

**Leasburg Mutual Domestic Water
Consumers Association**

**Basic Financial Statements and
Supplementary Information
for the Year Ended December 31, 2010
and Independent Auditors' Report**

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

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STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

DIRECTORY OF OFFICIALS
DECEMBER 31, 2010

Board of Directors

Tom Austin	President
James Zabriskie	Vice President
Mary Anne Owen	Secretary/Treasurer
John McGaw	Director
Ian Leslie	Director

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and the Board of Directors of the
Leasburg Mutual Domestic Water Consumers Association
Las Cruces, New Mexico

We have audited the accompanying financial statements of the business-type activities of the Leasburg 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. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit. We have also audited the budgetary comparisons for the major enterprise fund presented as supplementary information in the financial statements as of and for the year ended December 31, 2010, as listed in the table of contents.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Leasburg Mutual Domestic Water Consumers Association, as of December 31, 2010, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the major enterprise fund, for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Association has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic

financial statements and the supplemental information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements and the budgetary comparisons of Leasburg Mutual Domestic Water Consumers Association taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

White + Samaniego + Campbell, LLP

El Paso, Texas
September 24, 2012

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 163,733
Accounts receivables, net	18,143
Other assets	<u>8,731</u>
Total current assets	190,607
Noncurrent assets:	
Restricted cash	42,107
Capital assets	<u>1,693,708</u>
Total assets	<u>\$ 1,926,422</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 53,617
Accrued liabilities and other expenses	408
Current portion of long-term debt	<u>6,529</u>
Total current liabilities	60,554
Non-current liabilities:	
Non-current portion of long-term debt	488,914
Member deposits	<u>9,306</u>
Total noncurrent liabilities	<u>498,220</u>
Total liabilities	<u>558,774</u>
NET ASSETS:	
Investment in capital assets, net of related debt	1,198,265
Unrestricted	136,582
Restricted	<u>32,801</u>
Total net assets	<u>1,367,648</u>
Total liabilities and net assets	<u>\$ 1,926,422</u>

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating revenues	
Service fees	\$ 113,663
Activation, connection and installation fees	1,350
Late fees	4,146
Membership fees	100
Other income	297
	<hr/>
Total operating revenues	119,556
Operating expenses	
Bad debt expense	1,069
Bank charges	60
Board of directors expenses	523
Depreciation	62,222
Dues and subscriptions	749
Insurance	7,037
Interest	9,336
Taxes and license - other	732
Office expense	96
Professional fees: Accounting	30,418
Professional fees: Legal	2,912
Repairs and maintenance	43
System operator	24,882
System supplies and chemicals	6,786
Telephone	1,597
Tools and equipment	1,458
Utilities	12,562
Water conservation fees	1,143
	<hr/>
Total operating expenses	163,625
Operating loss	<hr/> (44,069)
Nonoperating revenues (expenses)	
Grant revenue	346,157
Interest income	353
	<hr/>
Total nonoperating revenues (expenses)	346,510
Change in net assets	302,441
Net assets, beginning of year	<hr/> 1,065,207
Net assets, end of year	<hr/> <u>\$ 1,367,648</u>

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 310,160
Cash payments to suppliers and employees	<u>(117,240)</u>
Net cash provided by operating activities	<u>192,920</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	503,000
Purchase of property and equipment	(906,404)
Principal payments	(7,557)
Grants	<u>346,157</u>
Net cash used in capital and related financing activities	<u>(64,804)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	353
Net cash provided by investing activities	353
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 128,469</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>\$ 77,371</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 205,840</u>
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET ASSETS:	
Cash and cash equivalents	\$ 163,733
Restricted cash	<u>42,107</u>
	<u>\$ 205,840</u>

(Continued)

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (44,069)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation	62,222
Change in:	
Accounts receivable	434
Other assets	128,027
Accounts payable	46,385
Accrued liabilities	39
Member deposits	<u>(118)</u>
Total adjustments	<u>236,989</u>
Net cash provided by operating activities	<u>\$ 192,920</u>

(Concluded)

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	\$ 134,100	\$ 134,100	\$ 115,013	\$ (19,087)
Other income	-	-	4,543	4,543
Total operating income	<u>134,100</u>	<u>134,100</u>	<u>119,556</u>	<u>(14,544)</u>
Operating Expenses				
Accounting, legal	31,000	31,000	33,330	(2,330)
Taxes, insurance	10,000	10,000	7,769	2,231
Utilities	15,000	15,000	12,562	2,438
Supplies	10,000	10,000	6,786	3,214
Office	2,000	2,000	16,074	(14,074)
Salaries/contractors	30,000	30,000	24,882	5,118
Interest	10,000	10,000	-	10,000
Reserve	2,200	2,200	-	2,200
Depreciation	60,000	60,000	62,222	(2,222)
Total operating expenses	<u>170,200</u>	<u>170,200</u>	<u>163,625</u>	<u>6,575</u>
Excess (deficiency) of revenues over expenditures	<u>(36,100)</u>	<u>(36,100)</u>	<u>(44,069)</u>	<u>(7,969)</u>
Nonoperating revenues				
Water	1,000	1,000	353	(647)
Agency loans/grants	801,913	801,913	346,157	(455,756)
Total nonoperating income	<u>802,913</u>	<u>802,913</u>	<u>346,510</u>	<u>(456,403)</u>
Revenue over expenses	<u>\$ 766,813</u>	<u>\$ 766,813</u>	<u>\$ 302,441</u>	<u>\$ (464,372)</u>

