

**UPPER LA PLATA DOMESTIC WATER
CONSUMERS AND MUTUAL
SEWAGE WORKS COOPERATIVE
AUDITED FINANCIAL STATEMENTS
Year Ended September 30, 2016**

INTRODUCTORY SECTION

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**UPPER LA PLATA DOMESTIC WATER
CONSUMERS AND MUTUAL
SEWAGE WORKS COOPERATIVE
List of Principal Officials
September 30, 2016**

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

FINANCIAL SECTION

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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

Report on Financial Statements

We have audited the accompanying basic financial statements of the business-type activities, which are comprised of the statement of net position as of September 30, 2016 and statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, of the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 the 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.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2017 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 the entity's internal control over financial reporting and compliance.

David Berry, CPA, PC

**Farmington, New Mexico
February 23, 2017**

Management's Discussion and Analysis Year Ended September 30, 2016

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, 2016.

Financial Highlights

- The Organization's assets exceeded its liabilities at the close of the fiscal year September 30, 2016 by \$2,967,312 (net position). This was an increase of \$316,247 from September 30, 2015 net position of \$2,651,065. Of the September 30, 2016 net position, \$896,161 is unrestricted.
- The Organization's financial position decreased in fiscal year 2016 as compared to prior year. Net position increased during the fiscal year by \$316,247. Grant revenue of \$377,111 and depreciation expense of \$100,140 was included in this change of net position.
- The Organization's cash and cash equivalents reflect \$788,763 at September 30, 2016. Accounts receivable from water sales to members was \$80,808 at September 30, 2016.

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, 2015 and 2016.

Net Position, as of September 30, 2015 and 2016

	<u>2015</u>	<u>2016</u>
Assets		
Current Assets	\$ 937,342	\$ 919,974
Capital Assets, Net	1,778,369	2,086,455
Non-Current Assets	<u>137,209</u>	<u>137,209</u>
Total Assets	2,852,920	3,143,638
Liabilities		
Current Liabilities	\$ 49,342	\$ 51,633
Non-Current Liabilities	<u>152,513</u>	<u>124,693</u>
Total Liabilities	201,855	176,326
Net Position:		
Net Investment in		
Capital Assets	\$ 1,736,055	\$ 2,071,151
Unrestricted	<u>915,010</u>	<u>896,161</u>
Total Net Position	\$ 2,651,065	\$ 2,967,312

Analysis of Net Position

The Organization's assets exceeded liabilities by \$2,967,312 at the close of the fiscal year. Net position consists of 70% Capital Assets (e.g. water system assets, buildings, and equipment) less related debt or \$2,071,151. 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 \$896,161.

The following table summarizes the Organization's revenue, expenses, and changes in net position for the year ended September 30, 2015 and 2016:

Revenue, Expenses and Changes in Net Position

	<u>2015</u>	<u>2016</u>
Operating Revenues	\$ 511,177	\$ 505,614
Operating Expenses	<u>532,465</u>	<u>561,768</u>
Operating income (loss)	(21,288)	(56,154)
Nonoperating Revenues (Expenses)	<u>(5,660)</u>	<u>372,401</u>
Changes in Net Position	\$ (26,948)	\$ 316,247

During the current fiscal year, the Organization's net position increased by \$316,247. Operating revenues decreased by \$5,563 due to a decrease of water sales. Operating expenses increased by \$29,303 due to personnel services costs and maintenance costs.

