STATE OF NEW MEXICO

UPPER LA PLATA DWC & SWC COOPERATIVE

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2018
WITH
INDEPENDENT AUDITORS' REPORT

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

OF

UPPER LA PLATA DWC & SWC COOPERATIVE

ANNUAL FINANCIAL REPORT

FISCAL YEAR 2018

OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS
Year Ended September 30, 2018

INTRODUCTORY SECTION

FINANCIAL SECTION

COMPLIANCE SECTION

THIS PAGE INTENTIONALLY LEFT BLANK

OFFICIAL ROSTER

September 30, 2018

Board of Directors

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

Administrative Employees

Cherileen Henry	Office Manager
Dwight James	System Manager

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

OF

UPPER LA PLATA DWC & SWC COOPERATIVE

ANNUAL FINANCIAL REPORT

FISCAL YEAR 2018

OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

ACCOUNTING & FINANCIAL SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

4801 N Butler Ave. Ste. 8101
Farmington, NM 87401

Phone (505) 566-1900
Fax (505) 566-1911
afs@afsolutions-cpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's basic financial statements as listed in the table of contents. We have also audited the budget comparison presented as supplemental information in the financial statements as of and for the year ended September 30, 2018, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the Association for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4801 N Butler Ave. Ste. 8101
Farmington, NM 87401

Phone (505) 566-1900
Fax (505) 566-1911
afs@afsolutions-cpa.com

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued my report dated February 22, 2019 on our consideration of the Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's internal control over financial reporting and compliance.

Accounting + Financial Solutions, LLC

Farmington, New Mexico
February 22, 2019

BASIC FINANCIAL STATEMENTS

OF

UPPER LA PLATA DWC & SWC COOPERATIVE

AS OF AND FOR THE YEAR ENDED

SEPTEMBER 30, 2018

STATE OF NEW MEXICO

UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND

Statement of Net Position

September 30, 2018

Assets		
Current assets:		
Cash and cash equivalents	$	705,759
Accounts receivable (net of allowance of $3,474.00)		68,620
Inventory		61,906
Total current assets		836,285
Noncurrent assets:		
Capital assets:		
Land		17,137
Water rights		137,209
Buildings and improvements		284,488
Irrigation system		3,903,992
Equipment and furniture		212,486
Less: accumulated depreciation		(1,911,452)
Total noncurrent assets		2,643,860
Total Assets	$	3,480,145
Liabilities		
Current liabilities:		
Accounts payable	$	26,527
Accrued taxes payable		2,819
Accrued interest payable		740
Loans payable - current portion		19,589
Total current liabilities		49,675
Noncurrent liabilities:		
Loans payable (less current portion)		416,049
Total Liabilities		465,724
Net Position		
Net investment in capital assets		2,208,222
Unrestricted		806,199
Total Net Position		3,014,421
Total Liabilities and Net Position	$	3,480,145

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

STATE OF NEW MEXICO

UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

Operating revenue:	
Warer sales	$ 495,117
Connection and system fees	19,216
Other	5,308
Total operating revenue	519,641
Operating expenses:	
Water purchases	122,670
Salaries and benefits	198,961
Plant operations	68,554
Office expense	12,396
Contract labor	215
Insurance	14,319
Utilities	25,097
Legal and professional	7,760
Miscellaneous	2,275
Depreciation	132,018
Total operating expenses	584,265
Operating income (loss)	(64,624)
Non-Operating income (expenses):	
Interest income	1,796
Interest expense	(23,556)
Total nonoperating revenues (expenses)	(21,760)
Change in net position	(86,384)
Net position - beginning	3,164,310
Restatement	(63,505)
Net position - beginning as restated	3,100,805
Net position - ending	$ 3,014,421

