

STATE OF NEW MEXICO

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

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

WITH

INDEPENDENT AUDITOR'S REPORT

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, 2018

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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, 2018

| <u>Name</u> | | <u>Title</u> |
|----------------------|---------------------------------|---------------------|
| | <u>Board of Directors</u> | |
| Loren Linville | | President |
| Earnest Smith | | Vice President |
| Bob Minser | | Secretary/Treasurer |
| Tim Torrez | | Member |
| Linda Jacobson-Quinn | | Member |
| | <u>Administrative Employees</u> | |
| Lloyd Ayliffe | | General Manager |

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, of North Star Domestic Water Consumers & Mutual Sewage Works Cooperative, Inc. (Cooperative), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Modified Opinion

We were unable to obtain sufficient appropriate audit evidence on the value of the Cooperative's capital assets, specifically the buildings and system, improvements other than buildings, equipment, and accumulated depreciation at December 31, 2018. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on capital assets and the related accumulated depreciation as of December 31, 2018. The effect on assets, net position, and expenses of the business-type activities is not readily determinable.

Modified Opinion

In our opinion, except for the possible effects of the matters described in the “Basis for Modified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Cooperative as of December 31, 2018, and the respective changes in its financial position and where applicable, the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the Cooperative’s financial statements. The other schedules required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other schedules required by 2.2.2 NMAC are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2020 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* in considering the Cooperative’s internal control over financial reporting and compliance.

Baldwin Accounting & Consulting, LLC

Baldwin Accounting & Consulting, LLC

Albuquerque, New Mexico

June 25, 2020

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018

ASSETS

Current Assets:

| | | |
|---|----|---------|
| Cash and cash equivalents | \$ | 183,980 |
| Accounts receivable, net of allowance for uncollectibles | | 151,605 |
| Other receivables | | 3,766 |
| Interest receivable | | - |
| Total current assets | | 339,351 |

Noncurrent Assets:

| | | |
|---|----|-----------|
| Restricted cash and equivalents | | 3,203 |
| Notes receivable | | 86,741 |
| Capital assets, not depreciated | | 848,971 |
| Capital assets, net of accumulated depreciation | | 5,019,427 |
| Total non current assets | | 5,958,342 |
| Total assets | \$ | 6,297,693 |

LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities

| | | |
|---------------------|----|--------|
| Accounts payable | \$ | - |
| Sales tax payable | | 39,065 |
| Accrued liabilities | | 44,454 |
| Interest payable | | 2,232 |
| Other liabilities | | 3,277 |

Current Maturities of:

| | | |
|----------------------|--|--------|
| Compensated absences | | 14,764 |
| Loans payable | | 73,543 |

| | | |
|----------------------------------|--|---------|
| Total current liabilities | | 177,335 |
|----------------------------------|--|---------|

Noncurrent Liabilities

| | | |
|----------------------|--|-----------|
| Compensated absences | | 27,219 |
| Loans payable | | 1,523,616 |

| | | |
|--------------------------------------|--|-----------|
| Total non current liabilities | | 1,550,835 |
|--------------------------------------|--|-----------|

| | | |
|--------------------------|--|-----------|
| Total liabilities | | 1,728,170 |
|--------------------------|--|-----------|

NET POSITION

| | | |
|----------------------------------|--|-----------|
| Net investment in capital assets | | 4,271,239 |
|----------------------------------|--|-----------|

Restricted for:

| | | |
|--------------|--|---------|
| Debt service | | 3,203 |
| Unrestricted | | 295,081 |

| | | |
|---------------------------|--|-----------|
| Total net position | | 4,569,523 |
|---------------------------|--|-----------|

| | | |
|---|----|-----------|
| Total liabilities and net position | \$ | 6,297,693 |
|---|----|-----------|