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, 2015 and 2016:

	<u>2015</u>	<u>2016</u>
Charges for services	\$ 510,447	\$ 504,869
Other operating revenues	<u>730</u>	<u>745</u>
Total Operating Revenues	\$ 511,177	\$ 505,614

Operating Expenses

The following table summarizes the Organization's operating expenses for the fiscal year ended September 30, 2015 and 2016:

	<u>2015</u>	<u>2016</u>
Personnel services	\$ 170,836	\$ 181,353
Maintenance, operations and contractual services	142,858	156,661
Water purchased for resale	95,447	101,856
Office expenses	20,481	21,758
Depreciation	<u>102,843</u>	<u>100,140</u>
Total Operating Expenses	\$ 532,465	\$ 561,768

Non-Operating Revenues and Expenses

The following table summarizes the Organization's non-operating revenues (expenses) for the fiscal year ended September 30, 2015 and 2016:

	<u>2015</u>	<u>2016</u>
Interest income	\$ 211	\$ 213
Grant revenue	-	377,111
Interest expense	<u>(5,871)</u>	<u>(4,923)</u>
Total Nonoperating Revenues	\$ (5,660)	\$ 372,401

Capital Assets and Long-Term Debt

The Organization added \$0 and \$408,226 in capital assets during the fiscal year ended September 30, 2015 and 2016, respectively. Depreciation expenses for the year ended September 30, 2015 and 2016, amounted to \$102,843 and \$100,140, respectively.

The Organization made principal payments in the amount of \$26,223 and \$27,010 during the years ended September 30, 2015 and 2016, respectively.

Factors Impacting Future Periods

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

In 2016 the Organization awarded a contract for a water line and storage tank project for \$972,296. As of September 30, 2016, \$374,389 was paid on the contract. The project was completed in 2017 and the remaining contract was paid.

The Organization was awarded a grant from the State of New Mexico for \$600,000 for drinking water projects, of which \$377,111 was received during the fiscal year ended September 30, 2016. The remaining portion of the grant was received following September 30, 2016 and will be recognized as revenue in the following fiscal year.

The Organization approved a resolution (agreement) with the State of New Mexico to issue up to \$1,414,000 of debt for the completion of drinking water projects. The Organization currently expects to issue approximately \$520,000 for projects in the following fiscal year.

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, 2016**

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 788,763
Accounts receivable, net	80,808
Inventory	50,403
Total Current Assets	919,974
 NONCURRENT ASSETS:	
Water rights	137,209
Capital assets not being depreciated	482,032
Capital assets, net of accumulated depreciation	1,604,423
Total Noncurrent Assets	2,223,664
Total Assets	\$ 3,143,638
 LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	\$ 9,358
Accrued taxes payable	11,916
Accrued interest payable	2,539
Current portion of noncurrent liabilities	27,820
Total Current Liabilities	51,633
 NONCURRENT LIABILITIES:	
Notes payable (noncurrent)	124,693
Total Liabilities	176,326
 NET POSITION:	
Net investment in capital assets	2,071,151
Unrestricted	896,161
Total Net Position	2,967,312
Total Liabilities and Net Position	\$ 3,143,638

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 NET POSITION
Year Ended September 30, 2016**

OPERATING REVENUES:	
Charges for services	\$ 504,869
Other operating revenues	745
	745
Total Operating Revenues	505,614
 OPERATING EXPENSES:	
Personnel services	181,353
Maintenance, operations and contractual services	156,661
Water purchased for resale	101,856
Office expenses	21,758
Depreciation	100,140
	100,140
Total Operating Expenses	561,768
Operating Income (Loss)	(56,154)
 NONOPERATING REVENUES (EXPENSES):	
Interest income	213
Grant revenue	377,111
Interest expense	(4,923)
	(4,923)
Total Nonoperating Revenues (Expenses)	372,401
Change in net position	316,247
NET POSITION, beginning of year	2,651,065
NET POSITION, end of year	\$ 2,967,312

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, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services and other operating revenues	\$ 518,967
Payments to employees for salaries and benefits	(179,059)
Payments to suppliers	(273,231)
Net Cash Provided (Used) By Operating Activities	66,677
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	(408,226)
Proceeds from grant revenue	377,111
Repayment of debt	(27,010)
Interest paid on capital debt	(5,386)
Net Cash Provided (Used) By Capital and Related Financing Activities	(63,511)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received from investments	213
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,379
CASH AND CASH EQUIVALENTS, beginning	785,384
CASH AND CASH EQUIVALENTS, ending	\$ 788,763
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (56,154)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	100,140
Changes in:	
Accounts receivable	13,353
Inventory	7,394
Accounts payable	(350)
Accrued taxes payable	2,294
Net Cash Provided (Used) By Operating Activities	\$ 66,677

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, 2016**

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 New Mexico 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.