STATE OF NEW MEXICO

UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND

Statement of Cash Flows

Year ended June 30, 2018

Cash Flows From Operating Activities		
Cash received from customers	$	528,614
Cash payments to employees		(203,538)
Cash payments for supplies and maintenance		(245,673)
Net cash Provided by (used in) operating activities		79,403
Cash Flows From Non-Capital Financing Activities		
Operating grants		-
Cash Flows From Capital And Related Financing Activities		
Proceeds from mortgage		92,298
Purchases of capital assets		(129,987)
Principal paid on debt		(124,693)
Interest paid on debt		(24,875)
Net cash used in capital and related financing activities		(187,257)
Cash Flows From Investing Activities		
Interest and dividends received		1,796
Net decrease in cash and cash equivalents		(106,058)
Cash and cash equivalents at beginning of the year		811,817
Cash and cash equivalents at end of the year	$	705,759
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities		
Operating income (loss)	$	(64,624)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		132,018
(Increase) decrease in:		
Customer receivables		8,973
Inventory		(7,054)
Increase (decrease) in:		
Accounts payable		14,667
Accrued liabilities		(4,577)
Total adjustments		144,027
Net cash Provided by (used in) operating activities	$	79,403
Noncash investing and financing activity:		
Accrued interest payable	$	-

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

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Under the Sanitary Projects Act, the Cooperative remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico.

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

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

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

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

1. Blended Component Units

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

2. Discretely Presented Component Units

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

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

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

B. Implementation of New Accounting Principles

During fiscal year 2018, the Cooperative adopted the following Governmental Accounting Standards Board (GASB) Statements:

- **GASB Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

  This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement will be effective for the year ended September 30, 2018.

- **GASB Statement No. 81**, *Irrevocable Split-Interest Agreements*

  The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

  Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

  This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

  The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (FYE September 30, 2018) and should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No. 82**, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

  The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FYE September 30, 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FYE September 30, 2018). Earlier application is encouraged.

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

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

- **GASB Statement No. 85**, *Omnibus 2017*

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Specifically, this Statement addresses the following topics:

• Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation

• Reporting amounts previously reported as goodwill and "negative" goodwill • Classifying real estate held by insurance entities

• Measuring certain money market investments and participating interest earning investment contracts at amortized cost

• Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

• Recognizing on-behalf payments for pensions or OPEB in employer financial statements

• Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB

• Classifying employer-paid member contributions for OPEB

• Simplifying certain aspects of the alternative measurement method for OPEB

• Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE September 30, 2018). Earlier application is encouraged.

- **GASB Statement No. 86**, *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

In-Substance Defeasance of Debt Using Only Existing Resources Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

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

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

Prepaid Insurance Related to Extinguished Debt – For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

Additional Disclosure for All In-Substance Defeasance Transactions – One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FYE September 30, 2018). Earlier application is encouraged.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **GASB Statement No. 87**, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Proprietary Financial Statement Presentation

The proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Cooperative's enterprise fund is charges to customers for sales and services. Operating expense for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Position or Equity

1. *Deposits and investments*

The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the investment of the Cooperative's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Cooperative is also allowed to invest in United States Government obligations. All funds for the Cooperative must follow the above investment policies.

Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more banks or savings and loan within the geographical boundaries of the Cooperative. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest on non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

2. *Accounts Receivable*

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

3. *Inventory*

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

4. *Capital assets*

The Cooperative's policy is to capitalize all disbursements for equipment in excess of $5,000. Property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities.

ESTIMATED USEFUL LIVES

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

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

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

5. *Compensated Absences*

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

6. *Sales Tax*

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

7. *Tax Status*

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

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

8. *Budgets*

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

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

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

9. *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

10. *Tax Abatements*

Governmental Accounting Standards Board Statement No. 77 requires the Cooperative to disclose information on certain tax abatement agreements effecting the Cooperative. Accordingly, the Cooperative did not have any tax abatements effecting the Cooperative during the year ended September 30, 2018.

