

STATE OF NEW MEXICO  
**UPPER LA PLATA DWC & SWC COOPERATIVE**

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FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL INFORMATION  
YEAR ENDED SEPTEMBER 30, 2019  
WITH  
INDEPENDENT AUDITORS' REPORT

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INTRODUCTORY SECTION  
OF  
**UPPER LA PLATA DWC & SWC COOPERATIVE**  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2019  
OCTOBER 1, 2018 THROUGH SEPTEMBER 30, 2019

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# OFFICIAL ROSTER

September 30, 2019

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## Board of Directors

Chad King	President
Steven Dunn	Vice President
Jim Dunlap	Secretary / Treasurer
Rita Arnold	Director
Charles Blassingame	Director

## Administrative Employees

Cherileen Henry	Office Manager
Dwight James	General Manager

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FINANCIAL SECTION  
OF  
**UPPER LA PLATA DWC & SWC COOPERATIVE**

ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2019  
OCTOBER 1, 2018 THROUGH SEPTEMBER 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

Brian S. Colón, Esq., State Auditor and  
The Board of Directors of  
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's basic financial statements as listed in the table of contents. We have also audited the budget comparison presented as supplemental information in the financial statements as of and for the year ended September 30, 2019, 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 Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative'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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the Association for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Brian S. Colón, Esq., State Auditor and  
The Board of Directors of  
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative

***Other Matters***

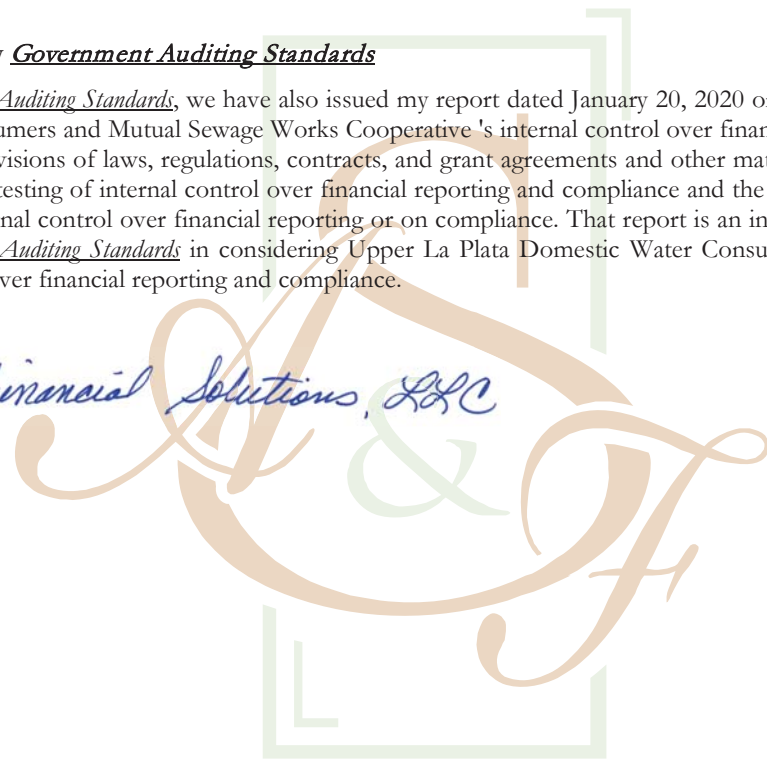
*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued my report dated January 20, 2020 on our consideration of the Upper La Plata Domestic Water Consumers and Mutual Sewage Works 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 Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's internal control over financial reporting and compliance.

*Accounting & Financial Solutions, LLC*  
Farmington, New Mexico  
January 20, 2020



BASIC FINANCIAL STATEMENTS  
OF  
**UPPER LA PLATA DWC & SWC COOPERATIVE**

AS OF AND FOR THE YEAR ENDED  
SEPTEMBER 30, 2019

STATE OF NEW MEXICO  
UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND  
Statement of Net Position  
September 30, 2019

**Assets**

Current assets:	
Cash and cash equivalents	\$ 199,783
Investments	508,166
Accounts receivable (net of allowance of \$3,474.00)	77,947
Embezzlement receivable (net of allowance of \$43,530.00)	-
Inventory	66,988
<b>Total current assets</b>	<u>852,884</u>
Noncurrent assets:	
Restricted cash - escrow	12,090
Capital assets:	
Land	17,137
Water rights	137,209
Buildings and improvements	284,488
Water system	3,903,992
Equipment and furniture	212,486
Less: accumulated depreciation	<u>(2,045,925)</u>
<b>Total noncurrent assets</b>	<u>2,521,477</u>
<b>Total Assets</b>	<u>\$ 3,374,361</u>

**Liabilities**

Current liabilities:	
Accounts payable	\$ 28,043
Accrued payroll	5,207
Compensated absences	4,985
Accrued taxes payable	2,641
Accrued interest payable	3,515
Loans payable - current portion	19,816
<b>Total current liabilities</b>	<u>64,207</u>
Noncurrent liabilities:	
Loans payable (less current portion)	<u>404,490</u>
<b>Total Liabilities</b>	<u>468,697</u>

**Net Position**

Net investment in capital assets	2,085,081
Unrestricted	820,583
<b>Total Net Position</b>	<u>2,905,664</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 3,374,361</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO  
UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND  
Statement of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2019

