

**Desert Sands Mutual
Domestic Water Consumers Association**

**Basic Financial Statements and
Supplementary Information
for the Year Ended December 31, 2010
and Independent Auditors' Report**

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

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**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**DIRECTORY OF OFFICIALS
DECEMBER 31, 2010**

Board of Directors

Rosaura Pargas	President
Cresencio Salgado	Vice President
Beatriz Calvillo	Secretary/Treasurer
Miguel Guillen, Jr.	Director
Manuel Garcia, Jr.	Director

Officials

Karen Nichols	Business Manager
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Desert Sands Mutual Domestic Water Consumers Association, New Mexico (the Association), as of and for the year ended December 31, 2010, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with 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 the 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 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 the Desert Sands Mutual Domestic Water Consumers Association, as of December 31, 2010, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the major enterprise fund, for the year ended December 31, 2010, 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 June 12, 2012, 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.

The Association has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and the supplemental information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Desert Sands Mutual Domestic Water Consumers Association taken as a whole. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

White + Samaniego + Campbell, LLP

El Paso, Texas
May 30, 2012

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

ASSETS:	
Noncurrent assets:	
Restricted cash	<u>\$ 5,386</u>
Total assets	<u>\$ 5,386</u>
LIABILITIES:	
Current liabilities:	
Current portion of long-term debt	<u>\$ 19,675</u>
Total current liabilities	19,675
Non-current liabilities:	
Non-current portion of long-term debt	<u>148,161</u>
Total noncurrent liabilities	<u>148,161</u>
Total liabilities	<u>167,836</u>
NET ASSETS:	
Unrestricted	<u>(162,450)</u>
Total net assets	<u>(162,450)</u>
Total liabilities and net assets	<u>\$ 5,386</u>

See accompanying notes to financial statements and independent auditor's report.

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Operating revenues	
Membership dues	\$ 35
Activation, connection and installation fees	223,008
Late fees	6,565
Other income	<u>74</u>
Total operating revenues	229,682
Operating expenses	
Auto expenses	11,702
Bank charges	150
Materials, supplies, tools and chemicals	6,046
Depreciation	64,318
Dues and subscriptions	1,806
Office expense	5,731
Miscellaneous	2,325
Taxes and license - other	11,017
Postage	1,561
Telephone	2,484
Insurance	19,309
Maintenance and repairs	3,272
Payroll expense	82,382
Professional fees	14,309
Travel and entertainment	1,119
Utilities	<u>19,781</u>
Total operating expenses	<u>247,312</u>
Operating loss	<u>(17,630)</u>
Nonoperating revenues (expenses)	
Grant revenue	1,438,796
Interest income	548
Other income	556
Interest expense	<u>(3,802)</u>
Total nonoperating revenues (expenses)	1,436,098
Change in net assets	1,418,468
Net assets, beginning of year	<u>2,432,644</u>
Merger transfer	<u>(4,013,562)</u>
Net assets, end of year	<u>\$ (162,450)</u>

See accompanying notes to financial statements and independent auditor's report.

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 282,135
Cash payments to suppliers and employees	<u>(187,392)</u>
Net cash provided by operating activities	<u>94,743</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash transferred in merger	(261,844)
Other income	<u>556</u>
Net cash used in non-operating activities	<u>(261,288)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	63,438
Principal payments	(11,510)
Grants	1,438,796
Purchase of property and equipment	(1,431,570)
Interest payments	<u>(3,802)</u>
Net cash provided by financing activities	<u>55,352</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>548</u>
Net cash provided by investing activities	548
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(110,645)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>116,031</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,386</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS AS REPORTED ON THE STATEMENT OF NET ASSETS	
Restricted cash	<u>\$ 5,386</u>
	<u>\$ 5,386</u>

(Continued)

See accompanying notes to financial statements and independent auditor's report.