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Temporary Investments

Cash and equivalents

Reconciliation of bank balances to the financial statements:

		BALANCE
Financial institution:		
Citizens Bank	$	710,454
Cash on hand		300
Less:		
Net reconciling items		(4,995)
Total cash and equivalents	$	705,759

At September 30, 2018, the carrying amount of the Cooperative's deposits was $705,459 and the bank balance was $710,454 with the difference consisting of outstanding checks. Of this balance $250,000 was covered by federal depository insurance and $460,454 was covered by collateral held in joint safekeeping by a third party.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Cooperative for at least one half of the amount on deposit with the institution. The statement listed below will meet the State of New Mexico Office of the State Auditor's requirement in reporting the uninsured portion of the deposits. As of September 30, 2018, none of the Cooperative's bank balance of was exposed to custodial risk as follows:

		INSURED		UNDER INSURED		TOTAL
Bank deposits:						
Uninsured and uncollateralized	$	-	$	-	$	-
Uninsured and collateral held by pledging bank's trust dept not in the Cooperative's name		460,454		-		460,454
Total uninsured		460,454		-		460,454
Insured (FDIC)		250,000		-		250,000
Total deposits	$	710,454	$	-	$	710,454
State of New Mexico collateral requirement:						
50% of uninsured public fund bank deposits	$	230,227	$	-	$	230,227
Pledged security		460,454		-		460,454
Over collateralization	$	230,227	$	-	$	230,227

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

	MATURITY	CUSIP		MARKET VALUE
Citizens Bank:				
Jal NM Public Schools	10/1/2029	470143AP3	$	488,050

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

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Cooperative. Time deposits, savings deposits and interest bearing "Now" accounts of a public unit in an institution in the same state will be insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution.

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

A. Cash and Temporary Investments (cont'd)

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

	BANK BALANCE
Citizens Bank:	
Checking - Interest	$ 77,101
Savings - Interest	131,569
Savings - Interest	255,618
Certificate of deposit	123,083
Certificate of deposit	123,083
	$ 710,454

B. Capital Assets

Capital assets activity for the year ended September 30, 2018 was as follows:

	BEGINNING	RESTATEMENT	RESTATED BEGINNING BALANCE	INCREASES	DECREASES	ENDING
Business-type activities:						
Capital assets not being depreciated:						
Land	$ 17,137	$ -	$ 17,137	$ -	$ -	$ 17,137
Water rights	137,209	-	137,209	-	-	137,209
Construction in progress	702,774	(702,774)	-	-	-	-
Total capital assets not being depreciated	857,120	(702,774)	154,346	-	-	154,346
Capital assets being depreciated:						
Buildings	168,838	-	168,838	-	-	168,838
Water system	2,809,874	1,001,820	3,811,694	92,298	-	3,903,992
Land improvements	115,650	-	115,650	-	-	115,650
Equipment	169,338	-	169,338	37,689	-	207,027
Furniture	5,459	-	5,459	-	-	5,459
Total capital assets being depreciated	3,269,159	1,001,820	4,270,979	129,987	-	4,400,966
Less accumulated depreciation for:						
Buildings	(85,051)	-	(85,051)	(3,523)	-	(88,574)
Water system	(1,437,818)	(19,210)	(1,457,028)	(114,506)	-	(1,571,534)
Land improvements	(95,516)	-	(95,516)	(4,750)	-	(100,266)
Equipment	(136,380)	-	(136,380)	(9,239)	-	(145,619)
Furniture	(5,459)	-	(5,459)	-	-	(5,459)
Total accumulated depreciation	(1,760,224)	(19,210)	(1,779,434)	(132,018)	-	(1,911,452)
Total capital assets being depreciated, net	1,508,935	982,610	2,491,545	(2,031)	-	2,489,514
Total capital assets, net	$ 2,366,055	$ 279,836	$ 2,645,891	$ (2,031)	$ -	$ 2,643,860

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

C. Liabilities

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

Changes in long term debt – During the year ended September 30, 2018 the following changes occurred in liabilities:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE	DUE WITHIN ONE YEAR
N/P - NM Environment	$ 38,233	$ -	$ 38,233	$ -	$ -
N/P - NM Environment	86,460	-	86,460	-	-
N/P - DWSRLF	343,341	105,277	12,980	435,638	19,589
	$ 468,034	$ 105,277	$ 137,673	$ 435,638	$ 19,589