<b>Operating revenue:</b>	
Water sales	\$ 491,816
Connection and system fees	45,771
Other	<u>2,007</u>
<b>Total operating revenue</b>	<u>539,594</u>
<b>Operating expenses:</b>	
Water purchases	110,500
Salaries and benefits	213,438
Plant operations	72,911
Office expense	22,207
Contract labor	55
Insurance	23,100
Utilities	30,120
Legal and professional	8,207
Miscellaneous	716
Bad debt	30,551
Depreciation	<u>134,473</u>
<b>Total operating expenses</b>	<u>646,278</u>
<i>Operating income (loss)</i>	<u>(106,684)</u>
<b>Non-Operating income (expenses):</b>	
Interest income	6,640
Interest expense	<u>(8,713)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(2,073)</u>
<i>Change in net position</i>	<u>(108,757)</u>
<b>Net position - beginning</b>	3,014,421
<b>Net position - ending</b>	<u>\$ 2,905,664</u>

STATE OF NEW MEXICO  
UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND  
Statement of Cash Flows  
Year ended June 30, 2019

<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 499,538
Cash payments to employees	(313,746)
Cash payments for supplies and maintenance	(160,882)
<b>Net cash provided by operating activities</b>	<u>24,910</u>
<b>Cash Flows From Capital And Related Financing Activities</b>	
Principal paid on debt	(11,332)
Interest paid on debt	(5,938)
<b>Net cash used in capital and related financing activities</b>	<u>(17,270)</u>
<b>Cash Flows From Investing Activities</b>	
Purchase of investments	(262,000)
Deposits to restricted cash	(12,090)
Interest and dividends received	6,640
<b>Net cash used in investing activities</b>	<u>(267,450)</u>
<i>Net decrease in cash and cash equivalents</i>	(259,810)
<b>Cash and cash equivalents at beginning of the year</b>	<u>459,593</u>
<b>Cash and cash equivalents at end of the year</b>	<u>\$ 199,783</u>
<b>Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities</b>	
Operating income (loss)	\$ (106,684)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	134,473
(Increase) decrease in:	
Customer receivables	(9,327)
Inventory	(5,082)
Increase (decrease) in:	
Accounts payable	1,516
Accrued liabilities	5,207
Accrued taxes payable	(178)
Compensated absences	4,985
Total adjustments	<u>131,594</u>
<b>Net cash provided by operating activities</b>	<u>\$ 24,910</u>
<b>Noncash investing and financing activity:</b>	
Accrued interest payable	<u>\$ 8,875</u>

The notes to the financial statements are an integral part of this statement.



# NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

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# NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative (Cooperative) is a not-for-profit Mutual Domestic Association under the Sanitary Projects Act, NMSA 3-29-20 established for the purpose of constructing, maintaining, and operating a water and wastewater system for members of the Cooperative in its service area. The Cooperative is governed by an elected five-member Board of Directors. The Board of Directors has oversight responsibility and control over the delivery of services to the members of the Cooperative.

Under the Sanitary Projects Act, the Cooperative 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.

An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concludes that entities created under the Sanitary Projects Act (SPA) are subject to the New Mexico Audit Act. Additionally, there is another AG opinion (68-38) that states Mutual Domestic Associations (MDAs) under the SPA are created for "one purpose only, and that is to establish and maintain a water system". Also, it concluded MDAs are not "other municipal corporations" and are, thus, subject to ad valorem taxes. Finally, the Attorney General Opinion 06-02 has determined that MDAs created pursuant to the SPA 1) are public bodies/political subdivisions; 2) whose revenues are "public money"; and 3) they have statutory responsibilities to abide by the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act.

Due to the fact that MDAs have been determined to be governmental nonprofit organizations, in evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others. The Cooperative has determined that it has no reportable component units.

The Cooperative's financial statements include all financial information over which the Board of Directors exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, no component units were included in the financial statements.

Generally Accepted Accounting Principles (GAAP) requires that financial statements present the Cooperative (primary government) and its component units. The Cooperative has no component units that are required to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

1. Blended Component Units

The Cooperative does not have any component units reported as blended component units.

2. Discretely Presented Component Units

The Cooperative does not have any component units reported as discretely presented component units.

The summary of significant accounting policies of the Cooperative is presented to assist in the understanding of the Cooperative's financial statements. The financial statements and notes are the representation of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's management who is responsible for their integrity and objectivity. The financial statements of the Cooperative conform to Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

# NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### B. Implementation of New Accounting Principles

During fiscal year 2019, the Cooperative adopted the following Governmental Accounting Standards Board (GASB) Statements:

➤ **GASB Statement No. 83, *Certain Asset Retirement Obligations***

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FYE June 30, 2019). Earlier application is encouraged.

# NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### B. Implementation of New Accounting Principles (cont'd)

➤ **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FYE June 30, 2019). Earlier application is encouraged.

