

STATE OF NEW MEXICO
Ensenada Mutual Domestic Water Consumers Association

Financial Statements and Schedules
With independent Auditor's Report Thereon

For the Fiscal Year Ended June 30, 2012

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**State of New Mexico
Ensenada Mutual Domestic Water Consumers Association**

Table of Contents

June 30, 2012

Introductory Section	<u>Page</u>	
Table of Contents	i	
Official Roster	ii	
Financial Section		
Independent's Auditor's Report	1-2	
Basic Financial Statements	<u>Exhibits</u>	<u>Page</u>
Statement of Net Assets	1	3
Statement of Activities	2	4
Statement of Cash Flows	3	5
Notes to Financial Statements		6-13
Supplementary Information		
Statement of Revenues and Expenditures-Budget and Actual (GAAP Basis)		14
Schedule of Expenditures of Federal award		15
Government Auditing Standards Reports		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		16-17
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		18-19
Schedule of Audit Findings and Questioned Costs		20
Prior year audit findings		21
Exit Conference		22

**State of New Mexico
Ensenada Mutual Domestic Water Consumers Association**

Official Roster

June 30, 2012

Board of Directors

Position

Vicente Montano

President

Anthony Casados

Vice-President

Tess Casados

Secretary/Treasurer

Joseph Martinez

Director

Michael Martinez

Director

George Valdez

Director

JOSEPH M. SALAZAR
CERTIFIED PUBLIC ACCOUNTANT
P.O. Box 1744
Espanola, New Mexico 87532
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Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

And

Ensenada Mutual Domestic Water Consumers Association
Board Members
P.O. Box 226
Tierra Amarilla, New Mexico 87575

We have audited the accompanying statements of net assets of the business-type activities of the Ensenada Mutual Domestic Water Consumers Association (Association) as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flow for the year then ended which collectively comprise the Association's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statement for the year ended June 30, 2012, presented as supplementary information as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

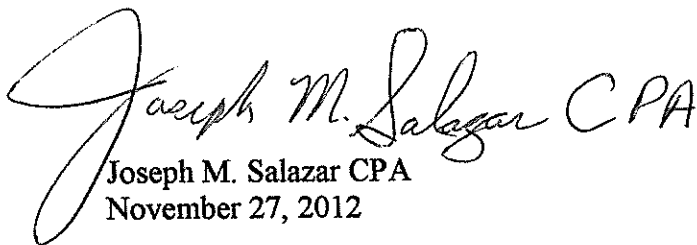
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the Ensenada Mutual Domestic Water Consumers Association's financial position of the business type activities of the Association as of June 30, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the budgetary comparison statement referred to in the first paragraph presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 27, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Joseph M. Salazar CPA
November 27, 2012

Basic Financial Statements

**STATE OF NEW MEXICO
ENSENADA MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF NET ASSETS
June 30,2012**

Exhibit 1

ASSETS

Cash and cash equivalents	\$ 8,522
Restricted cash	3,478
Grants receivable	3,495
Prepaid expenses	2,652
Total current assets	<u>18,147</u>
Non Current Assets	
Capital assets	255,736
Construction work in progress	1,005,162
less accumulated depreciation	<u>(54,045)</u>
Total capital assets net of depreciation	<u>1,206,853</u>
Total assets	<u><u>\$ 1,225,000</u></u>

LIABILITIES

Liabilities

RUS loan payable-current	\$ 3,315
Total current liabilities	<u>3,315</u>
Long term liabilities	
RUS loan payable	<u>365,685</u>
Total long term liabilities	<u>365,685</u>
Total liabilities	<u>369,000</u>

NET ASSETS

Invested in capital assets-net of related debt	837,854
Restricted for debt service	3,273
Restricted for depreciation reserve	205
Unrestricted	<u>14,668</u>
Total net assets	<u>856,000</u>
Total liabilities and net assets	<u><u>\$ 1,225,000</u></u>

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

STATE OF NEW MEXICO
ENSENADA MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

