

STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION

FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009  
WITH  
INDEPENDENT AUDITORS' REPORT

## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

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**BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION  
List of Principal Officials  
June 30, 2009**

<b><u>Name</u></b>	<b><u>Title</u></b>
Ramona Baca	President
Pablo Bermudez	Vice- President
Gabriel Gutierrez	Secretary/ Treasurer
Santos Ruiz	Director
Lazaro Contreras	Director
Connie Arciniega	Administrative Secretary
Terry Valais	Secretary

## **FINANCIAL SECTION**

# Garcia and Associates, CPA, LLC

*Certified Public Accountant and Business Consultants*

Raymond J. Garcia, CPA  
Partner

Paul Lucero, MBA  
Partner

2060 Main Street NE, Suite C  
Los Lunas, NM 87031  
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## INDEPENDENT AUDITOR'S REPORT

State Auditor and the Board Members  
Berino Mutual Domestic Water Consumers  
and Mutual Sewage Works Association  
Berino, New Mexico

We have audited the accompanying financial statements of the business-type activities of Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association (the "Association") as of and for the year ended June 30, 2009, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Association did not take a count, of its inventory at June 30, 2009. Accounting principles generally accepted in the United States of America require that inventory be valued at cost. This would change the assets and fund balances and change the expenses in the business-type activities. The amount by which this departure would affect the assets, fund balances, and revenues of the business-type activities business-type activities is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, of not providing an adequate inventory for the business-type activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association, State New Mexico as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In addition, 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 Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association, State New Mexico, as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2010 on our consideration of Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Association has not presented the management's discussions and analysis that accounting principles accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Garcia and Associates, CPA, LLC

Garcia and Associates, CPA, LLC  
Los Lunas, New Mexico  
August 24, 2010

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Statement of Net Assets

June 30, 2009

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 181,196
Accounts receivable (net)	37,841
State grant receivables	2,815
Other receivable	875
Inventory	5,302
Total current assets	228,030

Noncurrent assets:

Land	22,485
Plant and water system	851,881
Buildings	435,210
Vehicles and equipment	183,552
Office equipment and furniture	4,240
	1,497,367
Less accumulated depreciation	(644,946)
Net capital assets	852,421

Other assets:

Restricted cash and cash equivalents	18,703
Total other assets	18,703
Total assets	\$ 1,099,154

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 9,064
Payroll liabilities	1,089
Accrued interest payable	119
Accrued payroll	790
Compensated absences	527
Deposits	3,450
Current maturities, long-term debt	14,220
Total current liabilities	29,258

Noncurrent liabilities:

Longterm debt, less current maturities	69,116
Total non-current liabilities	69,116
Total liabilities	98,374

**NET ASSETS**

Invested in capital assets, net of related debt	769,085
Restricted for inventory	5,302
Restricted for debt service	18,703
Unrestricted	207,691
Total net assets	1,000,780
Total liabilities and net assets	\$ 1,099,154

The accompanying notes are an intergral part of these financial statements.



**STATE OF NEW MEXICO**  
**BERINO MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2009

Operating revenues:	
Charges for services	\$ 233,256
Other revenues	<u>13,315</u>
Total operating revenues	<u>246,571</u>
Operating expenses:	
Salaries	74,373
Other operating expenses	125,683
Depreciation	<u>73,595</u>
Total operating expenses	<u>273,651</u>
Total operating income (loss)	<u>(27,080)</u>
Nonoperating revenues (expenses):	
Interest income	335
Grant income	2,816
Interest expense	<u>(3,777)</u>
Total nonoperating revenues (expenses)	<u>(626)</u>
Changes in net assets	(27,705)
Total net assets - beginning of year	<u>1,028,486</u>
Total net assets - end of year	<u><u>\$ 1,000,780</u></u>

The accompanying notes are an intergral part of these financial statements.