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (17,630)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	64,318
Change in:	
Accounts receivable	52,453
Other assets	25,646
Accounts payable	(7,080)
Accrued payable	(5,719)
Other liabilities	<u>(17,245)</u>
Total adjustments	<u>112,373</u>
Net cash provided by operating activities	<u>\$ 94,743</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS

Noncash transactions transferred in the merging of entities:	
Account receivables	\$ (186,861)
Capital assets, net	(3,816,036)
Inventory	(25,646)
Accrual liabilities and other expenses	<u>20,509</u>
	<u>\$ (4,008,034)</u>

(Concluded)

See accompanying notes to financial statements and independent auditor's report.

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Desert Sands Mutual Domestic Water Consumers Association (Association) was established August 23, 1977 as a nonprofit corporation. The Association is a member-owned water utility company incorporated under the Sanitary Projects Act, Chapter 3, Article 29, NMSA 1978, and is a political subdivision of the State of New Mexico. The Association serves the property owners within the community of Anthony, New Mexico. The Association has no component units.

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.

In September 2008, the Board of Directors of Desert Sands Mutual Domestic Water Consumers Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with (1) Berino Mutual Domestic Water Consumer and Mutual Sewage Works Association, (2) Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association, (3) La Mesa Mutual Domestic Water Consumers Association, (4) Vado Mutual Domestic Water Consumers Association and (5) Lower Rio Grande Mutual Domestic Water Association all serving unincorporated communities within Dona Ana County, New Mexico. After the approval and creation of the Lower Rio Grande Public Works Authority, merging association, by the Legislature, the Associations merged into the Authority during 2010.

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:

Basis of Presentation

Government-Wide Financial Statements (GWFS) - The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Association. Fiduciary funds are not included in the GWFS. Fiduciary Funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level. The Association has no Fiduciary Funds.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: 1) Charges for services is the term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services, such as water use. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes to purchase, construct, or renovate capital assets associated with a specific program. These should be reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government. These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government.

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, 2010.

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.

Restricted Cash

Restricted cash consists of the following:

Construction account	\$ <u>5,386</u>
Total restricted cash	\$ <u>5,386</u>

Restricted cash consist of non-mandatory reserves set aside within the operating account for outstanding customer deposits. These reserves are not required but are separated by management and a separate Construction Account that has been established as required by the Government into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Association as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed. The end of year balance is \$5,386.

Budget and Budgetary Accounting

Actual amounts on the budgetary basis are prepared on the accrual basis of accounting which recognizes revenues when earned and expenditures when incurred. The annual budget, and any amendments thereto, are required to be approved by resolution of the Board of Directors and the New Mexico Department of Finance and Administration's Local Government Division. Formal budgetary integration is employed as a management control device during the year for the business-type fund, and budgetary control is performed at the Associations 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 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.

Allowance for Doubtful Accounts

Management considers the majority of the accounts receivable as collectible. Any accounts receivable considered unelectable 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. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Such assets, including infrastructure assets, have higher limits that must be met before they are capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Water system and housing	7-40 yrs.
Municipal waterworks	7 yrs.
Machinery and equipment	3-20 yrs.
Office furniture and fixtures	3-7 yrs.
Vehicles	5 yrs.

Compensated Absences

Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. There were no compensated absences balances at year-end.

Income Tax Status

The Organization is a non-profit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(12). There was no unrelated business income for the year ended December 31, 2010.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, 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 assets consists of net assets 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 net assets consist of all other net assets not included in the above categories.

New Governmental Accounting Standards

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010, and earlier application is encouraged. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Authority incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, which is effective upon issuance for certain provisions of the statement and for periods beginning after June 15, 2011 for other provisions. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. 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 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 58 Accounting and Financial Reporting for Chapter 9 Bankruptcies, which is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The Authority incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 59 Financial Instruments Omnibus, which is effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments: National Council on Governmental Accounting Statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, is updated to be consistent with the amendments to GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, regarding certain financial guarantees. Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Statement No. 40, Deposit and Investment Risk Disclosures, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool. Statement 53 is amended to: – Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance – Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit – Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53 – Provide that one of the “leveraged yield” criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield. The Authority 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 November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements, which is effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Authority 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 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 Authority 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 Authority 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 of Las Cruces	Balance Per		
<u>Name of Account</u>	Bank	Reconciled	Type
	12/31/10	Balance	
Phase II-III Construction	\$ 5,386	\$ 5,386	Checking
Total Deposited	5,386	<u>5,386</u>	
Less: FDIC Coverage	<u>(5,386)</u>		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	<u>-</u>		
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, 2010, \$0 of the Association's bank balance of \$5,386, was exposed to custodial credit risk.