Exhibit 2

Operating revenue	
Membership dues	\$10,827
Membership application	3,000
Total operating revenue	<u>13,827</u>
Operating expenses	
Mileage and per diem	475
Insurance	596
System repairs and maintenance	12,275
Utilities	4,021
Postage	327
Office supplies	1,501
Annual audit/financial reporting	2,352
Dues and board fees	382
Field supplies & equipment	565
County tax	53
Contractual fees and other services-state	1,476
GRT tax	545
Depreciation	4,045
Total expenses	<u>28,613</u>
Nonoperating revenues (expenses)	
State grant	40,831
Federal grant	614,914
Interest income	51
Equipment sale	1,000
Total nonoperating revenue (expenses)	<u>656,796</u>
Change in net assets	<u>642,010</u>
Net assets-beginning of year	<u>213,990</u>
Net assets-end of year	<u><u>\$856,000</u></u>

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

STATE OF NEW MEXICO
ENSENADA MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT 3

Cash flows from operating activities	
Receipts from Customers and users	\$13,827
Payments to suppliers and contractors	<u>(27,220)</u>
Net cash provided (used) by operating activities	<u>(13,393)</u>
 Cash Flows from investing activities	
Interest income	49
Transfer to restricted cash	<u>(916)</u>
Net cash provided (used) by investing activities	<u>(867)</u>
 Cash flows from capital investing activities	
Acquisition of capital assets	(1,001,486)
Capital grants	652,250
Proceeds from long term debt	369,000
Sale of equipment	<u>1,000</u>
Net cash used in capital financing activities	<u>20,764</u>
 Net increase (decrease) in cash and cash equivalents	 6,504
 Cash and cash equivalents, beginning of year	 <u>2,018</u>
 Cash and cash equivalents, end of year	 <u><u>\$8,522</u></u>
 Reconciliation of operating income to net cash provided (used) by operating activities	
Net income (loss)	(14,786)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	4,045
Decrease (increase) in prepaid expenses	<u>(2,652)</u>
Net cash provided (used) by operating activities	<u><u>\$ (13,393)</u></u>

The accompanying notes to the financial statements are an integral part of the financial statements

Notes to Financial Statements

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

The Ensenada Mutual Domestic Water Consumers Association (Association) a non-profit entity under the Federal Sanitary Projects Act was established February 23, 1960 and is a political subdivision of the State of New Mexico. The Association serves the property owners within the community of Ensenada, New Mexico. The Association has no component units.

The Association has a Board of Directors that consists of six 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 generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local government 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 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 is maintained consistent with legal and managerial requirements.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

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

Basis of Presentation

Government-wide and Fund Financial Statements (GWSF)

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 GWSF. 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 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 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, Basis of Accounting and Financial Statement Presentation

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 results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of 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 revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. Grant revenue is recognized when the eligibility requirements are met.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

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 June 30, 2012.

Cash and Cash Equivalents

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

Restricted Cash

The United States Department of Agriculture Rural Development requires that the Association establish the following accounts:

Construction account: to deposit all project funds in this account. The account shall be used solely for the purpose of paying authorized costs of the project as outlined in the project budget.

Debt service reserve fund- The Association is required to establish a debt service reserve fund equal to 10% of the monthly payment each month over the life of the loan until the Association accumulates one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise.

Depreciation reserve- The Association must fund a depreciation reserve for the remaining cost of its short-lived assets by depositing \$71 monthly. The total estimated short-lived depreciation cost is \$17,500.

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 Association 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.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

Revenues

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.

Capital Assets

Capital assets are recorded at historical costs. Purchases 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 assets or materiality 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 tank	25 years
Water system	40 years

Income Tax Status

The Association 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 June 30, 2012

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

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 attributed 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-imposing legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

New Governmental Accounting Standards

In November 2010, GASB issued GASB Statement No. 61-The Financial Reporting Entity: Omnibus—an amendment of GASB Statement 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 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 statements for the upcoming year.

