

STATE OF NEW MEXICO

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

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

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, 2016

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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, 2016

<u>Name</u>		<u>Title</u>
	<u>Board of Directors</u>	
Loren Linville		President
Earnest Smith		Vice President
Dennis Frisk		Treasurer
Tim Torrez		Secretary
Tom Payne		Member
	<u>Administrative Employees</u>	
Lloyd Ayliffe		General Manager

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FINANCIAL SECTION



Manning Accounting and Consulting Services, LLC

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 Financial Statements

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, 2016, and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 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 opinion.

Basis for Qualified 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, 2016. 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, 2016. The effect on assets, net position, and expenses of the business-type activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the “Basis for Qualified 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, 2016, 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 March 8, 2019 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.

Manning Accounting and Consulting Services, LLC

Manning Accounting and Consulting Services, LLC
Kirtland, New Mexico
March 8, 2019

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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, 2016

ASSETS

Current assets

Cash and cash equivalents	\$	123,190
Receivables (net of allowance for uncollectibles)		100,688
Other receivables		1,554
Interest receivable		217
<i>Total current assets</i>		225,649

Noncurrent assets

Restricted cash and equivalents		48,647
Notes receivable		96,149
Capital assets		
Land		12,436
Water rights		836,535
Buildings and system		2,036,282
Improvements other than buildings		506,741
Equipment		8,287,437
Less: accumulated depreciation		(5,045,045)
<i>Total noncurrent assets</i>		6,779,182

Total assets

\$ 7,004,831

LIABILITIES

Current liabilities

Accounts payable	\$	511
Sales tax payable		56,239
Accrued liabilities		55,131
Accrued interest payable		5,583
Current maturities of:		
Accrued leave		37,292
Loans payable		130,744
<i>Total current liabilities</i>		285,500

Noncurrent liabilities:

Loans payable		1,420,690
<i>Total noncurrent liabilities</i>		1,420,690

NET POSITION

Invested in capital assets		5,082,952
Restricted for:		
Debt service		48,647
Unrestricted net assets		167,042
<i>Total net position</i>		5,298,641

Total liabilities and net position

\$ 7,004,831

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 POSITION
PROPRIETARY FUND
FOR THE YEAR ENDING DECEMBER 31, 2016

OPERATING REVENUES

Water sales	\$ 841,167
Membership fees	15,395
Transfer fees	2,160
Fees and other charges	54,413
	913,135
<i>Total operating revenues</i>	913,135

OPERATING EXPENSES

Auto maintenance	175
Bad debt	4,592
Contract labor	2,135
Depreciation	290,504
Equipment rental	381
Fuel	11,793
Insurance	39,408
Legal and professional fees	22,317
Miscellaneous expense	47
Member stipends	2,900
Occupancy expenses	67,988
Office expenses	24,783
Payroll taxes and benefits	80,396
Repairs and maintenance	66,284
Safety and training	155
Salaries and wages	336,348
Supplies	53,799
Taxes, licensing, and permits	2,279
Telephone	14,025
Training and education	4,914
Travel expense	5,458
	1,030,681
<i>Total operating expenses</i>	1,030,681
<i>Operating income (loss)</i>	(117,546)

OTHER INCOME (EXPENSE)

Grant revenue	259,056
Interest income	2
Interest expense	(35,911)
	223,147
<i>Total other income (expense)</i>	223,147

CHANGE IN NET POSITION

	105,601
NET POSITION - BEGINNING OF YEAR	5,193,040
NET POSITION - END OF YEAR	\$ 5,298,641

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 846,414
Cash payments to employees	(391,810)
Cash payments to vendors for goods and services	(324,994)
Net cash provided (used) by operating activities	129,610

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of property and equipment	(215,590)
Principal payments on long-term debt	(113,170)
Interest payments on long-term debt	(36,440)
Proceeds from grants	259,056
Change in restricted cash	9,325
Net cash provided (used) by financing activities	(128,710)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	135
Net cash provided (used) by capital and investing activities	135