See accompanying notes to financial statements and independent auditor's report.

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leasburg Mutual Domestic Water Consumers Association (the Association) was organized in November of 1968. The Association supplies water to occupants and residents within the vicinity of the communities in a portion of land near Las Cruces, New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users within these areas.

The Association has a Board of Directors that consists of five (5) members who are responsible for legislative and fiscal control of the Association. The Board is also responsible for administrative control of the Association.

Reporting Entity

The financial statements of the Association have been prepared in accordance with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Association is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the Association may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges and issue bonded debt.

The Association has no component units, defined by GASB Statement No. 14 as other legally separate organizations for which the elected Association members are financially accountable. There are no other primary governments with which the Association Board Members are financially accountable. There are no other primary governments with which the Association has a significant relationship.

The accounts of the Association are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

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

Basis of Presentation

Government-Wide Financial Statements (GWFS) - The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Association. Fiduciary funds are not included in the GWFS. Fiduciary Funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level. The Association has no Fiduciary Funds.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: 1) Charges for services is the term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services, such as water use. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes to purchase, construct, or renovate capital assets associated with a specific program. These should be reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government. These categories of program revenue are specifically attributable to a program and reduce the net expense of that program to the reporting government.

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally 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 Association are charges to customers for sales and services. The Association also recognizes as connection, membership and delinquency fees as revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Analysis of Impairment

Management review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended December 31, 2010.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consist of the following:

Customer deposits	\$ 9,306
Construction account	<u>32,801</u>
Total restricted cash	<u>\$ 42,107</u>

Restricted cash consist of non-mandatory reserves set aside within the operating account for outstanding customer deposits. These reserves are not required but are separated by management and a separate Construction Account that has been established as required by the Government into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Association as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed. The end of year balance is \$32.801.

Budget and Budgetary Accounting

The Association follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before January 1 of each year, the Board of Directors, approves and certifies to the estimated operating budgets for use by the local board pending final approval from the United State Department of Agriculture and the New Mexico Department of Finance and Administration - Local Government Division.
2. The United State Department of Agriculture and New Mexico Department of Finance and Administration - Local Government Division approve the budget for the Association to utilize during the year.
3. Budget adjustments may be made during the year. The Board of Directors approves budget resolutions to increase or decrease revenue and/or expenditure line items during the year.

Use of Restricted Funds

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

Revenue

The policy for defining the proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally are not reported as components of operating income.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles require the use of management's estimates.

Allowance for Doubtful Accounts

Management considers the majority of the accounts receivable as collectible. Any accounts receivable considered uncollectable are not considered material. Accordingly, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets are recorded at historical costs. Purchase property and equipment in excess of \$5,000 is capitalized. Costs for the new water system and the building include the costs for construction during the current year including costs of engineering, architecture, and drilling costs incurred in the prior year. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Office equipment	10 years
Utility lines, pump station and shed	38 years
Wells	15-20 years
Water system	38 years

Advertising Cost

Advertising costs are expensed as incurred. The Association incurred \$0 of advertising cost during the fiscal year ending December 31, 2010.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

New Governmental Accounting Standards- In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments, which is effective for all periods beginning after June 15, 2009. This Statement is intended to improve how governments report information about derivative instruments. The Association incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In February 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, and earlier application is encouraged. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which was effective upon issuance. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The Association incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 56 Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, which was effective upon issuance. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. The Association incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, which is effective upon issuance for certain provisions of the statement and for periods beginning after June 15, 2011 for other provisions. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 58 Accounting and Financial Reporting for Chapter 9 Bankruptcies, which is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The Authority incorporated this statement for the current fiscal year and believes it had no significant effect on the financial statement for the year.

