

*State of New Mexico  
Malaga Mutual Domestic Water Consumers  
and Sewage Works Association*

*Financial Statements  
With  
Report of Independent Certified Public Accountants  
Year Ended June 30, 2011*



**Accounting &  
Consulting Group, LLP**  
Certified Public Accountants

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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
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 June 30, 2011

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**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Directory of Officials  
June 30, 2011

<u>Name</u>	<u>Board</u>	<u>Title</u>
David C Navarette		President
Efrain Rios		Vice President
Craig Ogden		Secretary-Treasurer
Mitchell Ballard		Director
Ronnie Calderon		Director
	<u>Administrative Officials</u>	
Faye Arias		Office Manager

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**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Hector Balderas  
New Mexico State Auditor  
The U.S. Office of Management and Budget and  
Malaga Mutual Domestic Water Consumers and Sewage Works Association Chairman,  
Board of Directors and Citizens of Malaga  
Malaga, New Mexico

We have audited the accompanying financial statements of the business-type activities of Malaga Mutual Domestic Water Consumers and Sewage Works Association (the "Association"), as of and for the year ended June 30, 2011, 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 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 financial position of the Association, as of June 30, 2011, and the respective 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 accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014 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 accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying financial information listed as supporting Schedule I in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements listed above and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
February 13, 2014

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**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Statement of Net Assets  
 June 30, 2011

	Business-Type Activities
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 100,612
Investments	11,542
Accounts receivable	25,558
Prepaid expenses	4,617
Total current assets	142,329
Non-current assets:	
Restricted cash and cash equivalents:	
Debt service and reserve accounts	13,151
Meter deposits	250
Capital assets, net	2,870,946
Total non-current assets	2,884,347
Total assets	\$ 3,026,676
 <b>Liabilities and Net Assets</b>	
Current liabilities:	
Current liabilities payable from restricted assets:	
Meter deposits	\$ 250
Total current liabilities payable from restricted assets	250
Other current liabilities:	
Accounts payable	14,994
Payroll liabilities	4,053
Note payable	4,005
Total other current liabilities	23,052
Total current liabilities	23,302
Non-current liabilities:	
Note payable	338,444
Total non-current liabilities	338,444
Total liabilities	361,746
Net assets:	
Invested in capital assets, net of related debt	2,528,497
Restricted for debt service and reserve accounts	13,151
Unrestricted	123,282
Total net assets	2,664,930
Total liabilities and net assets	\$ 3,026,676

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended June 30, 2011

	<u>Business-Type Activities</u>
Operating revenues:	
Water service	\$ 149,490
Fees	18,008
Total operating revenues	<u>167,498</u>
Operating expenses	
Diesel fuel	249
Advertising	1,756
Insurance	6,097
Legal and accounting	4,516
Mileage	4,139
Office expense	5,759
Other taxes and licenses	1,285
Payroll expenses	43,647
Payroll taxes	3,819
Repairs	46,067
Supply Expense	1,445
Telephone	2,729
Utilities	16,222
Property taxes	645
Depreciation and amortization	60,094
Total operating expenses	<u>198,469</u>
Operating loss	<u>(30,971)</u>
Non-operating revenues (expenses)	
Interest income	786
Interest expense	(11,201)
Total non-operating loss	<u>(10,415)</u>
Loss before capital grants	<u>(41,386)</u>
Capital grants	357,997
Total capital grants	<u>357,997</u>
Change in net assets	316,611
Total net assets, beginning of year, as previously stated	<u>2,337,087</u>
Restatements (see note 9)	<u>11,232</u>
Total net assets, beginning of year, restated	<u>2,348,319</u>
Total net assets, end of year	<u>\$ 2,664,930</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Statement of Cash Flows  
For the year ended June 30, 2011

	Business-Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 162,234
Cash paid to suppliers of goods and services	(89,182)
Cash paid to employees	(46,873)
Net cash provided by operating activities	26,179
Cash flows from capital and related financing activities:	
Capital grant revenue	368,797
Purchase of capital assets	(380,464)
Interest payment on long-term debt	(11,201)
Principal payments on long-term debt	(4,759)
Net cash used by capital and related financing activities	(27,627)
Cash flow from investing activities	
Investment income received and reinvested	654
Net cash provided by investing activities	654
Net decrease in cash and cash equivalents	(794)
Cash and cash equivalents - beginning of year	114,807
Cash and cash equivalents - end of year	\$ 114,013
Cash per Exhibit A	
Cash and cash equivalents	\$ 100,612
Restricted cash-debt service and reserve accounts	13,151
Restricted cash-meter deposits	250
Total cash per Exhibit A	\$ 114,013
Reconciliation of net operating loss to net cash provided by	
Operating loss:	\$ (30,971)
Depreciation and amortization expense	60,094
Net changes in:	
Receivables	(5,414)
Prepaid expenses	(267)
Meter deposits	150
Accounts payable	1,994
Payroll liabilities	593
Net cash provided by operating activities	\$ 26,179

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Notes to Financial Statements  
June 30, 2011

**NOTE 1. Summary of Significant Accounting Policies**

Malaga Mutual Domestic Water Consumers and Sewage Works Association (the "Association"), a local public body as defined by Section 12-6-2 NMSA 1978 was established April 29, 1999. It was the desire of the parties to form a water consumers association in order to collectively address the immediate and future water needs of the citizens of Malaga. The Association is located in the Town of Malaga in Eddy County of New Mexico, and currently serves about 500 people.