3. **CAPITAL ASSETS**

The cost basis of capital assets are stated as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases / Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 58,763	\$ -	\$ (58,763)	\$ -
Construction in progress	<u>900,021</u>	<u>1,431,570</u>	<u>(2,331,591)</u>	<u>-</u>
Total capital assets not being depreciated	<u>958,784</u>	<u>1,431,570</u>	<u>(2,390,354)</u>	<u>-</u>
Capital Assets, being depreciated				
Water systems	2,634,574	-	(2,634,574)	-
Furniture, fixtures and equipment	14,369	-	(14,369)	-
Machinery and equipment	62,675	-	(62,675)	-
Municipal water works	15,971	-	(15,971)	-
Transportation equipment	<u>23,724</u>	<u>-</u>	<u>(23,724)</u>	<u>-</u>
Total capital assets, being depreciated	<u>2,751,313</u>	<u>-</u>	<u>(2,751,313)</u>	<u>-</u>
Total capital assets	<u>3,710,097</u>	<u>1,431,570</u>	<u>(5,141,667)</u>	<u>-</u>
Less accumulated depreciation for:				
Water systems	1,211,051	58,681	(1,269,732)	-
Furniture, fixtures and equipment	13,141	560	(13,701)	-
Machinery and equipment	62,442	39	(62,481)	-
Municipal water works	15,273	698	(15,971)	-
Transportation equipment	<u>23,724</u>	<u>4,340</u>	<u>(28,064)</u>	<u>-</u>
Total accumulated depreciation	<u>1,325,631</u>	<u>64,318</u>	<u>(1,389,949)</u>	<u>-</u>
Total other capital assets, net	<u>\$ 2,384,466</u>	<u>\$ 1,367,252</u>	<u>\$(3,751,718)</u>	<u>\$ -</u>

Depreciation expense was \$64,318 for the year ended December 31, 2010.

4. **LONG TERM DEBT**

Changes in long-term debt during the year ended December 31, 2010 were as follows:

	Balance			Balance	Amounts
	<u>12/31/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/10</u>	<u>Due Within</u>
					<u>One Year</u>
Capmark Financing	\$ 33,749	\$ -	\$ 3,357	\$ 30,392	\$ 3,528
NM Env. Dept/NMFA	20,274	-	1,090	19,184	1,138
RUS Loan	47,949	-	565	47,384	591
NMFA	-	63,438	6,344	57,094	14,274
USDA Rural Development Phase II & III	<u>13,936</u>	<u>-</u>	<u>154</u>	<u>13,782</u>	<u>144</u>
	<u>\$ 115,908</u>	<u>\$ 63,438</u>	<u>\$ 11,510</u>	<u>\$ 167,836</u>	<u>\$ 19,675</u>

Capmark Financial Group

On May 11, 1978, the Association entered into a \$85,000 loan agreement with Capmark Financial Group. The proceeds of the loan were used for the purchase of property and the construction and improvements to the water system. The loan is payable in monthly installments of \$414, and matures May 11, 2018. Interest is at 5%. The loan is secured by real property, inventory, and chattels of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2011	\$ 3,528	\$ 1,440	\$ 4,968
2012	3,709	1,259	4,968
2013	3,899	1,069	4,968
2014	4,098	870	4,968
2015	4,308	660	4,968
2016-2018	<u>10,850</u>	<u>666</u>	<u>11,516</u>
Totals	<u>\$ 30,392</u>	<u>\$ 5,964</u>	<u>\$ 36,356</u>

New Mexico Environment Department Rural Infrastructure Program (RIP 2003-08)