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

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2019	$ 19,589	$ 8,713	$ 28,302
2020	19,982	8,321	28,303
2021	20,381	7,921	28,302
2022	20,789	7,514	28,303
2023	21,204	7,098	28,302
2024 - 2028	112,553	28,957	141,510
2029 - 2033	124,269	17,242	141,511
2034 - 2038	96,871	4,544	101,415
Total	$ 435,638	$ 90,310	$ 525,948

III. OTHER INFORMATION

A. Risk Management

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

B. Major Supplier

In accordance with an agreement dated January 1, 2008, the Cooperative purchases substantially all of its water from the Lower Valley Water Users for delivery to its members. The agreement covers a 20-year period. The cost of water purchased from Lower Valley Water Users during the year ended September 30, 2018 was $112,321.

C. Employee Retirement Plan

The Cooperative participates in a defined contribution retirement plan covering substantially all of its employees. The Cooperative's contributions and costs are determined as seven percent of each covered employee's salary and totaled $11,699 for the year ended September 30, 2018. No amounts were attributed to employee forfeitures. The Cooperative pays the annual expense to an outside administrator every year and there is no outstanding liability.

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

D. Supplemental Disclosure of Cash Flow Information

Cash paid for interest during the year ended September 30, 2018 was $12,338.

E. Restatement

The Cooperative is restating the beginning net position by $63,505. Of this amount, $19,210 represents a correction of accumulated depreciation for assets that were in operation but were reported as construction in progress in the prior year. The remaining amount was for unrecognized draws against the DWSRLF loan.

F. Subsequent Events

Subsequent events were evaluated through **February 22, 2019** which is the date the financial statements were available to be issued.

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTAL INFORMATION

THIS PAGEINTENTIONALLY LEFT BLANK

STATE OF NEW MEXICO

UPPER LA PLATA DWC & MSW COOPERATIVE

PROPRIETARY FUND

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

Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)
Operating revenue:				
Warer sales	$ 496,975	$ 496,975	$ 495,117	$ (1,858)
Connection and system fees	16,844	16,844	19,216	2,372
Other	1,247	1,247	5,308	4,061
Total operating revenue	515,066	515,066	519,641	4,575
Operating expenses:				
Water purchases	99,810	99,810	122,670	(22,860)
Salaries and benefits	195,094	195,094	198,961	(3,867)
Plant operations	61,606	61,606	67,783	(6,177)
Office expense	20,208	20,208	12,396	7,812
Contract labor	305	305	215	90
Insurance	14,546	14,546	14,319	227
Utilities	26,523	26,523	25,097	1,426
Legal and professional	-	-	7,760	(7,760)
Miscellaneous	1,038	1,038	2,275	(1,237)
Total operating expenses	419,130	419,130	451,476	(32,346)
Income from operations	95,936	95,936	68,165	(27,771)
Non-Operating income (expenses)				
Interest income	158	158	1,796	1,638
Interest expense	(22,104)	(22,104)	(23,556)	(1,452)
Total nonoperating revenues (expenses)	(21,946)	(21,946)	(21,760)	186
Change in net position - budgetary basis	$ 73,990	$ 73,990	46,405	$ (27,585)
RECONCILIATION TO GAAP BASIS:				
Depreciation			(132,018)	
Change in net position			$ (85,613)	

THIS PAGE INTENTIONALLY LEFT BLANK

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

§

Schedule of Findings and Responses

§

Summary Schedule of Prior Year Audit Findings

§

Required Disclosures

THIS PAGE INTENTIONALLY LEFT BLANK

ACCOUNTING & FINANCIAL SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

4801 N Butler Ave. Ste. 8101
Farmington, NM 87401

Phone (505) 566-1900
Fax (505) 566-1911
afs@afsolutions-cpa.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's basic financial statements, and related budgetary comparisons of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative presented as supplemental information, and have issued our report thereon dated February 22, 2019

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative internal control. Accordingly, we do not express an opinion on the effectiveness of Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Finding 2018-001 through 2018-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. Finding 2018-004.