**STATE OF NEW MEXICO**  
**BERINO MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**

Statement of Cash Flows  
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from customers	\$ 261,800
Cash payments to employees	(73,056)
Cash payments to suppliers for goods and services	<u>(152,460)</u>
Net cash provided (used) by operating activities	<u>36,284</u>
Cash flows from capital and related financing activities:	
Payment of principal on long-term debt	(13,830)
Interest paid on bonds	(3,777)
Proceeds from state grant	<u>-</u>
Net cash used in capital and related financing activities	<u>(17,607)</u>
Cash flows from investing activities:	
Interest income	335
Distribution system	<u>(588)</u>
Net cash provided by investing Activities	<u>(253)</u>
Net increase (decrease) in cash and cash equivalents	18,423
Cash and cash equivalents, beginning of year	<u>181,476</u>
Cash and cash equivalents, end of year	<u><u>\$ 199,900</u></u>
Provided by (Used for) Operating Activities	
Operating income	\$ (27,080)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	73,595
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable - utilities	(2,868)
(Increase) decrease in accounts receivable - others	550
(Increase) decrease in inventory	(5,302)
Increase (decrease) in accounts payable - operations	1,327
Increase (decrease) in deposits held for others	(4,664)
Increase (decrease) in accrued liabilities	<u>726</u>
Total adjustments	<u>63,364</u>
Net cash provided by (used for) operating activities	<u><u>\$ 36,284</u></u>

The accompanying notes are an intergral part of these financial statements.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION**

**Reporting Entity**

Berino Mutual Domestic Water Consumers and Sewage Works Association (Association) is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining and operating a water and wastewater system for the members of the Association in the Berino community in Dona Ana County of New Mexico. The Association was incorporated as a non-profit association under the Sanitary Projects Act (SPA) of the Laws of 1957 of the State of New Mexico February 18, 1967.

Under the SPA, the Association 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, their financial statements must follow the government format (GASB 34). The Association had no blended or discrete component units during the year.

The Board of Directors consists of five members elected by the membership. The Board shall appoint qualified personnel to guide and direct the operations of the Association, and to approve all major contracts, capital outlay, etc. involving the Association.

**Basis of Accounting**

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

The Association has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Association has elected not to apply FASB pronouncements issued after the applicable date.

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposit accounts (\$199,200). For purposes of the statement of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Association only has deposits in banks (demand and time deposits) as of June 30, 2009.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

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

**Accounts Receivable**

The accounts receivable reported in the Statement of Net assets are not considered fully collectible; and are reported net of allowance for doubtful accounts, which has been recorded. Receivables are recognized when services are rendered and revenue has been earned.

**Inventory**

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

**Capital Assets**

Capital assets are recorded at original cost, or fair value if donated. The Association's capitalization policy for moveable equipment includes all items with a unit cost of \$5000 or more, and an estimated useful life of greater than one year. The Association includes software purchased with a piece of equipment in the cost of capitalization. This total cost is depreciated over the useful life of the equipment. In compliance with AICPA SOP 98-1, software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

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

**Compensated Absences**

The Association permits certain employees to accumulate a limited amount of earned but unused vacation leave. The cost of earned but unpaid vacation leave is normally recognized in proprietary funds when the benefit vests to the employee and becomes a legal liability to the Association.

**Net assets**

Net assets are classified as follows:

*Invested in capital assets, net of related debt* represent the Association's total investment in capital assets, net of outstanding debt related to those capital assets.

*Restricted net assets* represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. Restricted *expendable* net assets are resources that the Association is legally or contractually obligated to spend in accordance with imposed restrictions by third parties. Restricted *non-expendable* net assets consist of endowment and similar funds in which third parties have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. There are no restricted non- expendable net assets as of June 30, 2009.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

*Unrestricted net assets* consist of those operating funds over which the governing board retains full control to use in achieving any of its authorized purposes.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Association's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

**Revenues**

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

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

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

**Expenses**

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

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

*Non-operating expenses* include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9- *Reporting Cash Flows of Proprietary and non-expendable Trust Funds and Governmental Entries That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

**Tax Status**

The Association operates as not-for-profit association and has received exempt status under Code Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Given that the Organization is a non- profit corporation organized to provide a community water system under the Sanitary Projects Act of the State of New Mexico, it is exempt from the IRS Form 990 filing requirement.

**Budgets**

The Association does not adopt a legal budget. Therefore, no comparison is made between the budget and actual expenditures.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

**STATE OF NEW MEXICO**  
**BERINO MUTUAL DOMESTIC WATER CONSUMERS**  
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Notes to the Financial Statements  
June 30, 2009

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Bank of the West #297-002388	\$ 157,253
Bank of the West #297-038390	16,071
Bank of the West	3,907
First Federal Bank	<u>22,569</u>
 Total	 <u>\$ 199,800</u>

The following are the balances at the Financial Institutions:

Type of Account Account name	Bank of West	First Federal Bank
Balance per bank	\$ 183,272	\$ 22,569
Less: FDIC coverage	(250,000)	(250,000)
Uninsured public funds	<u>(66,728)</u>	<u>(227,431)</u>

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONT.)**

Following is a reconciliation of the Associations' cash and investment balances as of June 30, 2009:

Name of Depository	Account Name	Type of Account	Interest Bearing	Bank balance at June 30, 2009	Outstanding item)	Reconciled Balance at June 30, 2009
Bank of the West	Berino MDWCA & MSWA	Checking	Yes	\$ 163,294	\$ (6,041)	\$ 157,253
Bank of the West	Berino MDWCA & MSWA	Checking	Yes	16,071	-	16,071
Bank of the West	Berino MDWCA & MSWA	Checking	Yes	3,907	-	3,907
First Federal Bank	Berino Mutual Water Consumers Association	Checking	Yes	<u>22,569</u>	-	22,569
	Balance per bank			205,840		
	Outstanding item			(6,041)	<u>(6,041)</u>	
	Cash balances as of June30, 2009			<u>\$ 199,800</u>		<u>\$ 199,800</u>

**Custodial Credit Risk - Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. State statute requires that the bank deposits in excess of FDIC insurance be 50% collateralized. As of June 30, 2009, the Association was in compliance with state statute. The carrying amount of the Association's deposits was \$199,800 and the bank balance was \$205,840 as of June 30, 2009. Of the bank balance, \$199,800 was covered by federal depository insurance. The custodial credit risk is \$0.

**NOTE 4 – RECEIVABLES**

Trade receivables as of the year – end for the Association are as follows:

Accounts receivable	\$ 47,301
Allowance for doubtful accounts	<u>(9,460)</u>
	<u>\$ 37,841</u>

An allowance for doubtful accounts in the amount of \$9,460 has been estimated by management based on an analysis of individual accounts.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 22,485	\$ -	\$ -	\$ 22,485
Total capital assets, not being depreciated:	<u>22,485</u>	<u>-</u>	<u>-</u>	<u>22,485</u>
Capital assets, being depreciated:				
Plant and water system	851,880	-	-	851,880
Buildings	435,210	-	-	435,210
Vehicles and equipment	182,963	588	-	183,551
Office equipment and furniture	4,240	-	-	4,240
Total capital assets, being depreciated:	<u>1,474,293</u>	<u>588</u>	<u>-</u>	<u>1,474,881</u>
Less accumulated depreciation for:				
Plant and water system	(350,650)	(42,594)	-	(393,244)
Buildings	(88,700)	(12,836)	-	(101,536)
Vehicles and equipment	(129,310)	(17,505)	-	(146,814)
Office equipment and furniture	(2,691)	(661)	-	(3,352)
Total accumulated depreciation	<u>(571,350)</u>	<u>(73,595)</u>	<u>-</u>	<u>(644,945)</u>
Total capital assets, being depreciated, net	<u>\$ 902,942</u>	<u>\$ (73,007)</u>	<u>\$ -</u>	<u>\$ 829,936</u>
Total capital assets, net	<u>\$ 925,427</u>	<u>\$ (73,007)</u>	<u>\$ -</u>	<u>\$ 852,421</u>

The Association owns 843.32 acre ft. of water rights which were acquired at \$0 cost. These water rights were affirmed by the Office of the State Engineer for the State of New Mexico based on historical usage.

Depreciation expense for the year ended June 30, 2009 was \$73,595.



**STATE OF NEW MEXICO**  
**BERINO MUTUAL DOMESTIC WATER CONSUMERS**  
**AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 6 – CURRENT LIABILITIES**

**Compensated Absences Payable**

Upon retirement or separation of certain employees, the Village pays any accrued vacation leave in a lump cash payment to such employee of his/her estate. A summary of charges in the accumulated vacation leave liability follows:

	Vacation Leave
Balance June 30, 2008	\$ 370
Additions	3,098
(Deductions)	<u>(2,941)</u>
Balance June 30, 2009	<u>\$ 527</u>

The compensation absences payable is due within one year for the amount of \$527.

All amounts are classified as current liabilities. The Proprietary Fund, as appropriate, has been used to liquidate amounts in the past.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

**NOTE 7 - LONG-TERM DEBT**

Long-term debt consisted of the following at June 30, 2009:

	<u>Current Portion</u>	<u>Longterm Portion</u>	<u>Total Debt</u>
Note payable to Rural Economic Development Association, in monthly installments of \$512, including interest at 5%, maturing March 18, 2018, secured by real estate water system, equipment and assignment of income	\$ 4,509	\$ 29,591	\$ 34,100
Note payable to Rural Economic Development Association, in monthly installments of \$172, including interest at 5%, maturing July 1, 2020, secured by real estate water system, equipment and assignment of income.	1,377	12,993	14,370
Note payable to New Mexico Environment Department, in annual installments of \$9,379.86, including interest at 3%, maturing April 27, 2013, secured by real estate water system, equipment and assignment of income.	<u>8,334</u>	<u>26,532</u>	<u>34,866</u>
Total notes payable	<u>\$ 14,220</u>	<u>\$ 69,116</u>	<u>\$ 83,336</u>

