

**Brazito Mutual Domestic Water
Consumers Association**

**Basic Financial Statements and
Supplementary Information
for the Year Ended December 31, 2012
and Independent Auditors' Report**

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

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**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**DIRECTORY OF OFFICIALS
DECEMBER 31, 2012**

Board of Directors

Jeff Griffith	President
Mario Gonzales	Vice President
Teresa Acosta-Garcia	Secretary/Treasurer
Michael McMullen	Director
Crescensio Acosta	Director

Officials

Norman Saunders	Manager
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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and the Board of Directors of the
Brazito Mutual Domestic Water Consumers Association
New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Brazito Mutual Domestic Water Consumers Association, (the Association), as of and for the year ended December 31, 2012, which collectively comprise the Association's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the major enterprise fund presented as supplemental information in the financial statements for the year ended December 31, 2012 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Brazito Mutual Domestic Water Consumers Association, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparisons for the business type funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis which is also required to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 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* in considering the Association's internal control over financial reporting and compliance.

White + Samaniego + Campbell, LLP

El Paso, Texas
November 26, 2013

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

ASSETS:

Current assets:

Cash and cash equivalents	\$ 73,571
Accounts receivables, net	2,105
Other assets	<u>6,690</u>

Total current assets 82,366

Noncurrent assets:

Capital assets	<u>2,637,455</u>
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Total assets \$ 2,719,821

LIABILITIES:

Current liabilities:

Accounts payable	\$ 14,676
Accrued liabilities and other expenses	2,531
Current portion of long-term debt	<u>16,401</u>

Total current liabilities 33,608

Non-current liabilities:

Non-current portion of long-term debt	<u>511,577</u>
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Total noncurrent liabilities 511,577

Total liabilities 545,185

NET POSITION:

Net investment in capital assets	2,109,477
Unrestricted	<u>65,159</u>

Total net position 2,174,636

Total liabilities and net position \$ 2,719,821

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating revenues	
Service fees	\$ 166,435
Activation, connection and installation fees	5,322
Membership fees	10,150
Other income	<u>85</u>
Total operating revenues	181,992
Operating expenses	
Advertising	33
Bad debt expense	1,223
Bank charges	210
Depreciation	73,072
Office Expense	2,207
Miscellaneous	8,223
Taxes and license - other	2,451
Insurance	8,499
Maintenance and repairs	13,069
Payroll expense	21,155
Professional fees	40,470
Travel and entertainment	375
Utilities	<u>27,429</u>
Total operating expenses	<u>198,416</u>
Operating loss	(16,424)
Nonoperating revenues (expenses)	
Grant revenue	491,918
Interest income	26
Other income (expense)	(8,487)
Interest expense	<u>(19,079)</u>
Total nonoperating revenues (expenses)	<u>464,378</u>
Change in net position	447,954
Net position, beginning of year	<u>1,726,682</u>
Net position, end of year	<u>\$ 2,174,636</u>

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 244,037
Cash paid to suppliers for goods and services	(152,436)
Cash payments to suppliers and employees	<u>(21,155)</u>
Net cash provided by operating activities	70,446
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Other income	<u>(8,461)</u>
Net cash used in non-operating activities	(8,461)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	172,000
Principal payments	(137,416)
Grants	491,918
Acquisition of property and equipment	(521,198)
Interest payments	<u>(19,079)</u>
Net cash used in financing activities	<u>(13,775)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>48,210</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>25,361</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 73,571</u>

(Continued)

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES:

Operating loss	\$	(16,424)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation		73,072
Change in:		
Accounts receivable		3,391
Other assets		(98)
Accounts payable		10,149
Accrued payable and other liabilities		<u>356</u>
Total adjustments		<u>86,870</u>
Net cash provided by operating activities	\$	<u>70,446</u>

(Concluded)

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brazito Mutual Domestic Water Consumer Association (the Association) supplies water to occupants and residents within the vicinity of the communities of southern New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users within these areas.

The Association has a Board of Directors that consists of five (5) members who are responsible for legislative and fiscal control of the Association. The Board is also responsible for administrative control of the Association.

Reporting Entity

The financial statements of the Association have been prepared in accordance with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Association is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Association may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

The Association has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected Association members are financially accountable. There are no other primary governments with which the Association Board Members are financially accountable. There are no other primary governments with which the Association has a significant relationship.