Presentation of Sales Tax

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

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 revenues 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, 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.

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, 2016:

Demand deposits - Citizens Bank.....	\$ 119,180
Savings account - Citizens Bank.....	424,776
CDs - Citizens Bank.....	244,507
Petty cash.....	<u>300</u>
Total.....	<u>\$ 788,763</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, 2016, the Organization was in compliance with state statute. The carrying amount of the Organization's deposits was \$788,463 and the bank balance was \$800,346 as of September 30, 2016. Of the bank balance, \$250,000 was covered by federal depository insurance, \$425,114 was collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name, and \$125,232 was uncollateralized. The custodial credit risk is \$125,232.

The pledged security is Sherman Texas Independent School District bond, and has a maturity date of 02/15/2030, Cusip #824178UL9, market value of \$425,114, 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>	Balance October 1, 2015	Additions	Deletions	Balance September 30, 2016
Non-Depreciable Assets:				
Land	\$ 17,137	\$ -	\$ -	\$ 17,137
Construction in progress	56,669	408,225	-	464,894
Total Non-Depreciable Assets	<u>73,806</u>	<u>408,225</u>	<u>-</u>	<u>482,031</u>
Depreciable Assets:				
Water system	2,809,874	-	-	2,809,874
Buildings	284,488	-	-	284,488
Equipment	174,797	-	-	174,797
Total Depreciable Assets	<u>3,269,159</u>	<u>-</u>	<u>-</u>	<u>3,269,159</u>
Total Governmental Assets	<u>3,342,965</u>	<u>408,225</u>	<u>-</u>	<u>3,751,190</u>
Accumulated Depreciation:				
Water system	(1,278,603)	(79,607)	-	(1,358,210)
Buildings	(161,221)	(9,673)	-	(170,894)
Equipment	(124,772)	(10,860)	-	(135,632)
Total Accumulated Depreciation	<u>(1,564,596)</u>	<u>(100,140)</u>	<u>-</u>	<u>(1,664,736)</u>
Net Capital Assets	<u>\$ 1,778,369</u>	<u>\$ 308,085</u>	<u>\$ -</u>	<u>\$ 2,086,454</u>

NOTE 5 - LONG-TERM DEBT

During the year ended September 30, 2016, the following changes occurred in long-term debt:

	Balance 10/01/2015	Additions	Deletions	Balance 09/30/2016	Due Within One Year
N/P - NM Environment	\$ 61,902	\$ -	\$ 11,659	\$ 50,243	\$ 12,009
N/P - NM Environment	<u>117,621</u>	<u>-</u>	<u>15,351</u>	<u>102,270</u>	<u>15,811</u>
Total	<u>\$ 179,523</u>	<u>\$ -</u>	<u>\$ 27,010</u>	<u>\$ 152,513</u>	<u>\$ 27,820</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 \$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, 2017.....	\$ 27,820
September 30, 2018.....	28,655
September 30, 2019.....	29,515
September 30, 2020.....	30,399
September 30, 2021 - 2022.....	<u>36,124</u>
Debt service requirements.....	152,513
Less current portion.....	<u>(27,820)</u>
Long-term debt, net.....	<u>\$124,693</u>

NOTE 6 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The following is a summary of additional cash flow disclosures required:
Interest paid of \$5,386 during the year ended September 30, 2016.

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.

Construction Projects and Related Debt

In 2016 the Organization awarded a contract for a water line and storage tank project for \$972,296. As of September 30, 2016, \$374,389 was paid on the contract. The project was completed in 2017 and the remaining contract was paid.