In December 2010, 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.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

Cash and Deposits

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

Community Bank	Balance per Bank	Reconciled Balance	Type
Name of Account	<u>June 30, 2012</u>	<u>Balance</u>	
General	\$8,432	\$8,412	Interest-Checking
Depreciation Reserve	3,273	3,273	Interest-Savings
Debt Service Reserve	205	205	Interest-Savings
Construction Account	<u>109</u>	<u>109</u>	Interest-Checking
Total Deposited	<u>12,019</u>	<u>\$11,999</u>	
Less FDIC Coverage	12,019		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	<u>-</u>		
Over (under) collateralized	<u><u>-</u></u>		

Custodial Credit Risk –Deposits

Custodial credit risk is the risk that in the event of a failure, the Association’s deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2012, the Association’s bank balances of \$12,019 were fully insured under FDIC. The Association was not exposed to custodial credit risk.

Construction Commitment

The Association received from the United States Department of Agriculture-\$800,427 as a grant and \$369,000 as a loan for a total of \$1,169,427 and \$250,000 from the New Mexico State Legislature administered by the New Mexico Environment Department to construct a new water system. As of June 30, 2012, the Association had expended all of the State appropriation and \$983,914 of the federal monies. The new system was fully operational in October of 2012.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

Capital Assets

The cost basis of capital assets is stated as follows:

	Beginning Balance	Additions	Transfer/ Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,000	\$ 1,500	\$ -	\$ 3,500
Construction in progress	<u>207,412</u>	<u>999,986</u>	<u>202,236</u>	<u>1,005,162</u>
Total capital asset not being depreciated	<u>209,412</u>	<u>1,001,486</u>	<u>202,236</u>	<u>1,008,662</u>
Capital assets being depreciated				
Property and equipment-old system	50,000	-	-	50,000
Property and equipment-new system	<u>-</u>	<u>202,236</u>	<u>-</u>	<u>202,236</u>
Total capital assets being depreciated	<u>50,000</u>	<u>202,236</u>	<u>-</u>	<u>252,236</u>
Less accumulated depreciation for				
Water system	<u>(50,000)</u>	<u>(4,045)</u>	<u>-</u>	<u>(54,045)</u>
Total accumulated depreciation	<u>(50,000)</u>	<u>(4,045)</u>	<u>-</u>	<u>(54,045)</u>
Total capital assets, net	<u>\$209,412</u>	<u>\$1,199,677</u>	<u>\$202,236</u>	<u>\$1,206,853</u>

Depreciation expense was \$4,045 for the year ended June 30, 2012.

Long Term Debt

Changes in long term debt during the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
RUS loan	<u>\$369,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$369,000</u>

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Notes to Financial Statements
June 30, 2012

United States Department of Agriculture- Rural Development Promissory Note

On July 1, 2011, the Association entered into a \$369,000 promissory note with the United States Department of Agriculture (USDA) Rural Development for forty years. The proceeds of the promissory note were used for the construct and improvement to the water system. The promissory note is payable in monthly installments of \$1,591 and matures on July 1, 2052. Interest rate is 4.125.

Year Ending June 30:	Principal	Interest	Total
2013	\$3,315	\$14,187	\$ 19,092
2014	3,765	15,327	19,092
2015	3,926	15,166	19,092
2016	4,095	14,997	19,092
2017	4,271	14,821	19,092
2018-2022	24,266	71,194	95,460
2023-2027	29,942	65,518	95,460
2028-2032	36,945	58,515	95,460
2033-2037	45,587	49,873	95,460
2038-2042	56,250	39,210	95,460
2043-2047	69,410	26,050	95,460
2048-2052	<u>87,228</u>	<u>9,822</u>	<u>97,050</u>
Totals	<u>\$ 369,000</u>	<u>\$ 394,680</u>	<u>\$763,680</u>

State Special Appropriation

The New Mexico Legislature through the Laws of 2008 Chapter 92, Section 15 Sub Section 4 appropriated \$250,000 to the New Mexico Environment Department for expenditure from the Severance Tax Bond to plan, design, construct, replace and improve the water system for the Ensenada Mutual Domestic water Consumers Association. The agreement became effective October 21, 2008 and terminated on June 30, 2012. As of June 30, 2012, \$250,000 of the appropriation had been expended and \$3,495 was due from the New Mexico Environment Department.