Net increase (decrease) in cash and cash equivalents

1,035

Cash and cash equivalents, beginning of period

122,155

Cash and cash equivalents, end of period

\$ 123,190

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

Operating income (loss)	\$ (117,546)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	290,504
(Increase) decrease in operating assets:	
Customer receivables	(67,761)
Increase (decrease) in operating liabilities:	
Accounts payable	(1,561)
Sales tax payable	1,039
Accrued payroll liabilities	19,137
Accrued leave	5,798
Net cash provided (used) by operating activities	\$ 129,610

Cash paid during the year:

Interest	\$ 35,911
Income taxes	-
	\$ 35,911.00

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, 2016

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
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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016.

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, 2016 for the restitution balance is \$48,286. 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, 2016 is \$47,863.

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, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

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, 2016:

Accrued salaries and wages	\$ 6,367
Payroll deductions and withholdings	48,764
Total	<u>\$ 55,131</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, 2016 the amount of accumulated leave was \$37,292.

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, 2016

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.

	Wells Fargo Bank	Bank of Albuquerque	Washington Federal	Total
Cash on deposit	\$ 38,083	\$ 24,028	\$ 30,931	\$ 93,042
Certificates of deposit	56,112	-	-	56,112
FDIC coverage	94,195	24,028	30,931	\$ 149,154
Total uninsured and uncollateralized	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	New Mexico Finance Authority
Cash on deposit with State Treasurer	\$ 24,619
Collateralized in State Treasurer accounts	(24,619)
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 \$400.

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, 2016, none of the Cooperative's bank balance appears to have been exposed to custodial credit risk. As no bank statements for the year were available, if bank balances were the same as book balances, the coverage was as follows:

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 Detailed Notes on All Funds (Continued)

A. Cash and Temporary investments (Continued)

Uninsured and uncollateralized	\$ -
Uninsured and collateralized by FDIC	149,154
Uninsured and collateralized in State Treasurer's account	<u>24,619</u>
Total	<u>\$ 173,773</u>

B. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
Capital assets used in governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,436	\$ -	\$ -	\$ 12,436
Construction in progress	3,299,869	197,433	(3,497,302)	-
Water Rights	<u>828,335</u>	<u>8,200</u>	<u>-</u>	<u>836,535</u>
Total capital assets not being depreciated	<u>4,140,640</u>	<u>205,633</u>	<u>(3,497,302)</u>	<u>848,971</u>
Capital assets being depreciated:				
Leasehold improvements	506,741	-	-	506,741
Buildings and building improvements	2,036,282	-	-	2,036,282
Furniture, fixtures, and equipment	<u>4,780,178</u>	<u>3,507,259</u>	<u>-</u>	<u>8,287,437</u>
Total capital assets being depreciated	<u>7,323,201</u>	<u>3,507,259</u>	<u>-</u>	<u>10,830,460</u>
Less accumulated depreciation:				
Leasehold improvements	378,597	28,656	-	407,253
Buildings and building improvements	578,192	52,800	-	630,992
Furniture, fixtures, and equipment	<u>3,797,752</u>	<u>209,048</u>	<u>-</u>	<u>4,006,800</u>
Total accumulated depreciation	<u>4,754,541</u>	<u>290,504</u>	<u>-</u>	<u>5,045,045</u>
Total capital assets, net of depreciation	<u>\$ 6,709,300</u>	<u>\$ 3,422,388</u>	<u>\$ (3,497,302)</u>	<u>\$ 6,634,386</u>

C. Long-Term Debt

During the year ended December 31, 2016, the following changes occurred in long-term debt:

	Balance at 12/31/15	Additions	Deletions	Balance at 12/31/16	Due Within One Year
USDA and NMFA Loans	\$ 1,664,604	\$ -	\$ 113,170	\$ 1,551,434	\$ 130,744
Compensated Absences	<u>31,494</u>	<u>17,793</u>	<u>11,995</u>	<u>37,292</u>	<u>37,292</u>
	<u>\$ 1,696,098</u>	<u>\$ 17,793</u>	<u>\$ 125,165</u>	<u>\$ 1,588,726</u>	<u>\$ 168,036</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, 2016