In June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 59 Financial Instruments Omnibus, which is effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments: National Council on Governmental Accounting Statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, is updated to be consistent with the amendments to GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, regarding certain financial guarantees. Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Statement No. 40, Deposit and Investment Risk Disclosures, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool. Statement 53 is amended to: – Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance – Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit – Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53 – Provide that one of the “leveraged yield” criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements, which is effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That Statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the GASB issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position, which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53, which is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Authority is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

2. CASH AND DEPOSITS

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

Bank of the Rio Grande			
<u>Name of Account</u>	<u>Balance Per Bank 12/31/10</u>	<u>Reconciled Balance</u>	<u>Type</u>
Operating	\$ 27,132	\$ 27,053	Checking
Savings	2,301	2,301	Savings
Total Deposited	29,433	<u>\$ 29,354</u>	
Less: FDIC Coverage	(29,433)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	<u>\$ -</u>		
Citizens Bank			
<u>Name of Account</u>	<u>Balance Per Bank 12/31/10</u>	<u>Reconciled Balance</u>	<u>Type</u>
Water Construction	\$ 643	\$ 643	Savings
Total Deposited	643	<u>\$ 643</u>	
Less: FDIC Coverage	(643)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	<u>\$ -</u>		
Wells Fargo			
<u>Name of Account</u>	<u>Balance Per Bank 12/31/10</u>	<u>Reconciled Balance</u>	<u>Type</u>
Investment	\$ 175,764	\$ 175,764	Savings
Total Deposited	175,764	<u>\$ 175,764</u>	
Less: SPIC Coverage	(175,764)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	<u>\$ -</u>		

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$0 of the Association's bank balance of \$205,840, was exposed to custodial credit risk.

3. PROPERTY AND EQUIPMENT

The cost basis of property and equipment are stated as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 59,955	\$ -	\$ -	\$ 59,955
Water rights	66,263	-	-	66,263
Total capital assets not being depreciated	<u>126,218</u>	<u>-</u>	<u>-</u>	<u>126,218</u>
Capital Assets, being depreciated				
Buildings	46,493	-	-	46,493
Water systems	1,502,642	866,405	-	2,369,047
Furniture, fixtures and equipment	2,709	40,000	-	42,709
Total capital assets , being depreciated	<u>1,551,844</u>	<u>906,405</u>	<u>-</u>	<u>2,458,249</u>
Total capital assets	<u>1,678,062</u>	<u>906,405</u>	<u>-</u>	<u>2,584,467</u>
Less accumulated depreciation for:				
Buildings	903	160	-	1,063
Water systems	826,642	60,220	-	886,862
Furniture, fixtures and equipment	992	1,842	-	2,834
Total accumulated depreciation	<u>828,537</u>	<u>62,222</u>	<u>-</u>	<u>890,759</u>
Total other capital assets, net	<u>\$ 849,525</u>	<u>\$ 844,183</u>	<u>\$ -</u>	<u>\$ 1,693,708</u>

Depreciation expense was \$62,222 for the year ended December 31, 2010.

4. LONG TERM DEBT

Changes in long-term debt during the year ended December 31, 2010 were as follows:

	<u>Balance 12/31/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 12/31/10</u>	<u>Amounts Due Within One Year</u>
USDA Rural Development	<u>\$ -</u>	<u>\$ 503,000</u>	<u>\$ 7,557</u>	<u>\$ 495,443</u>	<u>\$ 6,529</u>
	<u>\$ -</u>	<u>\$ 503,000</u>	<u>\$ 7,557</u>	<u>\$ 495,443</u>	<u>\$ 6,529</u>

United State Department of Agriculture - Rural Development Loan

On March 25, 2010, the Association entered into a \$503,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 3.25% and maturing in March 2050. The note is payable in monthly installments of \$1,877 starting April 2010. The loan is secured by real state of the Association.

Loan principal and interest payments for each of the next years and thereafter are as follows:

Year Ending December 31:	Principal	Interest	Total
2011	6,529	15,995	22,524
2012	6,744	15,780	22,524
2013	6,967	15,557	22,524
2014	7,196	15,328	22,524
2015	7,434	15,090	22,524
2016-2020	41,014	71,606	112,620
2021-2025	48,240	64,380	112,620
2026-2030	56,739	55,881	112,620
2031-2035	66,736	45,884	112,620
2036-2040	78,494	34,126	112,620
2041-2045	92,324	20,296	112,620
2046-2047	77,026	(3,296)	73,730
Totals	<u>\$ 495,443</u>	<u>\$ 366,627</u>	<u>\$ 862,070</u>

5. RISK MANAGEMENT

The Association covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters through various insurance policy coverages. The coverage includes workers compensation, general and professional liability, property, and fidelity bonds coverage. The Association transfers these risks of loss to the insurance carrier except for deductible amounts. Premiums paid on policies for the year December 31, 2010 was \$7,037.

SUPPLEMENTARY INFORMATION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Hector H. Balderas, State Auditor
and the Board of Directors of the
Leasburg Mutual Domestic Water Consumers Association, Las Cruces, New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplementary information of the Leasburg Mutual Domestic Water Consumers Association (the Association) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant

deficiencies. 10-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items finding 10-01.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 10-01.