The accompanying notes are in 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 POSITION
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2018

| | |
|--|---------------------|
| Operating Revenues: | |
| Water sales | \$ 978,802 |
| Membership fees | 59,130 |
| Transfer fees | 3,460 |
| Fees and other charges | 933 |
| Total operating revenues | <u>1,042,325</u> |
| Operating Expenses: | |
| Auto maintenance | - |
| Bad debt | 13,503 |
| Contract labor | 758 |
| Depreciation | 470,619 |
| Fuel | 15,674 |
| Insurance | 20,460 |
| Legal and professional fees | 84,481 |
| Miscellaneous expense | 19,224 |
| Occupancy expenses | - |
| Office expenses | 156,729 |
| Payroll taxes and benefits | 49,293 |
| Plant expenses | 32,187 |
| Repairs and maintenance | 79,544 |
| Safety and training | - |
| Salaries and wages | 348,961 |
| Supplies | 8,502 |
| System expenses | 232,461 |
| Taxes, licensing, and permits | 1,287 |
| Training and education | 750 |
| Insurance | - |
| Travel | 708 |
| Total operating expenses | <u>1,535,141</u> |
| Operating income (loss) | <u>(492,816)</u> |
| Nonoperating revenues (expenses) | |
| Grant revenue | 50,000 |
| Interest income | 116 |
| Interest expense | (40,248) |
| Penalties | - |
| Loan Forgiveness | 56,536 |
| Total non operating revenues (expenses) | <u>66,404</u> |
| Change in net position | <u>(426,412)</u> |
| Net position, beginning of year | 4,992,413 |
| Restatement | 3,522 |
| Net position, beginning of year as restated | <u>4,995,935</u> |
| Net position, end of year | <u>\$ 4,569,523</u> |

The accompanying notes are in 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, 2018

| | |
|---|---------------------|
| Cash Flows from Operating Activities | |
| Cash received from customers | \$ 1,010,433 |
| Cash payments to employees | (306,229) |
| Cash payments to vendors for goods and services | <u>(753,254)</u> |
| Net cash provided by operating activities | <u>(49,050)</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Purchases of property and equipment | (11,571) |
| Principal payments on long-term debt | (1,101,773) |
| Interest payments on long-term debt | (20,028) |
| Proceeds from long-term debt | 1,202,107 |
| Proceeds from grants | 50,000 |
| Change in restricted cash | <u>10,339</u> |
| Net cash used by capital and related financing activities | <u>129,074</u> |
| Cash Flows from Investing Activities | |
| Interest received | <u>116</u> |
| Net cash used by capital and investing activities | <u>116</u> |
| Net change in cash and cash equivalents | 80,140 |
| Cash and cash equivalents, beginning of year | 103,840 |
| Cash and cash equivalents, end of year | <u>\$ 183,980</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | <u>\$ (492,816)</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization expense | 470,619 |
| (Increase) decrease in operating assets: | |
| Customer receivables | (23,211) |
| Notes receivables | (7,008) |
| Increase (decrease) in operating liabilities: | |
| Accounts payable | (10,157) |
| Sales tax payable | 17,640 |
| Accrued payroll liabilities | (7,091) |
| Accrued leave | 530 |
| Other liabilities | <u>2,444</u> |
| Total adjustments | <u>443,766</u> |
| Net cash provided by operating activities | <u>\$ (49,050)</u> |

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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.

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 charged 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.

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 Summary of Significant Accounting Policies (Continued)

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

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

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 water billings receivable at December 31, 2018.

Notes Receivable: The notes receivable balance consists of two items. First, one note relates to restitution requirements of a former employee who embezzled funds from the Cooperative before 2009. The individual is to pay \$200 per month to the Cooperative. The balance at December 31, 2018 for the restitution balance is \$43,486. The second note relates to an amount owed by Flora Vista Mutual Domestic Water Association which relates to its portion of a loan obtained for the construction work done to join the distribution systems of the two water companies. The balance at December 31, 2018 is \$43,255.

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:

STATE OF NEW MEXICO
 NORTH STAR DOMESTIC WATER CONSUMERS
 & MUTUAL SEWAGE WORKS COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018

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

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

Water rights of \$836,535 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.

Accrued Liabilities: Accrued liabilities consist of the following at December 31, 2018:

| | |
|-------------------------------------|------------------|
| Accrued salaries and wages | \$ 8,983 |
| Payroll deductions and withholdings | <u>35,471</u> |
| Total | <u>\$ 44,454</u> |

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 December 31, 2018 the amount of accumulated leave was \$41,983.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities

Net Position: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

In the government-wide financial statements, fund equity is classified as net position and is displayed in three components:

Invested in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted Net Position: All other net position that does not meet the definition of “restricted” or “invested in capital assets.”

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.

STATE OF NEW MEXICO
 NORTH STAR DOMESTIC WATER CONSUMERS
 & MUTUAL SEWAGE WORKS COOPERATIVE, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 2 Stewardship, Compliance, And Accountability

Budget: As a non-profit organization, 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.