Other accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:

➤ **GASB Statement No. 84, *Fiduciary Activities***

This Statement supersedes NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, footnote 24; Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, paragraph 4; Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, paragraphs 70–73, 110, and 111; Implementation Guide No. 2015-1, Questions 4.14.1, 4.14.2, 6.43.2, 7.7.2, and 7.52.4; and Implementation Guide No. 2016-1, Implementation Guidance Update—2016, Question 4.26. It also amends NCGA Statement 1, paragraphs 32, 139, 143, and 147; NCGA Statement 5, Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments, paragraphs 5 and 6; Statement No. 6, Accounting and Financial Reporting for Special Assessments, paragraph 19; Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, footnote 12; Statement No. 14, The Financial Reporting Entity, paragraphs 19 and 27; Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, paragraph 5; Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, paragraphs 18 and 22; Statement 34, paragraphs 6, 12, 13, 63, 65, 67, 69, 106–109, 115, 123, 125, 135, 138, 141, and 147, and footnotes 48, 49, and 51; Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus, paragraph 3; Statement No. 38, Certain Financial Statement Note Disclosures, paragraphs 6, 14, and 15; Statement No. 40, Deposit and Investment Risk Disclosures, paragraph 5; Statement No. 44, Economic Condition Reporting: The Statistical Section, paragraph 10; Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, paragraphs 30, 33, and 35; Statement No. 61, The Financial Reporting Entity: Omnibus, paragraph 9; Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 34; Statement No. 67, Financial Reporting for Pension Plans, paragraph 11; Statement No. 72, Fair Value Measurement and Application, paragraph 80; Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, paragraph 116; Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, paragraphs 18 and 59; NCGA Interpretation 6, Notes to the Financial Statements Disclosure, paragraph 5; Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, paragraph 8; Implementation Guide 2015-1, Questions 1.4.2, 1.4.8, 2.7.1, 2.7.2, 3.49.1, 3.55.2, 3.58.1, 4.6.2, 4.27.1, 4.28.1, 4.28.11, 4.30.3, 4.62.2, 5.64.3, 5.64.4, 5.113.1, 6.29.3, 6.34.3, 6.34.4, 6.43.5, 6.45.1, 6.45.3, 7.3.5, 7.4.1, 7.51.6, 7.52.2, 7.52.3, 7.52.5–7.52.8, 7.55.5, 7.72.10, 7.77.4, 7.81.1, 7.81.2, 7.84.1, 7.97.1, 7.97.2, 7.97.4, 8.1.2, 8.1.3, and 8.15.4; Implementation Guide 2016-1, Questions 4.2, 4.13, 4.27, 4.61–4.63, 5.7, 5.8, 5.16, and 5.24; and 2002 AICPA State and Local Government Auditing and Accounting Guide, paragraph 5.28.

# NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### B. Implementation of New Accounting Principles (cont'd)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FYE June 30, 2020). Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

#### ➤ **GASB Statement No. 87, *Leases***

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease - A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019 (FYE June 30, 2021).

#### ➤ **GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement apply to the financial statements of all state and local governments. In financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. In financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FYE June 30, 2021). Earlier application is encouraged.

# NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### B. Implementation of New Accounting Principles (cont'd)

➤ **GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61***

The primary objectives of this Statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units.

This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The requirements of this Statement apply to the financial statements of all state and local governments.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FYE June 30, 2020). Earlier application is encouraged.

➤ **GASB Statement No. 91, *Conduit Debt Obligations***

This Statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FYE June 30, 2022). Earlier application is encouraged.

### C. Proprietary Financial Statement Presentation

The proprietary fund financial statements are reported using the economic resources measurement focus and 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government uses a proprietary fund to record all of its transactions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Cooperative's enterprise fund is charges to customers for sales and services. Operating expense for the enterprise fund includes 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.

# NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### D. Assets, Liabilities, and Net Position or Equity

#### 1. *Deposits and 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 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 on 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 of 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.

#### 2. *Accounts Receivable*

The accounts receivable reported in the Statement of Net Assets and an allowance for doubtful accounts has been recorded. Receivables are recognized when services are rendered and revenue has been earned.

#### 3. *Inventory*

Inventory is valued at cost using the first-in first-out method.

#### 4. *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 service 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.

ESTIMATED USEFUL LIVES	
ASSETS	YEARS
Buildings	40
Water System	20
Land Improvements	10 - 20
Equipment	3 - 10

#### 5. *Compensated Absences*

The Cooperative does not pay for unused vacation and sick leave upon termination; therefore, amounts are not accrued.

#### 6. *Sales Tax*

Various states and other taxing authorities impose a gross receipts tax (or similar tax) on the Cooperative's sales to nonexempt customers. The Cooperative collects the tax from customers and remits the entire amount to the various taxing authorities. The Cooperative's accounting policy is to exclude the tax remitted to the taxing authorities from revenues and cost of sales.

# NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### D. Assets, Liabilities, and Net Position or Equity (cont'd)

#### 7. *Tax Status*

The Cooperative operates as not-for-profit Cooperative and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management of the Cooperative believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(12) of the internal Revenue Code and believes there are no activities subject to unrelated business income tax. The Cooperative files federal Form 990 with the Internal Revenue Service and copies of Form 990 with states in which the Cooperative is registered, as required. The statute of limitations for examination of the Cooperative's returns expires three years from the due date of the return or the date filed, whichever is later. The Cooperative's returns for the years ended September 30, 2013 through 2015, are still open for examination and management anticipates the statute of limitations for the return for the year ended September 30, 2016, will expire in February 2020.

#### 8. *Budgets*

According to State statute, the Cooperative adopts and approves an annual non-appropriated budget adopted on a cash (non-GAAP) basis. Budgetary control is prepared at the level of account classification, and serves as a management control device. Once adopted, the Board is authorized to amend the budget at the account classification and fund level.

