

**PORCH & ASSOCIATES LLC**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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LAS CAMPANAS WATER COOPERATIVE

Financial Statements  
and  
Independent Auditor's Report

December 31, 2020 and 2019

LAS CAMPANAS WATER COOPERATIVE

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Financial Statements

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**Independent Auditor's Report**

Board of Directors and Management  
Las Campanas Water Cooperative  
Santa Fe, New Mexico

**Report on the Financial Statements**

We have audited the accompanying financial statements of Las Campanas Water Cooperative (Co-op) which comprise the balance sheet as of December 31, 2020, and the related statements of operations, members' capital, and cash flows for the year then ended and the related notes to the financial statements.

**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 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. 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 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 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.

Board of Directors and Management  
Las Campanas Water Cooperative  
Santa Fe, New Mexico

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Campanas Water Cooperative as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of Las Campanas Water Cooperative for the year ended December 31, 2019, before the restatement described in Note 11, were audited by another auditor whose report dated May 13, 2020, expressed an unmodified opinion on those statements.

As part of our audit of the December 31, 2020 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the December 31, 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the December 31, 2019 financial statements of the Co-op other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2019 financial statements as a whole.

*Porch & Associates, LLC*

Albuquerque, New Mexico  
June 18, 2021

**LAS CAMPANAS WATER COOPERATIVE**  
**BALANCE SHEETS**  
**December 31, 2020 and 2019**

| <b>ASSETS</b>  | 2020                        | 2019                     |
|--|-----------------------------|--------------------------|
| Current Assets   |                             |                          |
| Cash and cash equivalents  | \$ 1,200,141                | 1,316,880                |
| Investment securities  | 5,386,923                   | 5,087,089                |
| Accounts receivable from members, net of an allowance of \$10,529 and 10,529, respectively | 141,159                     | 201,407                  |
| Prepaid expenses   | 15,143                      | 42,256                   |
| Total current assets   | <u>6,743,366</u>            | <u>6,647,632</u>         |
| Property and equipment, net of accumulated depreciation                                    | <u>14,706,571</u>           | <u>14,863,212</u>        |
| Total assets   | <u><u>\$ 21,449,937</u></u> | <u><u>21,510,844</u></u> |
| <br><b>LIABILITIES AND MEMBERS CAPITAL</b>   |                             |                          |
| Current Liabilities  |                             |                          |
| Accounts payable   | \$ 46,701                   | 38,530                   |
| Accrued liabilities  | 145,529                     | 197,377                  |
| Total current liabilities  | <u>192,230</u>              | <u>235,907</u>           |
| Commitments and Contingencies (See Note 10)  |                             |                          |
| Members' Capital   |                             |                          |
| Accumulated deficit, as restated   | (890,224)                   | (872,994)                |
| Contributed capital, as restated   | 22,147,931                  | 22,147,931               |
| Total members' capital   | <u>21,257,707</u>           | <u>21,274,937</u>        |
| Total liabilities and members' capital   | <u><u>\$ 21,449,937</u></u> | <u><u>21,510,844</u></u> |

*The accompanying notes are an integral part of these financial statements.*

**LAS CAMPANAS WATER COOPERATIVE**  
**STATEMENTS OF OPERATIONS**  
**Years Ended December 31, 2020 and 2019**

|  | 2020               | 2019             |
|--|--------------------|------------------|
| Revenues                                 |                    |                  |
| Water and sewer fees and effluent sales  | \$ 2,240,546       | 1,898,312        |
| Surcharges, net of abatements            | 226,203            | 117,476          |
| Total operating revenues                 | <u>2,466,749</u>   | <u>2,015,788</u> |
| Expenses                                 |                    |                  |
| Purchased water                          | 660,267            | 545,302          |
| Outside services                         | 741,448            | 608,497          |
| Administrative                           | 604,655            | 616,109          |
| Repairs and maintenance                  | 146,236            | 80,284           |
| Buckman Direct Diversion project         | 110,997            | 71,399           |
| Utilities                                | 103,323            | 116,260          |
| Insurance                                | 29,894             | 28,070           |
| Meters                                   | 17,412             | 6,093            |
| Licenses and other taxes                 | 10,497             | 2,720            |
| Bad debt                                 | (1,762)            | 1,236            |
| Total expenses                           | <u>2,422,967</u>   | <u>2,075,970</u> |
| Loss from operations before depreciation | 43,782             | (60,182)         |
| Depreciation                             | <u>365,430</u>     | <u>367,413</u>   |
| Loss from operations                     | <u>(321,648)</u>   | <u>(427,595)</u> |
| Non-Operating Activity                   |                    |                  |
| Net realized and unrealized gain         | 181,905            | 191,161          |
| Interest income                          | 5                  | 58               |
| Dividend income                          | 122,508            | 146,016          |
| Other income                             | -                  | 4,667            |
| Total non-operating activity, net        | <u>304,418</u>     | <u>341,902</u>   |
| Net loss                                 | <u>\$ (17,230)</u> | <u>(85,693)</u>  |

*The accompanying notes are an integral part of these financial statements.*

**LAS CAMPANAS WATER COOPERATIVE  
STATEMENTS OF MEMBERS' CAPITAL  
Years Ended December 31, 2020 and 2019**

|   | Accumulated<br>Balance (Deficit) | Contributed<br>Capital | Total      |
|---|----------------------------------|------------------------|------------|
| Balance at December 31, 2018, (deficit) capital | \$ (1,323,681)                   | 22,461,032             | 21,137,351 |
| Restatement - see Note 11                       | 313,101                          | (313,101)              | -          |
| Restatement - see Note 11                       | 223,279                          | -                      | 223,279    |
| Net loss  | (85,693)                         | -                      | (85,693)   |
| Balance at December 31, 2019, (deficit) capital | (872,994)                        | 22,147,931             | 21,274,937 |
| Net loss  | (17,230)                         | -                      | (17,230)   |
| Balance at December 31, 2020, (deficit) capital | \$ (890,224)                     | 22,147,931             | 21,257,707 |

*The accompanying notes are an integral part of these financial statements.*

**LAS CAMPANAS WATER COOPERATIVE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2020 and 2019**

|   | 2020                | 2019             |
|---|---------------------|------------------|
| Cash Flows From Operating Activities  |                     |                  |
| Net loss  | \$ (17,230)         | (85,693)         |
| Adjustments to reconcile the net loss to net cash provided by operating activities: |                     |                  |
| Depreciation  | 365,430             | 367,413          |
| Net realized and unrealized loss  | (181,905)           | (191,161)        |
| Bad debt written off  | -                   | (20)             |
| Bad debt  | (1,762)             | -                |
| Changes in operating assets and liabilities   |                     |                  |
| Accounts receivable from members  | 62,010              | 7,239            |
| Prepaid expenses  | 27,113              | (8,829)          |
| Accounts payable  | 8,171               | (167,976)        |
| Accrued liabilities   | (51,848)            | 139,737          |
| Net cash provided by operating activities   | <u>209,979</u>      | <u>60,710</u>    |
| Cash Flows From Investing Activities  |                     |                  |
| Purchase of securities  | (117,929)           | (122,705)        |
| Purchase of property and equipment  | (208,789)           | (305,584)        |
| Net cash used by investing activities   | <u>(326,718)</u>    | <u>(428,289)</u> |
| Net change in cash and cash equivalents   | (116,739)           | (367,579)        |
| Cash and cash equivalents, beginning of year  | <u>1,316,880</u>    | <u>1,684,459</u> |
| Cash and cash equivalents, end of year  | <u>\$ 1,200,141</u> | <u>1,316,880</u> |

*The accompanying notes are an integral part of these financial statements.*



**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2020 AND 2019**

**NOTE 1. ORGANIZATION**

**Organization and Background**

The Las Campanas Water Cooperative was formed on January 22, 1993, under the laws of the State of New Mexico, for the purpose of providing water service to its members located in the residential community known as Las Campanas in Santa Fe, New Mexico. The members of the Las Campanas Homeowners Water Cooperative consist of residential lot purchasers in the Las Campanas development. The operations of the Las Campanas Homeowners Water Cooperative began July 1, 1994.

Las Campanas Sewer Cooperative was formed on June 26, 1995, under the laws of the State of New Mexico, for the purpose of providing sewer service to its members located in the residential community known as Las Campanas in Santa Fe, New Mexico. The members of the Las Campanas Sewer Cooperative consist of residential lot purchasers in the Las Campanas development. The operations of the Las Campanas Sewer Cooperative began July 1, 1995.

The assets and operations of the Las Campanas Homeowners Water Cooperative and Las Campanas Sewer Cooperative were combined effective June 1, 2012. The combined entity, Las Campanas Water and Sewer Cooperative (Co-op), is controlled by a Board of Directors consisting of cooperative members. The Board of Directors is responsible for oversight of the Co-op's management and is responsible for establishing policies. The Directors are not compensated for their services.

