

**UPPER LA PLATA DOMESTIC WATER  
CONSUMERS AND MUTUAL  
SEWAGE WORKS COOPERATIVE  
AUDITED FINANCIAL STATEMENTS  
Year Ended September 30, 2017**

## **INTRODUCTORY SECTION**

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**UPPER LA PLATA DOMESTIC WATER  
CONSUMERS AND MUTUAL  
SEWAGE WORKS COOPERATIVE  
List of Principal Officials  
September 30, 2017**

<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

Wayne Johnson, 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, 2017 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. We also have audited the statement of revenues, expenses – budget and actual (budgetary basis) of the Organization for the year ended September 30, 2017, 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 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, 2017, 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. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the statement of revenues, expenses – budget and actual (budgetary basis) of the Organization for the year ended September 30, 2017, in conformity 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 schedules of pledged collateral and vendors have 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 12, 2018 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 12, 2018**



## **Management's Discussion and Analysis Year Ended September 30, 2017**

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 is an overview of financial activities as of and for the year ended September 30, 2017.

### **Financial Highlights**

- The Organization's assets exceeded its liabilities at the close of the fiscal year September 30, 2017 by \$3,164,310 (net position). This was an increase of \$196,998 from September 30, 2016 net position of \$2,967,312. Of the September 30, 2017 net position, \$922,948 is unrestricted.
- The Organization's financial position increased in fiscal year 2017 as compared to prior year. Net position increased during the fiscal year by \$196,998. Grant revenue of \$230,156 and depreciation expense of \$95,488 was included in this change of net position.
- The Organization's cash and cash equivalents were \$811,817 at September 30, 2017. Accounts receivable from water sales to members was \$77,593 at September 30, 2017.

### **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, 2017 and 2016.

**Net Position, as of September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current Assets	\$ 944,262	\$ 919,974
Capital Assets, Net	2,228,846	2,086,455
Non-Current Assets	<u>137,209</u>	<u>137,209</u>
Total Assets	3,310,317	3,143,638
<b>Liabilities</b>		
Current Liabilities	\$ 146,007	\$ 51,633
Non-Current Liabilities	<u>-</u>	<u>124,693</u>
Total Liabilities	146,007	176,326
<b>Net Position:</b>		
Net Investment in		
Capital Assets	\$ 2,241,362	\$ 2,071,151
Unrestricted	<u>922,948</u>	<u>896,161</u>
Total Net Position	\$ 3,164,310	\$ 2,967,312

**Analysis of Net Position**

The Organization's assets exceeded liabilities by \$3,164,310 at the close of the fiscal year. Net position consists of 71% Capital Assets (e.g. water system assets, buildings, and equipment) less related debt or \$2,241,362. 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 \$922,948.

The following table summarizes the Organization's revenue, expenses, and changes in net position for the year ended September 30, 2017 and 2016:

**Revenue, Expenses and Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 509,616	\$ 505,614
Operating Expenses	<u>533,522</u>	<u>561,768</u>
Operating income (loss)	(23,906)	(56,154)
Nonoperating Revenues (Expenses)	<u>220,904</u>	<u>372,401</u>
Changes in Net Position	\$ 196,998	\$ 316,247

During the current fiscal year, the Organization's net position increased by \$196,998. Operating revenues increased by \$4,002 due to a increase of water sales. Operating expenses decreased by \$28,246 due to maintenance and contractual services

### Operating Revenues

The following table summarizes the Organization's operating revenues for the fiscal year ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Charges for services	\$ 508,951	\$ 504,869
Other operating revenues	<u>665</u>	<u>745</u>
Total Operating Revenues	\$ 509,616	\$ 505,614

### Operating Expenses

The following table summarizes the Organization's operating expenses for the fiscal year ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Personnel services	\$ 190,555	\$ 181,353
Maintenance, operations and contractual services	121,784	156,661
Water purchased for resale	102,130	101,856
Office expenses	23,565	21,758
Depreciation	<u>95,488</u>	<u>100,140</u>
Total Operating Expenses	\$ 533,522	\$ 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 213	\$ 213
Grant revenue	230,156	377,111
Interest expense	<u>(9,465)</u>	<u>(4,923)</u>
Total Nonoperating Revenues	\$ 220,904	\$ 372,401

### Capital Assets and Long-Term Debt

The Organization added \$237,880 and \$408,226 in capital assets during the fiscal year ended September 30, 2017 and 2016, respectively. Depreciation expenses for the year ended September 30, 2017 and 2016, amounted to \$95,488 and \$100,140, respectively.