The Association's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board members, others within the entity, New Mexico Department of Finance and Administration, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "White + Samaniego + Campbell, LLP".

El Paso, Texas
September 24, 2012



CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector H. Balderas, State Auditor
and the Board of Directors of the
Leasburg Mutual Domestic Water Consumers Association, Las Cruces, New Mexico

Compliance

We have audited the Association's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2010. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, the Association, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 10-02.

Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over

compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Association's responses and, accordingly, we express no opinion on the responses.

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



El Paso, Texas
September 24, 2012

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2010

SECTION I - SUMMARY OF AUDITOR'S REPORT

FINANCIAL STATEMENTS

Type of Auditor's Report Issued	<u>Unqualified</u>	
Significant Deficiencies Identified?	_____ Yes	___ <u>X</u> ___ No
Significant Deficiencies Identified that Are Considered to Be Material Weakness(es)?	_____ Yes	___ <u>X</u> ___ No
Noncompliance Material to Financial Statements	<u>N/A</u>	

FEDERAL AWARDS

Type of Auditor's Report Issued on compliance for Major Programs	<u>Unqualified</u>	
Internal Control Over Major Programs:		
Significant Deficiencies Identified?	_____ Yes	___ <u>X</u> ___ No
Significant Deficiency(ies) Identified that Are Considered to Be Material Weakness(es)?	_____ Yes	___ <u>X</u> ___ No
Any Audit Findings Disclosed that are Required to be Reported in accordance with Section 501(a) of Circular A-133?	___ <u>X</u> ___ Yes	_____ No

Identification of Major Programs:

CFDA	10.760	Water and Waste Disposal Systems for Rural Communities
CFDA	10.760	Water and Waste Disposal Systems for Rural Communities - Loan

Dollar Threshold Used to Distinguish Between Type A and Type B Programs	<u>\$300,000</u>	
Auditee Qualifies as Low-Risk Auditee	_____ Yes	___ <u>X</u> ___ No

**STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Late Audit Report (10-01)

CONDITION	The required submission date of the audit report for the fiscal year ended December 31, 2010 to the New Mexico State Auditor was June 1, 2011. The December 31, 2010 audited financial statements were submitted in October 2012.
CRITERIA	New Mexico State Statutes Section 12-6-12 requires the state auditor to promulgate reasonable regulations necessary to carry out the duties of the office. NMAC 2-2-2-9 requires that the Association submit the audit report by June 1 following the end of each fiscal year at December 31.
CAUSE	The Association did not request an audit in a timely manner.
EFFECT	Delays in the submission of the audit reports affecting the reporting of financial information to other state agencies and governments.
RECOMMENDATION	The Association should work in conjunction with the auditors to ensure that the audit is submitted timely.
RESPONSE	The Association will work with the auditors to see that the audit is scheduled and started as early as possible to ensure a timely submission.

Data Collection Form Package Not Timely Filed (10-02)

CONDITION	The Data Collection Form and the reporting package was not submitted to the federal clearing house within nine months after the fiscal year end.
CRITERIA	OMB Circular A-133.320 requires that the data collection form and the reporting package be submitted within nine months of the fiscal year end for all single audit reports.
CAUSE	The audit was not completed by the required deadline, as detailed in finding 10-01 above.
EFFECT	Data used by the federal government to manage grants was not available, and Federal regulations have been violated.
RECOMMENDATION	We recommend that the Data Collection form be filed timely, if required.
RESPONSE	The recommendation will be adopted.

**STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NO PRIOR YEAR FINDINGS

STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor	Federal CFDA Number	Award Amount	Current Fiscal Year Expenditures
<u>US Department of Agriculture</u>			
Water and Waste Disposal System for Rural Communities	10.760	\$ 801,913	\$ 346,157
Water and Waste Disposal System for Rural Communities - Loan	10.760	<u>503,000</u>	<u>503,000</u>
Total Department of Agriculture		<u>1,304,913</u>	<u>849,157</u>
Total Expenditures of Federal Awards		<u>\$ 1,304,913</u>	<u>\$ 849,157</u>

Note 1 - Basis of Presentation

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

The accompanying notes are an integral part of the financial statements

**STATE OF NEW MEXICO
LEASBURG MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**

**EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2010**

An exit conference was conducted September 20, 2012 in a closed meeting of the Association pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Leasburg Mutual Domestic Water Consumers Association

James Zimbriskie	Vice-President
Doug Joens	Accountant

White + Samaniego + Campbell, LLP

Roxie Samaniego	Partner in-Charge
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FINANCIAL STATEMENT PREPARATION

The combined financial statements of the Association as of, and for the year ended, December 31, 2010 were prepared by White + Samaniego + Campbell, LLP, with the aid of responsible Association personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.