

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

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Wanda M. Lucero, CPA

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To: Board of Directors of Garfield Mutual Domestic Water Consumers and Sewage Works Association
The Honorable Hector H. Balderas, New Mexico State Auditor

I have performed the procedures enumerated below with respect to accrual basis financial information and state law compliance which were agreed to by the management of Garfield Mutual Domestic Water Consumers and Sewage Works Association, solely to assist you with respect to the accounting records of Garfield Mutual Domestic Water Consumers and Sewage Works Association for the fiscal year ended June 30, 2012. The management of Garfield Mutual Domestic Water Consumers and Sewage Works Association is responsible for maintaining the financial records and complying with state law. 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 and Sewage Works 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: No exceptions were found as a result of applying this procedure.

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

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.

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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: Four exceptions were found as a result of applying this procedure:

- a) Budgeted water connection revenue exceeded actual revenue by \$2,700.
- b) Budgeted water system revenue exceeded actual revenue by \$18,419.
- c) Actual penalty revenue exceeded budgeted revenue by \$2,353.
- d) Actual FEMA grant revenue exceeded budgeted revenue by \$44,651.

7. **Procedure Performed:** Verified that the amount recorded for revenue 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: No exceptions were found as a result of applying this procedure.

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: Six exceptions were found as a result of applying this procedure:

- a) The actual engineering expense exceeded the budgeted amount by \$11,719
- b) The actual insurance expense exceeded the budgeted amount by \$3,550
- c) The actual legal and accounting expense exceeded the budgeted amount by \$1,865
- d) The actual maintenance expense exceeded the budgeted amount by \$1,139
- e) The actual office expense exceeded the budgeted amount by \$3,608
- f) The actual wages expense exceeded the budgeted amount by \$3,697

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, 2012. 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 2011 on submitting year-end financial statements to the NM State Auditor's Office by December 1, 2012.

Findings: One exception was found as a result of applying this procedure. The Company did not submit financial statements to the Office of the State Auditor by December 1, 2012 and is not in compliance with Sections 2.2.2.(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 and Sewage Works Association accounting records at June 30, 2012. 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
November 15, 2012

Wanda M. Lucero, CPA

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To The Board of Directors
Garfield Mutual Domestic Water Consumers & Sewage Works Association
Garfield, New Mexico 87936

I have compiled the accompanying Statement of Net Assets - Water System Fund - Proprietary Fund of Garfield Mutual Domestic Water Consumers & Sewage Works 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, 2012. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The budgetary comparison information on Pages 15 - 19 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

November 15, 2012

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GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
OFFICIAL ROSTER
JUNE 30, 2012

OFFICERS

RONALD GARAY
RICHARD MILLARD
NGA BREWSTER
ISIDRO ALVAREZ
DAVID HOLGUIN
ERROL GONZALEZ
ROBERT SHANNON

TITLE

PRESIDENT
VICE PRESIDENT
SECRETARY/TREASURER
DIRECTOR
DIRECTOR
DIRECTOR
DIRECTOR

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF NET ASSETS
WATER SYSTEM FUND - PROPRIETARY FUND
JUNE 30, 2012

<u>ASSETS</u>	
CURRENT ASSETS	
CASH & CASH EQUIVALENTS	
UNRESTRICTED	\$289,962
RESTRICTED	13,396
TOTAL CASH & CASH EQUIVALENTS	<u>303,358</u>
INVESTMENTS:	
UNRESTRICTED	68,706
RESTRICTED	175,647
TOTAL INVESTMENTS	<u>244,353</u>
TOTAL CASH & CASH EQUIVALENTS & INVESTMENTS	547,711
ACCOUNTS RECEIVABLE	48,538
INVENTORY, SYSTEM MATERIAL	42,778
PREPAID EXPENSES	13,508
TOTAL CURRENT ASSETS	<u>652,535</u>
 CAPITAL ASSETS	
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	<u>(2,180,677)</u>
CAPITAL ASSETS - NET OF DEPRECIATION	<u>3,698,617</u>
 OTHER ASSETS	
LOAN COSTS	20,787
ACCUMULATED AMORTIZATION	<u>(6,929)</u>
OTHER ASSETS - NET OF AMORTIZATION	<u>13,858</u>
TOTAL ASSETS	<u>\$4,365,010</u>
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	\$6,872
REFUND AND SECURITY KEY DEPOSITS	5,540
ACCRUED INTEREST PAYABLE	9,359
PAYROLL AND GROSS RECEIPTS TAXES PAYABLE	7,806
CURRENT PORTION OF LONG-TERM DEBT	103,393
TOTAL CURRENT LIABILITIES	<u>132,970</u>
 NON-CURRENT LIABILITIES	
NON-CURRENT PORTION OF LONG-TERM DEBT	1,231,927
TOTAL NON-CURRENT LIABILITIES	<u>1,231,927</u>
TOTAL LIABILITIES	<u>1,364,897</u>
 NET ASSETS	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	2,377,155
RESTRICTED FOR:	
DEBT SERVICE AND REPAIRS	189,043
UNRESTRICTED	433,915
TOTAL NET ASSETS	<u>3,000,113</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$4,365,010</u>

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES	
WATER SYSTEM REVENUE	\$414,763
PENALTY REVENUE	12,238
WATER CONNECTION REVENUE	2,000
MEMBERSHIP FEES REVENUE	26
DELINQUENT RECONNECT CHARGE REVENUE	1,350
TURN ON CONNECT REVENUE	825
FEMA GRANT	44,651
FEE FOR FAXES	11
TOTAL OPERATING REVENUES	<u>475,864</u>
OPERATING EXPENSES	
ANNUAL MEETING	227
AMORTIZATION	533
AUTO EXPENSES	2,891
BANK CHARGES	21
CHLORINE SOLUTION	1,520
SOFTWARE SERVICE AGREEMENT	3,575
DEPRECIATION	109,426
DUES AND SUBSCRIPTIONS	1,226
EDUCATION	500
ENGINEERING	11,749
FUEL	8,536
INSURANCE	16,889
LEGAL AND ACCOUNTING	8,463
LICENSES AND FEES	359
LOAN ADMINISTRATIVE FEE	3,131
MAINTENANCE	1,461
MISCELLANEOUS	78
OFFICE	7,381
PAYROLL TAXES	6,754
PROPERTY TAXES	2,635
POSTAGE AND FREIGHT	5,126
RENT - WAREHOUSE	600
SYSTEM MATERIALS	15,396
SYSTEM REPAIRS	45,550
TELEPHONE	4,087
TRAVEL	0
WAGES	82,907
WATER TESTING	4,833
UTILITIES	28,861
TOTAL EXPENSES	<u>374,715</u>
OPERATING INCOME	<u>101,149</u>
NONOPERATING REVENUES (EXPENSES)	
INTEREST INCOME	1,753
INTEREST EXPENSE	(66,780)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(65,027)</u>
CHANGES IN NET ASSETS	36,122
TOTAL NET ASSETS - JULY 1	2,963,991
TOTAL NET ASSETS - JUNE 30	<u>\$3,000,113</u>

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
STATEMENT OF CASH FLOWS
WATER SYSTEM FUND - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
CASH RECEIVED FROM CUSTOMERS	\$483,266
CASH PAID TO SUPPLIERS	(192,464)
CASH PAID TO EMPLOYEES	(82,907)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>207,895</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
INTEREST PAYMENTS ON LONG-TERM DEBT	(67,066)
PRINCIPAL PAYMENTS ON LONG-TERM DEBT	(99,902)
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	<u>(166,968)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
INTEREST EARNINGS	1,753
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,680
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (INCLUDING \$177,125 REPORTED IN RESTRICTED ACCOUNTS)	<u>505,031</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (INCLUDING \$189,043 REPORTED IN RESTRICTED ACCOUNTS)	<u><u>\$547,711</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM OPERATING ACTIVITIES	
OPERATING INCOME	<u>\$101,149</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
DEPRECIATION AND AMORTIZATION	109,959
CHANGES IN ASSETS AND LIABILITIES	
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	7,402
(INCREASE) DECREASE IN INVENTORY SYSTEM MATERIAL	(457)
(INCREASE) DECREASE IN PREPAID EXPENSES	(3,320)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	(6,207)
INCREASE (DECREASE) IN DEPOSITS AND SECURITY KEY DEPOSITS	33
INCREASE (DECREASE) IN PAYROLL & GROSS RECEIPTS TAXES	(664)
TOTAL ADJUSTMENTS	<u>106,746</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$207,895</u></u>

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (a) **REPORTING ENTITY** - Garfield Mutual Domestic Water Consumers and Sewage Works 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 and Sewage Works 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 AND
SEWAGE WORKS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 AND
SEWAGE WORKS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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. Deposits held in non interest-bearing transaction accounts will be fully insured regardless of the amount in the account until December 31 2012. At June 30, 2012, the Organization had no accounts of uninsured balances.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Investments at June 30, 2012 consist of the following:

<u>Types of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Bank of New York Mellon	n/a	\$124,910
New Mexico Financial Authority	n/a	29,750
White Sands Federal Credit Union	9/05/11	<u>89,693</u>
Total Investments		\$244,353
Cash and cash equivalents		<u>303,358</u>
Total cash and cash equivalents and investments		<u>\$547,711</u>

Presented on the accompanying statement of net assets as:

Cash and cash equivalents	\$289,962
Restricted cash and cash equivalents	13,396
Restricted Investments	189,043
Unrestricted Investments	<u>55,310</u>
	<u>\$547,711</u>

3. RECEIVABLES:

Receivables at June 30, 2012 consisted of \$48,538 gross billings to customers for water consumption through June 30, 2012.

4. CAPITAL ASSETS:

	<u>Balance</u> <u>7/1/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/12</u>
Business-type Activities:				
Capital Assets not being depreciated:				
Land	\$ 84,207			\$ 84,207
Capital Assets being depreciated:				
Buildings	147,207			147,207
Water System	5,524,660			5,524,660
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>(2,071,251)</u>	<u>(109,426)</u>		<u>(2,180,677)</u>
Capital Assets, net	<u>\$3,808,043</u>	<u>(109,426)</u>		<u>\$3,698,617</u>

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5. LONG-TERM DEBT:

Long-term liabilities for the year ended June 30, 2012 were as follows:

	Balance 7/1/11	Additions	Reductions	Balance 6/30/12	Due in one yr
Business-type activities:					
NMFA	1,252,417		70,097	1,182,320	73,574
NMED	<u>182,805</u>		<u>29,805</u>	<u>153,000</u>	<u>29,819</u>
Total	<u>\$1,435,222</u>	0	<u>\$ 99,902</u>	<u>\$ 1,335,320</u>	<u>\$ 103,393</u>

The Organization at June 30, 2012 had the following terms on long-term debt:

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.

\$1,182,320

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

153,000

Total

\$1,335,320

The aggregate maturities of outstanding long-term debt during the next five years are as follows: 2013 - \$103,393; 2014 - \$108,238; 2015 - \$113,045; 2016 - \$118,178; 2017 - \$117,180.

6. BUDGETS:

Garfield Mutual Domestic Water Consumers and Sewage Works 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 AND SEWAGE WORKS ASSOCIATION
 BUDGETARY COMPARISON SCHEDULE
 WATER SYSTEM FUND - PROPRIETARY FUND
 Year Ended June 30, 2012**

	Actual	Budget	Variance Over (Under)
Ordinary Income/Expense			
Income			
Membership Fee Revenue	\$26	\$13	\$13
Penalty Revenue	12,238	9,885	2,353
Delinquent Reconnect Charge	1,350	1,550	(200)
Turn on Charge Revenue	825	550	275
Water Connection Revenue	2,000	4,700	(2,700)
Water System Revenue	414,763	433,182	(18,419)
Interest Income	1,753	1,746	7
FEMA Grant	44,651	0	44,651
Misc. Income	11	161	(150)
Returned check fee	0	125	(125)
Total Income	477,617	451,912	25,705

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.
 SEE INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION
BUDGETARY COMPARISON SCHEDULE
WATER SYSTEM FUND - PROPRIETARY FUND
Year Ended June 30, 2012

	Actual	Budget	Variance Over (Under)
Expense			
Amortization Expense	533	533	0
Annual Meeting Expenses	227	139	88
Auto Expenses	2,891	3,149	(258)
Bank Charges	21	3	18
Chlorine/Solution	1,520	2,694	(1,174)
Software Serv. Agreem	3,575	3,523	52
Depreciation Expense	109,426	109,426	0
Dues and Subscriptions Exp	1,226	1,210	16
Education	500	250	250
Engineering Fee	11,749	0	11,749
Fuel Expense	8,536	8,194	342
Insurance Expense	16,889	13,339	3,550
Interest Expense	66,780	71,004	(4,224)
Legal and Accounting Fees	8,463	6,598	1,865
Licenses and Fees Expense	359	365	(6)
Loan Admin. Fee	3,131	3,298	(167)
Maintenance Expense	1,461	322	1,139
Miscellaneous	78	98	(20)
Office Expense	7,381	3,773	3,608
Payroll Fica Taxes	5,140	4,911	229
Payroll Expenses	0	0	0
Payroll Medicare Tax	1,202	1,149	53
Payroll Work Comp Tax	135	69	66
Payroll SUTA Tax	129	100	29
Payroll Futa Tax	148	339	(191)
Property Taxes	2,584	3,674	(1,090)
Other Taxes	51	0	51
Postage and Freight Expense	5,126	5,336	(210)
Rent - Warehouse	600	600	0
System Materials	15,396	16,154	(758)
System Repair	45,550	49,458	(3,908)
Telephone Expense	4,087	3,807	280
Travel Expense	0	217	(217)
Wages Expense	82,907	79,210	3,697
Water Testing	4,833	4,613	220
Utilities - Electric	28,466	29,844	(1,378)
Utilities - PNM gas	395	363	32
Total Expense	441,495	427,761	13,734
Net Income (fund balance)	\$36,122	\$24,151	\$11,971

SEE INDEPENDENT ACCOUNTANT'S COMPILATION REPORT.
SEE INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

Garfield Mutual Domestic Water Consumers Association - Actual Expenses Exceed Budget Amounts:

1. **FINDING:** Actual engineering expense exceeded budgeted amount by \$11,749.
RESPONSE: No amount was budgeted because the Agency didn't expect to have to provide a 40 year plan to the State Engineer's office for permit to drill new wells.
2. **FINDING:** Actual insurance expense exceeded budgeted amount by 3,550.
RESPONSE: Budgeted insurance expense was determined using prior year expense without considering that the board approved an increase for general liability insurance.
3. **FINDING:** Actual legal and accounting expense exceeded budgeted amounts by \$1,865.
RESPONSE: Budgeted legal and accounting expense was determined using prior year expense without considering the contract increase for Tier 6 Agreed Upon Procedure.
4. **FINDING:** Actual maintenance expense exceeded the budgeted amount by \$1,139.
RESPONSE: Budgeted maintenance expense was determined using prior year expense amount without considering the replacement of outside lights in front and back of office building.
5. **FINDING:** Actual office expense exceeded the budgeted amount by \$3,608.
RESPONSE: Budgeted office expense was determined using prior year expense amount without considering the cost to change the billing statements to One Way Pressure Seal.
6. **FINDING:** Actual wage expenses exceeded budgeted amount by \$3,697.
RESPONSE: Budgeted wages were determined using prior year expense amount without considering raises that the Agency's Board approved to give to employees.
7. **FINDING:** Other actual expenses exceeded budgeted amounts and the amounts were less than \$900.
RESPONSE: None requested on amounts less than \$900.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

Garfield Mutual Domestic Water Consumers Association - Budgeted Expenses Exceeded the Actual Expenses:

- 1. FINDING:** Budgeted chlorine solution expense exceeded actual expense by \$1,175.
RESPONSE: Budgeted chlorine solution expense was determined using prior year amount which didn't take into account that the chlorine is purchased in bulk and used as needed and there was a surplus from the prior year.
- 2. FINDING:** Budgeted interest expense exceeded actual amount by \$4,224.
RESPONSE: Budgeted interest expense was determined using prior year expense without considering that the Agency had made additional principal payments and reduced the loan balance with NM Environmental Department.
- 3. FINDING:** Budgeted property tax expense exceeded actual expense by \$1,090.
RESPONSE: Budgeted property tax expense was determined using prior year expense amount without considering that the County of Dona Ana issued a statement that the Agency is tax exempt for property taxes in Dona Ana County.
- 4. FINDING:** Budgeted system repair exceeded actual expense by \$3,908.
RESPONSE: Budgeted system repair were determined using prior year expense amount without consideration that prior year expenses included costs for repairs due to the freezing temperatures in February 2011.
- 5. FINDING:** Budgeted electric utilities exceeded actual expenses by \$1,379.
RESPONSE: Budgeted electric utilities amount was determined using prior year expense amount without considering that the electric pumps shut down while they are being repaired.
- 6. FINDING:** Other actual budgeted expenses exceeded actual amounts and the amounts were less than \$900.
RESPONSE: None requested on amounts less than \$900.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

NOTES TO BUDGETARY COMPARISON SCHEDULE
(CONTINUED)
JUNE 30, 2012

**Garfield Mutual Domestic Water Consumers Association - Variances of Actual Revenues
To Budget Amounts:**

1. **FINDING:** Actual penalty revenue exceeded the budgeted amount by \$2,353.
RESPONSE: The budgeted penalty revenue was determined using prior year amount without considering that the economy might cause more consumers to pay late.

2. **FINDING:** Budgeted water connection revenue exceeded the actual amount by \$2,700.
RESPONSE: The budgeted water connection revenue was determined using prior year amount without considering that the Agency's Board approved a freeze on issuing new meters.

3. **FINDING:** Budgeted water system revenue exceeded the actual amount by \$18,419.
RESPONSE: Budgeted amount was determined using prior year amount without considering that the Agency had an over billing in February 2012 which was caused by leaks due to the freezing temperatures and that the Agency's Board approved issuing credits to consumers in September 2011.

4. **FINDING:** Actual FEMA grant revenue exceeded the budgeted amount by \$44,651.
RESPONSE: No budget amount was determined because the Agency didn't know when the grant would be awarded. The grant was awarded on August 29, 2012.

5. **FINDING:** Other variances in budgeted and actual revenue existed and the amounts were less than \$900.
RESPONSE: None requested on amounts less than \$900.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

2012-01 Final Budget - Revenue amounts not complete:

CONDITION

The total actual revenues exceeded the total budgeted revenues in the amount of 25,705. The original and the final budget did not include amounts for current fiscal year occurrences. The budget was not revised to include current fiscal year amounts for certain situations occurring during the year.

CRITERIA

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

EFFECT

The actual revenue amounts do not accurately reflect what the difference in budget and actual amounts are if the budget is not revised as situations occur in the current fiscal year. 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 revenue but no changes to budgets are made after the board of directors approves the original annual budget.

RECOMMENDATION

I recommend that the Association enter budgeted revenues based on adjusted year end amounts from financial statements and make adjustments to the budget when situations occur and the Agency can reasonably estimate the amount.

MANAGEMENT'S RESPONSE

The Agency will enter budget revenues using information from the year-end financial statements and make revisions to the budget when certain situations come to the board's attention that will affect the financial records and the amount of revenue can be estimated.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

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:

2012-02 Final Budget - Expense amounts not complete:

CONDITION

The total actual expenditures exceeded the final budget expenditures in the amount of \$13,734. The original and the final budget did not include amounts for current fiscal year occurrences. The budget was not revised to include the estimated costs for certain situations that occurred during the year.

CRITERIA

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

EFFECT

The actual expenditures do not accurately reflect what the difference in budget and actual are if the budget is not revised as situations occur in the current year. 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 but no changes to budget are made after the board of directors approves the original annual budget.

RECOMMENDATION

I recommend that the Association enter budgeted expenditures based on adjusted year end amounts from financial statements and make adjustments to the budget when situations occur and the Agency can reasonably estimate the amount.

MANAGEMENT'S RESPONSE

The Agency will enter budget expenditures using information from the year-end financial statements and make revisions to the budget when certain situations come to the board's attention that will affect the financial records and the amount of expense can be estimated.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS AND
SEWAGE WORKS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

2012-03 Late Submission of the Agreed-Upon Procedure Report:

CONDITION

The agreed-upon procedures reports for the year ending June 30, 2012 were not submitted by the deadline of December 1, 2012. The reports were submitted to the State Auditor's Office on March 7, 2013.

CRITERIA

2.2.2 NMAC Audit Rule 2012 specifies the deadline for submission of agreed-upon procedure report. Section 2.2.2.16(H)(1) stipulates that Association reports are due no later than December 1. Section 2.2.2.9(A)(2) requires that submission of a late report shall be reported as current year finding in the report. Furthermore, Section 2.2.2.10(I)(4) specifies that failure to file the audit report by the due date set in 2.2.2.9 NMAC is considered noncompliance with this Rule and shall be reported as a current year compliance finding.

EFFECT

The Association is not in compliance with Section 2.2.2.16(H) of NMAC Audit Rule 2012.

CAUSE

The report was submitted on November 20, 2012 but a notice of rejection fax was received on December 3, 2012 from the Office of the State Auditor indicating that the report was not in compliance with audit rules. An electronic copy of the revised draft was received by the Office of the State Auditor on December 3, 2012 but did not receive the revised hard copy of the draft until March 7, 2013.

RECOMMENDATION

I recommend that the Association ensure that the contract be executed on a timely manner and verify that the report is being submitted on or before the deadline to the Office of the State Auditor.

MANAGEMENT'S RESPONSE

The Agency will make sure that necessary documentations being furnished to the Independent Public Accountant are provided in a timely manner so that the reports submitted to the Office of The State Auditor are submitted before the deadline.

GARFIELD MUTUAL DOMESTIC WATER CONSUMERS
AND SEWAGE WORKS ASSOCIATION
EXIT CONFERENCE
FOR YEAR ENDED JUNE 30, 2012

An exit conference was held on November 19, 2012 at 7:00 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
Isidro Alvarez	Director
David Holguin	Director
Robert Shannon	Director