The Organization made principal payments in the amount of \$27,820 and \$27,010 during the years ended September 30, 2017 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 capital assets of \$237,880 were 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 during the fiscal year ended September 30, 2017.

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 completed the capital projects in October 2017 and the final debt due to the State of New Mexico was \$448,619.

## **Comparison of Budget to Actual**

Included in this report is a Budget Comparison Summary of the original budget to the final budget to the actual revenue and expenses. This report is required by the New Mexico State Auditor.

Operating revenues were under budget by \$1,703 due to charges for services and other charges.

Total operating expenses were under budget by \$22,789. Personnel services were under/(over) budget by (\$10,040); maintenance, operations and contractual services were under/(over) budget by \$38,865; water purchases were under/(over) budget by (\$5,276); and office expenses were under/(over) budget by (\$760).

Total Nonoperating revenues were over/(under) budget by (\$576,122).

Operating expenses and nonoperating expenses were under budget by \$191,917 and the Organization was in compliance with New Mexico State Statutes.

## **BASIC FINANCIAL STATEMENTS**

**UPPER LA PLATA DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS COOPERATIVE  
STATEMENT OF NET POSITION  
September 30, 2017**

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 811,817
Accounts receivable, net	77,593
Inventory	<u>54,852</u>
<b>Total Current Assets</b>	<u>944,262</u>
 <b>NONCURRENT ASSETS:</b>	
Water rights	137,209
Capital assets not being depreciated	719,911
Capital assets, net of accumulated depreciation	<u>1,508,935</u>
<b>Total Noncurrent Assets</b>	<u>2,366,055</u>
<b>Total Assets</b>	<u><u>\$ 3,310,317</u></u>
 <b>LIABILITIES AND NET POSITION</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 10,293
Accrued taxes payable	8,961
Accrued interest payable	2,060
Current portion of noncurrent liabilities	<u>124,693</u>
<b>Total Current Liabilities</b>	146,007
 <b>NONCURRENT LIABILITIES:</b>	
Notes payable (noncurrent)	<u>-</u>
<b>Total Liabilities</b>	<u>146,007</u>
 <b>NET POSITION:</b>	
Net investment in capital assets	2,241,362
Unrestricted	<u>922,948</u>
<b>Total Net Position</b>	<u>3,164,310</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 3,310,317</u></u>

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, 2017**

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<b>OPERATING REVENUES:</b>	
Charges for services	\$ 508,951
Other operating revenues	665
	665
<b>Total Operating Revenues</b>	509,616
 <b>OPERATING EXPENSES:</b>	
Personnel services	190,555
Maintenance, operations and contractual services	121,784
Water purchased for resale	102,130
Office expenses	23,565
Depreciation	95,488
	95,488
<b>Total Operating Expenses</b>	533,522
<b>Operating Income (Loss)</b>	(23,906)
 <b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest income	213
Grant revenue	230,156
Interest expense	(9,465)
	(9,465)
<b>Total Nonoperating Revenues (Expenses)</b>	220,904
<b>Change in net position</b>	196,998
<b>NET POSITION, beginning of year</b>	2,967,312
<b>NET POSITION, end of year</b>	\$ 3,164,310

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, 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Charges for services and other operating revenues	\$ 512,831
Payments to employees for salaries and benefits	(187,601)
Payments to suppliers	(256,901)
<b>Net Cash Provided (Used) By Operating Activities</b>	68,329
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating grants	-
<b>Net Cash Provided (Used) By Noncapital Financing Activities</b>	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchases of capital assets	(237,880)
Proceeds from grant revenue	230,156
Repayment of debt	(27,820)
Interest paid on capital debt	(9,944)
<b>Net Cash Provided (Used) By Capital and Related Financing Activities</b>	(45,488)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received from investments	213
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	23,054
<b>CASH AND CASH EQUIVALENTS, beginning</b>	788,763
<b>CASH AND CASH EQUIVALENTS, ending</b>	\$ 811,817
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ (23,906)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	95,488
Changes in:	
Accounts receivable	3,215
Inventory	(4,449)
Accounts payable	935
Accrued taxes payable	(2,954)
<b>Net Cash Provided (Used) By Operating Activities</b>	\$ 68,329

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, 2017**

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**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 include the tax remitted to the taxing authorities in revenues and expenses.

