

**UPPER LA PLATA DOMESTIC WATER
CONSUMERS AND MUTUAL
SEWAGE WORKS COOPERATIVE
AUDITED FINANCIAL STATEMENTS
Year Ended September 30, 2012**

INTRODUCTORY SECTION

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Table of Contents	i
List of Principal Officials	ii
BASIC FINANCIAL STATEMENTS:	
Independent Auditor's Report	v
Management's Discussion and Analysis.....	vii
Statement of Net Position	2
Statement of Revenues, Expenses and Changes in Fund Net Position	3
Statement of Cash Flows	4
Notes to the Financial Statements.....	5
COMPLIANCE SECTION:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	15
Schedule of Findings and Responses	17
EXIT CONFERENCE	18

**UPPER LA PLATA DOMESTIC WATER
CONSUMERS AND MUTUAL
SEWAGE WORKS COOPERATIVE
List of Principal Officials
September 30, 2012**

<u>Name</u>	<u>Title</u>
Steven Dunn.....	President
Jim Dunlap.....	Vice President
Charles Blassingame.....	Secretary / Treasurer
Rita Arnold.....	Director
Chad King	Director
Cherileen Henry.....	Office Manager
Dwight James	System Manager

FINANCIAL SECTION

This Page Intentionally Left Blank

INDEPENDENT AUDITOR'S REPORT

Tim Keller, New Mexico State Auditor and Board Members
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative
La Plata, New Mexico

We have audited the accompanying financial statements of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative (the Organization) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2012, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages vii-x be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, looping initial "D".

Farmington, New Mexico
January 13, 2015

Management's Discussion and Analysis Year Ended September 30, 2012

For financial reporting purposes, Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative (the Organization) is considered a special purpose, primary government according to the Attorney General's Opinion. Accordingly, the Organization's financial statements have been presented using the economic resources measurement focus and accrual basis accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The report consists of Managements' Discussion and Analysis, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the Organization.

The discussion and analysis of the Organization's financial statements provides an overview of its financial activities as of and for the year ended September 30, 2012.

Financial Highlights

- The Organization's assets exceeded its liabilities at the close of the fiscal year September 30, 2012 by \$2,683,927 (net position). This was an increase of \$2,072 from September 30, 2011 net position of \$2,681,855. Of the September 30, 2012 net position, \$834,223 is unrestricted.
- The Organization's financial position increased in fiscal year 2012 as compared to prior year. Net position increased during the fiscal year by \$2,072. Depreciation expense of \$110,752 is included in this change of net position.
- The Organization's cash and cash equivalents reflect \$737,942 at September 30, 2012. Accounts receivable from water sales to members was \$80,905 at September 30, 2012.

The Statement of Financial Position and Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Financial Position and Statement of Revenues, Expenses, and Changes in Net Position report the Organization's net position and how they have changed. Net Position is defined as the difference between assets and liabilities. It is one indicator that measures the Organization's financial health, or position. Non-financial factors are also important to consider, including number of members and the condition of the system.

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the Organization's assets, liabilities, and net position as of September 30, 2012 and 2011.

Net Position, as of September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets	\$ 856,659	\$ 797,671
Capital Assets, Net	1,968,418	2,055,700
Non-Current Assets	<u>137,209</u>	<u>137,209</u>
Total Assets	2,962,286	2,990,580
Liabilities		
Current Liabilities	\$ 46,434	\$ 52,802
Non-Current Liabilities	<u>231,925</u>	<u>255,923</u>
Total Liabilities	278,359	308,725
Net Position:		
Net Investment in		
Capital Assets	\$ 1,849,704	\$ 1,905,005
Unrestricted	<u>834,223</u>	<u>776,850</u>
Total Net Position	\$ 2,683,927	\$ 2,681,855

Analysis of Net Position

The Organization's assets exceeded liabilities by \$2,683,927 at the close of the fiscal year. Net position consists of 69% Capital Assets (e.g. water system assets, buildings, and equipment) less related debt or \$1,849,704. The Organization uses these capital assets in its mission to deliver treated water to members in the Organization's service area; consequently, these assets are not available for future spending. Unrestricted net position is available for the Organization's ongoing operations and is \$873,624.

The following table summarizes the Organization's revenue, expenses, and changes in net position for the year ended September 30, 2012 and 2011:

Revenue, Expenses and Changes in Net Position

	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 543,301	\$ 498,932
Operating Expenses	<u>534,679</u>	<u>456,508</u>
Operating income (loss)	8,622	42,424
Nonoperating Revenues (Expenses)	<u>(6,550)</u>	<u>(4,719)</u>
Changes in Net Position	\$ 2,072	\$ 37,705

During the current fiscal year, the Organization's net position increased by \$2,072. Operating revenues increased by \$44,369 due to an increase of water sales. Operating expenses increased by \$78,171.