NOTE 3 Detailed Notes on All Funds (Continued)

C. Long-Term Debt (Continued)

Long-term loans outstanding at December 31, 2016 are comprised of the following:

	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	8/8/2021	5/7/2563	4/1/2028
Principal	Monthly	Monthly	1-May
Interest Rate	5.000%	6.875%	2.000%
Principal/Interest	Monthly	Monthly	1-May
Interest	N/A	N/A	1-Nov

	NMFA Loan N/P 11/1/1998	NMFA Loan ZD WTB- 0070 9/30/2001	NMFA Loan N/P RIP J91-03 10/1/2002
Issue Date			
Original Issue	\$299,845	\$143,255	\$114,789
Maturity Date	4/1/2028	8/1/2031	10/1/2014
Principal	1-May	1-Jun	12-Oct
Interest Rate	2.734%	6.875%	3.000%
Principal/Interest	1-May	1-Jun	12-Oct
Interest	1-Nov	1-Dec	N/A

The annual requirements to amortize the long-term notes as of December 31, 2016, including interest payments are as follows:

Fiscal Year Ending December 31,	USDA and NMFA Loans		Total Debt Service
	Principal	Interest	
2017	\$ 130,744	\$ 35,086	\$ 165,830
2018	125,363	31,009	156,372
2019	130,272	27,513	157,785
2020	133,443	24,333	157,776
2021	130,042	21,051	151,093
2022-2026	624,679	65,009	689,688
2027-2031	276,891	5,700	282,591
Totals	<u>\$ 1,551,434</u>	<u>\$ 209,701</u>	<u>\$ 1,761,135</u>

The New Mexico Finance Authority loans require the Cooperative to maintain reserve accounts, which consist of \$48,647 for the year ended December 31, 2016, in restricted cash on the Cooperative's statement of financial position.

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 \$259,056 in the current year for a project to tie in the Cooperative's system with Flora Vista water system to provide redundancy to the two service areas. This completes the grant funding.

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 Subsequent Events

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.

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.

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
DECEMBER 31, 2016

Schedule I

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Citizens Bank						
Operating Account	Checking	\$ 23,642	\$ -	\$ (3,628)	\$ -	\$ 20,014
Regular Savings Account	Savings	14,441	-	-	1,648	16,089
CD 000226146423	CD	56,112	-	-	(56)	56,056
Total Citizens Bank		<u>\$ 94,195</u>	<u>\$ -</u>	<u>\$ (3,628)</u>	<u>\$ 1,592</u>	<u>\$ 92,159</u>

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Washington Federal						
574 Tank Reserve - Washington Federal	CD	\$ 30,931	\$ -	\$ -	\$ (100)	\$ 30,831
Total Washington Federal		<u>\$ 30,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (100)</u>	<u>\$ 30,831</u>

Bank Name/Account Type	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Bank of Albuquerque						
NMFA 15th Supp 1999 A-D No. Star Rsv	Trust	\$ 24,028	\$ -	\$ -	\$ -	\$ 24,028
Total Bank of Albuquerque		<u>\$ 24,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,028</u>
Total all Institutions		<u>\$ 149,154</u>	<u>\$ -</u>	<u>\$ (3,628)</u>	<u>\$ 1,492</u>	<u>\$ 147,018</u>

Cash per financial statements						
Cash and cash equivalents - Statement of Net Position						171,837
Less funds on deposit with State Treasurer						(24,619)
Less petty cash						(200)
						<u>\$ 147,018</u>

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

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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* INDEPENDENT AUDITOR'S REPORT

Brian Colón
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, 2016, and have issued our report thereon dated March 8, 2019. 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. Our report is qualified because 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. Further, we were unable to determine the effect, if any, on net assets and the change in net assets.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Cooperative's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic 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 over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of significant deficiencies, 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 deficiencies described in the accompanying schedule of findings and responses as items FS 2008-001, FS 2014-001, and FS 2016-001 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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 FS 2009-002, FS 2009-003, FS 2009-004, FS 2009-005, and FS 2010-001 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. 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 items FS 2009-001 and FS 2014-002.

