

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
WATER SYSTEM FUND - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2010

TABLE OF CONTENTS

ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT	1 - 3
ACCOUNTANT'S COMPILATION REPORT	4
OFFICIAL ROSTER	5
STATEMENT OF NET ASSETS	6
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9 - 14
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL	15 - 16
NOTES TO BUDGETARY COMPARISON SCHEDULE	17 - 18
SCHEDULE OF FINDINGS AND RESPONSES	19 - 23
EXIT CONFERENCE	24

*Wanda M. Lucero, CPA*  
INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

To Garfield Mutual Domestic Water Consumers Association

I have performed the procedures enumerated below, which were agreed to by you, solely to assist you with respect to the accounting records of Garfield Mutual Domestic Water Consumers Association as of June 30, 2010. Garfield Mutual Domestic Water Consumers Association is responsible for the company's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of Garfield Mutual Domestic Water Consumers Association. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

My procedures and findings are as follows:

1. **Procedure Performed:** Verified that bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.

**Findings:** One exception was found. The investment account that was formerly with Bank of Albuquerque and transferred to Bank of New York - Mellon. No bank reconciliations were performed from October 2009 to June 2010 when the account transferred from Bank of Albuquerque to Bank of New York - Mellon because no statement was mailed to the Organization. New Mexico Finance Authority provided copies of statements for October 2009 to June 2010 so that bank reconciliations could be performed.

2. **Procedure Performed:** Performed a random test of bank reconciliations for accuracy. Traced ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

**Findings:** One exception was found as a result of applying these procedures. The Association did not submit any financial statements to DFA-Local Government Division.

3. **Procedure Performed:** Determine if the financial institution has provided the 50% pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

**Findings:** No exceptions were found as a result of applying this procedure.

4. **Procedure Performed:** Verified that the company performs a yearly inventory of Capital Assets as required by Section 12-6-10 NMSA 1978.

**Findings:** No exceptions were found as a result of applying this procedure.

- 1 -

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5. **Procedure Performed:** Verified that the required debt payments were made during the year and that the company was in compliance with any reserves required by debt agreements.

**Findings:** No exceptions were found as a result of applying these procedures.

6. **Procedure Performed:** Inquired about the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules and underlying documentation. Performed analytical review; tested actual revenue compared to budgeted revenue for the year for each type of revenue.

**Findings:** No exceptions were found as a result of applying this procedure.

7. **Procedure Performed:** Verified that the amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

**Findings:** No exceptions were found as a result of applying this procedure.

8. **Procedure Performed:** Verified that the receipts of revenue were recorded to the proper classification, amount and period in the general ledger that agrees with the same basis of accounting records that the company uses which is the accrual method.

**Findings:** No exceptions were found as a result of applying this procedure.

9. **Procedures Performed:** Verified that amount recorded as disbursed agreed to vendor's invoice by comparing canceled check to vendor's invoice.

**Findings:** No exceptions were found as a result of applying this procedure.

10. **Procedures Performed:** Inquired about approval for cash disbursements and if the cash disbursements were properly authorized.

**Findings:** No exceptions were found as a result of applying this procedure.

11. **Procedures Performed:** Inquired if the bidding process was processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations.

**Findings:** One exception was found. No bidding process was performed to contract for audit or agreed-upon procedures engagement services for period ending June 30, 2010.

12. **Procedures Performed:** Verified that journal entries appeared reasonable and had supporting documentation.

**Findings:** No exceptions were found as a result of applying this procedure.

13. **Procedures Performed:** Inquired if the company has procedures that require journal entries be reviewed and that they are being reviewed.

**Findings:** The company has no procedure requiring that journal entries be reviewed.

14. **Procedures Performed:** Verified that the original budget and subsequent budget adjustments were approved by the local governing board.

**Findings:** No exceptions were found as a result of applying this procedure.

15. **Procedures Performed:** Verified if the total actual expenditures exceeded the final budget.

**Findings:** Four exceptions were found as a result of applying this procedure. Actual depreciation expense exceeded the budget amount in the amount of \$117,742. Actual interest expense exceeded budgeted amount in the amount of \$4,183. Actual auto expense exceeded the budgeted amount in the amount of \$ 991. Actual water testing expense exceeded the budgeted amount in the amount of \$1,470.