Prior to September 1, the Board of Directors adopts a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Prior to December 1, the budget is enacted through passage of a board resolution.

The Board is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. Expenditures of the Cooperative may not exceed appropriations at the level at which the budget is adopted, that is, expenditures in each fund may not exceed the budgeted appropriation for that fund.

#### 9. *Use of Estimates*

The preparation of the financial statements 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### 10. *Tax Abatements*

Governmental Accounting Standards Board Statement No. 77 requires the Cooperative to disclose information on certain tax abatement agreements effecting the Cooperative. Accordingly, the Cooperative did not have any tax abatements effecting the Cooperative during the year ended September 30, 2019.



## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

### II. DETAILED NOTES ON ALL FUNDS

#### A. Cash and Temporary Investments

##### Cash and equivalents

Reconciliation of bank balances to the financial statements:

	BALANCE
<b>Financial institution:</b>	
Citizens Bank	\$ 721,510
<b>Cash on hand</b>	300
<b>Less:</b>	
Investments	(508,166)
Restricted Cash	(12,090)
Net reconciling items	(1,771)
<b>Total cash and equivalents</b>	<b>\$ 199,783</b>

At September 30, 2019, the carrying amount of the Cooperative's deposits was \$719,738 and the bank balance was \$721,510 with the difference consisting of outstanding checks. Of this balance \$250,000 was covered by federal depository insurance and \$471,510 was covered by collateral held in joint safekeeping by a third party.

##### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. 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 statement listed below will meet the State of New Mexico Office of the State Auditor's requirement in reporting the uninsured portion of the deposits. As of September 30, 2019, none of the Cooperative's bank balance of was exposed to custodial risk as follows:

	INSURED	UNDER INSURED	TOTAL
<b>Bank deposits:</b>			
Uninsured and uncollateralized	\$ -	\$ -	\$ -
Uninsured and collateral held by pledging bank's trust dept not in the Cooperative's name	471,510	-	471,510
Total uninsured	471,510	-	471,510
Insured (FDIC)	250,000	-	250,000
Total deposits	<b>\$ 721,510</b>	<b>\$ -</b>	<b>\$ 721,510</b>
<b>State of New Mexico collateral requirement:</b>			
50% of uninsured public fund bank deposits	\$ 230,227	\$ -	\$ 230,227
Pledged security	535,515	-	535,515
Over collateralization	<b>\$ 305,288</b>	<b>\$ -</b>	<b>\$ 305,288</b>

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, Cooperative or political subdivision of the State of New Mexico. The following is the collateral pledged:

	MATURITY	CUSIP	MARKET VALUE
<b>Citizens Bank:</b>			
Jal NM Public Schools	10/1/2029	470143AP3	\$ 535,515

The pledged securities are held at the Federal Home Loan Bank in Dallas, Texas.

# NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

## II. DETAILED NOTES ON ALL FUNDS (cont'd)

### A. Cash and Temporary Investments (cont'd)

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.

The following is a list of accounts held by the Cooperative:

	BANK BALANCE
<b>Citizens Bank:</b>	
Checking - Interest	\$ 69,619
Savings - Interest	131,635
<b>New Mexico Finance Authority</b>	
Checking - Interest	<u>12,090</u>
	<u>\$ 213,344</u>

### Investments

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a written policy for limiting interest rate risk.

#### Credit Risk

Credit risk is the risk that an issuer or other counter

party to an investment will not fulfill its obligations. U.S. obligations, investments explicitly guaranteed by the U.S. Government, and non-debt investments are excluded from this requirement. The District's investments are in time deposits or investments guaranteed by the U.S. government and therefore are excluded from this requirement.

#### Custodial Credit Risk – Investments

As of June 30, 2019, the District's investments are in certificates of deposit of \$250,000 or less, or U.S. Government Securities or securities secured by the U.S. Federal Government. Therefore, the District is not subject to custodial credit risk.

The District investments held in certificated of deposits as follows:

Current assets:	
Investments	\$ -0-
Non-current assets:	
Investments	<u>508,166</u>
	<u>\$508,166</u>

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

### II. DETAILED NOTES ON ALL FUNDS (cont'd)

#### B. Accounts Receivable

Accounts receivable for the year ended September 30, 2019 was as follows:

	<u>RECEIVABLES</u>	
	Customers	Embezzlement
<b>Accounts Receivable</b>		
Current Billing	\$ 55,626	\$ -
Previous Billing	25,795	-
Allowance for Doubtful Customer Accounts	(3,474)	-
Embezzlement	-	43,530
Allowance for Doubtful Embezzlement	-	(43,530)
<b>Total</b>	<u>\$ 77,947</u>	<u>\$ -</u>

#### C. Capital Assets

Capital assets activity for the year ended September 30, 2019 was as follows:

	BEGINNING	INCREASES	DECREASES	ENDING
<b>Business-type activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 17,137	\$ -	\$ -	\$ 17,137
Water rights	137,209	-	-	137,209
Total capital assets not being depreciated	<u>154,346</u>	<u>-</u>	<u>-</u>	<u>154,346</u>
<u>Capital assets being depreciated:</u>				
Buildings	168,838	-	-	168,838
Water system	3,903,992	-	-	3,903,992
Land improvements	115,650	-	-	115,650
Equipment	207,027	-	-	207,027
Furniture	5,459	-	-	5,459
Total capital assets being depreciated	<u>4,400,966</u>	<u>-</u>	<u>-</u>	<u>4,400,966</u>
Less accumulated depreciation for:				
Buildings	(88,574)	(3,523)	-	(92,097)
Water system	(1,571,534)	(115,461)	-	(1,686,995)
Land improvements	(100,266)	(4,455)	-	(104,721)
Equipment	(145,619)	(11,034)	-	(156,653)
Furniture	(5,459)	-	-	(5,459)
Total accumulated depreciation	<u>(1,911,452)</u>	<u>(134,473)</u>	<u>-</u>	<u>(2,045,925)</u>
Total capital assets being depreciated, net	<u>2,489,514</u>	<u>(134,473)</u>	<u>-</u>	<u>2,355,041</u>
<b>Total capital assets, net</b>	<u>\$ 2,643,860</u>	<u>\$ (134,473)</u>	<u>\$ -</u>	<u>\$ 2,509,387</u>

**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2019

**II. DETAILED NOTES ON ALL FUNDS (cont'd)**

**D. Liabilities**

**Note Payable – Drinking Water State Revolving Loan Fund (DWSRLF):** Installment note payable to the New Mexico Mortgage Finance Authority in annual installments of \$28,302, including interest of 2%. The Cooperative began drawing on the loan in August 2016 and made the final draw in February 2018. Repayment of the loan began March 2018 with the note maturing April 2036 and is secured by the water system assets.

Changes in long term debt – During the year ended September 30, 2019 the following changes occurred in liabilities:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE	DUE WITHIN ONE YEAR
<b>Compensated absences:</b>					
Compensated vacation	\$ -	\$ 4,985	\$ -	\$ 4,985	\$ 4,985
<b>Bonds payable</b>					
N/P - DWSRLF	435,638	-	11,332	424,306	19,816
	<u>\$ 435,638</u>	<u>\$ 4,985</u>	<u>\$ 11,332</u>	<u>\$ 429,291</u>	<u>\$ 24,801</u>

Annual debt service requirements to maturity for notes payable are as follows:

	YEAR ENDING SEPTEMBER 30,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
	2020	\$ 19,816	\$ 8,486	\$ 28,302
	2021	20,212	8,090	28,302
	2022	20,617	7,686	28,303
	2023	21,029	7,273	28,302
	2024	21,449	6,853	28,302
	2025 - 2029	113,856	27,654	141,510
	2030 - 2034	125,707	15,804	141,511
	2035 - 2039	81,620	3,286	84,906
	Total	<u>\$ 424,306</u>	<u>\$ 85,132</u>	<u>\$ 509,438</u>

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2019

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### III. OTHER INFORMATION

#### A. Risk Management

The Cooperative has purchased commercial insurance that transfers risks of loss to an unrelated party. This coverage minimizes the Cooperative's retained risks of loss up to the policy limits.

#### B. Major Supplier

In accordance with an agreement dated January 1, 2008, the Cooperative purchases substantially all of its water from the Lower Valley Water Users for delivery to its members. The agreement covers a 20-year period. The cost of water purchased from Lower Valley Water Users during the year ended September 30, 2019 was \$112,321.

#### C. Employee Retirement Plan

The Cooperative participates in a defined contribution retirement plan covering substantially all of its employees. The Cooperative's contributions and costs are determined as seven percent of each covered employee's salary and totaled \$9,139 for the year ended September 30, 2019. No amounts were attributed to employee forfeitures. The Cooperative pays the annual expense to an outside administrator every year and there is no outstanding liability.

The Cooperative has not elected to be included in the New Mexico Public Employees Retirement Fund (PERA) and does not have any retirement plan in place for its employees.

#### D. Supplemental Disclosure of Cash Flow Information

Cash paid for interest during the year ended September 30, 2019 was \$8,875.

#### E. Subsequent Events

Subsequent events were evaluated through January 20, 2020 which is the date the financial statements were available to be issued.

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STATE OF NEW MEXICO  
UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND

Schedule of Revenues, Expenses, and Changes in Fund Net Position -  
Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
<b>Operating revenue:</b>				
Water sales	\$ 510,910	\$ 510,910	\$ 491,816	\$ (19,094)
Connection and system fees	7,213	7,213	45,771	38,558
Other	7,353	7,353	2,007	(5,346)
Total operating revenue	525,476	525,476	539,594	14,118
<b>Operating expenses:</b>				
Water purchases	123,604	123,604	110,500	13,104
Salaries and benefits	202,656	202,656	213,438	(10,782)
Plant operations	88,669	88,669	72,911	15,758
Office expense	13,998	13,998	22,207	(8,209)
Contract labor	205	205	55	150
Insurance	22,678	22,678	23,100	(422)
Utilities	25,399	25,399	30,120	(4,721)
Legal and professional	7,761	7,761	8,207	(446)
Miscellaneous	2,138	2,138	716	1,422
Total operating expenses	487,108	487,108	481,254	5,854
<i>Income from operations</i>	38,368	38,368	58,340	19,972
<b>Non-Operating income (expenses)</b>				
Interest income	73	73	6,640	6,567
Interest expense	(28,288)	(28,288)	(8,713)	19,575
Total nonoperating revenues (expenses)	(28,215)	(28,215)	(2,073)	26,142
<i>Change in net position - budgetary basis</i>	10,153	10,153	56,267	46,114
Beginning cash balance budgeted	(10,153)	(10,153)	-	10,153
<b>Net position beginning of the year</b>	-	-	3,014,421	3,014,421
<b>Net position end of the year</b>	\$ -	\$ -	3,070,688	\$ 3,070,688
<b>RECONCILIATION TO GAAP BASIS:</b>				
Depreciation			(134,473)	
Bad Debt			(30,551)	
<b>Change in net position</b>			\$ 2,905,664	