The accounts of the Association are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The funds of the Association are classified as a proprietary fund type. The fund classification and a description of the fund type follows below:

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred.

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

Analysis of Impairment

Management review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended December 31, 2012.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Budget and Budgetary Accounting

The Association follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before January 1 of each year, the Board of Directors, approves and certifies to the estimated operating budgets for use by the local board pending final approval from the United State Department of Agriculture and the New Mexico Department of Finance and Administration - Local Government Division.
2. The United State Department of Agriculture and New Mexico Department of Finance and Administration - Local Government Division approve the budget for the Association to utilize during the year.
3. Budget adjustments may be made during the year. The Board of Directors approves budget resolutions to increase or decrease revenue and/or expenditure line items during the year.
4. The level of budget authority is at the fund level.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue

The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles require the use of management's estimates.

Allowance for Doubtful Accounts

Management considers the majority of the accounts receivable as collectible. Any accounts receivable considered uncollectible are not considered material. Accordingly, no allowance for doubtful accounts

has been recorded.

Capital Assets

Capital assets are recorded at historical costs. Purchase property and equipment in excess of \$5,000 is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Office equipment	10 years
Utility lines, pump station and shed	38 years
Wells	15-20 years
Water system	38 years
Vehicles	5 years

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net assets. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of funds for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

New Governmental Accounting Standards - In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That Statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the GASB issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position, which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government

that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53, which is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65 Items Previously Reported as Assets and Liabilities, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that

meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

2. **CASH AND DEPOSITS**

Cash and investments - The Association is required by New Mexico State Statute (Section 6-10-17) to be 50 percent collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

Citizens Bank	Balance Per		
<u>Name of Account</u>	Bank	Reconciled	Type
	12/31/12	Balance	
Operating account	\$ 56,124	\$ 64,169	Checking
Construction account	12,133	93	Checking
Reserve account	9,309	9,309	Checking
Certificate of Deposit	-	-	CD
Total Deposited	<u>77,566</u>	<u>\$ 73,571</u>	
Less: FDIC Coverage	<u>(77,566)</u>		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	<u>\$ -</u>		

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2012, the Association did not have any amount that was exposed to custodial credit risk.

3. PROPERTY AND EQUIPMENT

The cost basis of property and equipment are stated as follows:

	Beginning		Increases	Decreases	Ending
	Balance	Transfers			Balance
Capital assets not being depreciated:					
Land	\$ 22,869	\$ -	\$ -	\$ -	\$ 22,869
Construction in progress	130,146	-	521,198	-	651,344
Water rights	<u>158,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,777</u>
Total capital assets not being depreciated	<u>311,792</u>	<u>-</u>	<u>521,198</u>	<u>-</u>	<u>832,990</u>
Capital assets, being depreciated					
Buildings	229,170	-	-	-	229,170
Structure improvements	33,633	-	-	-	33,633
Water systems	2,168,470	-	-	-	2,168,470
Furniture, fixtures and equipment	-	-	-	-	-
Transportation equipment	<u>95,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,218</u>
Total capital assets, being depreciated	<u>2,526,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,526,491</u>
Total capital assets	<u>2,838,283</u>	<u>-</u>	<u>521,198</u>	<u>-</u>	<u>3,359,481</u>
Less accumulated depreciation for:					
Buildings	70,091	-	5,729	-	75,820
Structure improvements	19,711	-	2,035	-	21,746
Water systems	495,387	-	60,933	-	556,320
Furniture, fixtures and equipment	-	-	-	-	-
Transportation equipment	<u>63,765</u>	<u>-</u>	<u>4,375</u>	<u>-</u>	<u>68,140</u>
Total accumulated depreciation	<u>648,954</u>	<u>-</u>	<u>73,072</u>	<u>-</u>	<u>722,026</u>
Total other capital assets, net	<u>\$ 2,189,329</u>	<u>\$ -</u>	<u>\$ 448,126</u>	<u>\$ -</u>	<u>\$ 2,637,455</u>

Depreciation expense was \$73,072 for the year ended December 31, 2012.