16. **Procedures Performed:** Inquired into any and all state-funded capital outlay awards.

**Findings:** The company had no state funded capital outlay awards for fiscal year ended June 30, 2010. No exceptions were found as a result of applying this procedure.

17. **Procedures Performed:** Verified that the Association was in compliance with 2.2.2 NMAC, Audit rule 2010 on submitting year-end financial statements to the NM State Auditor's Office by December 1, 2010.

**Findings:** One exception was found as a result of applying this procedure. The Company did not submit financial statements to the NM State Auditor's Office by December 1, 2010 and is not in compliance with Sections 2.2.2. 9(A) and Section 2.2.2. 16 (H) NMAC.

I was not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on Garfield Mutual Domestic Water Consumers Association accounting records at June 30, 2010. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for your information and use and is not intended to be, and should not be, used by anyone other than you.

*Wanda M Lucero, CPA*

Wanda M. Lucero, CPA  
Mesilla, NM  
March 24, 2011

*Wanda M. Lucero, CPA*

To The Board of Directors  
Garfield Mutual Domestic Water Consumers Work Association  
Garfield, New Mexico

I have compiled the accompanying Statement of Net Assets - Water System Fund - Proprietary Fund of Garfield Mutual Domestic Water Consumers Association and the related Statement of Revenues, Expenses and Changes in Fund Net Assets - Water System Fund - Proprietary Fund and the Statements of Cash Flows - Water System Fund - Proprietary Fund for the year ended June 30, 2010 in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The budgetary comparison information on Pages 15 - 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

*Wanda M. Lucero, CPA*

March 24, 2011

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2960 Camino Castillo, Las Cruces, NM 88005  
(575) 526-4312*

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
OFFICIAL ROSTER  
JUNE 30, 2010

**OFFICERS:**

RONALD GARAY  
BRUCE REDD  
NGA BREWSTER  
ISIDRO ALVAREZ  
DAVID M. HOLGUIN  
RICHARD A. MILLARD  
ERROL GONZALEZ  
ROBERT SHANNON

**TITLE**

PRESIDENT  
VICE-PRESIDENT  
SECRETARY/TREASURER  
DIRECTOR  
DIRECTOR  
DIRECTOR  
DIRECTOR  
DIRECTOR

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
STATEMENT OF NET ASSETS  
WATER SYSTEM FUND - PROPRIETARY FUND  
JUNE 30, 2010

ASSETS

<b>CURRENT ASSETS</b>	
CASH & CASH EQUIVALENTS	\$195,216
RESTRICTED ASSETS:	
INVESTMENTS CASH & CASH EQUIVALENTS	177,125
UNRESTRICTED INVESTMENTS	105,866
TOTAL CASH & CASH EQUIVALENTS & INVESTMENTS	<u>478,207</u>
ACCOUNTS RECEIVABLE	49,363
INVENTORY, SYSTEM MATERIAL	41,413
PREPAID EXPENSES	9,059
TOTAL CURRENT ASSETS	<u>578,042</u>
<b>CAPITAL ASSETS</b>	
LAND	84,207
BUILDINGS	147,207
WATER SYSTEMS	5,478,134
CONSTRUCTION INTEREST	46,526
EQUIPMENT	69,350
FURNITURE AND FIXTURES	9,569
AUTOMOBILES	27,143
FENCE	17,158
ACCUMULATED DEPRECIATION	(1,961,825)
CAPITAL ASSETS - NET OF DEPRECIATION	<u>3,917,469</u>
<b>OTHER ASSETS</b>	
LOAN COSTS	20,787
ACCUMULATED AMORTIZATION	(5,863)
OTHER ASSETS - NET OF AMORTIZATION	<u>14,924</u>
TOTAL ASSETS	<u>\$4,510,435</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
ACCOUNTS PAYABLE	\$4,432
REFUND AND SECURITY KEY DEPOSITS	5,402
ACCRUED INTEREST PAYABLE	12,190
PAYROLL AND GROSS RECEIPTS TAXES PAYABLE	7,079
CURRENT PORTION OF LONG-TERM DEBT	95,413
TOTAL CURRENT LIABILITIES	<u>124,516</u>
<b>NON-CURRENT LIABILITIES</b>	
NON-CURRENT PORTION OF LONG-TERM DEBT	1,446,078
TOTAL NON-CURRENT LIABILITIES	<u>1,446,078</u>
TOTAL LIABILITIES	<u>1,570,594</u>
<b>NET ASSETS</b>	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	2,390,902
RESTRICTED FOR:	
DEBT SERVICE	177,125
UNRESTRICTED	371,814
TOTAL NET ASSETS	<u>2,939,841</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$4,510,435</u>