This 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 who is 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 government units. The Governmental Accounting Standards 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. The more significant of the government's accounting policies are described below.

*A. Financial Reporting Entity*

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 accounting principles generally accepted in the United States of America. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 government and/or 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 government 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, there are no potential component units included in the Association's reporting entity and the Association is not a component unit of any other entity.

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

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered a proprietary fund.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Notes to Financial Statements  
June 30, 2011

**NOTE 1. Summary of Significant Accounting Policies** (continued)

*B. Measurement focus, basis of accounting, and financial statement presentation-(continued)*

Proprietary fund operating revenue, such as charges for service, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenue, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

**Restricted Assets:** Restricted assets are assets which have third-party limitations on their use. Restricted assets include the asset reserve account and the debt service account. These restrictions are placed by the United States Department of Agriculture for granting a loan of \$350,000. Further disclosure regarding the note is discussed in Note 5 of the financial statements.

**Receivables and Payables:** Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

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

The Association bills its members monthly for the service provided to them during the previous month.

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

**Capital Assets:** Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the New Mexico State Auditor as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5).

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

The capital assets of the Association are depreciated using the straight line method over the following estimated useful lives:

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Notes to Financial Statements  
 June 30, 2011

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	5-15
Software	5
Water System	7-50
Water rights	40

**Compensated Absences:** The Association does not accrue compensated absences because the amount cannot be reasonably estimated. Instead, the expenses are recorded when incurred.

**Long-term Obligations:** In the financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**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. Significant estimates include the useful lives of depreciable assets. Accordingly, actual results could differ from those estimates.

**Net Asset Classifications:** Invested in capital assets, net of related debt represent the historical cost of assets or fair value on the date of receipt less accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Budget:** The Association did not prepare a budget for fiscal year ending June 30, 2011.

*D. Revenues*

**Water Revenues:** Service revenue includes activities that have the characteristics of an exchange transaction, such as assessments to related parties and reimbursements for water plan. The Association recognized \$149,490 in service revenues in the financial statements during the year ended June 30, 2011.

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Notes to Financial Statements  
 June 30, 2011

**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 June 30, 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 within the geographical boundaries of the Association. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

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.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing 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

*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 put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2011 none of the Association’s bank balance of \$125,450 was exposed to custodial credit risk.

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.

	Western Commerce
Amount of deposits	\$ 125,450
FDIC Coverage	<u>(125,450)</u>
Total uninsured public funds	<u><u>\$ -</u></u>

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Notes to Financial Statements  
 June 30, 2011

**NOTE 2. Deposits and Investments (continued)**

**Reconciliation to the Statement of Net Assets**

The carrying amount of deposits and investments shown above are included in the Association's statements of net assets as follows:

Unrestricted cash and cash equivalents	\$ 100,612
Restricted cash-debt service and reserve accounts	13,151
Restricted cash-meter deposits	250
Investments	<u>11,542</u>
Total cash and cash equivalents, restricted cash, and investments per Exhibit A	125,555
Less petty cash	(50)
Less reconciling items	<u>(55)</u>
Bank balance of deposits	<u><u>\$ 125,450</u></u>

Investments reported on the Statement of Net Assets consist of two certificates of deposits with original maturities in excess of 90 days and total \$11,542 at June 30, 2011. Restricted cash and cash equivalents represent amounts held for the asset reserve and debt service funds per agreement with the United States Department of Agriculture and meter deposits for customers who lease meters from the Association.

**NOTE 3. Accounts Receivable**

The Association's accounts receivable of \$25,558 at June 30, 2011 represents revenue earned from providing water service to its members. Based on historical knowledge, the Association deems the entire amount to be collectible at June 30, 2011.

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Notes to Financial Statements  
 June 30, 2011

**NOTE 4. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2011. Land and construction in progress are not subject to depreciation. Depreciation and amortization expense for the year ended June 30, 2011 totaled \$56,131 and \$3,963 respectively.

