

STATE OF NEW MEXICO
LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES REPORT
DECEMBER 31, 2010

INTRODUCTORY SECTION

STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association
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December 31, 2010

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STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association
Official Roster
December 31, 2010

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Vacant	President
Edward Silva Jr.	Vice President
Reynaldo Duran	Secretary
Connie Klofonda	Treasurer
Perry Osborne	Works Supervisor

ADMINISTRATION

Perry Osborne	Systems Manager
Carol Garcia	Office Administrator
Edward Lueras	Chief Water Operator

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT


Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the Board of Director's, La Luz Mutual Domestic Water Consumers Association
La Luz, New Mexico

We have performed the procedures enumerated below, which were agreed to by the La Luz Mutual Domestic Water Consumers Association (Association) and the New Mexico State Auditor's Office, solely to assist in determining if the Association is in compliance with New Mexico State Auditor Rule, Tier 6, as of December 31, 2010. 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 the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which his report has been requested or for any other purpose.

The procedures and the associated findings are included in a supplemental attachment.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Tier 6 agreed upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and others within the Association, the State Auditor, the Department of Finance and Administration –Local Government Division, and the New Mexico State Legislature and is not intended to be and should no be used by anyone other these specified parties.


Accounting & Consulting Group, LLP
Alamogordo, New Mexico
December 20, 2012

SUPPLEMENTARY INFORMATION

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
DECEMBER 31, 2010

PROCEDURES PERFORMED AND RELATED RESULTS

1. Cash

- a. Determine whether bank reconciliations being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on hand.

We were unable to determine when reconciliations were prepared. See finding 2010-01

All reconciliations were complete and on hand.

- b. Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division.

We selected four months to test. One of the four reconciliations did not agree to the general ledger balance. See finding 2010-02. It was also noted that no financial reports were submitted to the DFA-Local Government Division. See Finding 2010-04.

- c. Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

We determined that the average running balance is below \$250,000 in all accounts. Additional procedures were not performed.

2. Capital Assets

- a. Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

An annual physical inventory of capital assets is completed.

3. Debt

- a. If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

We obtained the annual debt statement and verified that all payments were made during the year. No reserves are required.

4. Revenues

- a. Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation and perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

We compared actual to budget for each type of revenue. Results are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>Water use fees</i>	\$285,000	\$268,028	(16,972)

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
DECEMBER 31, 2010

Revenues (continued)

All revenues tested are considered reasonable.

- b. Select a sample of revenues based on auditor judgment and test using the following attributes:
 - I. Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.
 - II. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

No exceptions were noted testing the attributes above.

5. Expenditures

- a. Select a sample of cash disbursements based on auditor judgment and test using the following attributes:
 - I. Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.
 - II. Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
 - III. Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

We noted that nine expenses out of twenty four expenses tested were not properly approved and for two expenses out of twenty four tested we were unable to determine payee from the invoice that was provided. See Finding 2010-06.

6. Journal Entries

- a. If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
 - I. Journal entries appear reasonable and have supporting documentation.
 - II. The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

We noted no non-routine journal entries. In addition, the journal entries are reviewed by the treasurer during the monthly board meetings.

7. Budget

- a. Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
 - I. Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LDG.

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
AGREED UPON PROCEDURES
DECEMBER 31, 2010

Budget (continued)

We verified the Board of Directors approved the original budget. There were no budget adjustments. Approval was neither sought nor granted from DFA-LGD. See finding 2010-04.

- II. Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

It was determined that the Association exceeded the final budget at the legal level of budgetary control by \$10,375. See Finding 2010-03.

- III. From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

See attached Statement of Revenues and Expenditures – Budget and Actual- General Fund.

8. Capital Outlay

- a. Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year.

We were unable to obtain all grant agreements, but did verify all funds expended during the fiscal year. See Finding 2010-7. The grant monies expended were from grants awarded in 2006 and 2007.

9. Other

- a. If information comes to the IP A's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

The only item noted was the timing of submitting this report. The report is considered to be a late report. See Finding 2010-05.

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND

December 31, 2010
As Provided by Client

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water User Fees	\$ 285,000	\$ 268,028	\$ (16,972)
-sales tax	(16,576)	-	16,576
Total Revenues	\$ 268,424	\$ 268,028	\$ (396)
Expenditures			
Accounting	\$ 5,400	\$ 6,184	\$ (784)
Advertising	300	35	265
Auto, Truck, Backhoe exp	3,000	2,095	905
Bank charges	100	-	100
Dues and sub	1,000	742	258
Employee benefit	3,000	2,472	528
Employee Pension plan	4,000	3,292	708
Eng Fees	-	1,212	(1,212)
Insurance, general	11,000	14,669	(3,669)
Interest exp	7,000	5,813	1,187
Legal	1,000	627	373
Misc	500	250	250
Office supplies	3,000	2,006	994
Postage	3,500	2,481	1,019
Repairs	16,000	10,777	5,223
Rent, equip	1,000	487	513
Small tools	1,000	787	213
Salaries and wages	115,400	113,817	1,583
Taxes employment	8,900	8,746	154
Taxes, other	2,500	2,269	231
Taxes, State conservation	1,500	1,289	211
Telephone	4,500	4,186	314
Travel, Lodging, and training	6,000	3,691	2,309
Utilities	1,600	1,007	593
Water samples	1,000	172	828
Electricity	20,000	22,803	(2,803)
Chemical/Chlorine	3,000	-	3,000
Cash over/short	-	47	(47)
Depreciation	-	21,565	(21,565)
Donations	-	50	(50)
Supplies - chemical	-	2,004	(2,004)
Total Expenditures	\$ 225,200	\$ 235,575	\$ (10,375)
 Change in Net Assets	 \$ 43,224	 \$ 32,453	 \$ 9,979

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES**

2010-01 Unable to determine if bank reconciliations were completed in a timely manner

Condition: The bank reconciliations have no time stamp and are not included in packets for the board of director meetings.

Criteria: According to Tier 6 of the Audit Act bank reconciliations must be prepared in a timely manner.

Cause: There wasn't a mechanism in place to date the reconciliations as they were being performed.

Effect: A determination could not be made as to the timeliness of the preparations of the reconciliations.

Auditors' Recommendation: Future bank reconciliations should be prepared in a timely manner with a date stamped on them.

Agency's Response: Future bank reconciliations will be prepared in a timely manner with an indication of the date completed.

2010-02 Book balance on bank reconciliation does not agree to general ledger

Condition: The book balance as listed and calculated on one bank reconciliation does not agree to the general ledger.

Criteria: Section 6-6-3 A. NMSA 1978 states that "Every local public body shall keep all the books, records and accounts in their respective offices in the form prescribed by the local government division.

Cause: The incorrect amount was carried over from the previous month's book balance.

Effect: The cash balance may be wrong and go unnoticed.

Auditors' Recommendation: We recommend that the reconciliations be prepared to agree to the general ledger.

Agency's Response: The treasurer will ensure reconciliations prepared agree to the general ledger. The entity has engaged Accounting and Consulting Group, LLP for bookkeeping service and the will also help ensure that the reconciliations agree to the GL.

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES**

2010-03 Actual expenses exceeds budget

Condition: Actual expenses exceeded budgeted expenses for the La Luz Domestic Water Consumers Association by \$10,375.

Criteria: Per SAO Rule 2.2.2.10 P(1), “If actual expenditures exceed budgeted expenditures at the legal level of budgetary compliance, that fact must be reported in a finding.”

Cause: During the year December 31, 2010 the board of directors approved the budget and made no amendments as the need arose during the year.

Effect: The Association is not in compliance with state statutes.

Auditors’ Recommendation: We recommend that the Association comply with legal budget requirements as outlined in the State Auditor Rule.

Agency’s Response: The Association will comply with legal budget requirements as outlined in the State Auditor Rule. If a change is needed to the budget, the association’s board will approve it in a regular meeting, will include it in the minutes and will notify the State Auditor. The entity is also going to put in place a quarterly reporting package for the State Auditor that includes not only changes to the budget, but quarterly financial reports as well as other pertinent documents.

2010-04 Submission of Reports to the Department of Finance and Administration (DFA)

Condition: It was noted that the La Luz Domestic Water Consumers Association does not file any financial and budgetary reports with DFA-LGD.

Criteria: NMSA 6-6-2 requires local public bodies to submit quarterly financial reports and an annual budget to DFA-LGD.

Cause: The Association was unaware it should be submitting reports and budgets.

Effect: The Association is not in compliance with NMSA 6-6-2. .

Auditors’ Recommendation: The Association should establish and working relationship with its DFA analyst to help the Association file all required reports accurately and in a timely manner.

Agency’s Response: The entity will put in place a quarterly reporting package for the State Auditor that includes not only changes to the budget, but quarterly financial reports as well as other pertinent documents.

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES**

2010-05 Late Submission of Report

Condition: The agreed upon procedures report for the fiscal year ended December 31, 2010 was not filed timely by May 30, 2011.

Criteria: The due date of May 30, 2011 is established in Section 2.2.2.9 NMAC of the 2010 State auditor rule.

Cause: The Association needed time to comply with regulations they were not previously aware of.

Effect: The report was not made available on a timely basis for use they Legislature, the administration, or by other users.

Auditors' Recommendation: Future required reports should be filed timely.

Agency's Response: The association is now aware of reporting requirements and has engaged Accounting and Consulting Group, LLP to prepare these reports as required by statutes.

2010-06 Expenses

Condition: Nine expenses tested out of twenty four were not properly approved and with two expenses tested out of twenty four we were unable to determine payee from the invoice that was provided.

Criteria: According to Tier 6 of the Audit Act expenses must be properly approved and amount, payee, date and description must agree to the canceled check.

Cause: Proper internal controls were not in place to prevent expenses from being paid without approval or insure that proper record keeping was taking place.

Effect: Expenses could be paid without approval and invoices could be lost.

Auditors' Recommendation: Place proper internal controls in place to insure expenses are approved and record keeping is taking place.

Agency's Response:

The association's board will ensure that all invoices are properly approved by having the invoices approved by a board member (to be paid) and the review will be indicated by an initial and date of the person who approved and reviewed the invoices. In addition, the association will ensure that all supporting documents for expenses (capital or otherwise) will be kept for review.

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 AGREED UPON PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES**

2010-07 Grant agreements

Condition: Grant agreements provided did not match the amounts expended.

Criteria: According to Tier 6 of the Audit Act all capital outlay awards must be reviewed.

Cause: Proper internal controls were not in place for proper record keeping to take place.

Effect: Grantee could be in violation of the grant agreement and not know it. Auditor could not verify that all reports were submitted according to the grant agreements.

Auditors' Recommendation: Place proper internal controls in place to insure proper record keeping takes place.

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES**

2010-07 Grant Agreements (Continued)

Agency's Response:

The association will ensure that appropriate record keeping takes place for all grants. All grant copies and amendments to grants, as well as all requests for payments, disbursements and other documents will be kept appropriately and in one area related to the specific grant.

La Luz Water District 2010 Tier 6 AUP
Exit Conference
December 31, 2010

I. The exit conference was held on November 8, 2012. Those present were:

Carol Garcia, Office Manager – La Luz MDWCA
Angel Lucero, Treasurer, Board of Directors-La Luz MDWCA
Cheri Moore- Director, Board of Director-La Luz MDWCA
John R. Battle, CPA, CVA – Accounting and Consulting Group, LLP

II. Tier 6 Agreed Upon Procedures and compilation

Review of Tier 6 Agreed Upon Procedures

III. Agreed Upon Procedures Findings Discussed

Finding 1- Unable to determine if bank reconciliations were completed in a timely manner

Finding 2- Book balance on bank reconciliation does not agree to general ledger

Finding 3- Actual expenses exceeds budget)

Finding 4- Submission of Reports to the Department of Finance and Administration

Finding 5 - Late Submission of Report

Finding 6 – Unapproved expense

Finding 7 – Grant Agreements

IV. Other Items

Timeline of from this point forward

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
INDEPENDENT ACCOUNTANT'S COMPILATION REPORT
DECEMBER 31, 2010

INTRODUCTORY SECTION

**La Luz Mutual Domestic Water Consumers Association
Compilation Report
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STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association
Compilation Report
Official Roster
December 31, 2010

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Vacant	President
Edward Silva Jr.	Vice President
Reynaldo Duran	Secretary
Connie Klofonda	Treasurer
Perry Osborne	Works Supervisor

ADMINISTRATION

Perry Osborne	Systems Manager
Carol Garcia	Office Administrator
Edward Lueras	Chief Water Operator

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT


Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the Board of Director's, La Luz Mutual Domestic Water Consumers Association
La Luz, New Mexico

We have compiled the accompanying financial statements of the business-type activities of the La Luz Mutual Domestic Water Consumers Association (the "Association") as of and for the year ended December 31, 2010, which collectively comprise the Association's basic financial statements as listed in the table of contents. We 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.

Our 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.

Management has omitted the management's discussion and analysis and budgetary comparison information that is required to be presented for purposes of additional analysis. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.


Accounting & Consulting Group, LLP
Alamogordo, New Mexico
December 20, 2012

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association
Statement of Net Assets
December 31, 2010

Exhibit A-1

ASSETS

Current assets:	
Cash and cash equivalents	\$ 205,865
Customer receivables, net of allowance for doubtful accounts	15,166
Prepays	10,556
Total current assets	<u>231,587</u>
Noncurrent assets:	
Bonds	4,452
Capital assets	1,009,765
Accumulated depreciation	(499,934)
Water rights, net of accumulated amortization	1,200
Total noncurrent assets	<u>515,483</u>
Total assets	<u>\$ 747,070</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Accounts payable	\$ 496
Accrued expenses	3,168
Current portion of long-term debt	2,351
Total current liabilities	<u>6,015</u>
Noncurrent liabilities:	
Notes and loans payable	<u>132,444</u>
Total liabilities	<u>138,459</u>
Net assets:	
Invested in capital assets, net of related debt	377,387
Unrestricted net assets	<u>231,224</u>
Total net assets	<u>608,611</u>
Total liabilities and net assets	<u>\$ 747,070</u>

See accompanying independent accountant's compilation report

STATE OF NEW MEXICO
 La Luz Mutual Domestic Water Consumers Association
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended December 31, 2010

Exhibit A-2

Operating revenues:	
Charges for services	<u>\$ 268,028</u>
Total operating revenues	<u>\$ 268,028</u>
Operating expenses:	
Personnel services	\$ 142,996
Contractual services	8,022
Postage and Supplies	7,279
Repairs and maintenance	25,502
Auto	2,095
Travel	3,691
Utilities	27,996
Depreciation	21,565
Taxes	3,558
Miscellaneous	<u>1,782</u>
Total operating expenses	<u>244,486</u>
Operating income (loss)	<u>\$ 23,542</u>
Non-operating revenues (expenses):	
Capital grants	\$ 90,368
Interest income	762
Interest expense	(5,813)
Gain on sale of fixed assets	<u>1,250</u>
Total non-operating revenues (expenses)	<u>\$ 86,567</u>
Change in net assets	\$ 110,109
Net assets, beginning of year	289,305
Prior period adjustment (note)	<u>209,197</u>
Net assets, beginning of year, as restated	<u>498,502</u>
Net assets, end of year	<u><u>\$ 608,611</u></u>

See accompanying independent accountant's compilation report

STATE OF NEW MEXICO
 La Luz Water District 2010 Tier 6 AUP
 Statement of Cash Flows
 For the Year Ended December 31, 2010

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 269,023
Cash payments to employees for services	(142,691)
Cash payments to suppliers for goods and services	(83,147)
<i>Net cash provided (used) by operating activities</i>	43,185
 <i>Cash flows from noncapital financing activities:</i>	
Operating grants	-
Net miscellaneous income and expenses	-
<i>Net cash provided (used) by noncapital financing activities</i>	-
 <i>Cash flows from capital and related financing activities:</i>	
Capital grants	90,368
Acquisition of capital assets	(112,917)
Proceeds from sale of capital assets	1,250
Acquisition of capital debt	-
Principal paid on capital debt	(1,966)
Interest paid on capital debt	(5,813)
<i>Net cash provided (used) by capital and related financing activities</i>	(29,078)
 <i>Cash flows from investing activities:</i>	
Interest income	762
<i>Net cash provided (used) by investing activities</i>	762
<i>Net increase (decrease) in cash and cash equivalents</i>	14,869
<i>Cash and cash equivalents - beginning of year</i>	190,996
<i>Restatement</i>	
<i>Cash and cash equivalents - beginning of year, restated</i>	190,996
<i>Cash and cash equivalents - end of year</i>	\$ 205,865
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 23,542
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	21,565
Changes in assets and liabilities	
Receivables	995
Prepaid expenses	(2,532)
Accounts payable	(690)
Accrued expenses	305
<i>Net cash provided (used) by operating activities</i>	\$ 43,185

See accompanying independent accountant's compilation report

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 1. Summary of Significant Accounting Policies

La Luz Mutual Domestic Water Consumers Association (the “Association”) is a political subdivision of the State of New Mexico established and regulated by the constitution of the State of New Mexico. The Association was incorporated in 1952 for the purpose of constructing, maintaining, and operating a water system for the supply and distribution of water for domestic use to its members. The Association has a Board of Directors and approximately 700 members. The water service delivery area is restricted to La Luz rural district in Otero County, New Mexico.

The summary of significant accounting policies of the Association is presented to assist in the understanding of the Association’s financial statements. The financial statements and notes are the representation of the Association’s management and Board of Directors who are responsible for their integrity and objectivity. The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to this same limitation. The Association has elected to utilize alternative #2 under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting*. Under alternative #2, the governmental entities using proprietary fund accounting must follow 1) all GASB pronouncements and 2) all FASB Statements and Interpretations issued after November 30, 1989, APB Opinions, and ARB’s, no matter when issued, except those that conflict with a GASB pronouncement. The more significant of the Association’s accounting policies are described below.

A. *Financial Reporting Entity*

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

In evaluating how to define the Association, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No.’s 14 and 39.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Association and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Association and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Association is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Association has no component units, and is not a component unit of any other entity.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Measurement focus, basis of accounting, and financial statement presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered to be an enterprise fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Association's enterprise fund is charges for services for the Association's water. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The enterprise fund is accounted for using the full accrual basis of accounting. Revenues are recognized when the related service is completed and billed. Expenses are recorded when an item is utilized or a liability is incurred.

The Association reports its proprietary fund as a major fund. The proprietary fund includes:

The *La Luz Mutual Domestic Water Consumers Association Fund* accounts for a water system for the supply and distribution of water for domestic use to its members, including constructing, maintaining and operating the system.

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.

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The Association's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Association to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Association are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Receivables and Payables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory: The Association's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

C. *Assets, Liabilities and Net Assets or Equity (continued)*

Restricted Assets: Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Because the Association is a phase III government for purposes of implementing GASB 34, it is not required to retroactively report its major general infrastructure assets. However, it must report all infrastructure assets purchased or built after July 1, 2003. Donated capital assets are recorded at estimated fair market value at the date of donation. The Association does not develop any software.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and fixtures (including software)	5-7
Automobiles	5
Plant and water system	5-50

Accrued Expenses: Accrued expenses are comprised of payroll expenditures based on amounts earned by the employees through June 30, 2010, along with applicable payroll taxes.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. For bonds issued after the Association implemented GASB 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 1. Summary of Significant Accounting Policies (continued)

C. *Assets, Liabilities and Net Assets or Equity (continued)*

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt:
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets:
Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets:
All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Water Rights: The Association annually reviews the impairment of all water rights and adjusts the carrying values as necessary.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the Association’s financial statements include management’s estimate of depreciation on assets over their estimated useful lives and the allowance for uncollectible accounts.

Reclassifications: Certain amounts included in the financial statements have been reclassified to conform to the current year presentation.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 2. Deposits and Investments

State statutes authorize the investment of Association funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Association properly followed State investment requirements as of December 31, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States or are collateralized as required by statute.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Association for at least one half of the amount on deposit with the institution. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. At December 31, 2010, the Association did not have any deposits in excess of the federal deposit insurance.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on July 21, 2010 President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raises the standard maximum deposit insurance amount to \$250,000.

Custodial Credit Risk – Deposits Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At December 31, 2010, none of the Association's bank balances of \$205,765 was exposed to custodial credit risk.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 2. Deposits and Investments (continued)

	First American Bank Checking	First American Savings	Wells Fargo	Bank 34	Totals
Amount of Deposits	\$ 11,824	\$ 101,581	\$ 5,515	\$ 86,845	\$ 205,765
FDIC Coverage	250,000	250,000	250,000	250,000	-
Total Uninsured Public Funds	-	-	-	-	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's Name	-	-	-	-	-
Uninsured and uncollateralized	\$ -	\$ -	\$ -	\$ -	\$ -
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -	\$ -	\$ -
Pledged Collateral	-	-	-	-	-
Over (Under) Collateralized	\$ -	\$ -	\$ -	\$ -	\$ -

Reconciliation of Statement of Net Assets

Unrestricted Cash and Cash Equivalents	\$ 205,865
Restricted Cash and Cash Equivalents	-
Less US Treasury Money Market Mutual Funds	-
Less Deposits in Transit	-
Less Petty Cash	(100)
Bank Balance of Deposits	<u>\$ 205,765</u>

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 3. Receivables

Proprietary fund receivables are shown as follows:

	Total
Water Billings	15,166
Gross Accounts Receivable	15,166
Allowance for Doubtful Accounts	-
Net Accounts Receivable	\$15,166

The vast majority of all receivables are concentrated in one geographical region, specifically Otero County.

NOTE 4. Capital Assets

A summary of capital assets and changes occurring during the year ended December 31, 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and construction in progress are not subject to depreciation.

	12/31/2009	Additions	Deletions	12/31/2010
Capital Assets not being depreciated				
Land	\$ 26,282	\$ -	\$ -	\$ 26,282
Wells	57,767			57,767
Construction in Progress	209,197	-	209,197	-
Total	293,246	-	209,197	84,049
Capital Assets being depreciated:				
Furniture and Fixtures	429	-	-	429
Automobiles	16,402	18,499	-	34,901
Plant and Water System	586,770	303,616	-	890,386
Total	603,601	322,115	-	925,716
Less Accumulated Depreciation				
Furniture and Fixtures	224	82	-	306
Automobiles	11,678	3,989	-	15,667
Plant and Water System	466,468	17,493	-	483,961
Total	478,370	21,564	-	499,934
Total Capital Assets, Net of Depreciation	\$ 418,477	\$ 300,551	\$ 209,197	\$ 509,831

Depreciation expense for the year ended December 31, 2010 was \$21,565.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 5. Long-term Debt

During the year ended December 31, 2010, the following changes occurred in the liabilities reported in the statement of net assets:

Long Term Debt Rollforward
31-Dec-10
December 31, 2010

	<u>12/31/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2011</u>	<u>Due Within One Year</u>
USDA, Rural Development	136,761	-	1,966	134,795	\$ 2,351
Totals	<u>\$ 136,761</u>	<u>\$ -</u>	<u>\$ 1,966</u>	<u>\$ 134,795</u>	<u>\$ 2,351</u>

Loans Payable

On August 13, 2003, the Association borrowed \$148,400 from the United States Department of Agriculture, Rural Development for the purpose of the Phase II construction study. The loan is payable in monthly installments of \$645 and matures on August 13, 2043. The annual interest rate on the loan is 4.25%.

Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2010 are as follows:

<u>Loans Payable</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
<u>Fiscal Year Ending December 31,</u>			
2011	\$ 2,351	\$ 5,389	\$ 7,740
2012	2,153	5,587	7,740
2013	2,246	5,494	7,740
2014	2,343	5,397	7,740
2015	2,445	5,295	7,740
2016-2043	<u>123,257</u>	<u>82,817</u>	<u>206,074</u>
Totals	<u>\$ 134,795</u>	<u>\$ 109,979</u>	<u>\$ 244,774</u>

NOTE 6. Prior Period Adjustments

During the current year, it was determined that certain prior year expenses totaling \$209,197 were incorrectly expensed instead of recorded as construction in process. To correct this error, the beginning net assets of \$289,305, as originally reported, has been increased to \$498,502.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2010

NOTE 7. Subsequent Events

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The Association is analyzing the effect that this standard will have on the financial statements.

SUPPORTING SCHEDULE

La Luz Mutual Domestic Water Consumers Association
 Schedule of Deposit and Investment Accounts
 For the Year Ended December 31, 2010

Bank Account Type/Name	Deposits				Totals
	First American Bank Checking	First American Bank Savings	Wells Fargo	Bank 34	
General - Checking	11,824	\$ -	\$ -	\$ -	\$ 11,824
General - Savings		101,581	5,515	86,845	193,941
Total on deposit	11,824	101,581	5,515	86,845	205,765
Reconciling items	-	-	-	-	-
Reconciled balance	<u>\$ 11,824</u>	<u>\$ 101,581</u>	<u>\$ 5,515</u>	<u>\$ 86,845</u>	205,765
*Account is U.S. Treasury MMA Mutual Funds and is considered cash equivalents					
Petty cash					100
Total deposits and investments					<u>\$ 205,865</u>
Total unrestricted cash and cash equivalents per Exhibit A-1					205,865
Total restricted cash and cash equivalents per Exhibit A-1					-
Total deposits and investments					<u>\$ 205,865</u>