

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

TIER 6 - AGREED UPON PROCEDURES REPORT

DECEMBER 31, 2011

INTRODUCTORY SECTION

STATE OF NEW MEXICO
La Luz Mutual Domestic Water Consumers Association
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December 31, 2011

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**La Luz Mutual Domestic Water Consumers Association
Official Roster
December 31, 2011**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Connie Klofonda	President
Edward Silva Jr.	Vice President
Reynaldo Duran	Secretary
Angel Herrera	Treasurer
Jose Martinez	Director
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

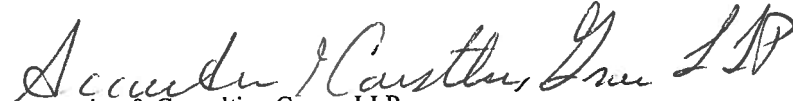
Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To the Board of Director's, La Luz Mutual Domestic Water Consumers Association
La Luz, New Mexico

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, 2011. 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 this report.

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
TIER 6 - AGREED UPON PROCEDURES
DECEMBER 31, 2011**

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 2011-01

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.

No exceptions were noted testing the attribute above.

- 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 was completed for 2011.

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>	\$268,079	\$284,693	\$16,614

**LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 - AGREED UPON PROCEDURES
DECEMBER 31, 2011**

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.

The total of one month's billing register did not agree to the general ledger. See finding 2011-05.

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).

For four expenses tested out of twenty four, the invoice provided did not match the check amount. In one expense tested out of twenty four, we were unable to determine payee from the invoice that was provided. We also noted that two projects required bids and the Association did not follow proper bid processes. See finding 2011-04.

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.

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
TIER 6 - AGREED UPON PROCEDURES
DECEMBER 31, 2011**

Budget (continued)

We verified the Board of Directors approved the original budget. There were no budget amendments or adjustments. Approval was neither sought nor granted from DFA-LGD. See finding 2011-02.

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

We noted no exception. The actual expenditures did not exceed the budget.

- 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.

There were no capital outlay awards or expenditures in 2011.

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 2011-02 and 2011-03.

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
December 31, 2011
As Provided by Client

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water User Fees	\$ 285,000	\$ 284,693	\$ (307)
-sales tax	(16,576)		
Interest income	-	909	909
Total Revenues	\$ 268,424	\$ 285,602	\$ 17,178
Expenditures			
Accounting	\$ 6,500	\$ 6,738	\$ (238)
Advertising	300	47	253
Auto, Truck, Backhoe exp	2,000	3,659	(1,659)
Bad Debt	-	4,381	(4,381)
Bank charges	100		100
Dues and sub	1,000	1,210	(210)
Employee benefit	3,500	4,794	(1,294)
Employee Pension plan	4,000	2,888	1,112
Eng Fees	1,000		1,000
Insurance, general	14,000	13,666	334
Interest exp	6,000	5,713	287
Legal	1,000		1,000
Misc	500	441	59
Office supplies	4,000	4,279	(279)
Postage	3,500	3,118	382
Repairs	12,000	37,881	(25,881)
Rent, equip	1,000	591	409
Small tools	1,000	1,351	(351)
Salaries and wages	115,400	115,884	(484)
Taxes employment	9,100	8,940	160
Taxes, other	1,500	2,309	(809)
Taxes, State conservation	1,500	1,476	24
Telephone	4,500	4,077	423
Travel, Lodging, and training	6,000	5,826	174
Utilities	1,200	952	248
Water samples	500	86	414
Electricity	28,000	17,174	10,826
Chemical/Chlorine	3,000	-	3,000
Depreciation	20,000	30,364	(10,364)
Supplies - chemical	3,000	3,748	(748)
Total Expenses	\$ 255,100	\$ 281,593	\$ (26,493)
Change in Net Assets	\$ 13,324	\$ 4,009	\$ 43,671

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 – AGREED UPON PROCEDURES
December 31, 2011
SCHEDULE OF FINDING

2011-01 Unable to determine if bank reconciliations were completed in a timely manner (repeated)

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.

2011-02 Submission of Reports to the Department of Finance and Administration (DFA) (repeated)

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.

2011-03 Late Submission of Report (repeated)

Condition: The agreed upon procedures report for the fiscal year ended December 31, 2011 was not filed timely by May 30, 2012.

Criteria: The due date of May 30, 2012 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 by the 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.

2011-04 Expenses (repeated and revised)

Condition: For four expenses tested out of twenty four, the invoice provided did not match the check amount. In one expense tested out of twenty four we were unable to determine payee from the invoice that was provided. We also noted that two projects required bids and the Association did not follow proper bid processes.

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. According 1.4.1 NMAC proper bid procedure must be followed.

Cause: Proper internal controls were not in place to insure that proper record keeping was taking place or proper bid processes followed.

Effect: Expenses could be incorrectly paid and bids could be improperly accepted.

Auditors' Recommendation: Place proper internal controls in place to insure record keeping is taking place and bids processes are being followed.

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/reviewed the invoices. In addition, the association will ensure that all supporting documents for expenses (capital or otherwise) will be kept for review.

2011-05 Revenue

Condition: Amount of revenue on billing register does not agree to general ledger.

Criteria: According to Tier 6 of the Audit Act revenue must agree to the general ledger.

Cause: Proper internal controls were not in place to prevent small clerical errors from taking place.

Effect: Revenues could be recorded incorrectly and go undetected.

Auditors' Recommendation: Place proper internal controls in place to insure monthly billing amounts agree to the general ledger.

Agency's Response: The entity will ensure that the billing register agrees to the general ledger's associated revenue account. The treasurer or other designated board member will occasionally compare the billing register to the month's general ledger revenues.

**LA LUZ DOMESTIC WATER CONSUMERS ASSOCIATION
TIER 6 – AGREED UPON PROCEDURES
YEAR ENDING DECEMBER 31, 2011
EXIT CONFERENCE**

I. The exit conference was held on December 20, 2013. Those present were:

Carol Garcia, Office Manager – La Luz MDWCA
Angel Lucero, Treasurer, Board of Directors-La Luz MDWCA
Ed Silva, President, 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- Submission of Reports to the Department of Finance and Administration

Finding 3- Late Submission of Report

Finding 4- Unapproved expenses, improper invoice support, no bids for expenses over threshold

Finding 5 – Revenues for month of April do not match billing register

IV. Other Items

Timeline of from this point forward- Submission of reports, feedback from state and issuance of reports.

LA LUZ MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
INDEPENDENT ACCOUNTANT'S COMPILATION REPORT
DECEMBER 31, 2011

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La Luz Mutual Domestic Water Consumers Association
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La Luz Mutual Domestic Water Consumers Association
Official Roster
December 31, 2011

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>
Connie Klofonda	President
Edward Silva Jr.	Vice President
Reynaldo Duran	Secretary
Angel Herrera	Treasurer
Jose Martinez	Director
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, 2011, 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
Accounting & Consulting Group, LLP
Alamogordo, New Mexico
December 20, 2012

**BASIC
FINANCIAL STATEMENTS**

La Luz Mutual Domestic Water Consumers Association
Statement of Net Assets
December 31, 2011

ASSETS

Current assets:	
Cash and cash equivalents	\$ 226,248
Customer receivables, net of allowance for doubtful accounts	19,342
Prepays	11,469
Total current assets	<u>257,059</u>
Noncurrent assets:	
Bonds	5,970
Capital assets	1,023,106
Accumulated depreciation	(530,297)
Water rights, net of accumulated amortization	1,200
Total noncurrent assets	<u>499,979</u>
Total assets	<u><u>\$ 757,038</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Accounts payable	\$ 807
Accrued expenses	4,570
Deferred revenue	6,297
Current portion of long-term debt	2,140
Total current liabilities	<u>13,814</u>
Noncurrent liabilities:	
Notes and loans payable	<u>130,604</u>
Total liabilities	<u>144,418</u>
Net assets:	
Invested in capital assets, net of related debt	362,205
Unrestricted net assets	<u>250,415</u>
Total net assets	<u>612,620</u>
Total liabilities and net assets	<u><u>\$ 757,038</u></u>

See accompanying independent accountant's compilation report

La Luz Mutual Domestic Water Consumers Association
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

Operating revenues:	
Charges for services	<u>\$ 284,693</u>
Total operating revenues	<u>\$ 284,693</u>
Operating expenses:	
Personnel services	\$ 146,172
Contractual services	6,738
Postage and Supplies	12,497
Repairs and maintenance	37,881
Auto	3,659
Travel	5,826
Utilities	22,202
Depreciation	30,364
Taxes	3,785
Miscellaneous	<u>6,756</u>
Total operating expenses	<u>275,880</u>
Operating income	<u>\$ 8,813</u>
Non-operating revenues (expenses):	
Interest income	909
Interest expense	<u>(5,713)</u>
Total non-operating revenues (expenses)	<u>\$ (4,804)</u>
Change in net assets	\$ 4,009
Net assets, beginning of year	608,611
Net assets, end of year	<u><u>\$ 612,620</u></u>

See accompanying independent accountant's compilation report

La Luz Mutual Water Consumers Association
Statement of Cash Flows
For the Year Ended December 31, 2011

<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 286,814
Cash payments to employees for services	(144,770)
Cash payments to suppliers for goods and services	(99,946)
<i>Net cash provided (used) by operating activities</i>	<u>42,098</u>
 <i>Cash flows from capital and related financing activities:</i>	
Acquisition of capital assets	(13,341)
Principal paid on capital debt	(2,051)
Interest paid on capital debt	(5,713)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(21,105)</u>
 <i>Cash flows from investing activities:</i>	
Interest income	909
Purchase of investments	(1,519)
<i>Net cash provided (used) by investing activities</i>	<u>(610)</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	 20,383
 <i>Cash and cash equivalents - beginning of year</i>	 <u>205,865</u>
 <i>Cash and cash equivalents - end of year</i>	 <u>\$ 226,248</u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ 8,813
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	30,364
Changes in assets and liabilities	
Receivables	(4,176)
Prepaid expenses	(913)
Accounts payable	311
Accrued expenses	1,402
Deferred revenue	6,297
 <i>Net cash provided (used) by operating activities</i>	 <u>\$ 42,098</u>

See accompanying independent accountant's compilation report

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2011

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, 2011

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.

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 December 31, 2011, 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.

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”.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2011

NOTE 1. Summary of Significant Accounting Policies (continued)

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.

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, 2011.

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, 2011, 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, 2011, none of the Association's bank balances of \$226,148 was exposed to custodial credit risk.

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2011

NOTE 2. Deposits and Investments (continued)

	First American Bank Checking	First American Bank Savings	Wells Fargo	Bank 34	Totals
Amount of deposits	\$ 14,324	\$ 157,709	\$ 6,518	\$ 47,597	\$ 226,148
FDIC Coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Association's name	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured public funds)	\$ -	\$ -	\$ -	\$ -	\$ -
Pledged collateral	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Reconciliation to the Statement of Net Assets

Unrestricted cash and cash equivalents per Exhibit A-1	\$ 226,248.00
Restricted cash and cash equivalents per Exhibit A-1	-
Less U.S. Treasury Money Market Mutual Funds	-
Less deposits in transit	-
Less petty cash	<u>(100)</u>
Bank balance of deposits	<u>\$ 226,148</u>

NOTE 3. Receivables

Proprietary fund receivables are shown as follows:

	<u>Total</u>
Water billings	<u>19,342</u>
Gross accounts receivable	19,342
Allowance for doubtful accounts	-
Net accounts receivable	<u>\$ 19,342</u>

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

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2011

NOTE 4. Capital Assets

A summary of capital assets and changes occurring during the year ended December 31, 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follow. Land and construction in progress are not subject to depreciation.

	Balance, December 31, 2010	Additions	Deletions	Balance, December 31, 2011
Capital assets not being depreciated:				
Land	\$ 26,282	\$ -	\$ -	\$ 26,282
Wells	57,767			57,767
Total	84,049	-	-	84,049
Capital assets being depreciated:				
Furniture and fixtures	429	5,399	-	5,828
Automobiles	34,901	-	-	34,901
Plant and water system	890,386	7,942	-	898,328
Total	925,716	13,341	-	939,057
Less accumulated depreciation:				
Furniture and fixtures	306	899	-	1,205
Automobiles	15,667	7,029	-	22,696
Plant and water system	483,961	22,435	-	506,396
Total	499,934	30,363	-	530,297
Total capital assets, net of depreciation	<u>\$ 509,831</u>	<u>\$ (17,022)</u>	<u>\$ -</u>	<u>\$ 492,809</u>

Depreciation expense for the year ended December 31, 2011 was \$30,364.

NOTE 5. Long-term Debt

During the year ended December 31, 2011, the following changes occurred in the liabilities reported in the statement of net assets:

**La Luz Mutual Domestic Water Consumers Association
Long Term Debt Rollforward
December 31, 2011**

	Balance, December 31, 2010	Additions	Retirements	Balance, December 31, 2011	Due Within One Year
USDA, Rural Development	\$ 134,795	\$ -	\$ 2,051	\$ 132,744	\$ 2,140
Totals	<u>\$ 134,795</u>	<u>\$ -</u>	<u>\$ 2,051</u>	<u>\$ 132,744</u>	<u>\$ 2,140</u>

La Luz Mutual Domestic Water Consumers Association
Notes to the Financial Statements
December 31, 2011

NOTE 5. Long-term Debt (continued)

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 project for water systems. 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 for the next five years and thereafter are as follows:

Loans Payable

Fiscal Year Ending December 31,	Principal Payment	Interest Payment	Total Debt Service
2012	\$ 2,140	\$ 5,600	\$ 7,740
2013	2,232	5,508	7,740
2014	2,329	5,411	7,740
2015	2,430	5,310	7,740
2016	2,535	5,205	7,740
2017-2043	<u>121,078</u>	<u>78,349</u>	<u>199,427</u>
Total	<u>\$ 132,744</u>	<u>\$ 105,383</u>	<u>\$ 238,127</u>

SUPPORTING SCHEDULE

La Luz Mutual Domestic Water Consumers Association
 Schedule of Deposit and Investment Accounts
 For the Year Ended December 31, 2011

Bank Account Type/Name	Deposits				Totals
	First American Bank Checking	First American Bank Savings	Wells Fargo	Bank 34	
General - Checking	14,324	\$ -	\$ -	\$ -	\$ 14,324
General - Savings		157,709	6,518	47,597	211,824
Total on deposit	14,324	157,709	6,518	47,597	226,148
Reconciling items	-	-	-	-	-
Reconciled balance	<u>\$ 14,324</u>	<u>\$ 157,709</u>	<u>\$ 6,518</u>	<u>\$ 47,597</u>	<u>\$ 226,148</u>

*Account is U.S. Treasury MMA Mutual Funds and is considered cash equivalents

Petty cash	100
Total deposits and investments	<u>\$ 226,248</u>
Total unrestricted cash and cash equivalents per Exhibit A-1	226,248
Total restricted cash and cash equivalents per Exhibit A-1	-
Total deposits and investments	<u>\$ 226,248</u>