On May 14, 2003, the Association entered in to a \$25,000 loan agreement with the New Mexico Environment Department Rural Infrastructure Program. The proceeds of the loan were used for the construction and improvements to the water system. The loan is payable in monthly installments of \$142, and matures January 5, 2024. Interest is at 3%. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2011	\$ 1,138	\$ 560	\$ 1,698
2012	1,173	525	1,698
2013	1,208	490	1,698
2014	1,245	453	1,698
2015	1,283	415	1,698
2016-2020	7,024	1,466	8,490
2021-2024	6,113	364	6,477
Totals	<u>\$ 19,184</u>	<u>\$ 4,273</u>	<u>\$ 23,457</u>

United State Department of Agriculture - Rural Development Loan

On November 7, 2006, the Association entered into a \$50,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The proceeds of the loan were used for the construction and improvements to the water system. The loan is payable in monthly installments of \$221, and matures October 7, 2045. Interest is at 4.375%. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2011	\$ 591	\$ 2,061	\$ 2,652
2012	617	2,035	2,652
2013	645	2,007	2,652
2014	673	1,979	2,652
2015	703	1,949	2,652
2016-2020	4,017	9,243	13,260
2021-2025	4,998	8,262	13,260
2026-2030	6,217	7,043	13,260
2031-2035	7,734	5,526	13,260
2036-2040	9,622	3,638	13,260
2041-2045	11,567	1,291	12,858
Totals	<u>\$ 47,384</u>	<u>\$ 45,034</u>	<u>\$ 92,418</u>

Mexico Finance Authority

On January 22, 2010, Desert Sands Mutual Domestic Water Consumer Association entered into a \$63,438 loan agreement with the New Mexico Finance Authority (NMFA) to finance the purchase of a pickup truck and an utility truck. The loan has a zero percent interest and matures in January 2014. The note is payable in two monthly installments of \$3,172 and forty eight monthly installments of \$1,190 starting March 2010. The loan is secured by monthly revenue of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2011	\$ 14,274	\$ -	\$ 14,274
2012	14,274	-	14,274
2013	14,274	-	14,274
2014	14,272	-	14,272
Totals	<u>\$ 57,094</u>	<u>\$ -</u>	<u>\$ 57,094</u>

United State Department of Agriculture - Rural Development Loan

On October 1, 2009, the Association entered into a \$14,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development. The proceeds of the loan were used for the construction and improvements to the water system. The loan is payable in monthly installments of \$65, and matures January 3, 2049. Interest is at 4.375%. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2011	\$ 144	\$ 601	\$ 745
2012	150	594	744
2013	157	588	745
2014	164	581	745
2015	171	573	744
2016-2020	979	2,741	3,720
2021-2025	1,217	2,503	3,720
2026-2030	1,515	2,205	3,720
2031-2035	1,884	1,836	3,720
2036-2040	2,344	1,376	3,720
2041-2045	2,916	804	3,720
2041-2045	2,141	151	2,292
Totals	<u>\$ 13,782</u>	<u>\$ 14,553</u>	<u>\$ 28,335</u>

5. RESERVE REQUIREMENTS

As part of the UDSA RD Loan, the Association must establish and fund monthly a debt service reserve fund equal to 10% of the monthly payment each month over the life of the loan. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise. Ten percent of the proposed loan installment would equal \$28.30 per month. The reserve requirement at December 31, 2010 was \$340. The Association had \$340 reserved at December 31, 2010, and thus has met reserve requirements. This amount is shown as net assets restricted for loan covenants on the statement of net assets.

6. **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 coverages. 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 December 31, 2010 was \$2,484.

7. **RETIREMENT PLAN**

Effective January 1, 2007, the Association adopted a retirement savings plan for its employees. This plan allows participants to make contributions by salary reduction pursuant to a SIMPLE IRA plan under Section 408(p), of the Internal Revenue Code. Employer contributions are required. The Association matches contributions equal to the employee's salary reduction contributions up to a limit of three percent of the employee's compensation for the calendar year. The amount elected to be deferred by the employee cannot exceed the limitations prescribed by law. All contributions made under this SIMPLE IRA plan are fully vested and nonforfeitable. Employer's contributions to the plan in the year ending December 31, 2010 were \$2,118.