The Entity's Response to Findings

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.

Purpose of this Report

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
March 8, 2019

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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, 2016

Section I – Summary of Audit Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued | Qualified |
| 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 |

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, 2016

Section II – Financial Statement Findings

FS 2008-001 [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.

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2008-001 [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 completion timeline for the corrective action plan is July 31, 2019. 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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2009-001 [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 by 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 2016. As such, they did not meet the December 1, 2016 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 of December 1, 2019.

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

General Manger and Administrative Assistant

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2009-002 [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 2016 in a timely manner. The Cooperative was able to provide bank statements for the 2016 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 2017.

No change from the prior year other than they had signed the current reconciliations though it didn't occur until 2017.

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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2009-003 [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 six of the 25 deposits reviewed which ranged from \$60.32 to \$6,060.99 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 multiple 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. None of these deposit corrections were selected in our sample of 25.

No change from the prior 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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2009-004 [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 we noted the following issues:

- For 9 of the 25 transactions we were unable to find any supporting documentation for the disbursement. These disbursements ranged from \$50.00 to \$13,771.20. Six additional disbursements out of alternates were selected for testing.
- For 3 of the 25 transactions reviewed there was no vendor invoice to verify proper payment amounts of \$103.78, 155.69, and 168.52 were issued.
- No purchase orders were issued in any of the 25 transactions reviewed. These payments ranged from \$6.39 to \$7,210.60.

No change from the previous year.

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 notations 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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2009-005 [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 2016 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, 2017 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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2010-001 [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, W-4's, IRA deductions, and employee contracts for the 2016 fiscal year. Only two of five employees files reviewed had a proper I-9 filled out and in the file. Only one of five employees had proper documentation for their IRA deductions. Additionally, only two of five employees had copies of their contracts or certified pay schedule with their pay rate in the file.

No change from the prior year other than one more employee's pay being able to be certified.

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 2016. 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

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, 2016

Section II – Financial Statement Findings (Continued)

FS 2014-001 – Failure to File State CRS Reports and Remit Tax as Required (Material Weakness) Repeated and Revised

Criteria: 7-9-11 NMSA 1978 Date Payment Due:

The taxes imposed by the Gross Receipts and Compensating Tax Act are to be paid on or before the twenty-fifth day of the month following the month in which the taxable event occurs.

Condition: North Star Domestic Water Consumers & Mutual Sewage Works Cooperative (Cooperative) failed to submit CRS taxes to the state in the amount of \$844.80 for the 2016 fiscal year. The Cooperative failed to make timely tax payments at various times from 2011-2016.

Fewer deposits and a significantly less amount of gross CRS payments amounts were not made in 2015 as compared to the previous year.

Cause: The Cooperative's bookkeeper at the time was not well trained or familiar with some of these requirements. Additionally, there wasn't sufficient oversight from the manager or the board to make sure payments were being made on a timely basis. This allowed the Cooperative to get behind in state payments.

Effect: The Cooperative was fined by the state and entered into a repayment plan in the amount of \$74,690.31 which includes all principal and interest payments on the amounts. The Cooperative was fined in the amount of \$59 for penalty and interest amounts related to CRS filings related to the 2016 fiscal year.

Auditor's Recommendation: We recommend that the Cooperative complete all state tax reports and make all deposits in a timely manner.

Responsible Official's View:

- Specific corrective action plan for finding:

The Cooperative entered into an installment agreement with the State of New Mexico in December 2016 to pay all back tax amounts and penalties and interest related to the late payments.

- Timeline for completion of corrective action plan:

This payment schedule will be completed in December 2021 at which time the Cooperative will be current with the CRS payments for back amounts.