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# **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

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Schedule of Findings and Responses

§

Summary Schedule of Prior Year Audit Findings

§

Required Disclosures

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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 S. Colón, Esq., State Auditor and  
The Board of Directors of  
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative

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, the financial statements of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's basic financial statements, and related budgetary comparisons of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative presented as supplemental information, and have issued our report thereon dated January 20, 2020

**Internal Control Over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative 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 Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative internal control. Accordingly, we do not express an opinion on the effectiveness of Upper La Plata Domestic Water Consumers and Mutual Sewage Works 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 been identified. However, as described in the accompanying schedule of findings and responses, we identified 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Finding 2019-001, 2019 – 002 and 2019-003.

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 to be significant deficiencies. Finding 2019-004, 2019-005 and 2019-006.

Brian S. Colón, Esq., State Auditor and  
The Board of Directors of  
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's financial statements are free from 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 also noted certain other matters that are required to be reported pursuant to Government Auditing Standards and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 2019-007.

### Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's Response to Findings

Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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. This report is intended solely for the information and use of the Board of Directors, management, and the New Mexico State Auditor, and Department of Finance and Administration – Local Governments and is not intended to be and should not be used by anyone other than these specified parties.

*Accounting & Financial Solutions, LLC*  
Farmington, New Mexico  
January 20, 2020

# SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2019

## I. SUMMARY OF AUDIT RESULTS

	<u>Yes</u>	<u>No</u>	<u>Occurrences</u>
FINANCIAL STATEMENTS:			
Type of auditor's report issued: <u>Unmodified</u>			
Internal control over financial reporting:			
Material weakness(es) identified?	<u>✓</u>	<u>          </u>	<u>3</u>
Significant Deficiency(ies) identified?	<u>✓</u>	<u>          </u>	<u>3</u>
Noncompliance material to financial statements noted?	<u>          </u>	<u>✓</u>	<u>-</u>
NEW MEXICO STATE REQUIREMENTS:			
Internal control over state requirements:			
Other non-compliance?	<u>✓</u>	<u>          </u>	<u>1</u>
Finding that does not rise to the level of significant deficiency?	<u>          </u>	<u>✓</u>	<u>-</u>

# SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2019

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## II. FINDINGS RELATED TO FINANCIAL STATEMENTS

### 2019 – 001 CONTROLS OVER PAYROLL

#### *Material Weakness*

Condition: During the year two extra paychecks were issued to an employee in an effort to embezzle funds from the Cooperative. The gross amount of the paychecks totaled \$2,582. The cooperative found the discrepancy when the general ledger was being prepared for the Audit. This had not occurred in the prior years.

There were not any timecards to back up the time paid to employees.

Criteria: The COSO Internal Control Integrated Framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Cooperative can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

Cause: Due to a lack of review of the checks being signed, the employee was able to slip two extra paychecks into the disbursement stack of checks being signed.

Effect of condition: Errors (intentional or unintentional) occur and the process of documenting and trying to recover the funds are now in process.

Recommendation: The Cooperative should adopt policies and procedures for controls for reviewing the backup and signing checks with proper skepticism.

Management's response: Management's Response: Every hourly employee must now complete a timecard for each pay period, documenting the total hours worked each day. The employee signs the timecard indicating that the time worked is valid. The General Manager reviews each timecard and signs the timecard indicating his approval. The Office Manager processes the timecard for payment in the accounting system. She will not input the timecard for payment unless the General Manager has approved the timecard. The paychecks must be signed by the General Manager and a board member or by two board members. The Office Manager is no longer a signatory on the checking account. The timecards are attached to the paychecks for the board members' review prior to signing. The timecards are now filed in a timecard box separated by employee.

Responsible party(ies) for corrective action(s): Board, General Manager and Office Manager

Corrective action(s) timeline: February 11, 2020



# SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2019

## II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

### 2019 – 002 LACK OF INTERNAL CONTROLS (Original finding 2017-002)

(Repeat of prior year finding)

#### *Material Weakness*

Condition: We noted instances where elements of the Cooperative's internal control framework were nonexistence or deficient. The Cooperative's monitoring element was not documented, sufficiently designed, or implemented for general ledger reconciliation and financial statement reporting. Although the Cooperative has not completed the internal control documentation process, the Cooperative has hired someone to help them improve the internal controls and document the process.

*Status from prior year:* No change from the prior year.

Criteria: The COSO Internal Control Integrated Framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Cooperative can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

Cause: Lack of effective internal controls surrounding the financial reporting process.

Effect of condition: Without all of the five elements of the COSO Internal Control Integrated Framework present, the Cooperative is at risk of misappropriation of assets and improper reporting of financial information.