The Organization's does not legally adopt a budget.

Operating Revenues

The following table summarizes the Organization's operating revenues for the fiscal year ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Charges for services	\$ 541,905	\$ 497,897
Other operating revenues	<u>1,396</u>	<u>1,035</u>
Total Operating Revenues	\$ 543,301	\$ 498,932

Operating Expenses

The following table summarizes the Organization's operating expenses for the fiscal year ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Personnel services	\$ 130,602	\$ 83,824
Maintenance, operations and contractual services	166,525	145,272
Water purchased for resale	90,534	84,611
Office expenses	36,266	36,181
Depreciation	<u>110,752</u>	<u>106,620</u>
Total Operating Expenses	\$ 534,679	\$ 456,508

Non-Operating Revenues and Expenses

The following table summarizes the Organization's non-operating revenues (expenses) for the fiscal year ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 1,674	\$ 4,450
Interest expense	(8,224)	(9,169)
Total Nonoperating Revenues	<u>\$ (6,550)</u>	<u>\$ (4,719)</u>

Capital Assets and Long-Term Debt

The Organization added \$23,470 in capital assets during the fiscal year ended September 30, 2012. Depreciation expenses for the year ended September 30, 2012 and 2011, amounted to \$110,752 and \$106,620, respectively.

The Organization made principal payments in the amount of \$31,981 and \$31,049 during the years ended September 30, 2012 and 2011, respectively.

Factors Impacting Future Periods

The Organization will continue maintenance on the delivery system of treated water to members in its service area.

Comparison of Budget to Actual

The Organization does not legally adopt a budget.

BASIC FINANCIAL STATEMENTS

**UPPER LA PLATA DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS COOPERATIVE
STATEMENT OF NET POSITION
September 30, 2012**

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 737,942
Accounts receivable, net	80,905
Inventory	37,812
Total Current Assets	856,659
 NONCURRENT ASSETS:	
Water rights	137,209
Capital assets not being depreciated	17,137
Capital assets, net of accumulated depreciation	1,951,281
Total Noncurrent Assets	2,105,627
Total Assets	\$ 2,962,286
 LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ 9,522
Accrued taxes payable	8,602
Accrued interest payable	4,312
Current portion of noncurrent liabilities	23,998
Total Current Liabilities	46,434
 NONCURRENT LIABILITIES:	
Notes payable (noncurrent)	231,925
Total Liabilities	278,359
 NET POSITION:	
Net investment in capital assets	1,849,704
Unrestricted	834,223
Total Net Position	2,683,927
Total Liabilities and Net Position	\$ 2,962,286

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

**UPPER LA PLATA DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS COOPERATIVE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Year Ended September 30, 2012**

OPERATING REVENUES:	
Charges for services	\$ 541,905
Other operating revenues	1,396
	543,301
 Total Operating Revenues	
 OPERATING EXPENSES:	
Personnel services	130,602
Maintenance, operations and contractual services	166,525
Water purchased for resale	90,534
Office expenses	36,266
Depreciation	110,752
	534,679
 Total Operating Expenses	
 Operating Income (Loss)	
	8,622
 NONOPERATING REVENUES (EXPENSES):	
Interest income	1,674
Interest expense	(8,224)
	(6,550)
 Total Nonoperating Revenues (Expenses)	
 Increase (decrease) in net position	
	2,072
 NET POSITION, beginning of year	 2,681,855
 NET POSITION, end of year	 \$ 2,683,927

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

**UPPER LA PLATA DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS COOPERATIVE
STATEMENT OF CASH FLOWS
Year Ended September 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 543,301
Payments to employees for salaries and benefits	(130,756)
Payments to suppliers	(305,595)
Net Cash Provided (Used) By Operating Activities	106,950
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants	-
Net Cash Provided (Used) By Noncapital Financing Activities	-
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(23,470)
Repayment of debt	(31,981)
Interest paid on capital debt	(8,637)
Net Cash Provided (Used) By Capital and Related Financing Activities	(64,088)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received from investments	1,674
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,536
CASH AND CASH EQUIVALENTS, beginning	693,406
CASH AND CASH EQUIVALENTS, ending	\$ 737,942
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 8,622
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	110,752
Changes in:	
Accounts receivable	(13,776)
Inventory	(676)
Accounts payable	2,182
Accrued taxes payable	(154)
Net Cash Provided (Used) By Operating Activities	\$ 106,950

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

**UPPER LA PLATA DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
September 30, 2012**

NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative (the Organization) 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 Organization in its service area.

Under the Sanitary Projects Act, the Organization 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 Organization has determined that it has no reportable component units.