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 3 Detailed Notes on All Funds

A. Cash and Temporary investments

New Mexico 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 <u>Bank</u> | Washington <u>Federal</u> | <u>Total</u> |
|--------------------------------------|-------------------------|------------------------------|----------------|
| Cash on deposit | \$ 152,999 | \$ 31,157 | \$ 184,156 |
| FDIC Coverage | <u>152,999</u> | <u>31,157</u> | <u>184,156</u> |
| Total uninsured and uncollateralized | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| | New Mexico <u>Finance Authority</u> |
|--|--|
| Cash on deposit with State Treasurer | \$ 3,203 |
| Collateralized in State Treasurer accounts | <u>3,203</u> |
| Total uninsured and uncollateralized | <u>\$ -</u> |

The funds are maintained in a combination of interest bearing and non-interest bearing checking accounts.

The Cooperative maintains petty cash of \$200.

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, 2018, none of the Cooperative's bank balance appears to have been exposed to custodial credit risk.

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 Detailed Notes on All Funds (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

| | Beginning Balance | Additions | Transfers & Disposals | Ending Balance |
|---|----------------------|------------------|--------------------------|-------------------|
| Capital assets, not depreciated | | | | |
| Land | \$ 12,436 | - | - | 12,436 |
| Water rights | 836,535 | - | - | 836,535 |
| Construction in process | - | - | - | - |
| Total, not depreciated | \$ 848,971 | - | - | 848,971 |
| Capital assets, depreciated | | | | |
| Leasehold improvements | \$ 506,741 | - | - | 506,741 |
| Buildings and improvements | 2,036,282 | - | - | 2,036,282 |
| Furniture, fixtures, and equipment | 8,432,075 | - | - | 8,432,075 |
| Software | 47,516 | 11,571 | - | 59,087 |
| Total, depreciated | 11,022,614 | 11,571 | - | 11,034,185 |
| Accumulated depreciation | | | | |
| Leasehold improvements | 435,909 | 26,047 | - | 461,956 |
| Buildings and improvements | 683,792 | 52,800 | - | 736,592 |
| Furniture, fixtures, and equipment | 4,395,928 | 383,206 | - | 4,779,134 |
| Software | 28,510 | 8,566 | - | 37,076 |
| Total accumulated depreciation | 5,544,139 | 470,619 | - | 6,014,758 |
| Total capital assets, depreciated, net | \$ 5,478,475 | (459,048) | - | 5,019,427 |
| Total capital assets, net | \$ 6,327,446 | (459,048) | - | 5,868,398 |

C. Long-Term Debt

During the year ended December 31, 2018, the following changes occurred in long-term debt:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|----------------------|----------------------|------------------|------------------|-------------------|------------------------|
| USDA | 255,305 | - | 29,302 | 226,003 | 31,047 |
| NMFA | 1,142,734 | 1,202,107 | 1,055,873 | 1,288,968 | 23,354 |
| Ally Bank | 98,786 | - | 16,598 | 82,188 | 19,142 |
| Compensated Absences | 41,453 | 15,294 | 14,764 | 41,983 | 14,764 |
| | <u>1,538,278</u> | <u>1,217,401</u> | <u>1,116,537</u> | <u>1,639,142</u> | <u>88,307</u> |

The Cooperative also entered into three note agreements during the year for the purchase of vehicles. The Cooperative incurred notes in the amount of \$116,829. The notes carry an interest rate of 3.48% with monthly payments. The notes are collateralized by the vehicles.

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

C. Long-Term Debt (Continued)

Long-term loans outstanding at December 31, 2018 are comprised of the following:

| | USDA Loan N/P 574 Tank 11/8/2001 | USDA Loan N/P Rural Development 9/30/2001 | NMFA Loan ZD WTB-0070 10/22/2010 | | |
|--------------------|--|---|--|--------------------|--|
| Issue Date | | | | | |
| Original Issue | \$ 242,284 | \$ 340,400 | \$ 143,255 | | |
| Maturity Date | 8/8/2021 | 5/7/2032 | 6/1/2030 | | |
| Principal | Monthly | Monthly | 1-Jun | | |
| Interest Rate | 5.000% | 6.875% | 0.250% | | |
| Principal/Interest | Monthly | Monthly | 1-Jun | | |
| Interest | N/A | N/A | 1-Dec | | |
| | NMFA Loan DW 3634 | ALLY Loan 61495 | ALLY Loan 62084 | ALLY Loan 18337 | |
| Issue Date | 3/23/2018 | 2/18/2017 | 2/18/2017 | 2/18/2017 | |
| Original Issue | \$ 1,260,927 | \$ 38,945 | \$ 38,942 | \$ 38,942 | |
| Maturity Date | 4/30/2039 | 1/18/2023 | 1/18/2023 | 1/18/2023 | |
| Principal | Monthly | Monthly | Monthly | Monthly | |
| Interest Rate | 2.000% | 3.480% | 3.480% | 3.480% | |
| Principal/Interest | Monthly | Monthly | Monthly | Monthly | |
| Interest | N/A | N/A | N/A | N/A | |

The annual requirements to amortize the long-term notes as of December 31, 2018, including interest payments are as follows:

USDA Loans

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|-------------------|---------------|----------------|
| 2019 | \$ 31,047 | 13,797 | 44,844 |
| 2020 | 32,899 | 11,945 | 44,844 |
| 2021 | 28,154 | 10,015 | 38,169 |
| 2022 | 16,347 | 8,697 | 25,044 |
| 2023 | 17,507 | 7,537 | 25,044 |
| 2024-2028 | 100,708 | 17,254 | 117,962 |
| 2029-2033 | - | - | - |
| 2034-2038 | - | - | - |
| 2039 | - | - | - |
| | <u>\$ 226,662</u> | <u>69,245</u> | <u>295,907</u> |

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 NOTES TO THE FINANCIAL STATEMENTS
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C. Long-Term Debt (Continued)

NMFA Loans

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|---------------------|----------------|------------------|
| 2019 | \$ 23,354 | 7,594 | 30,948 |
| 2020 | 53,482 | 24,798 | 78,280 |
| 2021 | 44,721 | 21,863 | 66,584 |
| 2022 | 49,961 | 21,140 | 71,101 |
| 2023 | 53,070 | 20,317 | 73,387 |
| 2024-2028 | 279,751 | 87,971 | 367,722 |
| 2029-2033 | 340,346 | 62,366 | 402,712 |
| 2034-2038 | 410,862 | 27,691 | 438,553 |
| 2039 | 34,653 | 662 | 35,315 |
| | <u>\$ 1,290,200</u> | <u>274,402</u> | <u>1,564,602</u> |

The New Mexico Finance Authority loans require the Cooperative to maintain reserve accounts, which consist of \$3,203 for the year ended December 31, 2018, in restricted cash on the Cooperative's statement of financial position.

Ally Bank Loans

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|------------------|--------------|---------------|
| 2019 | \$ 19,142 | 2,493 | 21,635 |
| 2020 | 19,818 | 1,815 | 21,633 |
| 2021 | 20,520 | 1,113 | 21,633 |
| 2022 | 20,817 | 395 | 21,212 |
| 2023 | - | - | - |
| 2024-2028 | - | - | - |
| 2029-2033 | - | - | - |
| 2034-2038 | - | - | - |
| 2039 | - | - | - |
| | <u>\$ 80,297</u> | <u>5,816</u> | <u>86,113</u> |

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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 workman'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 \$50,000 from the New Mexico Finance Authority in the current year to complete an Asset Management Plan (AMP).

NOTE 6 Joint Powers Agreements

In May 2008, the Cooperative entered into a joint powers agreement with Flora Vista Mutual Domestic Water Association to form the Animas Basin Regional Domestic Water Coalition. Within the agreement, both entities have equal power to be exercised within their own agencies. The purpose of the agreement is for the design and construction of a project to connect the two water systems to provide redundancy and better service to their customer bases. The term of the agreement is for 20 years which may be extended by agreement of the two organizations and will be governed by a committee of four where two members will be named by each organization. Each party is accountable for all receipts and disbursements under the agreement.

NOTE 7 Tax Abatement Disclosures

GASB Statement No. 77 requires government agencies to identify any tax abatement agreements that affect the government agency and disclose the amount of tax which was abated. There are no reported tax abatements affecting the Cooperative.