Risk Management

The Ensenada Mutual Domestic Water Consumers Association is exposed to various risks of loss. The Association carries insurance with the various insurance companies. Coverage is provided for General Liability, Surety Bond and Property.

STATE OF NEW MEXICO
ENSENADA MUTUAL DOMESTIC WATER ASSOCIATION
STATEMENT REVENUE AND EXPENDITURES- BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
For Year Ended June 30, 2012

	<u>GENERAL FUND</u>			
	Budget Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Operating revenue				
Membership Dues	\$ 20,000	\$ 20,000	\$ 10,827	(9,173)
Membership application fee	1,500	1,500	3,000	1,500
Equipment sale	5,000	5,000	1,000	(4,000)
Total operating revenue	<u>26,500</u>	<u>26,500</u>	<u>\$ 14,827</u>	<u>\$ (11,673)</u>
Total revenues and cash balance budgeted				
Operating expenses				
Current				
Mileage and per diem	\$1,650	\$1,650		\$1,650
Insurance	2,000	2,000	3,248	(1,248)
System repairs and maintenance	10,000	10,000	12,275	(2,275)
Utilities	4,000	4,000	4,021	(21)
Postage	300	300	327	(27)
Office supplies	300	300	1,501	(1,201)
Training workshops	650	650	475	175
Annual audit/financial reporting	2,400	2,400	2,352	48
Dues and board fees	200	200	382	(182)
Field supplies & equipment	1,200	1,200	565	635
County tax	100	100	53	47
Land purchase	1,500	1,500	1,500	0
Contractual fees and other services-federal	984,000	984,000	969,923	14,077
Contractual fees and other services-state	51,300	51,300	31,539	19,761
GRT tax	600	600	545	55
Total operating expenses	<u>1,060,200</u>	<u>1,060,200</u>	<u>1,028,706</u>	<u>31,494</u>
Excess (deficiency) of revenues over expenses	(1,033,700)	\$ (1,033,700)	(1,013,879)	19,821
Nonoperating revenue				
State grant reimbursement	51,300	51,300	37,337	(13,963)
Federal grant/loan	984,000	984,000	983,914	(86)
Bank interest	75	75	50	(25)
Total nonoperating revenue	<u>1,035,375</u>	<u>1,035,375</u>	<u>1,021,301</u>	<u>(14,074)</u>
Revenue over expenses	<u>\$ 1,675</u>	<u>\$ 1,675</u>	<u>\$ 7,422</u>	<u>\$ 5,747</u>

See accompanying notes financial statements and independent auditor's report

**STATE OF NEW MEXICO
ENSENADA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor	Federal CFDA Number	Award Amount	Current Fiscal Year Expenditures
US Department of Agriculture			
Water and Waste Disposal System for Rural Communities	10.760	\$ 800,427	\$ 614,914
Water and Waste Disposal System for Rural Communities	10.760	<u>369,000</u>	<u>369,000</u>
Total Expenditures of Federal Award		<u>\$ 1,169,427</u>	<u>\$ 983,914</u>

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Award includes the Federal grant activity of Ensenada 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 not differ from amounts presented in, or used in the preparation of, the basis financial statements.

Ensenada Mutual Domestic Water Consumers Association had a \$369,000 loan balance outstanding as of June 30, 2012. This loan balance is also included in the schedule of expenditures of federal awards.

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

JOSEPH M. SALAZAR
CERTIFIED PUBLIC ACCOUNTANT
P.O. Box 1744
Espanola, New Mexico 87532
Phone/Fax 505-747-2775

**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***

Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and

Mr. Vincente Montano, President
Ensenada Mutual Domestic Water Consumers Association
P.O. Box 226
Tierra Amarilla, New Mexico 87575

We have audited the financial statements of the business type activities, major fund, and the respective budgetary comparison of the State of New Mexico, Ensenada Mutual Domestic Water Consumers Association (Association) as of and for the year ended June 30, 2012 which collectively comprise the Association's basic financial statements and have issued our report thereon dated November 27, 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

Management of the Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit we considered the Association's internal control over financial reporting as a basis for designing my 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.