Basis of Accounting

For financial reporting purposes, the Organization is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposit accounts, cash on hand, and certificates of deposits. For purposes of the statement of cash flows, the Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Collateral is required for at least 50% (102% for overnight deposits) of all balances not insured by the FDIC. Obligations that may be pledged as collateral are obligations of the U.S. Government, its agencies and state and local governments. Collateral is held in safekeeping at depository institutions.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The Organization has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the Organization.

Inventory

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

Capital assets

Capital assets are recorded at original cost, or fair value if donated. The Organization's capitalization policy for moveable equipment includes all items with a unit cost of \$1,000 or more, and an estimated useful life of greater than one year. The Organization includes software purchased with a piece of equipment in the cost of capitalization. This total cost is depreciated over the useful life of the equipment. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 10 years for equipment, 20 years for water system assets, and 40 years for buildings.

Compensated Absences

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

Net Position Classification

In the financial statements, restricted net position is legally restricted by outside parties (such as creditors, grantors, contributors, laws and regulations of other governments) for a specific purpose. Net investment in capital assets represents the Organization's investment in the book value of capital assets, less any outstanding debt that was issued to construct or acquire the capital asset. The Organization applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Revenues

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

Operating revenue include activities that have the characteristics of an exchange transaction, such as a) charges for services and fees, net of allowance for uncollectible allowance.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as a) capital grants; and b) investment income. Grant revenue is recognized when the eligibility requirements are met.

Expenses

Expenses are classified as operating or non-operating according to the following criteria:

Operating expenses include activities that have the characteristics of an exchange transaction, such as a) employee salaries, benefits, and related expense; b) maintenance, operations and contractual services; c) material and supplies; d) office expenses; and e) depreciation expenses related to Organization capital assets.

Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses.

Tax Status

The Organization operates as not-for-profit Organization 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 Organization 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 Organization files federal Form 990 with the Internal Revenue Service and copies of Form 990 with states in which the Organization is registered, as required. The statute of limitations for examination of the Organization's returns expires three years from the due date of the return or the date filed, whichever is later. The Organization's returns for the years ended September 30, 2009 through 2011, are still open for examination and management anticipates the statute of limitations for the return for the year ended September 30, 2012, will expire in February 2016.

Budgets

The Organization does not adopt a legal budget.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of September 30, 2012:

Demand deposits - Citizens Bank.....	\$	85,668
Savings account - Citizens Bank.....		408,740
CDs - Citizens Bank.....		243,234
Petty cash.....		<u>300</u>
Total.....	\$	<u>737,942</u>

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Organization’s deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of September 30, 2012, the Organization was in compliance with state statute. The carrying amount of the Organization’s deposits was \$737,642 and the bank balance was \$745,874 as of September 30, 2012. Of the bank balance, \$343,174 was covered by federal depository insurance, \$402,700 was collateralized with securities held by the pledging financial institution’s trust department or agent in the Organization’s name, and \$0 was uncollateralized. The custodial credit risk is \$0.

The pledged security has a maturity date of 06/01/2013, Cusip #011464FP4, market value of \$460,000 and is held at Federal Home Loan Bank Dallas.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

<u>Business-type activities</u>	<u>October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2012</u>
Non-Depreciable Assets:				
Land	\$ 17,137	\$ -	\$ -	\$ 17,137
Construction in progress	-	-	-	-
Total Non-Depreciable Assets	<u>17,137</u>	<u>-</u>	<u>-</u>	<u>17,137</u>
Depreciable Assets:				
Water system	2,809,874	-	-	2,809,874
Buildings	259,951	-	-	259,951
Equipment	128,917	23,470	-	152,387
Total Depreciable Assets	<u>3,198,742</u>	<u>23,470</u>	<u>-</u>	<u>3,222,212</u>
Total Governmental Assets	<u>3,215,879</u>	<u>23,470</u>	<u>-</u>	<u>3,239,349</u>
Accumulated Depreciation:				
Water system	(940,068)	(87,390)	-	(1,027,458)
Buildings	(124,259)	(9,044)	-	(133,303)
Equipment	(95,852)	(14,318)	-	(110,170)
Total Accumulated Depreciation	<u>(1,160,179)</u>	<u>(110,752)</u>	<u>-</u>	<u>(1,270,931)</u>
Net Capital Assets	<u>\$ 2,055,700</u>	<u>\$ (87,282)</u>	<u>\$ -</u>	<u>\$ 1,968,418</u>

NOTE 5 - LONG-TERM DEBT

During the year ended September 30, 2012, the following changes occurred in long-term debt:

	<u>Balance</u> <u>10/01/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/2012</u>	<u>Due Within</u> <u>One Year</u>
N/P - NM Environment	\$ 7,983	\$ -	\$ 7,983	\$ -	\$ -
N/P - NM Environment	105,242	-	10,359	94,883	10,359
N/P - NM Environment	<u>174,679</u>	<u>-</u>	<u>13,639</u>	<u>161,040</u>	<u>13,639</u>
Total	<u>\$ 287,904</u>	<u>\$ -</u>	<u>\$ 31,981</u>	<u>\$ 255,923</u>	<u>\$ 23,998</u>

Note Payable – New Mexico Environmental Division

Installment note payable to the New Mexico Environmental Division of the Health and Environment Department, payable in annual installments of \$8,222, including interest of 3%, due in 2012 and secured by the water system assets.