4. **LONG TERM DEBT**

Changes in long-term debt during the year ended December 31, 2012 were as follows:

	<u>Balance</u> <u>12/31/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/12</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
NM Environment Dept	\$ 41,653	\$ -	\$ 9,535	\$ 32,118	\$ 9,202
USDA RD \$5k Loan	4,721	-	64	4,657	62
USDA RD \$40k Loan	37,213	-	512	36,701	539
USDA RD \$80k Loan	74,140	-	1,045	73,095	1,097
USDA RD \$172k Loan	-	172,000	1,852	170,148	2,456
USDA RD \$222k Loan	222,000	-	10,741	211,259	3,045
RCAC Loan	121,483	-	121,483	-	-
	<u>\$ 501,210</u>	<u>\$ 172,000</u>	<u>\$ 145,232</u>	<u>\$ 527,978</u>	<u>\$ 16,401</u>

New Mexico Environmental Department

On May 2006, the Brazito Mutual Domestic Water Consumers Association entered into a \$113,421 agreement with the New Mexico Environmental Department. The loan bears interest at 3% and maturing in May 2016. The note is payable in monthly installments of \$836 starting June 2006. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	9,202	838	10,040
2014	9,482	558	10,040
2015	9,771	269	10,040
2016	<u>3,663</u>	<u>25</u>	<u>3,688</u>
Totals	<u>\$ 32,118</u>	<u>\$ 1,690</u>	<u>\$ 33,808</u>

United State Department of Agriculture - Rural Development Loan

On October 9, 2007, the Brazito Mutual Domestic Water Consumers Association entered into a \$5,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The loan bears interest at 4.5% and maturing in October 2047. The note is payable in monthly installments of \$23 starting November 2007. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	62	191	253
2014	71	205	276
2015	74	202	276
2016	77	199	276
2017	81	195	276
2018-2022	464	916	1,380
2023-2027	581	799	1,380
2028-2032	727	653	1,380
2033-2037	910	470	1,380
2038-2042	1,139	241	1,380
2043-2047	<u>471</u>	<u>20</u>	<u>491</u>
Totals	<u>\$ 4,657</u>	<u>\$ 4,091</u>	<u>\$ 8,748</u>

United State Department of Agriculture - Rural Development Loan

On January 17, 2006, the Brazito Mutual Domestic Water Consumers Association entered into a \$40,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The loan bears interest at 4.25% and maturing in January 2046. The note is payable in monthly installments of \$174 starting February 2006. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	539	1,549	2,088
2014	562	1,526	2,088
2015	586	1,502	2,088
2016	612	1,476	2,088
2017	638	1,450	2,088
2018-2022	3,631	6,809	10,440
2023-2027	4,489	5,951	10,440
2028-2032	5,550	4,890	10,440
2033-2037	6,861	3,579	10,440
2038-2042	8,482	1,958	10,440
2043-2047	<u>4,751</u>	<u>255</u>	<u>5,006</u>
Totals	<u>\$ 36,701</u>	<u>\$ 30,945</u>	<u>\$ 67,646</u>

United State Department of Agriculture - Rural Development Loan

On September 8, 2005, the Brazito Mutual Domestic Water Consumers Association entered into an \$80,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The loan bears interest at 4.125% and maturing in September 2045. The note is payable in monthly installments of \$341 starting October 2006. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	1,097	2,995	4,092
2014	1,144	2,948	4,092
2015	1,192	2,900	4,092
2016	1,242	2,850	4,092
2017	1,294	2,798	4,092
2018-2022	7,333	13,127	20,460
2023-2027	9,009	11,451	20,460
2028-2032	11,069	9,391	20,460
2033-2037	13,599	6,861	20,460
2038-2042	16,709	3,751	20,460
2043-2047	<u>9,407</u>	<u>494</u>	<u>9,901</u>
Totals	<u>\$ 73,095</u>	<u>\$ 59,566</u>	<u>\$ 132,661</u>

United State Department of Agriculture - Rural Development Loan

On March 25, 2010 the Brazito Mutual Domestic Water Consumers Association entered into a \$172,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The loan bears interest at 2.75% and maturing in March 2050. The note is payable in monthly installments of \$592 starting April 2010. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	2,456	4,648	7,104
2014	2,524	4,580	7,104
2015	2,594	4,510	7,104
2016	2,667	4,437	7,104
2017	2,741	4,363	7,104
2018-2022	14,893	20,627	35,520
2023-2027	17,086	18,434	35,520
2028-2032	19,601	15,919	35,520
2033-2037	22,487	13,033	35,520
2038-2042	25,797	9,723	35,520
2043-2047	29,595	5,925	35,520
2048-2052	<u>27,707</u>	<u>1,635</u>	<u>29,342</u>
Totals	<u>\$ 170,148</u>	<u>\$ 107,834</u>	<u>\$ 277,982</u>