SEE ACCOUNTANT'S COMPILATION REPORT.



GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
WATER SYSTEM FUND - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2010

<b>OPERATING REVENUES</b>	
WATER SYSTEM REVENUE	\$426,181
PENALTY REVENUE	11,362
WATER CONNECTION REVENUE	9,400
MEMBERSHIP FEES REVENUE	26
DELINQUENT RECONNECT CHARGE REVENUE	1,550
TURN ON CONNECT REVENUE	650
BACKHOE RENTAL REVENUE	344
RETURNED CHECK FEE	125
TOTAL OPERATING REVENUES	<u>449,638</u>
<b>OPERATING EXPENSES</b>	
ANNUAL MEETING	172
AMORTIZATION	533
AUTO EXPENSES	3,478
BANK CHARGES	64
CHLORINE SOLUTION	3,298
SOFTWARE SERVICE AGREEMENT	3,162
DEPRECIATION	117,742
DUES AND SUBSCRIPTIONS	1,172
EDUCATION	250
FUEL	7,131
FREIGHT	91
INSURANCE	14,071
LEGAL AND ACCOUNTING	1,858
UNIFORMS	40
LICENSES AND FEES	371
LOAN ADMINISTRATIVE FEE	3,458
MAINTENANCE	289
MISCELLANEOUS	38
OFFICE	5,007
PAYROLL TAXES	6,588
PROPERTY TAXES	5,385
POSTAGE	5,398
RENT - WAREHOUSE	600
SYSTEM MATERIALS	15,132
SYSTEM REPAIRS	8,791
TELEPHONE	3,163
WAGES	82,063
WATER TESTING	5,355
UTILITIES	28,022
TOTAL EXPENSES	<u>322,722</u>
OPERATING INCOME	<u>126,916</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
INTEREST INCOME	5,271
INTEREST EXPENSE	(75,042)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(69,771)</u>
<b>CHANGES IN NET ASSETS</b>	57,145
TOTAL NET ASSETS - JULY 1	<u>2,882,696</u>
TOTAL NET ASSETS - JUNE 30	<u>\$2,939,841</u>

SEE ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
WATER SYSTEM FUND - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
CASH RECEIVED FROM CUSTOMERS	\$445,355
CASH PAID TO SUPPLIERS	(127,120)
CASH PAID TO EMPLOYEES	(82,063)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>236,172</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
INTEREST PAYMENTS ON LONG-TERM DEBT	(75,512)
PRINCIPAL PAYMENTS ON LONG-TERM DEBT	(111,107)
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	<u>(186,619)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
INTEREST EARNINGS	5,271
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,824
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (INCLUDING \$199,951 REPORTED IN RESTRICTED ACCOUNTS)	<u>423,383</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (INCLUDING \$177,125 REPORTED IN RESTRICTED ACCOUNTS)	<u><u>\$478,207</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

CASH FLOWS FROM OPERATING ACTIVITIES	
OPERATING INCOME	<u>\$126,916</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
DEPRECIATION AND AMORTIZATION	118,275
CHANGES IN ASSETS AND LIABILITIES	
DECREASE IN ACCOUNTS RECEIVABLE	194
INCREASE IN INVENTORY SYSTEM MATERIAL	(5,349)
INCREASE IN PREPAID EXPENSES	(119)
INCREASE IN ACCOUNTS PAYABLE	235
DECREASE IN DEPOSITS AND SECURITY KEY DEPOSITS	(4,478)
INCREASE IN PAYROLL & GROSS RECEIPTS TAXES	498
TOTAL ADJUSTMENTS	<u>109,256</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$236,172</u></u>