### **Inventory**

Inventory supplies for system repairs are 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, 2014 through 2016, are still open for examination and management anticipates the statute of limitations for the return for the year ended September 30, 2017, will expire in February 2021.

### **Budgets**

According to State statute, the Organization adopts and approves an annual nonappropriated 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.

### **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 – COMPLIANCE - BUDGETS**

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 Organization 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.

## NOTE 4 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of September 30, 2017:

	<u>09/30/2017</u>
Demand deposits - Citizens Bank	\$ 142,027
Demand deposits - Citizens Bank	424,982
Certificates of deposit - Citizens Bank	244,508
Petty cash	300
	<hr/>
Total	<u>\$ 811,817</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, 2017, the Organization was in compliance with state statute. The carrying amount of the Organization's deposits was \$811,517 and the bank balance was \$820,019 as of September 30, 2017. Of the bank balance, \$250,000 was covered by federal depository insurance, \$522,645 was collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name, and \$47,374 was uncollateralized. The custodial credit risk is \$47,374.

The pledged security is Jal New Mexico Municipal School District bond, and has a maturity date of 10/01/2029, Cusip #470143AP3, market value of \$522,645, and is held at Federal Home Loan Bank Dallas.

## NOTE 5 – CAPITAL ASSETS

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

<u>Business-type activities</u>	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
Non-Depreciable Assets:				
Land	\$ 17,137	\$ -	\$ -	\$ 17,137
Construction in progress	464,894	237,880	-	702,774
Total Non-Depreciable Assets	<u>482,031</u>	<u>237,880</u>	<u>-</u>	<u>719,911</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>3,751,190</u>	<u>237,880</u>	<u>-</u>	<u>3,989,070</u>
Accumulated Depreciation:				
Water system	(1,358,210)	(79,608)	-	(1,437,818)
Buildings	(170,894)	(9,673)	-	(180,567)
Equipment	(135,632)	(6,207)	-	(141,839)
Total Accumulated Depreciation	<u>(1,664,736)</u>	<u>(95,488)</u>	<u>-</u>	<u>(1,760,224)</u>
Net Capital Assets	<u>\$ 2,086,454</u>	<u>\$ 142,392</u>	<u>\$ -</u>	<u>\$ 2,228,846</u>

## NOTE 6 - LONG-TERM DEBT

During the year ended September 30, 2017, the following changes occurred in long-term debt:

	Balance <u>10/01/2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>09/30/2017</u>	Due Within <u>One Year</u>
N/P - NM Environment	\$ 50,243	\$ -	\$ 12,010	\$ 38,233	\$ 38,233
N/P - NM Environment	<u>102,270</u>	<u>-</u>	<u>15,810</u>	<u>86,460</u>	<u>86,460</u>
Total	<u>\$ 152,513</u>	<u>\$ -</u>	<u>\$ 27,820</u>	<u>\$ 124,693</u>	<u>\$ 124,693</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. Paid off in October 2017.

### **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. Paid off in October 2017.

## NOTE 7 - SUPPLEMENTAL CASH FLOW DISCLOSURES

The following is a summary of additional cash flow disclosures required:

Interest paid of \$9,944 during the year ended September 30, 2017.

## NOTE 8 - 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, 2017, \$721,101 was paid on the contract. The project was completed in October 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 \$230,156 (final portion) was received during the fiscal year ended September 30, 2017.

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 projects were completed in October 2017 and the final debt of \$448,619. The debt of \$448,619 and related capital expenditures were recorded by the Organization in October 2017. The debt matures in May 2037, with annual payments of \$28,302 (\$7,154 in May 2018), including interest of 2%; and secured by the revenues of the water system.