United State Department of Agriculture - Rural Development Loan

On October 26, 2009, the Brazito Mutual Domestic Water Consumers Association entered into a \$222,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The loan bears interest at 3.375% and maturing in October 2049. The note is payable in monthly installments of \$844 starting November 2009. The loan is secured by real estate of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2013	3,045	7,083	10,128
2014	3,149	6,979	10,128
2015	3,257	6,871	10,128
2016	3,369	6,759	10,128
2017	3,484	6,644	10,128
2018-2022	19,297	31,343	50,640
2023-2027	22,838	27,802	50,640
2028-2032	27,030	23,610	50,640
2033-2037	31,992	18,648	50,640
2038-2042	37,863	12,777	50,640
2043-2047	44,813	5,827	50,640
2048-2051	<u>11,122</u>	<u>228</u>	<u>11,350</u>
Totals	<u>\$ 211,259</u>	<u>\$ 154,571</u>	<u>\$ 365,830</u>

5. **RISK MANAGEMENT**

The Association covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters through various insurance policy coverage. The coverage includes workers compensation, general and professional liability, property, and fidelity bonds coverage. The Association transfers these risks of loss to the insurance carrier except for deductible amounts. Premiums paid on policies for the year ended December 31, 2012 was \$8,499.

6. **SUBSEQUENT EVENTS**

On February 28, 2013, the Board of Directors of Brazito Mutual Domestic Water Consumer Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with the Lower Rio Grande Public Water Works Association. The Association will immediately commence the process of merge into the Association. The process may take one to two years.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	168,000	168,000	171,757	3,757
Other income	<u>12,050</u>	<u>12,050</u>	<u>10,235</u>	<u>(1,815)</u>
Total operating income	180,050	180,050	181,992	1,942
Operating Expenses				
Salaries, labor	50,100	50,100	21,155	28,945
Accounting, legal	36,000	36,000	40,680	(4,680)
Taxes, insurance	10,950	10,950	10,950	-
Utilities	33,000	33,000	27,429	5,571
Supplies	22,800	22,800	15,276	7,524
Bad debt expenses	-	-	1,223	(1,223)
Miscellaneous	3,770	3,770	8,256	(4,486)
Travel and entertainment	-	-	375	(375)
Depreciation	<u>81,000</u>	<u>81,000</u>	<u>73,072</u>	<u>7,928</u>
Total operating expenses	237,620	237,620	198,416	39,204
Excess (deficiency) of revenues over expenditures	<u>(57,570)</u>	<u>(57,570)</u>	<u>(16,424)</u>	<u>41,146</u>
Nonoperating revenues				
Agency loans/grants	547,000	547,000	491,918	(55,082)
Other (income) expenses	<u>(19,800)</u>	<u>(19,800)</u>	<u>(27,540)</u>	<u>(7,740)</u>
Total nonoperating income	<u>527,200</u>	<u>527,200</u>	<u>464,378</u>	<u>(62,822)</u>
Revenue over (under) expenses	<u>\$ 469,630</u>	<u>\$ 469,630</u>	<u>\$ 447,954</u>	<u>\$ (21,676)</u>

See accompanying notes to financial statements and independent auditors' report.

**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***

Hector H. Balderas, State Auditor
and the Board of Directors of the
Brazito Mutual Domestic Water Consumers Association
New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplementary information of the Brazito Mutual Domestic Water Consumers Association (the Association) as of and for the year ended December 31, 2012, and have issued our report thereon dated November 26, 2013. 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, of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency (12-02) to be considered a significant deficiency. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that we have not identified.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item (12-02).

We also noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 12-01.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White + Samaniego + Campbell, LP

El Paso, Texas
November 26, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Hector H. Balderas
New Mexico State Auditor
and the Board of Directors of
Brazito Mutual Domestic Water Consumers Association
New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Brazito Mutual Domestic Water Consumers Association's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Brazito Mutual Domestic Water Consumers Association's major federal programs for the year ended December 31, 2012. The Brazito Mutual Domestic Water Consumers Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Association, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and responses as item (12-02). Our opinion on each major federal program is not modified with respect to these matters.