Note Payable – New Mexico Environmental Division

Installment note payable to the New Mexico Environmental Division of the Health and Environment Department, payable in annual installments of \$13,517, including interest of 3%, due in 2020 and secured by the water system assets.

Note Payable – New Mexico Environmental Division

Installment note payable to the New Mexico Environmental Division of the Health and Environment Department, payable in annual installments of \$18,879, including interest of 3%, due in 2022 and secured by the water system assets.

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

<u>Fiscal Year Ended</u>	<u>Principal</u>
September 30, 2013.....	\$ 23,998
September 30, 2014.....	24,718
September 30, 2015.....	25,459
September 30, 2016.....	26,223
September 30, 2017.....	27,010
September 30, 2018 - 2022.....	<u>128,515</u>
Debt service requirements.....	255,923
Less current portion.....	<u>(23,998)</u>
Long-term debt, net.....	<u>\$231,925</u>

NOTE 6 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The following is a summary of additional cash flow disclosures required:
Interest paid of \$8,637 during the year ended September 30, 2012.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

Risk Management

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

NOTE 8 – MAJOR SUPPLIER

In accordance with an agreement dated January 1, 2008, the Organization purchases substantially all of its water from the Lower Valley Water Users for delivery to its members. The agreement is a 20 year agreement. The cost of water purchased from Lower Valley water Users during the year ended September 30, 2012 was \$90,534.

NOTE 9 – RETIREMENT PLAN

The Organization participates in a defined contribution retirement plan covering substantially all of its employees. The Organization's contributions and costs are determined as seven percent of each covered employee's salary and totaled \$5,200 for the year ended September 30, 2012.

NOTE 10 – SUBSEQUENT EVENT

The Organization has evaluated subsequent events through January 12, 2015, which is the date the financial statements were available to be issued.

This Page Intentionally Left Blank

COMPLIANCE SECTION

This Page Intentionally Left Blank

INDEPENDENT AUDITOR'S 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

Tim Keller, New Mexico State Auditor and Board Members
Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative
La Plata, New Mexico

We have audited, 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, the financial statements of the business-type activities of the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative as of and for the ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

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

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 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. 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 2012-1.

Response to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Organization's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely for the information and use of the Board, management 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.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large, sweeping initial "D".

**Farmington, New Mexico
January 13, 2015**

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND
MUTUAL SEWAGE WORKS COOPERATIVE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2012**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Organization.
2. No material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Organization were disclosed during the audit.
4. A single audit was not required.

B. Findings - Financial Statements Audit

Prior Year Findings

None

Current Year Findings

FS 2012-1 – Failure to File Audit Report by Due Date (Other)

Condition

The New Mexico State Auditor requires the audit to be completed and submitted no later than five months after the fiscal year-end (February 28, 2013 and 2014). The audited financial statements have been submitted late for the years ended September 30, 2012.

Criteria

According to the State of New Mexico, Office of the State Auditor publication 2 NMAC 2.2 – Requirements for Contracting and Conducting Audits of Agencies, Section A. Report Due Dates; the filing date of the audit reports for agencies with a fiscal year-end other than June 30 must submit the audit report no later than five months after the fiscal year-end.

Cause

The Organization was unaware that it fell under the audit requirements of the New Mexico State Auditor's Office.

Effect

According to the state source referred to above, "Failure to file the audit report by the due date set in Section 9.1 is considered non-compliance with 2 NMAC 2.2 and shall be a current year finding." Each entity shall submit a statement to the State Auditor's Office providing an explanation for the delay in submission.

Recommendation

The audit should be completed by the required due date of the State Auditor.

Management Response

The Organization will establish procedures to comply with the State Auditor rule due dates.

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND
MUTUAL SEWAGE WORKS COOPERATIVE
EXIT CONFERENCE
Year Ended September 30, 2012**

An exit conference was held on January 13, 2015. In attendance were:

Upper La Plata Domestic Water Consumer and
Mutual Sewage Works Cooperative:

Board Member	Chad King
Office Manager	Cherileen Henry

David Berry, CPA, PC:

Auditor	David Berry, CPA
---------------	------------------