**Buckman Direct Diversion Project**

The Buckman Direct Diversion Project is a shared facility with the City of Santa Fe, Santa Fe County, the Co-op, and The Club at Las Campanas. This relationship is described, from design through operations, in the Facility Operations Agreement between the proponents. This project, which diverts water from the Rio Grande, is the fulfillment of the 1994 Replacement Water Agreement with the Santa Fe County for a 100-year water supply as required by the Master Plan. The Co-op signed the First Amendment to the Facility Operations and Procedures Agreement ("the Agreement") for the Buckman Diversion Project with an effective date of July 1, 2016.

**Bulk Water Service Agreement**

On October 16, 2009, the Co-op and Santa Fe County approved at the Board of County Commissioners a Bulk Water Service Agreement (BWSA) with full build-out anticipated to be 2030. This agreement provides potable water to the Co-op as a bulk wholesale customer of the County on a perpetual basis. Deliveries pursuant to this agreement commenced on May 1, 2011. Prior to May 1, 2011, all water was purchased from the City of Santa Fe.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Co-op is presented to assist in the understanding of the Co-op's financial statements. The financial statements and notes are the representations of the Co-op's management who is responsible for their integrity and objectivity.

*Basis of Accounting.* The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Cash and Cash Equivalents.* The Co-op considers highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

*Concentrations of Risk.* Cash is held in depository accounts at various financial institutions. The combined account balance at any given institution may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposits in excess of FDIC insurance coverage. As of December 31, 2020 and 2019, the amounts on deposit that exceeded the FDIC insurance limit of \$250,000 were \$268,036 and \$95,563, respectively. Management believes, based on the quality of the financial institutions, that the risk is not significant.

*Investments.* Investment securities are carried by the Co-op at fair value in accordance with accounting principles generally accepted in the United States. The fair value of investment securities is determined based on quoted market prices and estimates of value for non-traded securities. Investment securities are comprised of mutual funds in 2019 and in 2018.

*Accounts Receivable.* Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Property and Equipment.* A “Fixed Asset” is defined by the co-op as a unit of property that: (1) has an economic useful life that extends beyond 12 months and was acquired or produced for a cost of \$5,000 or more. Fixed assets include items of property and equipment such as furniture, equipment, water distribution system, and collection and treatment system.

In line with industry standards, the Co-op utilizes the composite rate depreciation method. The composite method includes all utility plant assets segregated into a single category in which a depreciation rate of 2.5% is applied to the entire group of assets based on the estimated useful lives of those utility plant assets.

*Income Taxes.* The Co-op qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code and, accordingly, if certain conditions are met, is not subject to federal income tax, except to the extent that it has unrelated business income.

The Co-op applies the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes. FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions in an enterprise’s financial statements. Uncertain income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FASB ASC 740 and in subsequent periods.

The provisions of FASB ASC 740 have been applied to all Co-op income tax positions commencing from that date. The Co-op’s policy is to classify income tax penalties and interest according to their natural classification in its financial statements. During the years ended December 31, 2020 and 2019, the Co-op incurred no interest and penalties. As of December 31, 2020, management does not believe the Co-op has any uncertain tax positions that would require financial statement recognition, measurement, or disclosure under FASB ASC 740.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*Water and Sewer Fees and Effluent Sales.* Fees consist of sewer and water usage charges for residential and commercial customers, and system maintenance charges in accordance with a published rate schedule approved by the Co-op's Board of Directors.

Surcharge revenue consists of charges to residential customers that exceed their monthly water allotment. The surcharges are included in the monthly invoice and are calculated in accordance with a published rate schedule approved by the Co-op's Board of Directors.

For these services, the customer is receiving a continuous benefit. Revenue related to these services is recognized at the time that the customer is invoiced. Per the practical expedient set forth in ASC 606-10-5-4 since the Co-op has the right to invoice and this corresponds directly to the value transferred to the customer, the Co-op recognizes revenue at a point-in-time.

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Risk Management.* The Co-op is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Co-op has obtained commercial insurance coverage to protect itself against such losses.

*Subsequent Events.* Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Co-op recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Co-op's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Co-op has evaluated subsequent events through June 18, 2021, which is the date the financial statements are available to be issued. Subsequent to year-end, the United States and global markets experienced significant fluctuations in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Co-op is closely monitoring its investment portfolio and its liquidity and are actively working to minimize the impact of these fluctuations.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 3. RESERVE FUND**

In 2014 the Board of Directors established a Replacement Reserve Fund (Fund) for future replacement costs of physical plant or equipment. In 2020 the Co-op adopted an updated policy establishing a major and replacement reserve of \$4.5 million and an operating reserve of 60 days of operating expenses. The Board has agreed to define and approve all sources and uses of funds during the fiscal year and will review and update reserve values annually prior to the start of the budgeting process.

**NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES**

The FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 Unobservable inputs for the asset or liability. In these situations, inputs were developed using the best information available in the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 4. FAIR VALUE MEASUREMENTS AND DISCLOSURES**  
**(CONTINUED)**

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

**Mutual Funds**

Valued at market value of shares held by the Co-op at year end using prices quoted by the relevant pricing agent.

The valuation methods used by the Co-op may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Co-op believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The mutual funds had a fair value of \$5,386,923 and \$5,087,089 as of December 31, 2020 and 2019, respectively. All mutual funds were valued using level 1 measurements.

Realized and unrealized gains and (losses) included in changes in net assets for the years ended December 31, 2020 and 2019 were \$181,905 and \$167,850, respectively, and are reported on the statements of operations.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable consists of outstanding bills to members for water and sewer usage. Receivables consisted of the following at December 31:

|                                       | 2020              | 2019           |
|---------------------------------------|-------------------|----------------|
| Accounts receivable from members      | \$ 151,688        | 211,936        |
| Allowance for doubtful accounts       | 10,529            | 10,529         |
| Accounts receivable from members, net | <u>\$ 141,159</u> | <u>201,407</u> |

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 5. ACCOUNTS RECEIVABLE (CONTINUED)**

Changes in the Co-op's allowance for doubtful accounts are as follows at December 31:

|                                       | 2020             | 2019          |
|---------------------------------------|------------------|---------------|
| Beginning Balance                     | \$ 10,529        | 10,549        |
| Bad debt expense                      | (1,762)          | -             |
| Accounts (written off) recovered      | 1,762            | (20)          |
| Accounts receivable from members, net | <u>\$ 10,529</u> | <u>10,529</u> |

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following at December 31, 2020 and 2019:

|                                   | For the year ending December, 31, 2020 |                  |          |                   |
|-----------------------------------|--|------------------|----------|-------------------|
|                                   | Beginning<br>Balance                   | Additions        | Reclass  | Ending<br>Balance |
| Land                              | \$ 223,279                             | -                | -        | 223,279           |
| Furniture and equipment           | 910,910                                | 207,883          | -        | 1,118,793         |
| Collection and treatment system   | 12,151,686                             | -                | -        | 12,151,686        |
| Water distribution system         | 5,646,094                              | 906              | -        | 5,647,000         |
|                                   | 18,931,969                             | 208,789          | -        | 19,140,758        |
| Accumulated depreciation          | (4,068,757)                            | (365,430)        | -        | (4,434,187)       |
| Total property and equipment, net | <u>\$ 14,863,212</u>                   | <u>(156,641)</u> | <u>-</u> | <u>14,706,571</u> |
|                                   | For the year ending December, 31, 2019 |                  |          |                   |
|                                   | Beginning<br>Balance                   | Additions        | Reclass  | Ending<br>Balance |
| Land                              | \$ 223,279                             | -                | -        | 223,279           |
| Furniture and equipment           | 803,962                                | 111,370          | (4,422)  | 910,910           |
| Collection and treatment system   | 12,151,686                             | -                | -        | 12,151,686        |
| Water distribution system         | 5,451,880                              | 194,214          | -        | 5,646,094         |
|                                   | 18,630,807                             | 305,584          | (4,422)  | 18,931,969        |
| Accumulated depreciation          | (3,705,766)                            | (367,413)        | 4,422    | (4,068,757)       |
| Total property and equipment, net | <u>\$ 14,925,041</u>                   | <u>(61,829)</u>  | <u>-</u> | <u>14,863,212</u> |

The land value is based on the assessed tax value for the year 2020.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 7. WATER RIGHTS**

The cost of water rights owned by the Co-op have not been recorded as all water rights have been dedicated to Santa Fe County in accordance with a document titled "Dedication of Water Right and Acknowledgment of Water Service" dated December 16, 2010. The water rights will be transferred to Santa Fe County (County) during the life of the agreement to offset obligations owed the County for water services and BDD costs. If there are excess water rights after the obligations are satisfied, the Co-op has agreed to lease to the Club at Las Campanas, Inc. (Club) all or any part thereof requested by the Club in perpetuity.

**NOTE 8. OPERATIONS, MAINTENANCE, AND MANAGEMENT SERVICES AGREEMENT**

The Co-op entered into an operation, maintenance, and management service agreement effective December 1, 2010, with Operations Management International, Inc. to manage, operate and maintain the wastewater collection, pumping and treatment facilities, water treatment facilities, distribution and metering system for the Co-op. The agreement was amended and restated October 28, 2015 for five years. The Co-op renewed this contract effective January 1, 2020 for ten years. The monthly base price is based on the terms outline in the contract. Additionally, out of scope services are contracted for specific services.