Recommendation: We recommend that the Cooperative incorporate all five elements of the COSO Internal Control

Integrated Framework in their organization. In particular, there should be a process in place to document the monitoring of the internal controls in place. We recommend that internal controls be implemented at both the entity-level and the activity-level.

Management's response: The board hired a Staff Accountant in November 2019 to review current procedures, prepare general ledger account reconciliations, review all financial transactions, recommend procedure changes and segregation of duties, and then assist with the implementation and documentation of these changes. Based on the Staff Accountant's findings through the reconciliation of balance sheet accounts and review of financial transactions, new procedures have been developed and segregation of duties has been established. These new procedures and processes will be documented by the Staff Accountant by April 30, 2020. The Staff Accountant will continue to prepare balance sheet reconciliations on a quarterly basis and review all financial transactions on a monthly basis. The Staff Accountant will also review the bank account reconciliation on a monthly basis, noting that the bank deposits agree to the daily receipts detail and the monthly receipts summary reports. She also reviews the cancelled checks to determine that all disbursements are paid to appropriate vendors and employees. The Staff Accountant, along with the General Manager, will review all adjustments made in the billing system on a monthly basis to make sure that the adjustments have been documented properly and that they are valid adjustments.

Responsible party(ies) for corrective action(s): Board and Staff Accountant

Corrective action(s) timeline: February 11, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2019

### II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

#### 2019 – 003 INADEQUATE INTERNAL CONTROLS OVER RECEIPTS (Original finding 2018-003)

(Repeat of prior year finding; updated and revised)

##### *Material Weakness*

Condition: The receipt book used during the year were destroyed. Receipts were also given to customers on sticky notes, receipts were issued from unauthorized receipt books, and receipts were not issued to some customers. The funds receipted in the utility billing software does not tie to the funds reported in the books. The current year receipts are short by \$24,427. The receipts that were adjusted out of the billing program in the year ending September 30, 2017 and 2018 was \$2,770, and \$6,655 respectively. The receipts that were adjusted since the year end to December 3, 2019 was \$1,778.

*Status from prior year:* No change from the prior year.

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for adopting sound accounting policies and for establishing and maintain internal controls that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions.

Cause: The Cooperatives employee was embezzling most of the cash payments, and trying to destroy the backup documentation.

Effect of condition: The Cooperative cannot be sure that the funds collected are being deposited, and they cannot trace back to the receipt book the all of the amounts collected

Recommendation: The Cooperative should require all receipt books have three copies, one to go to the customer, one to go with the cash to the deposit slip, and one to remain intact in the receipt book.

Management's response: The board hired a Staff Accountant in November 2019 to review procedures and internal controls associated with receipts. Based on her findings, new procedures and segregation of duties have been implemented. The current Office Manager has been trained in the proper use and retention of receipt books. Every cash payment has a corresponding receipt completed, even those cash receipts that have been mailed or placed in the drop box. One copy of the receipt is provided to the customer, one copy is included with the bank deposit slip, and the third copy is retained in the receipt book. Completed receipt books are filed in the safe. The Office Manager is the only employee who is authorized to collect and record customer payments. The Office Manager completes the daily deposit slip and ties the receipts from the deposit slip to that day's receipts as detailed on the daily receipt report. Before the General Manager makes the bank deposit, he compares the bank deposit slip to the daily receipt report, noting that the detail of the cash, checks and money orders agree. The bank reconciliation is now completed together by the General Manager and the Office Manager. The Staff Accountant reviews the receipt books monthly to ensure that established procedures are followed. She also reviews the bank account reconciliation monthly as noted above.

Responsible party(ies) for corrective action(s): Board, General Manager, Staff Accountant and Office Manager

Corrective action(s) timeline: February 11, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2019

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### II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

**2019 – 004 RECORDS RETENTION AND STORAGE** (Original finding 2018-004)  
(Repeat of prior year finding; updated and revised)  
***Significant deficiency***

Condition: During our fieldwork we became aware that most of the receipt books used during the year had been disposed of during the year.

*Status from prior year:* No change from the prior year.

Criteria: Cooperatives are required to have a systematic control of all records from creation or receipt through processing, distribution, maintenance and retrieval, to their ultimate disposition as per NMAC 1.15.4

Cause: The employee who was receipting the funds disposed of the current year receipt books without authorization.

Effect of condition: The Cooperative is working to trace the funds receipted in the bank to the funds reported in the utility billing program to determine the amount of the revenue embezzled from the Cooperative.

Recommendation: All employees should be made aware of the records retention requirements applicable to the Cooperative. All files should be placed in the locked filing system at the end of each day to ensure that the records are in a safe storage place and ready and available when needed.

Management's response: A board approved record retention policy has not yet been written. The Staff Accountant will have a policy written and approved by April 30, 2020. Though a formal policy has not been written, the receipt books are currently filed in the office safe. Other records such as monthly financial books, board minutes, vendor invoices, etc. are either filed in the office file cabinets or stored in boxes on-site. Financial records, vendor invoices and board minutes have recently been removed from the filing cabinets for FY 2011 – 2015 and stored on-site in storage boxes. The boxes have been labeled properly for future access, if needed.

Responsible party(ies) for corrective action(s): Board, General Manager and Staff Accountant

Corrective action(s) timeline: April 30, 2020.