SEE ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

(a) **REPORTING ENTITY** - Garfield Mutual Domestic Water Consumers Association was organized in March 1968. The organization supplies water to approximately 800 consumers from the north edge of Hatch to Exit 59 which is 1/4 mile south of I-25 Caballo Lake Exit in Sierra County. The area is known as the Hatch Valley. The organization is governed by a eight-member Board of Directors, whose members are elected to three year terms.

As required by accounting principles generally accepted in the United States of America, These financial statements present the Garfield Mutual Domestic Water Consumers Association (the primary government) as a stand-alone government. The reporting entity for the organization includes all functions of government in which the Board of Directors exercise oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters. No component units exist in which the Organization has any oversight responsibilities, which would require inclusion in the Organization's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

The organization's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) Is responsible for establishing GAAP for state and local governments through its pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements.

(b) **WATER SYSTEM FUND - PROPRIETARY FUND FINANCIAL STATEMENTS** - The water system fund financial statements (ie., the statement of net assets and the statement of revenues, expenses and changes in fund net assets) report information on all activities of the primary government and its component units.

The statement of revenues, expenses and changes in fund net assets demonstrates the degree to which the expenses are offset by program revenues. Program revenues include:

1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or activity. Other items not properly included among program revenues are reported instead as general revenues.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

(c) **Measurement focus, basis of accounting, and financial statement presentation** - The Water System Fund - Proprietary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

1. **Major Proprietary Funds** - The Organization's Water System Fund - Proprietary Fund accounts for the operations of the water system which is funded by proceeds from operations of this facility, including user fees, meter fees, connection fees, late payment fees. The water system fund is the Organization's only enterprise fund.

The Organization utilizes the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Organization has elected not to follow subsequent private-sector guidance issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Organization's enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund include cost of sales and Services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

(d) **CASH AND CASH EQUIVALETS AND INVESTMENTS** - The Organization's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from the date of acquisition.

(e) **INVENTORIES** - Inventories in the general fund consist of expendable system materials held for the Organization's use and are carried at cost using the first-in, first-out method.

(f) **RECEIVABLES AND PAYABLES** - The Water System Fund - Proprietary Fund receivables are due from customers within the Hatch Valley. The Organization's policy for collections is limited to collecting security and key deposits, the right to discontinue service and place liens on property.

(g) **RESTRICTED ASSETS** - Certain net assets of the Organization are classified as restricted assets on the Statement of Net Assets because their use is limited either by law through constitutional provisions or enabling legislation, or by restrictions imposed externally by creditors, or laws or regulations of other governments.

(h) **PREPAID ITEMS** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The Organization uses the consumption method.

(i) **CAPTIAL ASSETS** - Capital assets, which include property, plant and equipment, and infrastructure assets (water system), are reported in the applicable business-type activities in the water system fund - proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed. There was no interest capitalized as part of the cost of capital assets under construction during the year ended June 30, 2010.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

Depreciation of capital assets is computed and recorded by utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	20 - 50 years
Water System	30 - 50 years
Machinery & Equipment	5 - 10 years
Automobiles	3 - 5 years
Fence	10 - 20 years

(j) **LONG-TERM OBLIGATIONS** - In the water system fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable water system fund - proprietary fund statement of net assets. Debt and refinance issuance costs are reported as deferred charges and amortized over the term of the related debt.

(k) **FUND EQUITY** - In the fund financial statements, water system funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(l) **NET ASSETS** - In the government-wide and water system fund financial statements, net assets invested in capital assets net of related debt is equal to the depreciated carrying value of the Organization's capital assets less related debt.

(m) **BUDGETS** - Budgets are prepared for and adopted by the Board after public hearings for the governmental funds. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level. All budgeted appropriations lapse at fiscal year-end. Formal budgets are adopted for the general fund. As a result, deficits in the budget columns of the accompanying financial statements may occur. The Organization legally adopts budgets for all its funds on an annual basis.