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

Administrative Assistant and 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, 2016

Section II – Financial Statement Findings (Continued)

FS 2014-002 – Failure to File 941 and 940 Reports and Remit Taxes as Required (Other Non-compliance) Repeated and Revised

Criteria: Under IRS guidelines employers are required to file quarterly 941 reports for employment tax withholdings and an annual 940 report for federal unemployment tax withholdings. Additionally, employers are required to make federal tax deposits according to a prescribed schedule depending on the total value of those tax deposits and are required to make quarterly federal unemployment tax deposits.

Condition: North Star Domestic Water Consumers & Mutual Sewage Works Cooperative (Cooperative) failed to timely file the 941 report for the first three quarters of the year and the annual 940 report and made the 4th quarter 941 deposit late as well as the 940 unemployment deposits on the year. Additionally, the Cooperative did not file the 2013 and 2014 reports which had not yet been filed nor make the tax deposits missing for 2013.

There was significant back sliding in the current year as all reports and deposits had been completed timely in the previous year.

Cause: The Cooperative’s bookkeeper at the time was not well trained or familiar with some of these requirements. Additionally, there wasn’t sufficient oversight from the manager or the board to make sure payments and reports were being made on a timely basis. This allowed the Cooperative to get behind in filing federal tax reports.

Effect: The Cooperative was subsequently fined by the IRS for late filing of reports and the one late deposit.

Auditor’s Recommendation: We recommend that the Cooperative complete all federal tax reports and make all deposits in a timely manner.

Responsible Official’s View:

- Specific corrective action plan for finding:

The Cooperative will file all reports in a timely manner and make all tax deposits as prescribed by the law.

- Timeline for completion of corrective action plan:

The Cooperative caught up on all reports and payments, including back penalties and interest in February 2018.

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

Administrative Assistant and 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, 2016

Section II – Financial Statement Findings (Continued)

FS 2016-001 – Failure to Make Debt Payment on Time (Material Weakness) Repeated

Criteria: NMSA 6-13-11. Bond payment:

It is the duty of the secretary and treasurer of the governing board, where bonds have been issued pursuant to the Institution Bond Act, to forward to the bank at which the bonds are payable, prior to the date on which any installment of interest or any principal amount of any bonds matures, out of the interest and retirement fund, a sufficient sum of money to meet the installment of interest and maturing principal as they become due, plus any service charge which the bank is entitled to receive for its services.

Condition: The Cooperative did not make a debt payment on one of their loans on the date the loan payment was due. The Cooperative should have made a payment of \$7,352.30 in June 2016. Payment was not made until November of 2017.

Cause: The Cooperative was not current on one of its debt obligations. The Cooperative was trying to work out issues with this loan and which parts the Flora Vista Mutual Domestic Water Association was to pay. These were resolved in 2017.

Effect: The Cooperative did not meet its debt obligation as required which could damage its ability to obtain additional debt in the future..

Auditor's Recommendation: We recommend that the Cooperative ensure that they make all debt payments on time.

Responsible Official's View:

- Specific corrective action plan for finding:

The Cooperative will track all debt payments and make sure they are paid on a timely basis.

- Timeline for completion of corrective action plan:

This has been resolved and all future payments were made timely.

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

General Manager and the Board

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, 2016

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 2009-007 [2009-7] – Failure to File Federal Tax Return – Resolved
FS 2010-001 [2010-1] – Failure to Maintain Payroll Records – Repeated and Revised
FS 2014-001 – Failure to File State CRS Reports and Remit Tax as Required – Repeated and Revised
FS 2014-002 – Failure to File 941 and 940 Reports and Remit Taxes as Required – Repeated and Revised

STATE OF NEW MEXICO
NORTH STAR DOMESTIC WATER CONSUMERS
& MUTUAL SEWAGE WORKS COOPERATIVE, INC.
OTHER DISCLOSURES
FOR THE YEAR ENDED DECEMBER 31, 2016

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 March 8, 2019. The following individuals were in attendance.

North Star DWC & MSWC

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

Manning Accounting and Consulting Services, LLC

Byron R. Manning, CPA, Managing Partner