The Organization was awarded a grant from the State of New Mexico for \$600,000 for drinking water projects, of which \$377,111 was received during the fiscal year ended September 30, 2016. The remaining portion of the grant was received following September 30, 2016 and will be recognized as revenue in the following fiscal year.

The Organization approved a resolution (agreement) with the State of New Mexico to issue up to \$1,414,000 of debt for the completion of drinking water projects. The Organization currently expects to issue approximately \$520,000 for projects in the following fiscal year.

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, 2016 was \$102,900.

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 \$10,463 for the year ended September 30, 2016. No amounts were attributed to employee forfeitures.

NOTE 10 – SUBSEQUENT EVENT

The Organization has evaluated subsequent events through February 21, 2016, which is the date the financial statements were available to be issued.

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OTHER INFORMATION

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Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative
 Schedule of Vendor Informaton
 For the Year Ended September 30, 2016
 Prepared by Cherileen Henry - Office manager

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (if applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
3448	Upper La Plata Mutuz Mutual Domestic Water Associations			Competitive (RFP or RFB)	File Construction	Winner	\$659,466.83		119 Industrial Ave. NE A	Yes	Yes	8 inch water line	
3448	Upper La Plata Mutuz Mutual Domestic Water Associations			Competitive (RFP or RFB)	File Construction	Winner	\$262,599.64		119 Industrial Ave. NE A	Yes	Yes	210,000 Gallon ground water storage tank	

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COMPLIANCE SECTION

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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, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated February 23, 2017.

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.

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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2015-002.

Responses to Findings

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

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.

David Berry, CPA, PC

**Farmington, New Mexico
February 23, 2017**

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND
MUTUAL SEWAGE WORKS COOPERATIVE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2016**

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Organization.
2. One material weakness was 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

2015-001 - Resolved and not repeated
2015-002 – Not resolved and repeated

Current Year Findings

2015-002 Pledged Collateral (Compliance and Other Matters)

Condition

The security pledged by Citizens Bank as collateral for deposits at the bank was not valid as defined in New Mexico State Statute 6-10-16, B. The pledged security is a Sherman Texas Independent School District bond, and has a maturity date of 02/15/2030, Cusip #824178UL9, market value of \$425.114. The pledged collateral is the same as the prior year so no progress has been made during the current year to resolve the issue.

Criteria

Only securities backed by the full faith and credit of the United States Government will be accepted as collateral. The Organization may make an exception and accept as collateral securities from a governmental entity within the State of New Mexico as described by State Statute 6-10-16-A.

Cause

The Bank did not change the pledged security in the current year as requested.

Effect

The Organization was not in compliance with New Mexico State Statutes.

Recommendation

The Organization should review the list of collateral pledged on a timely basis to comply with Organization policy and with applicable New Mexico state statutes.

Management Response

The Organization will obtain guidance and determine which New Mexico State Statutes apply to a Mutual Domestic Association, and comply with applicable New Mexico State Statutes. The Board President will contact the Bank in March 2017 to change collateral pledged to comply with applicable New Mexico state statutes.

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND
MUTUAL SEWAGE WORKS COOPERATIVE
EXIT CONFERENCE
Year Ended September 30, 2016**

A. Financial Statement Presentation

The Organization's financial statements were prepared by David Berry, CPA, PC. Management has reviewed and approved these financial statements. Management is capable of preparing, understanding and accepting responsibility for the financial statements. Management is responsible for ensuring that the books and records from which the financial statements were prepared adequately support the financial assertions contained therein, in conformity with generally accepted accounting principles and that the records are current and in balance.

B. Exit Conference

An exit conference was held on February 23, 2017. In attendance were:

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

Board Member	Steven Dunn
Office Manager	Cherileen Henry

David Berry, CPA, PC:

Auditor	David Berry, CPA
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