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated or amortized:				
Land	\$ 126,224	\$ -	\$ -	\$ 126,224
Construction in progress	<u>631,681</u>	<u>-</u>	<u>631,681</u>	<u>-</u>
Total capital assets not being depreciated or amortized	<u>757,905</u>	<u>-</u>	<u>631,681</u>	<u>126,224</u>
Capital assets being depreciated or amortized:				
Buildings and improvements	43,004	-	-	43,004
Equipment	30,177	-	-	30,177
Software	3,394	-	-	3,394
Water system	2,178,067	1,012,145	-	3,190,212
Water rights	<u>158,500</u>	<u>-</u>	<u>-</u>	<u>158,500</u>
Total capital assets being depreciated or amortized	<u>2,413,142</u>	<u>1,012,145</u>	<u>-</u>	<u>3,425,287</u>
Less accumulated depreciation:				
Buildings and improvements	14,410	831	-	15,241
Equipment	29,157	609	-	29,766
Software	3,394	56	-	3,450
Water system	<u>523,978</u>	<u>54,635</u>	<u>-</u>	<u>578,613</u>
Total accumulated depreciation	<u>570,939</u>	<u>56,131</u>	<u>-</u>	<u>627,070</u>
Less accumulated amortization:				
Water rights	<u>49,532</u>	<u>3,963</u>	<u>-</u>	<u>53,495</u>
Total capital assets, net of depreciation and amortization	<u><u>\$ 2,550,576</u></u>	<u><u>\$ 952,051</u></u>	<u><u>\$ 631,681</u></u>	<u><u>\$ 2,870,946</u></u>

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Notes to Financial Statements  
 June 30, 2011

**NOTE 5. Long-term Debt**

On October 22, 2009 the Association executed a promissory note with the United States Department of Agriculture for \$350,000 at an annual interest rate of 3.375% for the purpose of constructing and upgrading the Association's new water and wastewater system. The note will be payable from the net revenues of the water utility system. The final payment is due on November 22, 2049.

A summary of loan activity and balance outstanding at June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Note payable	\$ 347,208	\$ -	\$ 4,759	\$ 342,449	\$ 4,005
	<u>\$ 347,208</u>	<u>\$ -</u>	<u>\$ 4,759</u>	<u>\$ 342,449</u>	<u>\$ 4,005</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total debt service
2012	\$ 4,005	\$ 11,504	\$ 15,509
2013	4,608	11,351	15,959
2014	4,766	11,194	15,960
2015	4,930	11,030	15,960
2016	5,099	10,861	15,960
2017-2021	28,238	51,562	79,800
2022-2026	33,421	46,379	79,800
2027-2031	39,555	40,245	79,800
2032-2036	46,815	32,985	79,800
2037-2041	55,407	24,393	79,800
2042-2046	65,577	14,223	79,800
Thereafter	50,028	3,172	53,200
	<u>\$ 342,449</u>	<u>\$ 268,899</u>	<u>\$ 611,348</u>

**NOTE 6. Subsequent Events**

Subsequent events were evaluated through February 13, 2014, which is the date of the audit report. The management believes that no significant events have taken place subsequent to the year end.

**NOTE 7. Net Assets**

At June 30, 2011, net assets totaling \$13,151 are restricted by enabling legislation for debt service and reserve accounts which are required by the United States Department of Agriculture's Rural Communities Association as condition of the loan agreement.



**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Notes to Financial Statements  
June 30, 2011

**NOTE 8. Risk Management and Litigation**

The Association covers its insurance needs through a commercial insurance policy. The coverage includes business, property, general liability, and hired automobiles liability claims. There have been no significant reductions in insurance coverage from coverage in the prior year and there have been no claims in which settlement amounts have not exceeded insurance coverage for the past three fiscal years.

There are no pending or known threatened legal proceedings involving material matters to which the Association is a party.

**NOTE 9. Restatements**

The Association recorded a restatement during fiscal year ending June 30, 2011 to correct the beginning balance of meter deposits. The correction increased beginning net assets by \$11,725.

The Association recorded a restatement during fiscal year ending June 30, 2011 to correct the beginning balance of inventory previously recorded in error. The correction decreased beginning net assets by \$6,507.

The Association recorded a restatement during fiscal year ending June 30, 2011 to correct the beginning balance of accounts payable. The correction increased beginning net assets by \$6,014.

The net impact of the above adjustments was to increase beginning net assets \$11,232 which equals the reported amount on the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2011.

**NOTE 10. Subsequent Accounting Standard Pronouncements**

In November 2010, GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Effective Date: 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 Association is still evaluating the possible effects of this standard.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Association will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The Association will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53 Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Association in upcoming years.