Brazito Mutual Domestic Water Consumers Association's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and responses. Brazito Mutual Domestic Water Consumers Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. We consider the deficiency (12-02) to be considered a significant deficiency.

Brazito Mutual Domestic Water Consumers Association's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and responses. Brazito Mutual Domestic Water Consumers Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White + Samaniego + Campbell, LLP

El Paso, Texas
November 26, 2013

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012**

Federal Grantor Pass Through Grantor Program Title	CFDA	Award Amount	Expenditures
<i>United States Department of Agriculture Rural Development</i>			
Water and Waste Disposal Systems for Rural Communities - Grant	10.760	\$ 719,219	\$ 653,572
Total Expenditures of Federal Awards		<u>\$ 719,219</u>	<u>\$ 653,572</u>

Note 1 - Basis of Presentation

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the Brazito Mutual Domestic Water Consumers Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012**

SECTION I - SUMMARY OF AUDITORS' REPORT

FINANCIAL STATEMENTS

Type of Auditors' Report Issued	Unmodified	
Significant Deficiencies Identified?	<u> X </u> Yes	<u> </u> No
Significant Deficiencies Identified that Are Considered to Be Material Weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance Material to Financial Statements	N/A	

FEDERAL AWARDS

Type of Auditors' Report Issued on compliance for Major Programs	Unmodified	
Internal Control Over Major Programs:		
Significant Deficiencies Identified?	<u> </u> Yes	<u> X </u> No
Significant Deficiency(ies) Identified that Are Considered to Be Material Weakness(es)?	<u> </u> Yes	<u> X </u> No
Any Audit Findings Disclosed that are Required to be Reported in accordance with Section 501(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No

Identification of Major Programs:

CFDA	10.760	Water and Waste Disposal Systems for Rural Communities
Dollar Threshold Used to Distinguish Between Type A and Type B Programs	\$300,000	
Auditee Qualifies as Low-Risk Auditee	<u> X </u> Yes	<u> </u> No

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Late Audit Report (12-01) - Other Matters

CONDITION	The audit report was submitted to the State Auditor after the required deadline.
CRITERIA	Special districts audits for the year ended of December 31 are required to be submitted to the State Auditor within five months after year-end. This is a requirement of the State Auditors Office Rule 2.2.2.9A(1) (C).
EFFECT	State Auditor regulations have not been adhered to. Also, the users of the financial statements such as legislators, creditors, bondholders, State and Federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on State and Federal Funding.
CAUSE	The Association was unable to submit the audit report on a timely basis as a result of the merger.
RECOMMENDATION	The Association should adhere to all audit report required deadlines.
RESPONSE	The Association has merged with Lower Rio Grande Public Water Works and will have no future audit reports under this Association.

**Data Collection Form Submission - United States Department of
Agriculture Rural Development CFDA 10.760 Water and Waste Disposal
Systems for Rural Communities, Awarded in 2012 (12-02) - Significant
Deficiency**

CONDITION	The Association did not submit their data collection form to the Federal Clearing House by September 30, 2013 (9 months after fiscal year ending December 31, 2012).
CRITERIA	OMB Circular A-133 states that the single audit data collection form is to be submitted no later than 9 months after the end of the fiscal year.
CAUSE	The Association did not have controls in place to ensure that internal controls were in place and working properly.
EFFECT	The data collection form was not filed timely.
RECOMMENDATION	The Authority should adhere to the rules for submitting the required data collection form.
RESPONSE	The Association has merged with Lower Rio Grande Public Water Works and will have no future audit reports under this Association.

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012**

STATUS OF PRIOR YEAR FINDINGS

No findings

**STATE OF NEW MEXICO
BRAZITO MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

An exit conference was conducted November 26, 2013 in a closed meeting of the Association pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Brazito Mutual Domestic Water Consumers Association

Jeff Griffith	President
Martin Lopez	General Manager
Kathi Jackson	Finance Manager

White + Samaniego + Campbell, LLP

Roxie Samaniego, CPA	Partner/On-Site Manager
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FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Association as of, and for the year ended, December 31, 2012 were prepared by White + Samaniego + Campbell, LLP, with the aid of responsible Association personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.