NOTE 8 Restatement

A loan was issued on the sanitation project to combine the water systems between the Cooperative and Flora Vista Mutual Domestic Water Association. In previous years, Flora Vista Mutual Domestic Water Association had not been submitting payments back to North Star for their portion of the loan. In 2018 it was determined by the Cooperative's contract accountant that Flora Vista Mutual Domestic Water Association had started posting the payments against their general accounts receivable balance rather than against the note receivable from Flora Vista Mutual Domestic Water Association. As a result, a restatement of 3,522 was made at December 31, 2018.

NOTE 9 Subsequent Events

The Cooperative has evaluated events through June 25, 2020, the date the financial statements were available to be issued.

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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NOTE 8 Subsequent Events (Continued)

In February 2016, an outside accountant for the Cooperative sent in a 2015 equipment listing for property tax purposes to the San Juan County Assessor's Office. Subsequently, the County Treasurer's Office sent a demand letter for personal property tax assessments for 2015 and 2016. The Treasurer's Office has suspended sending additional demand letters while the Cooperative and the Assessor's Office work to try to come to a resolution on the actual value of equipment for each year. The original listing sent to the Assessor's Office contained items which were no longer in existence and may not have contained other items which did exist. The County has agreed to waive all penalties and interest related to these amounts once an actual accurate valuation can be made. Until that time, no liability has been placed on the books for back taxes as an amount cannot reasonably be estimated.

COVID-19 – Subsequent to the year-end 2019, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from international, federal, state and local authorities requiring forced closures of various schools, businesses and other facilities and organizations. These forced closures could negatively impact the Association's business. While the closures and limitations on movement, domestically and internationally, are expected to be temporary, the duration of the supply chain disruption, and related financial impact, cannot be estimated at this time. Should the closures continue for an extended period of time or should the effects of the coronavirus continue to spread, the impact could have a material adverse effect on the Cooperative's financial position, results of operations and cash flows.

OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
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 DECEMBER 31, 2018

| Bank Name/Account Type | Account Name | Interest Bearing | Type | Depository Balance | Reconciled Balance |
|---|-------------------|---------------------|----------|-----------------------|-----------------------|
| Citizens Bank | | | | | |
| Operating Account | Operating Account | Yes | Checking | \$ 28,908 | \$ 28,432 |
| Regular Savings Account | Savings | Yes | Savings | 124,091 | 127,594 |
| Total Citizens Bank | | | | 152,999 | 156,026 |
| Washington Federal | | | | | |
| 574 Tank Reserve - Washington Federal | CD | | | - | 31,157 |
| Total all Institutions | | | | <u>\$ 152,999</u> | <u>\$ 187,183</u> |
| Cash per financial statements | | | | | |
| Cash and cash equivalents - Statement of Net Position | | | | | 187,183 |
| Less funds on deposit with State Treasurer | | | | | (13,542) |
| Less petty cash | | | | | (200) |
| | | | | | <u>173,441</u> |

COMPLIANCE SECTION

**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**

INDEPENDENT AUDITOR'S REPORT

Mr. Brian Colón,
New Mexico State Auditor and
North Star Domestic Water Consumers
& Mutual Sewage Works Cooperative, Inc.
Aztec, New Mexico

We have audited, in accordance with the 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, financial statements of the business-type activities of the North Star Domestic Water Consumers & Mutual Sewage Works Cooperative (Cooperative) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and the related budgetary comparison of the Cooperative, presented as supplemental information, and have issued our report thereon dated June 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not identified. However, as described in the accompany Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 2018-001 to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-003, 2018-004, 2018-005, 2018-006, and 2018-007 to be significant deficiencies.

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. We did not note any items to be other noncompliance matters.

The Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin Accounting & Consulting, LLC

Baldwin Accounting & Consulting, LLC

Albuquerque, New Mexico

June 25, 2020

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor’s report issued | Modified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Control deficiencies identified not considered to be significant deficiencies? | None noted |

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Section II – Financial Statement Findings

FS 2018-001 [2008-1] – Improper Recording and Maintenance of Fixed Assets (Material Weakness) Repeated

Criteria: 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 our review of the Cooperative’s capital assets, it was determined that some items had not been previously recorded nor properly depreciated in prior years, that management is unsure if the entire system has been capitalized, and that an annual inventory of assets is not completed. Due to this we are unsure that all system assets have been capitalized and depreciated properly.

No change in this condition has occurred since the prior year.

Cause: The Cooperative has not kept proper records on its capital asset and inventory detail. Recording of assets, especially items which may be paid directly through a grant trustee are not consistently captured and capitalized. 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.