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

<u>Year ending</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2010	\$ 14,220	\$ 3,368	\$ 17,588
2011	14,782	2,806	17,588
2012	15,355	2,233	17,588
2013	15,959	1,629	17,588
2014	7,208	1,000	8,208
2015-18	<u>\$ 15,812</u>	<u>1,015</u>	<u>16,827</u>
	<u>\$ 83,336</u>	<u>\$ 12,050</u>	<u>\$ 95,387</u>

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 8 – RESTRICTED CASH**

**Reserve Requirements**

The Rural Economic Development Association loans require the Association to maintain reserve accounts, which consists of \$18,703 for the year ended June 30, 2009, in restricted cash on the accompanying statement of financial position.

**NOTE 9- CONTINGENCIES**

**Grants**

The Association receives financial assistance from federal and state sources in the form of grants and entitlements. The disbursements of the funds received are generally limited to specific compliance requirements as specified in the grant agreement. The Association believes that liabilities resulting from disallowed claims, if any, will not have a material effect on the Association's financial position at year end.

**Risk Management**

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

**NOTE 10- COMMITMENTS**

The Association has entered into reimbursement grant agreements with the New Mexico Environment Department to plan, design and construct improvements to the existing water system. The following is a list of those agreements:

<u>Project Number</u>	<u>Grant Amount</u>	<u>Expended</u>	<u>Balance</u>	<u>Termination Date</u>
SAP 07-4442-GF	\$ 70,000	\$ 2,816	\$ 67,184	June 30, 2011
SAP 08-3836-GF	70,000	-	70,000	June 30, 2012
SAP 09-3356-GF	70,000	-	70,000	June 30, 2012
	<hr/>	<hr/>	<hr/>	
Totals	<u>\$ 210,000</u>	<u>\$ 2,816</u>	<u>\$ 207,184</u>	

**NOTE 11 – SUPPLEMENTAL CASH FLOW DISCLOSURES**

The following is a summary of additional cash flow disclosures required:  
Interest paid of \$ 3,777 during the year ended June 30, 2009.

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION**

Notes to the Financial Statements  
June 30, 2009

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**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Association expended \$14,418 for Water Operator Services from Desert Sands Mutual Domestic Water Association during 2009. The State of New Mexico Environment Department Drinking Water Bureau regulation required that this service be acquired for the benefit of the Association and its members. Berino Board President Gabriel Gutierrez was the Water Operator for Berino Mutual Domestic Water Association during the period March 2008 through November 20, 2009. Board Member Gabriel Gutierrez was employed by the Desert Sands Mutual Domestic Water Association during this period of time and continues to be employed there.

**NOTE 13– SUBSEQUENT EVENTS**

The Association has entered into an agreement and the process of consolidating with the Mutual Domestic Water Associations of Mesquite, Vado, Desert Sands and La Mesa to merge together, forming a single Water Authority. The Lower Rio Grande Mutual Domestic Water Consumers Association will be the combining entity.

## **COMPLIANCE SECTION**

# Garcia and Associates, CPA, LLC

*Certified Public Accountant and Business Consultants*

Raymond J. Garcia, CPA  
Partner

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Partner

2060 Main Street NE, Suite C  
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## **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***

State Auditor and the Board Members  
Berino Mutual Domestic Water Consumers  
and Mutual Sewage Works Association  
Berino, New Mexico

We have audited the financial statements of the business-type activities of Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association (the Association) as of and for the ended June 30, 2009, and have issued our report thereon dated August 24. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Association's financial statements that there is more than inconsequential will not be prevented

or detected by the Association's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (2009-3 and 2009-4).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

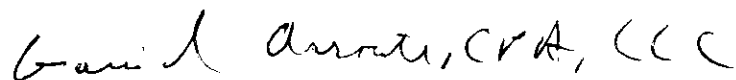
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-4 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Responses as items 2009-1, 2009-2, 2009-3 and 2009-4.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Association's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Association Board of Directors, the Association's Management, the New Mexico Legislature, federal and state grantors, and the Office of the State Auditor and is not intended to and should not be used by anyone other than these specified parties.