As of December 31, 2020 and 2019, the Co-op incurred costs of \$741,448 and \$611,853 respectively, for their services.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**Sewer System Interconnection Agreement**

The Las Campanas Sewer Cooperative entered into an agreement on February 26, 2008 with Suerte Del Sur Homeowner's Association ("Suerte"), a New Mexico nonprofit association, to connect to the Co-op's sewer system. Under the agreement, the Co-op will be required to collect, pump, treat and dispose of the sewage for the development and will receive usage fees for this. The Co-op will receive up to \$1.5 million in revenues one year following Suerte's filing of their plat with Santa Fe County, which has not yet occurred. Since the entire subdivision will not be platted at one time, the revenue will be received in phases. As of December 31, 2020 and 2019, the Co-op incurred and received no amounts under the agreement since no activity has yet occurred. This agreement expires in 2023.



**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 9. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Office Space**

In May 2019, the Co-op signed a four-year lease extension for their office space located in Santa Fe, New Mexico which commenced on September 1, 2019, and ends on August 31, 2023 at a monthly base rent of \$3,270 that increases by \$150 every year.

Minimum future lease payments under lease agreement having remaining terms in excess of one year as of December 31, 2020 for each of the years are as follows:

| <u>Year ending December 31,</u> |           |                |
|---------------------------------|-----------|----------------|
| 2021                            | \$        | 41,640         |
| 2022                            |           | 43,440         |
| 2023                            |           | <u>29,760</u>  |
|                                 | <u>\$</u> | <u>114,840</u> |

Total lease expense for the years ended December 31, 2020 and 2019 was \$39,840 and \$30,680, respectively.

**Other**

The Co-op's commitments and contingencies include the usual obligations incurred by providers of water and sewer services to members located in a residential community in the normal course of business. In the opinion of management, any matters arising from providing water and sewer services will not have a material effect on the Co-op's financial position or results of operations.

**Buckman Direct Diversion**

The BDD continues to have difficulties in sending invoices to its partners, including the Coop, on a timely basis. These delays arise from the difficulties BDD accounting has in allocating expenses to its non-Coop partners. Since all entities are billed at the same time, the Coop's bills are delayed. Management continues to track and accrue all monthly BDD estimated invoice amounts until the actual invoice is received. The BDD is involved in two construction litigation cases. One was resolved in 2021 with a positive result for the BDD and its partners. The second case resolution will be in 2021 at the earliest. As a smaller value case, it is anticipated to have limited, if any, impact on the Co-op, a limited partner.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 10. LINE OF CREDIT**

In August 2012, the Co-op obtained a \$1,000,000 revolving line of credit from a bank. Interest is payable monthly on outstanding balances at an interest rate of 1.0% over the “Wall Street Journal” Prime Rate (which was 6.5% at the time of the agreement) but not less than 4.750%. On August 2, 2020, the line of credit with New Mexico Bank and Trust was renewed with a maturity date of August 2, 2021. At December 31, 2020 and 2019, the line’s effective rate of interest was 4.75%. There were no amounts outstanding as of December 31, 2020 and 2019, respectively.

**NOTE 11. RESTATEMENT**

The prior year financial statements have been restated for the following:

- The Co-op’s water and sewer facilities are located on land owned by the Co-op. The land was not recorded in the prior year’s financial statements. Prior year property and equipment and members’ capital have both been increased by \$223,279 to reflect the value of the land.
- In prior years, the Co-op recorded connections fees as initial deposits to admit new residential members. This initial deposit was recorded as contributed capital. In the current year, the Co-op determined that these fees were not deposits, and should have been recorded as income in the year billed. The prior year balances have been restated to reduce contributed capital by \$92,310, the amount of connection fees received during the year, and increased revenue by a corresponding amount. Fees collected prior to the year ending December 31, 2019, in the amount of \$313,101, have been reclassified from contributed capital to members’ capital.

**NOTE 12. RECLASSIFICATIONS**

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or members’ capital.

**LAS CAMPANAS WATER COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2020 AND 2019**

**NOTE 13. ACCOUNTING STANDARDS CHANGES**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is a comprehensive lease accounting standard that requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the balance sheet for leases with terms exceeding 12 months. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. The guidance is required to be applied by the Co-op for the year ended December 31, 2022; however, early application is permitted. Co-op is currently evaluating the impact this guidance will have on its financial statements.