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, including those paid directly through a grant trustee. 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 an outside firm to construct a Project consisting of development of an Asset Management Plan (AMP) for North Star’s water infrastructure based on established norms. The Asset Management Plan is being developed in conjunction with an accounting firm 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.

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Section II – Financial Statement Findings (Continued)

FS 2018-001 [2008-1] – Improper Recording and Maintenance of Fixed Assets (Material Weakness) Repeated (Continued)

- Timeline for completion of corrective action plan:

The corrective action plan is a plan in progress and has been since August 1, 2016. The asset management plan was actually completed during 2019, but the asset and depreciation schedule has not been updated to match the asset management plan.

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

The General Manager and the Administrative Assistant

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Section II – Financial Statement Findings (Continued)

FS 2018-002 [2009-1] – Late Submission of IPA Recommendation Form and Audit Contract (Other Non-compliance) Repeated

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 December 1st.

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

No change in this condition has occurred since the prior year.

Cause: The Management and Board of the Cooperative, because of their cash situation, chose not to procure an audit in 2018. As such, they did not meet the December 1, 2018 deadline. The Cooperative engaged an independent public accountant to conduct prior year audits that the Cooperative was behind on as well, which also contributed to the 2018 audit not being conducted until 2020.

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's 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 of December 1, 2020.

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

General Manger and Administrative Assistant

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Section II – Financial Statement Findings (Continued)

FS 2018-003 [2009-2] – Bank Reconciliation Procedures (Significant Deficiency) Repeated

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 was unable to provide verification that bank reconciliations are being completed and reviewed by a member of the board each month in audit year 2018 in a timely manner. The Cooperative was able to provide bank statements for the 2018 year and reconciliations that had been completed by an outside accounting firm at some time later than what would be considered timely. The reconciliations were signed in November 2019.

The Cooperative has begun to make progress in this area and subsequent to year-end was beginning to review and sign their bank reconciliations in a timely manner.

Cause: The Cooperative did not understand the necessity of documenting on their bank statements and reconciliations when the reconciliations had been completed and who had been a secondary review of the bank statements.

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 an accounting firm 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 was January 31, 2019.

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

General Manager and Administrative Assistant

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Section II – Financial Statement Findings (Continued)

FS 2018-004 [2009-3] – Lack of Supporting Documentation for Deposits and Deposit Errors (Significant Deficiency) Repeated and Revised

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: During our review of 25 deposits, we determined that 11 of the 25 deposits reviewed which ranged from \$36.10 to \$11,732.98 did not have correlating receipts for the amounts. We were able to review these deposit slips in the documentation provided by the bank and to the deposit amount into the bank account but were not in the Cooperative's records. Additionally, there were a few deposit corrections during the year where the summation of checks included in a deposit are added incorrectly, and the bank had to correct the deposit amount from the original amount recorded by the Cooperative. There were no deposit corrections selected in our sample.

In the previous year 6 of the 25 deposits reviewed had no deposit slip to review. The amount of deposit corrections seems to have been reduced significantly during the current year in relation to the previous year.

Cause: The Cooperative was not aware of the need to keep additional supporting documentation to support all deposits made to the Cooperative's bank account.

Effect: Some deposit amounts do not have supporting documentation to verify that all amounts are properly recorded for the Cooperative. Lack of supporting documentation could obscure fraud or embezzlement of Cooperative assets.

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 and safe keep all bank statements. We also recommend that the staff take care when creating deposits that they have correctly added the checks for deposit.

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 and General Manager

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Section II – Financial Statement Findings (Continued)

FS 2018-005 [2009-4] – Purchase Orders and Payment Authorization (Significant Deficiency) Repeated and Revised

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 review of disbursements and individually significant items we noted the following issues:

- For 15 of the 40 transactions we were unable to find any supporting documentation for the disbursement, ranging from \$7.65 to \$3,181.
- No purchase orders were issued in 32 of the 40 transactions reviewed and in the one individually significant disbursement ranging from \$7.65 to \$11,027.

In the previous year there were 16 instances in which we were unable to identify any supporting documentation, in 5 instances there was no vendor invoice to review, and in 27 instances there was no purchase order issued.

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 or that proper notation for receiving need be completed on all items.