8. **CONTINGENCIES**

Grant Compliance. The Association receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally based on compliance with terms and conditions of the grant and loan agreements and applicable state and federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantor. As of December 31, 2010, management estimates that no material liabilities will result from such audits.

**STATE OF NEW MEXICO
DESERT SANDS 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, 2010**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Revenue - membership dues	\$ 50	\$ 50	\$ 35	\$ (15)
Revenue - water	280,472	280,472	215,016	(65,456)
Revenue - tap installation	3,750	3,750	7,992	4,242
Revenue - late payment penalties	8,650	8,650	6,565	2,085
Revenue - other fees	60	60	74	(14)
Total operating income	292,982	292,982	229,682	(59,158)
Operating Expenses				
Accounting	26,060	26,060	2,677	23,383
Advertising	120	120	-	120
Auto and truck expense	21,000	21,000	11,702	9,298
Bank charges	416	416	150	266
Business meals	925	925	489	436
Conservation fees	1,798	1,798	1,321	477
Depreciation	234,263	234,263	64,318	169,945
Dues and subscriptions	955	955	475	480
Education	400	400	-	400
Insurance-liability/contents	11,013	11,013	10,387	626
Insurance-liability medical	9,162	9,162	7,819	1,343
Insurance-workman's comp	2,600	2,600	1,103	1,497
Chemicals and water test	2,192	2,192	2,424	(232)
Legal fees	1,200	1,200	7,131	(5,931)
License and permits	24	24	10	14
Office expense	7,319	7,319	5,525	1,794
Parts and supplies	8,600	8,600	3,253	5,347
Postage	1,752	1,752	1,561	191
Professional services	715	715	4,501	(3,786)
Repairs and maintenance	2,790	2,790	3,272	(482)
Retirement march	3,385	3,385	2,118	1,267
Salaries-water operator	73,547	73,547	50,640	22,907
Salaries-billing and administration	24,898	24,898	21,445	3,453
Salaries-customer service clerk	14,377	14,377	10,297	4,080
Small tools	609	609	370	239
Taxes-payroll	9,181	9,181	6,562	2,619
Taxes-property	6,300	6,300	4,456	1,844
Taxes-other	69	69	-	69
Telephone	3,669	3,669	2,484	1,185
Travel	350	350	631	(281)
Utilities-other	528	528	554	(26)
Utilities-electricity	31,157	31,157	19,227	11,930
Office help-temp services	-	-	206	(206)
Miscellaneous	600	-	204	(204)
Total operating expenses	501,974	501,374	247,312	254,062
Excess (deficiency) of revenues over expenditures	(208,992)	(208,392)	(17,630)	(313,220)
Nonoperating revenues				
Agency loans/grants	1,531,459	1,531,459	1,438,796	(92,663)
Interest income	485	485	548	63
Other income	8,400	8,400	556	-
Interest expenses	(5,280)	(5,280)	(3,802)	1,478
Total nonoperating income	1,535,064	1,535,064	1,436,098	(91,122)
Revenue over expenses	\$ 1,326,072	\$ 1,326,672	\$ 1,418,468	\$ (404,342)

See accompanying notes to financial statements and independent auditor's 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
Desert Sands Mutual Domestic Water Consumers Association, New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplemental information of the Desert Sands Mutual Domestic Water Consumers Association (the "Association") as of and for the year ended December 31, 2010, and have issued our report thereon dated June 12, 2012. 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 Association's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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 Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 are described in the accompanying schedule of findings and questioned costs as item 09-02.

We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 09-01.