2. **CASH AND CASH EQUIVALENTS AND INVESTMENTS:**

(a) **Deposits and Investments** - All deposits are held in qualified public depositories and are included in the accompanying balance sheet and statement of net assets as cash and cash equivalents. The Organization maintains cash and securities at several local financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. In 2010, the Organization did not have any uninsured balances at any financial institution.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS: (CONTINUED)**

Investments at June 30, 2010 consist of the following:

<u>Types of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Bank of New York Mellon	n/a	\$131,340
New Mexico Financial Authority	n/a	63,930
White Sands Federal Credit Union	9/05/10	<u>87,721</u>
Total Investments		\$282,991
Cash and cash equivalents		<u>195,216</u>
Total cash and cash equivalents and investments		<u>\$478,207</u>

Presented on the accompanying statement of net assets as:

Cash and cash equivalents	\$195,216
Restricted cash and cash equivalents	0
Restricted Investments	177,125
Unrestricted Investments	<u>105,866</u>
	<u>\$478,207</u>

**3. RECEIVABLES:**

Receivables at June 30, 2010 consisted of \$49,363 gross billings to customers for water consumption through June 30, 2010.

**4. CAPITAL ASSETS:**

	<u>Balance</u> <u>7/1/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/10</u>
<b>Business-type Activities:</b>				
Capital Assets not being depreciated:				
Land	\$ 84,207			\$ 84,207
Capital Assets being depreciated:				
Buildings	147,207			147,207
Water System	5,478,134			5,478,134
Construction Interest	46,526			46,526
Equipment	69,350			69,350
Furniture & Fixtures	9,569			9,569
Automobiles	27,143			27,143
Fence	<u>17,158</u>			<u>17,158</u>
	5,879,294			5,879,294
Accumulated Depreciation	<u>(1,844,083)</u>	<u>(117,742)</u>		<u>(1,961,825)</u>
Capital Assets, net	<u>\$4,035,211</u>	<u>(117,742)</u>		<u>\$3,917,469</u>

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**5. LONG-TERM DEBT:**

Long-term liabilities for the year ended June 30, 2010 were as follows:

	Balance 7/1/09	Additions	Reductions	Balance 6/30/10	Due in one yr
Business-type activities:					
FHA	\$15,052	\$ 0	\$ 15,052	\$ 0	\$ 0
FHA	15,317		3,423	11,894	1,037
NMFA	1,383,058		63,798	1,319,260	66,843
NMED	<u>239,172</u>		<u>29,834</u>	<u>210,337</u>	<u>27,533</u>
Total	<u>\$1,652,598</u>	<u>0</u>	<u>\$ 111,107</u>	<u>\$ 1,541,491</u>	<u>\$95,413</u>

The Organization at June 30, 2010 had the following terms on long-term debt:

Note payable Farmers Home Adm., payable \$1,632 annually at 5% interest, matures 2021, secured with real estate and assignment of income \$ 11,894

Note- Bond payable NM Finance Authority, payable semi-annually in May and November of each year based on a restructuring DSS aggregate debt service schedule. The reserve is funded monthly according to a monthly payment schedule. Maturity is April 2024. Bond Portion Coupon varies annually. 1,319,260

Note payable NM Environment Department, payable \$34,673 annually at 3% interest, matures 2017, secured with assignment of income 210,337

Total \$1,541,491

The aggregate maturities of outstanding long-term debt during the next five years are as follows: 2011 - \$95,413; 2012 - \$100,375; 2013 - \$104,783; 2014 - \$109,428; 2015 - \$114,325.

**6. BUDGETS:**

Garfield Mutual Domestic Water Consumers Association's annual budget, a requirement of the organization's bylaws, serves as a guide to estimate and coordinate anticipated revenues and expenditures.



**Garfield Mutual Domestic Water Consumers Association**  
**BUDGETARY COMPARISON SCHEDULE**  
**WATER SYSTEM FUND - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2010**

Ordinary Income/Expense	Actual	Budget	Variance Over (Under)
<b>Income</b>			
Membership Fee Revenue	\$26	\$22	\$4
Penalty Revenue	11,362	10,493	869
Delinquent Reconnect Charge	1,550	650	900
Turn on Charge Revenue	650	520	130
Water Connection Revenue	9,400	6,850	2,550
Water System Revenue	426,181	412,223	13,957
Interest Income	5,271	11,649	(6,378)
Misc. Income	344	679	(335)
Returned check fee	125	25	100
<b>Total Income</b>	<b>454,909</b>	<b>443,111</b>	<b>11,797</b>
<b>Expense</b>			
Annual Meeting Expenses	172	163	9
Amortization	533	0	533
Auto Expenses	3,478	2,487	991
Backhoe Repair	0	1,886	(1,886)
Bank Charges	64	128	(63)
Cash Over and Short	0	(8)	8
Chlorine/Solution	3,298	3,459	(161)
Software Serv. Agreem	3,162	3,108	54
Depreciation	117,742	0	117,742
Dues and Subscriptions Exp	1,172	1,240	(68)
Education	250	250	0
Fuel Expense	7,131	7,642	(511)
Freight Expense	91		91
Insurance Expense	14,071	13,613	458
Interest Expense	75,042	70,860	4,183
Clothes	40		40
Legal and Accounting Fees	1,858	4,617	(2,760)
Licenses and Fees Expense	371	335	36
Loan Admin. Fee	3,458	3,610	(152)
Maintenance Expense	289	2,350	(2,061)
Miscellaneous	39	(35)	74
Office Expense	5,007	6,480	(1,473)
Payroll Fica Taxes	5,088	4,905	183
Payroll Expenses	0	28	(28)
Payroll Medicare Tax	1,190	1,150	40
Payroll Work Comp Tax	73	77	(4)
Payroll Suta Tax	59	29	30
Payroll Futa Tax	178	30	148
Property Taxes	5,385	5,093	292

SEE ACCOUNTANT'S COMPILATION REPORT.  
SEE ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.  
See accompanying notes to budgetary comparison schedule.

**Garfield Mutual Domestic Water Consumers Association**  
**BUDGETARY COMPARISON SCHEDULE**  
**WATER SYSTEM FUND - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2010**

	Actual	Budget	Variance Over (Under)
Postage Expense	5,398	5,133	265
Rent - Warehouse	600	600	0
Repairs Expense	0	413	(413)
System Materials	15,132	23,733	(8,600)
System Repair	8,791	20,000	(11,209)
Telephone Expense	3,163	3,144	19
Wages Expense	82,063	82,000	63
Water Testing	5,355	3,884	1,470
Utilities - Electric	27,583	31,867	(4,285)
Utilities - PNM gas	440	216	224
<b>Total Expense</b>	<b>397,764</b>	<b>304,486</b>	<b>93,278</b>
<b>Net Income</b>	<b>\$57,145</b>	<b>\$138,625</b>	<b>(\$81,480)</b>

SEE ACCOUNTANT'S COMPILATION REPORT.  
SEE ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.  
See accompanying notes to budgetary comparison schedule.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2010

**Garfield Mutual Domestic Water Consumers Association - Actual Expense Exceeded Budget:**

1. **FINDING:** Actual depreciation expense exceeded budgeted amount by \$117,742.  
**RESPONSE:** No estimated amount was entered as budget.
2. **FINDING:** Actual interest expense exceeded budgeted amount by \$4,183.  
**RESPONSE:** Budgeted amount of interest expense was determined from long-term debt balances without taking into account the accrued interest and adjustments to year end financials at 6/30/09.
3. **FINDING:** Actual auto expense exceeded budgeted amount by \$991.  
**RESPONSE:** Budgeted amount of auto expense was determined using prior year expenses without knowledge of a transmission repair that occurred in February 2010.
4. **FINDING:** Actual water testing exceeded budgeted amount by \$1,470.  
**RESPONSE:** Budgeted amount of water testing was determined by using prior year expenses and additional testing was required.
5. **FINDING:** Actual expenses on other expenses exceeded budgeted amount and the amounts were less than \$550.  
**RESPONSE:** None requested on amounts less than \$550.

**Garfield Mutual Domestic Water Consumers Association - Actual Expense Did Not Exceed Budget:**

1. **FINDING:** Budgeted backhoe repair exceeded actual expense by \$1,866.  
**RESPONSE:** No repairs for backhoe were performed.
2. **FINDING:** Budgeted legal and accounting fees exceeded actual expense by \$2,760.  
**RESPONSE:** Budgeted amount of accounting was determined based on prior year amounts which included additional accounting fees to assist bookkeeper with questions regarding new accounting software.
3. **FINDING:** Budgeted maintenance exceeded actual expense by \$2,061.  
**RESPONSE:** Budgeted amount of maintenance was determined using prior year expense which included repairing roof on well #1 building. No repairs to well buildings were required during fiscal year 6/30/10.
4. **FINDING:** Budgeted office expense exceeded actual expenses by \$1,473.  
**RESPONSE:** Budgeted amount was determined using prior year expense which included amount for billing statements.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
(CONTINUED)  
JUNE 30, 2010

5. **FINDING:** Budgeted system materials exceeded actual expense by \$8,600.  
**RESPONSE:** Budgeted system materials was determined using prior year expense before adjustments for ending physical inventory and an expense for meters.
6. **FINDING:** Budgeted system repair exceeded actual expense by \$11,209.  
**RESPONSE:** Budgeted system repair was determined using prior year expense and included additional repairs that were expected to upgrade motors on wells which did not take place.
7. **FINDING:** Budgeted utilities - electric exceeded actual expense by \$4,285.  
**RESPONSE:** Budgeted utilities was determined using prior year expense and included additional utilities due to the expected upgrade of motor on wells which did not take place.
6. **FINDING:** Budgeted expenses on other expenses exceeded actual amounts and the amounts were less than \$550.  
**RESPONSE:** None requested on amounts less than \$550.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2010

The agreed-upon procedures performed for this engagement which were solely to assist you with respect to the accounting records of Garfield Mutual Domestic Water Consumers Association resulted in the following findings listed below. Management's response to these findings is as follows:

**2010-01 No bank reconciliation.**

**CONDITION**

The Association did not perform bank reconciliations for Bank of New York - Mellon between October 2009 to June 2010.

**CRITERIA**

State Audit Rule 2.2.2.10 N, Section 4(e) states that reconciled balances of deposits and investments should be performed for each account on the balance sheet date and reported on the financial statements.

**EFFECT**

There is interest income being earned on a monthly basis and it is not being reported on the financial statements.

**CAUSE**

The Association had been receiving the bank statements monthly from Bank of Albuquerque but when the account was transferred to Bank of New York-Mellon, the statements were no longer mailed to the Association.

**RECOMMENDATION**

I recommend that the Association request a monthly statement and reconcile the account each month.

**MANAGEMENT'S RESPONSE**

The Association will request a monthly statement from Bank of New York - Mellon and also a copy from New Mexico Financial Authority so that they can perform bank reconciliations of this account on a monthly basis.

**2010-02 No financial statements being submitted to NM Finance Authority**

**CONDITION**

The Association did not submit financial statements to New Mexico Finance Authority annually as required by the terms of the loan agreement.

**CRITERIA**

State Audit Rule 2.2.2.10 Q, Section 1 states the Association be in compliance related to laws, regulations, contracts and grant provisions.

**EFFECT**

The Association is not in compliance with State Audit Rule 2.2.2.10 Q, Section 1.

**CAUSE**

The Association has not submitted year-end financial statements to New Mexico Financial Authority because the Agency has not requested them. They are current in liability payments and have not been requested to provide any financial statements to the NM Finance Authority.

**RECOMMENDATION**

I recommend that the Association submit year-end financial statements to New Mexico Finance Authority.

**MANAGEMENT'S RESPONSE**

The Association will submit year-end financial statements to New Mexico Finance Authority after the statements have been reviewed and accepted by the State Auditor's office.

**2010-03 Final Budget not complete:**

**CONDITION**

The original and final budget did not include amounts for depreciation and amortization. The budget was not revised to include prior year actual expenses for interest.

**CRITERIA**

State Audit Rule 222.10 O, Section 1(b) requires that if the agency prepare its budget on a cash basis, the Statement of Revenues and Expenditures (Budget and Actual) include the amounts of prior-year cash balance to balance the budget.

**EFFECT**

The actual revenues and expenditures do not accurately reflect what the difference in budget and actual are if prior year amounts are omitted from the budget. There is an increased risk of misstatements and or/or budget overages occurring and not being detected.

**CAUSE**

Budgeted amounts are entered using prior year expenses without considering any year end adjustments for accruals for interest, depreciation and amortization. No changes to budget are made after the board of directors approves the annual budget.

**RECOMMENDATION**

I recommend that the Association enter budgeted revenue and expenditures based on adjusted year end amounts from financial statements.

**MANAGEMENT'S RESPONSE**

The Agency will enter budget revenues and expenditures using information from the year-end financial statements and include adjusting entries made.

**2010-04 No Proposals were procured for fiscal year end 2010.**

**CONDITION**

The Association did not seek proposals for an appropriate independent public accountant to perform services for fiscal year-end 2010.

**CRITERIA**

2.2.2 NMAC, Audit Act Sections 12-6-1 through 12-6-14 NMSA 1978 requires that the Agency procure services for its local public body's fiscal year-end. The Agency is required to seek proposals for the appropriate independent account professional for the services required in accordance with Procurement Code and 2.2.2 Requirements for Contracting and Conducting Audits of Agencies.

**CAUSE**

There was a delay in procuring proposals for services from Independent Public Accountants and the IPA Firm's review was added to the List of Firms Approved to Perform Agreed Upon Procedures Under the Tiered System for New Mexico on November 2, 2010 by the State Auditor.

**EFFECT**

The Agency is not in compliance with Section 2.2.2.16(D) of NMAC.

**RECOMMENDATION**

Management should ensure that requests for proposals for services from Independent Public Accountants be submitted in a timely manner so that proposals may be reviewed and accepted prior to year end.

**MANAGEMENT'S RESPONSE**

The Association will make sure that necessary documentation is submitted to Independent Public Accountants approved to perform financial and compliance audits or agreed upon procedures engagements and request proposals for such services. The documentation will be submitted in a timely manner so that IPAs may submit proposals and the board have sufficient time to review and approve and submit the necessary documentation to State Auditor for Contract.



## **2010-05 Late Submission of the Agreed-Upon Procedure Report**

### **CONDITION**

The agreed-upon procedures reports for the year ending June 30, 2010 were not submitted by the deadline of December 1, 2010. The reports were submitted to the State Auditor's Office on March 31, 2011 which was the approved modified due date.

### **CRITERIA**

2.2.2 NMAC, Audit Rule 2010, specifies the deadline for submission of agreed-upon procedure report. Section 2.2.2.16 H stipulates that Association reports are due no later than December 1. Further, Section 2.2.2.9 A (2) requires that submission of a late report shall be reported as current year audit finding in the report.

### **CAUSE**

There was a delay in submitting letter of recommendation to the State Auditor's Office. Hence, executed contract was dated December 23, 2010 and received in December 2010.

### **EFFECT**

The Association is not in compliance with Section 2.2.2.16 H of the NMAC, Audit Rule 2010.

### **RECOMMEDATION**

Management should ensure that contract be executed on a timely manner to ensure that report will be submitted on or before the deadline.

### **MANAGEMENT'S RESPONSE**

The Association will make sure that necessary documentations being submitted to the State Auditor's Office to ensure that the contract gets executed as early as possible to allow timely submission of the report.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION  
EXIT CONFERENCE  
FOR YEAR ENDED JUNE 30, 2010

An exit conference was held on March 29, 2011 at 5:00 pm at the office of Garfield Mutual Domestic Water Consumers Association at 8580 N. Hwy 187, Garfield, NM 87936. Members of the governing board in attendance were:

Ronald Garay	President
Nga Brewster	Secretary - Treasurer
Robert Shannon	Director