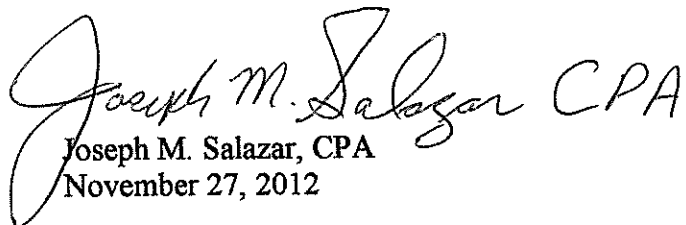
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of control deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. 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 the Association's financial statements are free of material misstatements, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 no instances of noncompliance or other matters that are required to be reported under "*Government Auditing Standards*".

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

A handwritten signature in cursive script that reads "Joseph M. Salazar CPA". The signature is written in black ink and is positioned above the printed name and date.

Joseph M. Salazar, CPA
November 27, 2012

JOSEPH M. SALAZAR
CERTIFIED PUBLIC ACCOUNTANT
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**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**

Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

and

Mr. Vincente Montano, President
Ensenada Mutual Domestic Water Consumers Association
P.O. Box 226
Tierra Amarilla, New Mexico 87575

Compliance

We have audited Ensenada Mutual Domestic Water Consumer Association's (Association) 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 the Association's major federal program for the year ended June 30, 2012. The Association's major federal program is 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 its major federal program 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-13, *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 on the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

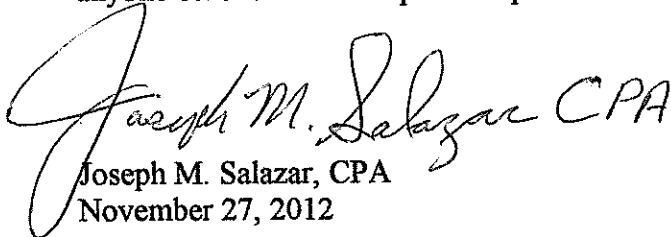
Internal Control Over Compliance

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 requirements that could have a direct and material effect on a major federal program to determine our 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 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 the internal control over compliance was for the limited purposes 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.

This report is intended for the information of the Association's management, others within the Association, the State Auditor, Department of Finance and Administration and New Mexico Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


Joseph M. Salazar, CPA
November 27, 2012

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness identified? ___ Yes X No

Significant deficiency identified that is not
considered to be a material weakness? ___ Yes X No

Noncompliance material to financial
Statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weakness identified? ___ Yes X No

Significant deficiencies identified that are
not considered to be material weaknesses? ___ Yes X No

Type of auditor's report issued on compliance for major
Programs: unqualified

Any audit findings disclosed that are required to be
Reported in accordance with section 510 (a) of
OMB Circular A-133? ___ Yes X No

A \$300,000 threshold was used to distinguish between Type A and Type B programs

Major Program: US Department of Agriculture 10.760

The Association did not qualify as a low Risk Auditee under section 530.

State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Prior Year Audit Findings
June 30, 2012

No prior year findings

Financial Statement Preparation

The financial statements and notes to the financial statements were prepared by the independent certified public accountant performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance. Management has the knowledge and experience to prepare, review and approve financial statements. Management has reviewed and approved the financial statements, notes to the financial statements.

**State of New Mexico
Ensenada Mutual Domestic Water Consumers Association
Exit Conference
June 30, 2012**

The contents of this report were discussed at an exit conference on November 27, 2012. Those attending were as follows:

Vicente Montano, Association President

Tess Casados, Association Secretary/Treasurer

Joseph Martinez, Director

Independent Auditor

Joseph M. Salazar CPA