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

This report is intended solely for the information and use of the Association's Board of Directors, the Association's management, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

White + Yamaneji + Campbell, LLP

El Paso, Texas
May 30, 2012

**INDEPENDENT AUDITOR'S 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, State Auditor
and the Board of Directors of the
Desert Sands Mutual Domestic Water Consumers Association, New Mexico

Compliance

We have audited the Desert Sands Mutual Domestic Water Consumers Association's compliance (the Association) 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 Desert Sands Mutual Domestic Water Consumers Association's major federal programs for the year ended December 31, 2010. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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.

In our opinion, 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-02.

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 in order to determine the

auditing procedures for the purpose of expressing our opinion on compliance and to test and report in internal control over compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the Association's Board of Directors, the Association's management, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



El Paso, Texas
May 30, 2012

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2010**

SECTION I - SUMMARY OF AUDITOR'S REPORT

FINANCIAL STATEMENTS

Type of Auditor's Report Issued	<u>Unqualified</u>	
Significant Deficiencies Identified?	<u> </u> Yes	<u> X </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	<u>N/A</u>	

FEDERAL AWARDS

Type of Auditor's Report Issued on compliance for Major Programs	<u>Unqualified</u>	
Internal Control Over Major Programs:		
Significant Deficiencies Identified?	<u> X </u> Yes	<u> </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
CFDA	10.760	Water and Waste Disposal Systems for Rural Communities - Loan

Dollar Threshold Used to Distinguish Between Type A and Type B Programs	<u>\$300,000</u>	
Auditee Qualifies as Low-Risk Auditee	<u> </u> Yes	<u> X </u> No

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Late Audit Report (09-01)

CONDITION	The audit report was submitted to the State Auditor in June 2012, which is, after the required deadline.
CRITERIA	Special districts audits are required to be submitted to the State Auditor by December 1. 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 not aware of audit requirements.
RECOMMENDATION	The Association is working diligently to become current with all of their audit reports.
RESPONSE	The Association is diligently working to ensure that all audits are submitted and deadlines are adhered to.

**Data Collection Form Package Not Timely Filed (09-02) -
CFDA 10.760 Water and Waste Disposal System for Rural Communities**

CONDITION	The Data Collection Form and the reporting package was not submitted to the federal clearing house within nine months after the fiscal year end.
CRITERIA	OMB Circular A-133.320 requires that the data collection form and the reporting package be submitted within nine months of the fiscal year end for all single audit reports.
EFFECT	Data used by the federal government to manage grants was not available, and Federal regulations have been violated.
CAUSE	The audit was not completed by the required deadline, as detailed in finding 09-01 above.
RECOMMENDATION	We recommend that the Data Collection form be filed timely, if required
RESPONSE	The recommendation will be adopted

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010**

STATUS OF PRIOR YEAR FINDINGS

There were no prior year audit findings

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor	Federal CFDA Number	Award Amount	Current Fiscal Year Expenditures
<u>US Department of Agriculture</u>			
Water and Waste Disposal System for Rural Communities	10.760	\$ 2,129,506	\$ 1,438,796
Water and Waste Disposal System for Rural Communities - Loan	10.760	<u>14,000</u>	<u>13,782</u>
Total Department of Agriculture		2,143,506	1,452,578
Total Expenditures of Federal Awards		<u>\$ 2,143,506</u>	<u>\$ 1,452,578</u>

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Desert Sands 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 NonProfit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Desert Sands Mutual Domestic Water Consumers Association had \$13,782 loan balance outstanding at December 31, 2010. This loan balance is also included in the schedule of expenditures of federal awards.

See accompanying notes and independent auditors' report.

**STATE OF NEW MEXICO
DESERT SANDS MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2010**

An exit conference was conducted June 14, 2012 in a closed meeting of the Association pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Desert Sands Mutual Mutual Domestic Water Consumer Association

Rosaura Pargas	President
Karen Nichols	Business Manager
Roberto M Nieto	Lower Rio Grande PWWA - Chairman
Martin Lopez	Lower Rio Grande PWWA
Kathi Jackson	Lower Rio Grande PWWA

White + Samaniego + Campbell, LLP

Luis Molina, CPA	Auditor
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FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Association as of, and for the year ended, December 31, 2010 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.