#### **NOTE 9 – 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, 2017 was \$102,130.

#### **NOTE 10 – 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 \$11,384 for the year ended September 30, 2017. No amounts were attributed to employee forfeitures. The Organization pays the annual expense to an outside administrator every year and there is no outstanding liability.

The Organization 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.

#### **NOTE 11 – SUBSEQUENT EVENTS**

As of February 12, 2018 (date the financial statements were available to be issued), the Organization has evaluated events and transactions occurring subsequent to September 30, 2017. Subsequent events occurring after February 12, 2018 have not been evaluated by management. No material events have occurred since September 30, 2017 that requires recognition or disclosure in the financial statements.

#### **NOTE 12 – RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Organization for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Deferral of the Effective Date*). The Organization has not yet determined the effect of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. While the Organization expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the balance sheets, it is evaluating other effects that the new standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. ASU 2016-14 is effective for the Organization for fiscal years beginning after December 15, 2017, and permits early adoption. While the Organization expects ASU 2016-14 to add significant disclosures to the financial statements, it is evaluating other effects that the new standard will have on the financial statements presentation.



***SUPPLEMENTARY INFORMATION***

**UPPER LA PLATA DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS COOPERATIVE  
STATEMENT OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL (BUDGETARY BASIS)**

**Year Ended September 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 510,549	\$ 510,549	\$ 508,951	\$ (1,598)
Other	770	770	665	(105)
<b>Total Operating Revenues</b>	<u>511,319</u>	<u>511,319</u>	<u>509,616</u>	<u>(1,703)</u>
<b>OPERATING EXPENSES:</b>				
Personnel services	180,515	180,515	190,555	(10,040)
Maintenance, operations and contractual services	160,649	160,649	121,784	38,865
Water purchased for resale	96,854	96,854	102,130	(5,276)
Office expenses	22,805	22,805	23,565	(760)
<b>Total Operating Expenses</b>	<u>460,823</u>	<u>460,823</u>	<u>438,034</u>	<u>22,789</u>
<b>Operating Income (Loss)</b>	<u>50,496</u>	<u>50,496</u>	<u>71,582</u>	<u>21,086</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	211	211	213	2
Grants revenue	977,111	977,111	230,156	(746,955)
Interest expense	(43,786)	(43,786)	(9,465)	34,321
Capital expenditures	(374,390)	(374,390)	(237,880)	136,510
<b>Total Nonoperating Revenues (Expenses)</b>	<u>559,146</u>	<u>559,146</u>	<u>(16,976)</u>	<u>(576,122)</u>
<b>Change in Net Position (Budgetary Basis)</b>	<u>\$ 609,642</u>	<u>\$ 609,642</u>	<u>54,606</u>	<u>\$ (555,036)</u>
<b>RECONCILIATION TO CHANGE IN NET POSITION ON BASIC FINANCIAL STATEMENTS:</b>				
Depreciation			(95,488)	
Capital expenditures			<u>237,880</u>	
<b>Change in net assets per basic financial statements</b>			<u>\$ 196,998</u>	

***OTHER INFORMATION***

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**UPPER LAPLATA MUTUAL DOMESTIC WATER ASSOCIATION**  
**SCHEDULE OF PLEDGED COLLATERAL**  
**September 30, 2017**

	<b>Citizens</b>	
	<b>Bank</b>	<b>Total</b>
Demand deposits	\$ 575,511	\$ 575,511
Certificates of deposit	244,508	244,508
Deposits, at September 30, 2017	<u>820,019</u>	<u>820,019</u>
FDIC Insurance	250,000	250,000
Uninsured amount	<u>570,019</u>	<u>570,019</u>
Less 50 percent	285,010	285,010
Amount requiring pledged collateral	<u>285,010</u>	<u>285,010</u>
Pledged collateral at September 30, 2017	<u>522,645</u>	<u>522,645</u>
<b>Excess (deficiency) of pledged collateral</b>	<u><u>\$ 237,636</u></u>	<u><u>\$ 237,636</u></u>
<b>Pledged collateral (market value)</b>		
<b>Located at:</b>	<b>Dallas, TX</b>	
Jal NM Municipal School District; #470143AP3 10/01/2029 maturity	\$ 522,645	\$ 522,645
	<u>                    </u>	<u>                    </u>
<b>Totals</b>	<u><u>\$ 522,645</u></u>	<u><u>\$ 522,645</u></u>
<b>Reconciliation to Financial Statements:</b>		
Total per banks	\$ 820,019	\$ 820,019
Reconciling items:		
Deposits in transit	-	-
Outstanding checks	(8,502)	(8,502)
Total per banks	<u>\$ 811,517</u>	811,517
Petty cash		300
Total per financial statements		<u><u>\$ 811,817</u></u>

Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative  
 Schedule of Vendor Informaiton  
 For the Year Ended September 30, 2017  
 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>
3448	Upper La Plata Mutua Mutual Domestic Water Associations			Competitive (RFP or RFB)	Ferguson Waterworks	Winner	\$172,051.26		801 Candelaria Rd., NE, A Yes	No		Furnish automated meter reading system.

***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**

Wayne Johnson, 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, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and the related budgetary comparisons of the Organization, presented as supplementary information, and have issued our report thereon dated February 12, 2018.

### **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.

Our consideration of the 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 were not 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 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 (items 2017-001 and 2017-002) to be material weaknesses.

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.

### **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 instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **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 12, 2018**

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND  
MUTUAL SEWAGE WORKS COOPERATIVE  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended September 30, 2017**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the basic financial statements of the Organization.
2. Two material weaknesses 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**

2015-002 – Resolved and repeated

**Current Year Findings**

**2017-001 – Reconciliation of General Ledger Accounts (Material Weakness)**

**Condition**

Cash and accounts payable general ledger accounts were not reconciled to actual on a timely basis.

**Criteria**

A system of internal control over financial reporting includes reconciliation of general ledger accounts to actual on a timely basis.

**Cause**

Due to a lack of understanding the general ledger accounts (cash and accounts payable accounts) were not reconciled to actual amounts on a timely basis.

**Effect**

Errors (intentional or unintentional) could occur and not be discovered on a timely basis.

**Recommendation**

The Organization should adopt policies and procedures for controls over reconciliation of the general ledger balances to actual amounts on a timely basis.

**Management Response**

Corrective action plan for finding:

The Organization will establish procedures for the system manager and board members to review the reconciliations of the office manager to make sure the reconciliations are done timely and accurately on a timely basis.

Timeline for completion of corrective action plan:

The system manager and board members will start getting reconciliation reports from the Office Manager for the month of February 2018.

Employee position(s) responsible for meeting the timeline:

The system manager and board will review and document in the minutes that the monthly reconciliations were reviewed for accuracy and completeness.

## **2017-002 Lack of Internal Controls (Material Weakness)**

### Condition

We noted instances where elements of the Organization's internal control framework were nonexistence or deficient. The Organization's monitoring element was not documented, sufficiently designed, or implemented for general ledger reconciliation and financial statement reporting.

### 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 Organization can maximize its potential for achieving its performance targets and reduce the risk of loss of resources.

### Cause

A lack of understanding has resulted in a deficiency of implementation and monitoring of internal controls.

### Effect

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

### Recommendation

We recommend that the Organization 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 Response

Corrective action plan for finding:

The Organization will begin the process of establishing controls with segregation of duties and monitoring internal controls (the reconciliation process).

Timeline for completion of corrective action plan:

The Organization will begin implementing and monitoring internal controls starting in March 2018 with reviewing the general ledger account reconciliations.

Employee position(s) responsible for meeting the timeline:

The system manager and board will review and document in the minutes that the monthly reconciliations (prepared by the Office Manager) were reviewed for accuracy and completeness.

**UPPER LA PLATA DOMESTIC WATER CONSUMER AND  
MUTUAL SEWAGE WORKS COOPERATIVE  
EXIT CONFERENCE  
Year Ended September 30, 2017**

**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 12, 2018. In attendance were:

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

Board Member .....	Chad King
Office Manager .....	Cherileen Henry
System Manager.....	Dwight James

David Berry, CPA, PC:

Auditor .....	David Berry, CPA
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