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2019

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### II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

#### 2019 – 005 UNAUTHORIZED CREDIT CARD CHARGES

##### *Significant deficiency*

Condition: During the reconciliation of the general ledger it was noted that the credit card statements were missing. The System Manager had been requesting the statements in order to review and approve the expenditures on the statements. None were provided. The statements were downloaded from the website after year end it was discovered that there were unauthorized credit card charges for the year in the amount of \$3,541 for 2019, \$180 unauthorized charges for October 1, 2019 through November 30, 2019. The unauthorized charges for the year ending September 30, 2018 and 2017 were \$1,658 and \$1,897 respectively.

Criteria: The COSO Internal Control Integrated Framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Cooperative can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

Cause: The employee who created the unauthorized charges disposed of the credit card statements, and did not produce the statements for the system managers or Board of Directors review.

Effect of condition: The Cooperative is working to recoup the embezzled funds through either insurance or the employee.

Recommendation: A policy needs to be put into place that the checks are not signed by the board of directors without the backup documentation (statements, invoices or travel authorizations) attached for review.

Management's response: Credit card statements are now received and reviewed monthly by various personnel. The Office Manager receives the credit card statement and attaches the appropriate receipt for each purchase. The General Manager reviews the statement and the attached receipts monthly to make sure that all credit card purchases are appropriate. The General Manager provides the account coding for the charges. The Office Manager processes the check and attaches the credit card statement and receipts for board of directors' review prior to signing. The Staff Accountant also reviews the credit card statement monthly to determine that the charges are appropriate. The Office Manager no longer has a company credit card.

Responsible party(ies) for corrective action(s): Board, General Manager, Staff Accountant and Office Manager.

Corrective action(s) timeline: April 30, 2020.

## SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2019

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### II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

#### 2019 – 006 INTERNAL CONTROLS OVER DISBURSEMENTS

##### *Significant deficiency*

Condition: During the test of disbursements one of the thirty items tested, in the amount of \$181, which was a reimbursement for mileage to an employee, did not have documentation to support the amount and purpose of the reimbursement.

Criteria: The COSO Internal Control Integrated Framework consists of five critical elements that must be present in carrying out the achievement objectives of an organization. These elements are known as the control environment, risk assessment, control activities, information and communication and monitoring. With these elements in place, the Cooperative can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

Cause: The backup documentation was not presented to the person who reviewed and signed the check as the second reviewer.

Effect of condition: The Cooperative is at risk of over paying for reimbursements and incorrectly paying for disbursements without reviewing the backup documentation that supports an expenditure.

Recommendation: A policy needs to be put into place that the checks are not signed by the board of directors without the backup documentation (statements, invoices or travel authorizations) attached for review.

Management's response: The current Office Manager is attaching the back-up (statements and invoices) for each check that a board member must sign for payment. The board member(s) reviews the back-up before signing the check.

Responsible party(ies) for corrective action(s): Board, General Manager and Office Manager.

Corrective action(s) timeline: February 11, 2020.

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2019

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### II. FINDINGS RELATED TO FINANCIAL STATEMENTS (cont'd)

#### 2019 – 007 MISSING OR INCOMPLETE FORM I-9

##### *Other non-compliance*

Condition: Two of three were tested and the employee files selected for testing had incomplete I-9 forms.

Criteria: In accordance with the federal Immigration and Nationality Act Section 274A, employees are required to prove their citizenship or legal immigrant status prior to employment.

Cause: The Cooperative did not complete the I-9's form correctly.

Effect of condition: The Cooperative is out of compliance with requirements for the Immigration and Nationality Act.

Recommendation: The Cooperative should not employ any individual without prior completion and verification of the Form I-9. Application packages should be reviewed/approved by second person prior to applicant beginning employment.

Management's response: The I-9s for all current employees will be reviewed and corrected by the Staff Accountant. Going forward, the Staff Accountant will ensure that any individual prior to hire will have the proper documentation required to complete the I-9, and that each section of the I-9 is completed properly. New hire procedures will be established, including the review of application packages and interviewing applicants. Proper personnel files will be established so that all appropriate personnel information is documented and maintained.

Responsible party(ies) for corrective action(s): Board and Staff Accountant.

Corrective action(s) timeline: April 30, 2020 .

## SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2019

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### **I. PRIOR YEAR FINDINGS - RESOLVED**

2018 – 001 RECONCILIATION OF GENERAL LEDGER ACCOUNTS

*Current Status:* Resolved – Not repeated in the current year

### **II. PRIOR YEAR FINDINGS - NOT RESOLVED**

2018 – 002 LACK OF INTERNAL CONTROLS

*Current Status:* Not resolved – Modified and repeated in the current year

2018 – 003 INADEQUATE INTERNAL CONTROLS OVER RECEIPTS

*Current Status:* Not resolved – Modified and repeated in the current year

2018 – 004 RECORDS RETENTION AND STORAGE

*Current Status:* Not resolved – Modified and repeated in the current year

**REQUIRED DISCLOSURE**  
YEAR ENDED SEPTEMBER 30, 2019

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The independent public accountants assisted in the preparation of the financial statements. The accompanying financial statements are the responsibility of the cooperative and are based on information from the cooperative's financial records.

An exit conference was held February 11, 2020 and was attended by the following individuals:

UPPER LA PLATA DWC & SWC COOPERATIVE

Chad King	Board President
Steven Dunn	Board Vice President
Dwight James	General Manager
Maria Hathcock	Finance / Administration

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner
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