ACCOUNTING & FINANCIAL SOLUTIONS
CERTIFIED PUBLIC ACCOUNTANTS

4801 N Butler Ave. Ste. 8101
Farmington, NM 87401

Phone (505) 566-1900
Fax (505) 566-1911
afs@afsolutions-cpa.com

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper La Plata Domestic Water Consumers and Mutual Sewage Works Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of the Board of Directors, management, and the New Mexico State Auditor, and Department of Finance and Administration – Local Governments and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Financial Solutions, LLC

Farmington, New Mexico
February 22, 2019

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2018

I. SUMMARY OF AUDIT RESULTS

	Yes	No	Occurrences
FINANCIAL STATEMENTS:			
Type of auditor's report issued: Unmodified			
Internal control over financial reporting:			
Material weakness(es) identified?	✓		3
Significant Deficiency(ies) identified?	✓		1
Noncompliance material to financial statements noted?		✓	-

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2018 – 001 RECONCILIATION OF GENERAL LEDGER ACCOUNTS (Original finding 2017-001)
(Repeat of prior year finding)
Material Weakness

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

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

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

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

Management's response: The Cooperative 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.

Responsible party(ies) for corrective action(s): The system manager and board will review and document in the minutes that the monthly reconciliations were reviewed for accuracy and completeness.

Corrective action(s) timeline: The system manager and board members will start getting reconciliation reports from the Office Manager starting for the month of February 2019.

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

2018 – 002 LACK OF INTERNAL CONTROLS (Original finding 2017-002)
(Repeat of prior year finding)
Material Weakness

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

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

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

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

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

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

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

Management's response: The Cooperative will begin the process of establishing controls with segregation of duties and monitoring internal controls (the reconciliation process).

Responsible party(ies) for corrective action(s): 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.

Corrective action(s) timeline: The Cooperative will begin implementing and monitoring internal controls starting in March 2019 with reviewing the general ledger account reconciliations.

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

2018 – 003 INADEQUATE INTERNAL CONTROLS OVER RECEIPTS
Material Weakness

Condition: The receipt book that was available for testing was missing 58 receipts out of 200 receipts. The amount of the missing receipts could not be determined.

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

Cause: The Cooperative removes from the receipt book whole pages, and single receipts.

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

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

Management's response: The Organization will establish procedures for handling and retaining receipts.

Responsible party(ies) for corrective action(s): The system manager will review the receipt book monthly to ensure established procedures are followed.

Corrective action(s) timeline: The Organization will begin implementing and monitoring receipt protocols starting in March 2018.

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

2018 – 004 RECORDS RETENTION AND STORAGE
Significant deficiency

Condition: During our fieldwork we became aware that most of the receipt books used during the year had been disposed of when the District was moving some files and cleaning.

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

Cause: The cooperative was cleaning out some old files and, in the process, disposed of some of the current year receipt books

Effect of condition: The Cooperative may not be able to complete an audit of its finances due to unavailability of records because they have been misplaced or inappropriately filed. Disputed receipts cannot be proved because they cannot be traced to a receipt book.

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

Management's response: The Organization will establish a written records retention and security policy.

Responsible party(ies) for corrective action(s): The board will approve a records retention and security policy. The system manager and office manager will implement the policy.

Corrective action(s) timeline: The Organization will begin implementing and monitoring records retention and security starting in April 2019.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2018

I. RESOLVED

There were no findings to be reported from the prior year.

II. NOT RESOLVED – REPEATED IN THE CURRENT YEAR

2017 – 001 RECONCILIATION OF GENERAL LEDGER ACCOUNTS
Current Status: Not resolved – Repeated in the current year

2017 – 002 LACK OF INTERNAL CONTROLS
Current Status: Not resolved – Repeated in the current year

REQUIRED DISCLOSURE
YEAR ENDED SEPTEMBER 30, 2018

The financial statements were prepared by the independent public accountants.

An exit conference was held February 28, 2019 during which the audit findings were discussed. The exit conference was attended by the following individuals:

UPPER LA PLATA DWC & SWC COOPERATIVE

Steven Dunn	Board Member
Cherileen Henry	Office Manager
Dwight James	System Manager

ACCOUNTING & FINANCIAL SOLUTIONS, LLC

Terry Ogle, CPA	Partner