Garcia and Associates, CPA, LLC  
Los Lunas, New Mexico  
August 24, 2010

**STATE OF NEW MEXICO  
BERINO MUTUAL DOMESTIC WATER CONSUMERS  
AND MUTUAL SEWAGE WORKS ASSOCIATION  
Schedule of Findings and Responses  
For the Year Ended June 30, 2009**

Current Year Audit Findings

**2009-01 Deficiencies in Internal Controls over Financial Reporting**

Statement of Condition:

Management lacks the qualifications and training to prepare the financial statements and footnotes in accordance with general accepted accounting principles.

Criteria:

According to SAS No. 112 management is responsible for maintaining controls over the preparation of the financial statements.

Cause:

The Association has not obtained the expertise or knowledge to prepare the financial statements.

Effect:

The Association was not in compliance with State Auditor Rule 2.2.2.8.J. (4) in regards to SAS No. 112 and the ability of the Association to be able to prepare its own financial statements. The financial statements could have misstatements that are not discovered on a timely basis.

Recommendation:

We recommend that the Association obtain proper training to prepare the financial statements.

Management's Response:

A system of controls will developed and implemented that allows management to review the accuracy and completeness of the financial statements.



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**2009-2 Failure to submit audit report on time**

Statement of Condition:

The Association did not submit the audit report on time for the year ended June 30, 2009.

Criteria:

Per SAO Rule 2.2.2.9 A.(1), (d), The audit report for the Mutual Domestic Water Consumers Association must be submitted five months from the end of the fiscal year or by December 1, 2009.

Cause:

The contract auditor had scheduling difficulties and was not able to complete the audit by the required deadline.

Effect:

An audit report not issued in a timely manner may adversely affect management's decision making.

Recommendation:

The Board of Directors should contract for the annual audit in sufficient time to allow for completion by the due date of December 1.

Management's Response:

The association will contract for the annual reporting requirement in sufficient time to allow for completion by the due date of December 1.

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**2009-3 Failure to submit an operating budget**

Statement of Condition:

The Association did adopt an operating budget, but it was not submitted to the State of New Mexico Department of Finance and Administration-Local Government Division for approval.

Criteria:

The Association is subject to budgeting requirements by the State of New Mexico Department of Finance and Administration-Local Government Division.

Cause:

The Association was unaware of the requirement of submitting an annual operating budget to the Department of Finance and Administration-Local Government Division for approval.

Effect:

The Association is not in compliance with Section 6-6-3 NMSA 1978 requiring submittal of an annual operating budget to the Department of Finance Administration-Local Government Division for approval.

Recommendation:

We recommend that the Association contact the Department of Finance and Administration-Local Government Division to obtain their budgetary approval process and submit the annual operating budget for approval.

Management's Response:

Management was unaware that they were required to submit an annual operating budget to the Department of Finance and Administration-Local Government Division for approval. This will be done as soon as possible.

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Schedule of Findings and Responses  
For the Year Ended June 30, 2009**

**2009-4 Inventory**

Statement of Condition:

An accurate inventory listing was not taken at year end. Detailed records of inventory purchases and inventory usage were not reconciled to the general ledger at year end.

Criteria:

An effective system on internal control provides for the proper safeguarding of the entity's assets. Such control is established through the inventory listing and the reconciliation with control accounts along with an annual physical inventory inspection.

Cause:

No system exists for the maintaining of inventory for supplies. Accounting records for the inventory of the Association over the year has reflected additions acquired.

Effect:

Inventory at year end is not accurate. This can cause the financial statements to be misstated.

Recommendation:

The detailed inventory listing should be completed and verified at year end and reconciled to the control accounts in the general ledger.

Management's Response:

The Association agrees with the auditors' comment and will see that a year - end inventory is taken.

**STATE OF NEW MEXICO  
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Schedule of Findings and Responses  
For the Year Ended June 30, 2009**

**Exit Conference**

The contents of this report were discussed in a closed session, on August 24, 2010, with Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association.

The following individuals were in attendance.

Berino Mutual Domestic Water Consumers and Mutual Sewage Works Association

Ramona Baca, President  
Pablo Bermudez, Vice President  
Gabriel Gutierrez, Secretary/Treasurer  
Santos Ruiz, Director  
Lazaro Contreras, Director  
Connie Arciniega, Administrative Secretary  
Terry Valais, Secretary

Garcia and Associates, CPA, LLC

Raymond J. Garcia, CPA

Financial Statement Audit

**Preparation of the Financial Statements**

The basic financial statements and notes to the financial statements for the year ended June 30, 2009, were substantially prepared by the independent certified public accountant performing the audit; however, maintaining the audited entity's books and records is the responsibility of its management. Accordingly, management is responsible for ensuring that these books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance.