

**BLANCO MUTUAL DOMESTIC WATER
CONSUMERS AND MUTUAL SEWAGE
WORKS ASSOCIATION, INC.
Year Ended September 30, 2008**

INTRODUCTORY SECTION

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**BLANCO MUTUAL DOMESTIC WATER
CONSUMERS AND MUTUAL SEWAGE
WORKS ASSOCIATION, INC.
List of Principal Officials
September 30, 2008**

<u>Name</u>	<u>Title</u>
Larry Martinez.....	President
Doc Shrum.....	Vice President
Roger Prado	Secretary / Treasurer
Nelson Cadava	Director
Ralph Prado	Director
Lloyd Ayliffe	General Manager
Elaine Mayo.....	Accountant

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of Blanco Mutual Domestic Water Consumers and Mutual Sewage Works Association, Inc. (the Association) as of and for the year ended September 30, 2008, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2008, and the respective changes in financial position and cash flows 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 July 18, 2009 on our consideration of the Association'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* and should be considered in assessing the results of our audit.

Management's discussion and analysis, on pages vii through x, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "David Berry, CPA, PC". The signature is written in a cursive style with a large initial "D" and "B".

Farmington, New Mexico
July 18, 2009

Management's Discussion and Analysis Year Ended September 30, 2008

For financial reporting purposes, Blanco Mutual Domestic Water Consumers and Mutual Sewage Works Association, Inc. (the Association) is considered a special purpose, primary government according to the Attorney General's Opinion. Accordingly, the Association's financial statements have been presented using the economic resources measurement focus and accrual basis accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The report consists of Managements' Discussion and Analysis, the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the Association.

The discussion and analysis of the Association's financial statements provides an overview of its financial activities as of and for the year ended September 30, 2008.

Financial Highlights

- The Association's assets exceeded its liabilities at the close of the fiscal year September 30, 2008 by \$1,363,821 (net assets). This was an decrease of \$13,014 from September 30, 2007 net assets of \$1,376,835. Of the September 30, 2008 net assets, \$36,953 is unrestricted.
- The Association's financial position decreased in 2008 as compared to prior year. Net assets decreased during the year by \$13,014. Donated land of \$40,000 and depreciation expense of \$64,361 are included in this net decrease of net assets.
- The Association's cash and cash equivalents are \$20,504 at September 30, 2008. Accounts receivable from water sales to members was \$19,920 at September 30, 2008.

The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report the Association's net assets and how they have changed. Net Assets is defined as the difference between assets and liabilities. It is one indicator that measures the Association's financial health, or position. Non-financial factors are also important to consider, including number of members and the condition of the system.

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the Association's assets, liabilities, and net assets as of September 30, 2008 and 2007.

Net Assets, as of September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 40,424	\$ 34,685
Capital Assets, Net	1,362,573	1,386,934
Non-Current Assets	-	-
Total Assets	<u>1,402,997</u>	<u>1,421,619</u>
Liabilities		
Current Liabilities	\$ 8,995	\$ 9,083
Non-Current Liabilities	<u>30,181</u>	<u>35,701</u>
Total Liabilities	39,176	44,784
Net Assets:		
Invested in Capital Assets	\$ 1,326,873	\$ 1,386,934
Restricted Expendable	-	-
Unrestricted	<u>36,948</u>	<u>(10,099)</u>
Total Net Assets	<u>\$ 1,363,821</u>	<u>\$ 1,376,835</u>

Analysis of Net Assets

The Association's assets exceeded liabilities by \$1,363,821 at the close of the fiscal year. Net assets consist of 97% Capital Assets (e.g. project works, buildings, and equipment) or \$1,326,873. The Association uses these capital assets in its mission to deliver treated water to members in the Association's service area; consequently, these assets are not available for future spending. Unrestricted net assets are available for the Association's ongoing operations and are \$36,948.

The following table summarizes the Association's revenue, expenses, and changes in net assets for the year ended September 30, 2008 and 2007:

Revenue, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 206,184	\$ 216,989
Operating Expenses	<u>258,151</u>	<u>245,101</u>
Operating Loss	(51,967)	(28,112)
Nonoperating Revenues (Expenses)	<u>38,953</u>	<u>208,384</u>
Increase (decrease) in Net Assets	\$ (13,014)	\$ 180,272

During the fiscal year, the Association's net assets decreased by \$13,014. This decrease includes donated land of \$40,000. Operating revenues decreased by \$10,805 (5% decrease).

The Association's does not maintain a budget.

Operating Revenues

The following table summarizes the Association's operating revenues for the fiscal year ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Charges for services	\$ 193,654	\$ 196,195
Other operating revenues	<u>12,530</u>	<u>20,794</u>
Total Operating Revenues	\$ 206,184	\$ 216,989

Operating Expenses

The following table summarizes the Association's operating expenses for the fiscal year ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Personnel services	\$ 48,902	\$ 47,183
Maintenance, operations and contractual services	72,122	96,566
Material and supplies	59,978	24,564
Office expenses	12,788	12,700
Depreciation	<u>64,361</u>	<u>64,088</u>
Total Operating Expenses	\$ 258,151	\$ 245,101

Non-Operating Revenues and Expenses

The following table summarizes the Association's non-operating revenues (expenses) for the fiscal year ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest income	\$ 61	\$ 52
Interest expense	(1,108)	(2,774)
State grants (capital)	-	241,430
Donated land	40,000	241,430
Loss on disposition of capital assets	-	(30,324)
Total Nonoperating Revenues	<u>\$ 38,953</u>	<u>\$ 208,384</u>

Capital Assets and Long-Term Debt

The Association added \$40,000 and \$241,430 in capital assets during the fiscal year ended September 30, 2008 and 2007. The Association junked capital assets with book value of \$30,324 and with an original cost of \$175,000, during the year ended September 30, 2007. Depreciation expenses for the year ended September 30, 2008 and 2007, amounted to \$64,361 and \$64,088, respectively.

The Association made principal payments in the amount of \$5,358 and \$25,121 during the years ended September 30, 2008 and 2007, respectively.

Factors Impacting Future Periods

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

Comparison of Budget to Actual

The Association does not adopt an approved budget.

BASIC FINANCIAL STATEMENTS

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS ASSOCIATION, INC.
STATEMENT OF NET ASSETS**

September 30, 2008

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 20,504
Accounts receivable	19,920
Total Current Assets	40,424
NONCURRENT ASSETS:	
Capital assets not being depreciated	40,000
Capital assets, net of accumulated depreciation	1,322,573
Total Noncurrent Assets	1,362,573
Total Assets	\$ 1,402,997
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ -
Accrued interest payable	800
Accrued taxes payable	2,676
Current portion of noncurrent liabilities	5,519
Total Current Liabilities	8,995
NONCURRENT LIABILITIES:	
Note payable - NMED (noncurrent)	30,181
Total Noncurrent Liabilities	30,181
Total Liabilities	39,176
NET ASSETS:	
Invested in capital assets net of related debt	1,326,873
Restricted expendable	-
Unrestricted (deficit)	36,948
Total Net Assets	1,363,821
Total Liabilities and Net Assets	\$ 1,402,997

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

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

Year Ended September 30, 2008

OPERATING REVENUES:	
Charges for services	\$ 193,654
Other operating revenues	<u>12,530</u>
Total Operating Revenues	<u>206,184</u>
OPERATING EXPENSES:	
Personnel services	48,902
Maintenance, operations and contractual services	72,122
Material and supplies	59,978
Office expenses	12,788
Depreciation	<u>64,361</u>
Total Operating Expenses	<u>258,151</u>
Operating Income (Loss)	<u>(51,967)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	61
Donated land	40,000
Interest expense	<u>(1,108)</u>
Total Nonoperating Revenues (Expenses)	<u>38,953</u>
Increase (decrease) in net assets	(13,014)
NET ASSETS, beginning of year	<u>1,376,835</u>
NET ASSETS, end of year	<u>\$ 1,363,821</u>

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

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS**

Year Ended September 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Charges for services	\$ 191,766
Payments to employees for salaries and benefits	(48,777)
Payments to suppliers	<u>(132,733)</u>
Net Cash Provided (Used) By Operating Activities	<u>10,256</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Repayment of debt	(5,358)
Interest paid on capital debt	<u>(1,108)</u>
Net Cash Provided (Used) By Capital Financing Activities	<u>(6,466)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>61</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,851
CASH AND CASH EQUIVALENTS, beginning	<u>16,653</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 20,504</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (51,967)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	64,361
Changes in:	
Accounts receivable	(1,888)
Accounts payable	-
Accrued interest payable	(124)
Accrued taxes payable	<u>(126)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 10,256</u></u>

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

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2008**

NOTE 1 – CREATION OF ENTITY AND BASIS OF PRESENTATION

Reporting Entity

Blanco Mutual Domestic Water Consumers and Mutual Sewage Works Association, Inc. (the Association) is a not-for-profit Mutual Domestic Association established for the purpose of constructing, maintaining, and operating a water and wastewater system for members of the Association in Blanco, New Mexico. The Association was initially incorporated in 1970 as a Cooperative Association under the provisions of the New Mexico Cooperative Corporation Act. During 2005, the Board of Directors changed its form of organization from a not-for-profit cooperative to a not-for-profit association under the Sanitary Projects Act, NMSA 3-29-20.

Under the Sanitary Projects Act, 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). There were no component units during the year ended September 30, 2008.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposit accounts, cash on hand, and certificates of deposits. For purposes of the statement of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

State statutes authorize the Association to invest excess funds in United States bonds or treasury certificates or other instruments backed by the full faith and credit of the United States Government.

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. Collateral is held in safekeeping at depository institutions.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The Association has reviewed its customer base for concentrations of credit risk and has determined that no individual customer or group of customers engaged in similar activities represent a material concentration of credit risk to the Association.

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 \$5,000 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 and 20 years for water system assets.

Compensated Absences

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

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 September 30, 2007.

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.

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)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Budgets

The Association does not adopt a budget.

Use of Estimates

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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 September 30, 2008, all of the Association's deposits (Four Corners Community Bank checking #19283 - \$11,693 and savings #19283 - \$8,811) are covered by FDIC insurance.

The carrying amount of the Association's deposits was \$20,504 and the bank balance was \$24,416 as of September 30, 2007. Of the bank balance, \$20,504 (the entire balance) was covered by federal depository insurance. The custodial credit risk is \$0.

NOTE 4 – CAPITAL ASSETS

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

<u>Business-type activities</u>	Balance <u>October 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>September 30, 2008</u>
Non-Depreciable Assets:				
Land	\$ -	\$ 40,000	\$ -	\$ 40,000
Construction in progress	-	-	-	-
Total Non-Depreciable Assets	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Depreciable Assets:				
Water system	2,078,860	-	-	2,078,860
Equipment	63,709	-	-	63,709
Total Depreciable Assets	<u>2,142,569</u>	<u>-</u>	<u>-</u>	<u>2,142,569</u>
Total Governmental Assets	<u>2,142,569</u>	<u>40,000</u>	<u>-</u>	<u>2,182,569</u>
Accumulated Depreciation:				
Water system	(727,299)	(59,527)	-	(786,826)
Equipment	(28,336)	(4,834)	-	(33,170)
Total Accumulated Depreciation	<u>(755,635)</u>	<u>(64,361)</u>	<u>-</u>	<u>(819,996)</u>
Net Capital Assets	<u>\$ 1,386,934</u>	<u>\$ (24,361)</u>	<u>\$ -</u>	<u>\$ 1,362,573</u>

As of September 30, 2004, the Association received a state grant of \$765,000 that required an amount of \$278,641 in matching funds. The Association is using the money for capital improvements to the water system. The total estimated cost of the project is \$1,200,000. As of September 30, 2007 the project cost incurred for Phase 1, Part 1 was \$1,081,401 and Phase 1, Part 2 was \$241,430 and the State of New Mexico paid the project costs out of grant revenue.

NOTE 5 - LONG-TERM DEBT

During the year ended September 30, 2008, the following changes occurred in long-term debt:

	Balance <u>9/30/2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9/30/2008</u>	Due Within <u>One Year</u>
N/P - NMED	\$ 41,059	\$ -	\$ 5,358	\$ 35,701	\$ 5,519
N/P - other	-	-	-	-	-
Total	\$ 41,059	\$ -	\$ 5,358	\$ 35,701	\$ 5,519

Note Payable – NMED

Installment note payable to the New Mexico Environmental Department, payable in annual installments of \$6,590, including interest of 3%, due in 2014, and secured by water system assets.

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

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
September 30, 2009.....	\$ 5,519	\$ 1,071	\$ 6,590
September 30, 2010.....	5,685	905	6,590
September 30, 2011.....	5,855	735	6,590
September 30, 2012.....	6,031	559	6,590
September 30, 2013.....	6,212	378	6,590
September 30, 2014.....	<u>6,399</u>	<u>191</u>	<u>6,590</u>
Debt service requirements.....	35,701	3,839	39,540
Less current portion.....	<u>(5,519)</u>	<u>(1,071)</u>	<u>(6,590)</u>
Long-term debt, net.....	<u>\$ 30,182</u>	<u>\$ 2,768</u>	<u>\$ 32,950</u>

NOTE 6 - CONTINGENCIES AND COMMITMENTS

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 7 - SUPPLEMENTAL CASH FLOW DISCLOSURES

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

Interest paid of \$1,232 during the year ended September 30, 2008.

Noncash activity included donated land from board president to the Association valued at \$40,000 during the year ended September 30, 2008.

NOTE 8 – DONATED LAND

During the year ended September 30, 2008, the Association's Board President donated land with an appraised value of \$40,000 to the Association.

COMPLIANCE SECTION

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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
Blanco Mutual Domestic Water Consumers and
Mutual Sewage Works Association, Inc.
Blanco, New Mexico

We have audited the financial statements of the business-type activities of Blanco Mutual Domestic Water Consumers and Mutual Sewage Works Association, Inc. (the Association) as of and for the ended September 30, 2008, and have issued our report thereon dated July 18, 2009. 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 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 (2004-1, 2005-1, 2007-1 and 2007-2).

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, we believe that none of the significant deficiencies described above is 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 *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2007-3 and 2008-1.

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 it.

This report is intended solely for the information and use of the Board, management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



Farmington, New Mexico
July 18, 2009

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS AND
MUTUAL SEWAGE WORKS ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2008**

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Association.
2. No material weaknesses relating to the audit financial are reported in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One instance of noncompliance material to the financial statements of the Association was disclosed during the audit.
4. Single audit not required.

B. Findings - Financial Statements Audit

PRIOR YEAR FINDINGS

2004-1 - Inadequate segregation of accounting duties – not resolved and repeated in the current year.

2005-1 – General ledger accounts not reconciled on a timely basis - not resolved and repeated in the current year.

2007-1 – Grants not Recorded on the General Ledger - not resolved and repeated in the current year.

2007-2 – Financial Statements Prepared by Auditor - not resolved and repeated in the current year.

2007-3 – Violation of the Per Diem and Mileage Act - not resolved and repeated in the current year.

CURRENT YEAR FINDINGS

2008-1 – Late Audit Report

2004-1 – Inadequate Segregation of Accounting Duties

Condition

The Association has one accounting person that performs all of the accounting duties.

Criteria

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

Cause

The Association has limited accounting staff.

Effect

The Association does not have an adequate segregation of accounting duties.

Recommendation

The Association should establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

Management Response

The Association will try to establish written policies and procedures to separate the authorizing, processing and reconciliation accounting processes.

2005-1 – General Ledger Accounts not Reconciled on a Timely Basis

Condition

The Association does not have policies and procedures for reconciling the general ledger accounts on a timely basis.

Criteria

Good accounting practices require that all general ledger accounts be reconciled on a timely basis.

Cause

The Association does not reconcile all general ledger accounts on a timely basis.

Effect

The general ledger could have misstatements that are not discovered on a timely basis.

Recommendation

The Association should establish policies and procedures for reconciling the general ledger accounts on a timely basis.

Management Response

The Association will establish policies and procedures for reconciling the general ledger accounts on a timely basis.

2007-1 – Grants not Recorded on the General Ledger

Condition

Grants are not recorded on the general ledger.

Criteria

All revenue and capital asset costs (even noncash activities) should be recorded on the general ledger.

Cause

The needed accounting information was not provided to the bookkeeper.

Effect

Grant revenues and capital asset costs could be misstated on the general ledger and the misstatements might not be discovered on a timely basis.

Recommendation

The Association should establish policies and procedures to obtain and provide the grant and capital asset costs to the personnel so it can be recorded on the general ledger.

Management Response

The Association will establish policies and procedures to obtain and provide the grant and capital asset costs to the personnel so it can be recorded on the general ledger.

2007-2 – Auditor Preparation of Financial Statements

Condition

The auditor prepared the audited financial statements (including footnote disclosures).

Criteria

A system of internal control over financial reporting includes controls over the financial reporting and effective oversight of the Association's financial reporting and internal control by those charged with governance.

Cause

The Association does not prepare the financial statements which could prevent or detect a misstatement in the financial statements.

Effect

The financial statements (including footnotes) could have misstatements that are not discovered on a timely basis.

Recommendation

The Association should adopt policies and procedures to provide for the preparation of the financial statement (including footnotes).

Management Response

The Association will consider adopting policies and procedures for controls over financial statement preparation (including footnotes).

2007-3 – Violation of the Per Diem and Mileage Act

Condition

The Association paid a rate for mileage per diem greater than allowed by the Per Diem and Mileage Act allows.

Criteria

The Per Diem and Mileage Act allows a mileage per diem rate of 32 cents and the Association paid 45 cents during the year ended September 30, 2008.

Cause

The Association was not aware that it needed to follow the Per Diem and Mileage Act.

Effect

The Association reimbursed mileage at a rate greater than allowed by the Per Diem and Mileage Act.

Recommendation

The Association should obtain the regulations governing the Per Diem and Mileage Act and establish policies and procedures to comply with the Act.

Management Response

The Association will contact an attorney to determine if the Association is considered a State Agency or if the Association can establish its own rates (within IRS limits).

2008-1 – Late Audit Report

Condition

The audit report was dated July 18, 2009.

Criteria

The State Auditor Rule 2.2.2 NMAC requires that the audit be completed no later than five months after the fiscal year-end (February 28).

Cause

The Association did not complete have a signed contract until July 10, 2009.

Effect

The Association is not in compliance with the State Auditor Rule.

Recommendation

We recommend the Association select an auditor before its year-end and have its books and records ready for audit as soon as possible after its year-end.

Management Response

The Association will select the auditor on a timely basis and provide the accounting records to the auditor on a timely basis to allow for the audit to be completed in accordance with the State Auditor Rule.

C. Findings – Single audit not required

**BLANCO MUTUAL DOMESTIC WATER CONSUMERS
AND MUTUAL SEWAGE WORKS ASSOCIATION, INC.
EXIT CONFERENCE
Year Ended September 30, 2008**

An exit conference was held on July 30, 2009 with the following persons:

Association:

President.....	Larry Martinez
Accountant.....	Elaine Mayo

David Berry, CPA, PC:

David Berry, CPA

Required Disclosure

The Association's financial statements were prepared by David Berry, CPA, PC. The Association is responsible for the contents of the financial statements and the notes therein.

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