanding that Asset Management is an ongoing process in order meet accounting requirements.**

- Employee position(s) responsible for meeting the timeline:

**The General Manager and the Administrative Assistant.**

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**2009-1 – Late Submission of IPA Recommendation Form and Audit Contract (Other Matter)**

**Criteria:** 2.2.2.8(B)(6)(c) NMAC requires local public bodies that must obtain an audit to submit the required recommendation for the audit contract to the state auditor by December 1<sup>st</sup>.

**Condition:** The Cooperative did not complete the auditor selection process in a timely manner.

**Cause:** The Management and Board of the Cooperative, because of their cash situation, not to procure and audit in 2009. As such, they did not meet the December 1, 2009 deadline.

**Effect:** The submission of the form and the contract to the State Auditor was not completed timely.

**Auditor's Recommendation:** We recommend that the Cooperative complete the IPA recommendation form and audit contract by the statutory deadline.

**Responsible Official's View:**

- Specific corrective action plan for finding:

**It is North Star intent to complete the IPA recommendation form and audit contract by the statutory deadline and attempt to include the audit cost in the annual yearly budget process.**

- Timeline for completion of corrective action plan:

**The timeline for completion is before the statutory deadline each year.**

- Employee position(s) responsible for meeting the timeline:

**General Manger and Administrative Assistant.**

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**Section I – Financial Statement Findings**

**2009-2 – Bank Reconciliation Procedures (Significant Deficiency)**

**Criteria:** In accordance with proper accounting procedures and 2.20.5.8 NMAC, we were not able to verify, other than with the Citizens Bank account, that the Cooperative was completing their reconciliations in a timely manner. A timely reconciliation of bank accounts is normally considered to be completed within 30 days of month end. Also, bank reconciliations should be reviewed and signed and dated by someone other than the individual completing the bank reconciliations.

**Condition:** The Cooperative only had bank account statements and reconciliations for Citizen’s bank and no other accounts.

**Cause:** The Cooperative has not kept sufficient records for review by the auditors. These records may have been lost in a fire which destroyed some records and caused other records to be mixed into other years.

**Effect:** The Cooperative is unable to document that reconciliations were done timely and are reviewed by a supervisor not responsible for bank transactions or a member of the Board.

**Auditor’s Recommendation:** We recommend that all cash reconciliations be signed and dated by the individual performing the reconciliations and that they also be signed and dated by a member of the board to verify secondary review of the bank reconciliations. We recommend that these reconciliations and review of reconciliations occur within 30 days of month-end.

**Responsible Official’s View:**

- Specific corrective action plan for finding:

**A policy will be established to print out the Bank Statement at the close of the month, do the reconciliation and corrections if required, the General Manager will review and sign the statement, and the statement will then be review by the Board of Directors, Secretary/Treasurer and signed. The Cooperative has retained Shane Chance CPA to review the financials and assist the Cooperative with the accounting and bookkeeping. This will become a written Policy established and approved by the Board of Directors, and incorporated into the Rules and Regulations of the Cooperative.**

- Timeline for completion of corrective action plan:

**The timeline for completion of the corrective action is June 30, 2017.**

- Employee position(s) responsible for meeting the timeline:

**The General Manager.**  
**The Administrative Assistant.**

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**Section I – Financial Statement Findings**

**2009-3 – Lack of Supporting Documentation for Deposits (Significant Deficiency)**

**Criteria:** Good internal control procedures require that all deposits should be accompanied by supporting documentation identifying the total of the deposit, what revenue category generated the funds, and detail of the amounts in the event that multiple items are included within the deposit.

**Condition:** The Cooperative did not retain copies of checks or cash received in 2009.

**Cause:** The Cooperative was not aware of the need to keep additional supporting documentation to support any deposits made to the Cooperative's bank account. The Cooperative did create reports showing some of their reports but no original documents were available. Additionally, a fire in a storage area for the Cooperative's supporting documentation in 2013 may, or may not, have led to the destruction of these documents. Some documents were destroyed by the fire and some documents became mixed with other year's documents in the cleanup process, so it is impossible to know if the documents ever existed or not.

**Effect:** We were only able to review deposits made to a single bank account as it was the only one with bank statements for the year.

**Auditor's Recommendation:** We recommend that the Cooperative maintain copies of supporting documentation including a system printout showing which accounts were credited for all deposits.

**Responsible Official's View:**

- Specific corrective action plan for finding:

**A monthly file folder has been set up containing the Bank Deposits, the Bank Receipts, account numbers credited, and the G/L Account Number.**

- Timeline for completion of corrective action plan:

**This corrective has been implemented and is in place.**

- Employee position(s) responsible for meeting the timeline:

**Administrative Assistant  
General Manager**



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**Section I – Financial Statement Findings**

**2009-4 – Purchase Orders and Payment Authorization (Significant Deficiency)**

**Criteria:** In accordance with proper accounting procedures and 1.4.1 NMAC purchases of goods and services should be preceded with the issuance of a purchase order to encumber the funds. Additionally, sound accounting practices require proper segregation of duties, proper receiving procedures, proper documentation for payments, and proper authorization of expenditures.

**Condition:** During our testing of 25 cash disbursements we noted the following areas in which proper procedures are not being followed:

- 14 of 25 items tested had no purchase order
- 2 of 25 items tested had a purchase order with no amount listed
- 2 of 25 items tested had no receiving documentation
- 3 of 25 invoices were either missing or had no amount listed

During our testing of individually significant we noted the following areas in which proper procedures are not being followed:

- 7 of 20 items tested had no purchase order
- 7 of 20 items tested had no receiving documentation
- 2 of 20 items tested had no invoice

**Cause:** The Cooperative was unaware of the state purchasing guidelines affecting local public bodies which require the issuance of a purchase order for all purchases prior to committing or expending funds.

**Effect:** The Cooperative is not in compliance with state regulations regarding purchases with regards to issuance of purchase orders. Funds are not being encumbered prior to purchase.

**Auditor's Recommendation:** We recommend that the Cooperative begin issuing purchase orders for all purchases. We also recommend that an authorized official sign and date all invoices for products and services indicating that the invoice is "OK to pay" and that all payments have a proper invoice on file. This will provide assurance that an authorized individual is accepting responsibility for the products and services provided to the Cooperative.

**Responsible Official's View:**

- Specific corrective action plan for finding:

**A new Accounting Program has been implemented; this program includes a purchase order module for issuing, approving, tracking and approval to pay.**

- Timeline for completion of corrective action plan:

**The timeline for completion of the Purchase Order Accounting is July 3, 2017.**

- Employee position(s) responsible for meeting the timeline:

**General Manager**  
**Administrative Assistant**

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**Section I – Financial Statement Findings**

**2009-5 – Late Submission of Audit Report (Significant Deficiency)**

*Criteria:* 2.2.2.9 A(g) NMAC requires local public bodies that have a fiscal year-end other than June 30<sup>th</sup> to file their audit report no later than 5 months after the fiscal year-end (June 1<sup>st</sup>).

*Condition:* The Cooperative did not complete the audit report in a timely manner.

*Cause:* Because of cash flow issues, the Cooperative did not procure an audit according to the Audit Rule. As such, they did not meet the June 1, 2010 deadline.

*Effect:* The submission of the audit report to the State Auditor was late.

*Auditor's Recommendation:* We recommend that the Cooperative complete the audit report each year by the June 1<sup>st</sup> deadline.

***Responsible Official's View:***

- Specific corrective action plan for finding:

**The Cooperative will make every attempt to complete the Audit Report before the June 1<sup>st</sup> deadline, and incorporate the estimated cost of the Audit into the Annual Budget.**

- Timeline for completion of corrective action plan:

**The timeline for the Audit Report is before June 1<sup>st</sup> each year.**

- Employee position(s) responsible for meeting the timeline:

**Administrative Assistant  
General Manager**

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**Section I – Financial Statement Findings**

**2009-6 – Improper Procedures for Quotes Bid or RFP (Significant Deficiency)**

**Criteria: 1.4.1.15 NMAC 1978: COMPETITIVE SEALED BIDS REQUIRED:**

All procurement shall be achieved by competitive sealed bids except procurement achieved pursuant to the following methods:

- A. competitive sealed proposals;
- B. small purchases;
- C. sole source procurement;
- D. emergency procurement;
- E. procurement under existing contracts; and
- F. purchases from anti-poverty program businesses.

**1.4.1.17 NMAC 1978: PUBLIC NOTICE INVITATION FOR BID:**

Publication. The IFB or notice thereof shall be published not less than ten calendar days prior to the date set for the opening of bids. The IFB or notice must be published once in at least three newspapers of general circulation in this state.

- A. These requirements of publication are in addition to any other procedures that may be adopted by the state purchasing agent to notify prospective bidders that bids will be received, including but not limited to publication in trade journals, if available.
- B. Bidder lists. The state purchasing agent shall send copies of the notice or IFB involving the expenditure of more than sixty thousand dollars (\$20,000) to those businesses which have signified in writing an interest in submitting bids for particular categories of items of tangible personal property, construction and services and which have paid any required fees. (13-1-104 NMSA 1978). Reference is also given to 1.4.1.48 NMAC of this rule.
- C. Public availability. A copy of the IFB shall be made available for public inspection at the office of the state purchasing agent.

**1.4.1.29 NMAC 1978: APPLICATION (COMPETITIVE SEALED PROPOSALS)**

- A. General. Except as provided in Subsections B and C of this section , the provisions of Sections 1.4.1.29 through 1.4.1.47 of this rule apply to every procurement made by competitive sealed proposals.
- B. Architects, engineers, landscape architects and surveyors. The provisions of Sections 1.4.1.29 through 1.4.1.47 of this rule do not apply to the procurement of professional services of architects, engineers, landscape architects and surveyors for state public works projects or local public works projects. Except that when procuring such professional services for state public works projects or local public works projects state agencies and local public bodies shall comply with Sections 13-1-120 through 13-1-124 NMSA 1978.
- C. Procurement of professional services by state agencies with rulemaking authority. A state agency with rule making authority may adopt its own regulations for the procurement of professional services by competitive sealed proposals under the following conditions:
  - (1) the state agency must receive prior written authorization from the GSD secretary;
  - (2) the state agency's proposed regulations must provide that RFPs or notices thereof having a value exceeding thirty thousand dollars (\$30,000) will be provided to the state purchasing agent for distribution to prospective offerors who have registered with the state purchasing agent's office in accordance with the terms of Subsection B of 1.4.1.17 and Subsection A of Section 1.4.1.32 of this rule; -
- D. "Professional services" are defined in Section 13-1-76 NMSA 1978. The section of statute acknowledges the difficulty of any attempt made to recognize and list each and every service that could conceivably fall within the definition of "professional services". Instead, the statute provides in relevant part that "...other persons or businesses providing similar professional services to those listed may be designated as such by a determination issued by the state purchasing agent or a central purchasing office." In instances where "...other persons or businesses providing similar professional services...", as cited in Section 13-1-76, NMSA 1978, is not clearly defined, state agencies shall

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**Section I – Financial Statement Findings**

**2009-6 – Improper Procedures for Quotes Bid or RFP (Significant Deficiency) (continued)**

submit a written request to the state purchasing agent for issuance of a determination and a finding that the service is to be designated as a professional service. State agencies shall not make such a determination independent of the state purchasing agent.

**1.4.1.51 NMAC 1978: SMALL PURCHASES OF ITEMS OF TANGIBLE PERSONAL PROPERTY, CONSTRUCTION AND NONPROFESSIONAL SERVICES:**

- A. Quotation to be obtained. Insofar as it is practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding five thousand dollars (\$5,000) but not exceeding twenty thousand dollars (\$20,000), no fewer than three businesses shall be solicited to submit written quotations that are recorded and placed in the procurement file. If three written quotes cannot be obtained, the agency shall document the reasons and include the document in the procurement file. Such notations as "does not carry" or "did not return my phone call" do not qualify as a valid quotation.
- B. Disclosure. Prior to award, the contents of any response to a quotation shall not be disclosed to any other business from which the same request for quotation is also being solicited.
- C. Award. Award shall be made to the business offering the lowest acceptable quotation.
- D. Records. The names of the businesses submitting quotations and the date and the amount of each quotation shall be recorded and maintained as a public record.