Effect: Some disbursements do not have supporting documentation which is critical to provide assurance that the Cooperative's assets are being used properly. Lack of supporting documentation could obscure fraud or embezzlement of Cooperative assets. Additionally, use of purchase orders allows for proper managerial control of purchases within the organization.

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 was July 31, 2019.

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

General Manager and Administrative Assistant

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Section II – Financial Statement Findings (Continued)

FS 2018-006 [2009-5] – Late Submission of Audit Report (Significant Deficiency) Repeated

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

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

No change in this condition has occurred since the prior year.

Cause: The Management and Board of the Cooperative, because of their cash situation related to estimated costs related to repairs needed to the water system and a staff which felt overwhelmed with all the things that needed to be accomplished, chose not to procure an audit in 2017 within the prescribed timelines. The staff had missed getting an auditor selected for the 2009 audit, and when neither the previous auditor nor the state pushed for the audit to be done; this snowballed with each succeeding year with the enormity of catching up. As such, they did not meet the June 1, 2018 deadline.

Effect: The submission of the audit report to the State Auditor was late. Proper oversight of Cooperative's operations was not performed per State statute. Lack of oversight could lead to fraud, theft, or embezzlement of Cooperative assets which may not be identified in a timely manner.

Auditor's Recommendation: We recommend that the Cooperative complete the audit report each year by the June 1st 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 1st deadline, and incorporate the estimated cost of the Audit into the Annual Budget once we are current.

- Timeline for completion of corrective action plan:

The timeline for the Audit Report is before June 1st each year beginning in 2019.

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

Administrative Assistant and General Manager

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Section II – Financial Statement Findings (Continued)

FS 2018-007 [2010-1] – Failure to Maintain Payroll Records (Significant Deficiency) Repeated

Criteria: Proper accounting controls and the Fair Labor Standards Act (FLSA) require that all organization maintain proper records to identify all employees, detailed records of hours worked by those employees, and compensation paid to those employees.

Condition: The Cooperative is not properly maintaining payroll documents such as I-9's, IRA deductions, and employee contracts for the 2018 fiscal year. Only two of eight employees had their I-9 properly filled out and in the file. We could not confirm any employee's IRA deductions were proper. We could only confirm three of eight employees were being paid at their contract rate.

During the previous year only one employee had a proper I-9 filled out and in the file. Only one employee had proper documentation for their IRA deductions. Only two employees had a copy of their contract with their pay rate in the file.

Cause: The Cooperative has not kept sufficient records for review by the auditors.

Effect: The Cooperative is unable to provide many documents related to payroll expenditures for 2018. This makes it difficult to verify that all employees were paid at the proper rates and that withholdings were properly completed in the year under review.

Auditor's Recommendation: We recommend that the Cooperative maintain complete proper records related to I-9's, W-4's, contract amounts, withholding agreements, and employee hours worked and to update these documents as needed.

Responsible Official's View:

- Specific corrective action plan for finding:

Proper maintaining of the payroll record for employee hours is now being done as required.

- Timeline for completion of corrective action plan:

This has already been started.

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

Administrative Assistant

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Section III – Prior Year Financial Statement Findings

FS 2008-001 [2008-1] – Improper Recording and Maintenance of Fixed Assets – Repeated
FS 2009-001 [2009-1] – Late Submission of IPA Recommendation form and Audit Contract – Repeated
FS 2009-002 [2009-2] – Bank Reconciliation Procedures – Repeated and Revised
FS 2009-003 [2009-3] – Lack of Supporting Documentation for Deposits and Deposit Errors – Repeated
and Revised
FS 2009-004 [2009-4] – Purchase Orders and Payment Authorization – Repeated and Revised
FS 2009-005 [2009-5] – Late Submission of Audit Report – Repeated
FS 2010-001 [2010-1] – Failure to Maintain Payroll Records – Repeated and Revised
FS 2014-002 – Failure to File 941 and 940 Reports and Remit Taxes as Required – Resolved

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OTHER DISCLOSURES
FOR THE YEAR ENDED DECEMBER 31, 2018

Auditor Prepared Financial Statements

Baldwin Accounting & Consulting, 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 June 25, 2020. The following individuals were in attendance.

North Star DWC & MSWC

Lloyd Ayliffe, General Manager
Robert Minser, Secretary/Treasurer
Virginia Minser, Secretary to the Board
Kim Tunell, Bookkeeper

Baldwin Accounting & Consulting, LLC

Lee Baldwin, CPA, CFE, CGFM Director