**1.4.1.52 NMAC 1978: SMALL PURCHASES OF PROFESSIONAL SERVICES:**

- A. Application. A central purchasing office may procure professional services having a value not to exceed thirty thousand dollars (\$30,000) except for the services of architects, engineers, landscape architects, or surveyors for state public works projects, as that term is defined in Section 13-1-91 NMSA 1978, in accordance with Subsections B, C, and D of this section.
- B. Examination of offeror list. Before contacting any business, a central purchasing office is encouraged to examine the state purchasing agent's current list of potential offerors, if any. Central purchasing offices are encouraged to contact at least three businesses for written offers before selecting a contractor.
- C. Negotiations. A central purchasing office shall negotiate a contract for the required services at a fair and reasonable price to the state agency.
- D. Disclosure. If more than one business is contacted, the contents of the written or oral offer of one business shall not be disclosed to another business during the negotiation process.

Finally, 1.4.1.67 NMAC 1978: **COPIES OF CONTRACTS AND PRICE AGREEMENTS:**

A central purchasing office shall retain for public inspection and for the use of auditors a copy of each state purchasing agent contract or current price agreement relied upon to make purchases without seeking competitive bids.

**Condition:** During our testing of individually significant items we identified an instance in which proper procedures were not followed;

- In 5 of 25 items reviewed the Cooperative did not obtain quotes or bids as required by statute.

**Cause:** The Cooperative has not followed proper state statutes in the receiving of bids and or quotes.

**Effect:** The Cooperative is not in compliance with State Purchasing Guidelines. This opens the Cooperative up to possible incidences of fraud and possible occurrences of disputed awards which could cause additional legal and monetary consequences.

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**2009-6 – Improper Procedures for Quotes Bid or RFP (Significant Deficiency) (continued)**

*Auditor's Recommendation:* We recommend that the Cooperative ensure that all personnel responsible for obtaining bids or quotes are trained in proper procedures.

*Responsible Official's View:*

- Specific corrective action plan for finding:

**The personnel responsible for obtaining bids and/or quotes shall receive the proper training on the procedures.**

- Timeline for completion of corrective action plan:

**The proper training for obtaining bids and/or quotes has been started with the staff and will continue as required.**

- Employee position(s) responsible for meeting the timeline:

**General Manager**

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**2009-7 – Failure to File Federal Tax Return (Material Weakness)**

**Criteria:** All non-profit organizations organized under section 501(a) of the Internal Revenue Code are required to file annual information returns.

**Condition:** North Star Domestic Water Consumers & Mutual Sewage Works Cooperative (Cooperative) did not file its Federal tax return for 2009 in a timely manner.

**Cause:** The Board and Management of the Cooperative chose to not file its Federal non-profit tax return for 2009 until November 2015.

**Effect:** The Cooperative placed its non-profit status in jeopardy by not filing its informational returns timely. In 2015, the Cooperative found out that its tax exempt status had been revoked effective May 15, 2012. However, the Cooperative fought the revocation, completed the filing of all late returns, and its non-profit status was reinstated retroactively on March 16, 2017.

**Auditor's Recommendation:** We recommend that the Cooperative complete all Federal tax return in a timely manner.

***Responsible Official's View:***

- Specific corrective action plan for finding:

**In the future the Cooperative will complete all Federal non-profit tax returns in a timely manner.**

- Timeline for completion of corrective action plan:

**As the returns become due to submit.**

- Employee position(s) responsible for meeting the timeline:

**Administrative Assistant**  
**General Manager**

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

**Section II – Prior Year Financial Statement Findings**

2008-1 – A Detailed Listing of Fixed Assets Inventory is not Available – Repeated and Revised

2008-2 – Preparation of the Financial Statements – Resolved

**STATE OF NEW MEXICO**  
**NORTH STAR DOMESTIC WATER CONSUMERS**  
**& MUTUAL SEWAGE WORKS COOPERATIVE, INC.**  
**OTHER DISCLOSURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

**Auditor Prepared Financial Statements**

Manning Accounting and Consulting Services, LLC prepared the GAAP-basis financial statements and footnotes of North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. from the original books and records provided to them by the management of the Cooperative. The Cooperative's management has reviewed and approved the financial statements and related notes, and they believe that their records adequately support the financial statements. The responsibility for the financial statements remains with the Cooperative.

**Exit Conference**

The contents of this report were discussed on May 11, 2017. The following individuals were in attendance.

North Star DWC & MSWC

Lloyd Ayliffe, General Manager  
Bennie Brown, Secretary/Treasurer  
Kim Tunell, Bookkeeper  
Shane Chance, CPA, R. Shane Chance, CPA  
Kia Cordell, R. Shane Chance, CPA

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA, Managing Partner