In April 2012, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* Effective Date: The provisions of Statement 65 are effective for periods beginning after December 15, 2012 with earlier application encouraged. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Association will implement this standard during the current fiscal year ended June 30, 2014.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Notes to Financial Statements  
June 30, 2011

**NOTE 10. Subsequent Accounting Standard Pronouncements-(continued)**

In April 2012, GASB Statement No. 66 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issue* Effective Date: The provisions of Statement 65 are effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, [Statements No. 54](#), *Fund Balance Reporting and Governmental Fund Type Definitions*, and [No. 62](#), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Association is still evaluating the impact of this accounting standard.

**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Schedule of Deposit and Investment Accounts  
 June 30, 2011

Deposit Account Type	Western Commerce
Checking - Operational	\$ 100,757
Checking - Debt Service*	2,671
Checking - Asset Reserve*	10,472
Checking - Construction	8
CD - 2020079*	5,873
CD - 2020080*	<u>5,669</u>
Total	125,450
Reconciling items	<u>55</u>
Reconciled balance June 30, 2011	<u><u>\$ 125,505</u></u>
Add: petty cash	50
Less: investments - business-type activities - Exhibit A-1	(11,542)
Less: restricted cash - debt service and reserve accounts- Exhibit A-1	(13,151)
Less: restricted cash - meter deposits- Exhibit A-1	<u>(250)</u>
Total cash and cash equivalents - Exhibit A-1	<u><u>\$ 100,612</u></u>

\* Interest Bearing Account

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**COMPLIANCE SECTION**



Accounting & Consulting Group, LLP  
Certified Public Accountants

**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 Balderas  
New Mexico State Auditor  
The Office of Management and Budget  
Malaga Mutual Domestic Water Consumers and Sewage Works Association Chairman,  
Board of Directors and Citizens of Malaga  
Malaga, New Mexico

We have audited the financial statements of the business-type activities of Malaga Mutual Domestic Water Consumers and Sewage Works Association (the “Association”), as of and for the year ended June 30, 2011 and have issued our report thereon dated February 13, 2014. 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.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as items 2010-5 and 2011-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 did disclose 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 responses as items 2011-01, 2011-03 and 2011-04.

We also noted a certain other matter that is 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 is described in the accompanying schedule of findings and responses as finding 2010-7.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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, others within Malaga Mutual Domestic Water Consumer's Association, the audit committee, New Mexico 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 parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, NM  
February 13, 2014

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |             |
|--|-------------|
| 1. Type of auditors' report issued   | Unqualified |
| 2. Internal control over financial reporting:                                    |             |
| a. Material weakness identified?   | No          |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes         |
| c. Noncompliance material to the financial statements noted?                     | Yes         |

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

2010-5 Significant Deficiency: Segregation of Duties

***Condition***

The office manager handles all of the cash receipts and disbursements due to lack of additional personnel in the office. During our testwork of the cash disbursements we noted the following instances of a lack of appropriate segregation of duties.

- Account Payable vendors can be setup by the same person processing the accounts payable checks.
- Cash is received, recorded into the system, deposited and reconciled to the bank statements by the same person.
- Payroll checks are prepared and mailed by the same person.

***Criteria***

Appropriate segregation of duties in cash disbursing and payroll processing is required to maintain proper and sufficient internal controls and properly report all expenditures as required by Section 6-6-3, NMSA 1978.

***Effect***

Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

***Cause***

The Association is a small business and has a limited number of personnel. Per discussion with the office manager, the Treasurer reviews each invoice and bill, a financial statement is prepared for each monthly board meeting containing a list of payables, and a board member is the second signer of checks above \$100.

***Recommendation***

We recommend the Treasurer continue to reconcile / match the bills and invoices to the list of payables on the financial statement. We also recommend the Board continue to actively participate in the expenditure approving process by approving all expenditures before payment and documenting the approval in the minutes.

***Agency Response***

The Association's board of directors will continue to review and approve all expenditures on monthly financial statements at each monthly board meeting for payment and continue to document the approval in the monthly minutes.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT-CONTINUED**

2010-7 Other Matter: Compliance with Federal Loan Covenants

***Condition***

During the long-term debt covenant testwork, we have noticed that the Association is not in compliance with the following loan covenants:

- The Association transferred \$2,400 less than the required amount into the Asset Reserve account;

***Criteria***

The loan agreement requires the Association to maintain an Asset Reserve account and transfer an amount of \$722 monthly.

***Effect***

Noncompliance with these covenants will mandate the Association to void the contract and repay the loan to the United States Department of Agriculture.

***Cause***

Our review of the Company's procedures indicated that there is a lack of control over the debt covenants. The Association is only transferring \$522.23 to the "Asset Management Reserve Account" every month.

***Recommendation***

To monitor the covenants, we recommend that a permanent schedule of negative and affirmative covenants of each loan and grant agreement be maintained by the management. Columns for each month should be initialed and dated to indicate that all covenants were reviewed for compliance on a timely basis. When a covenant has not been complied with, the noncompliance should be addressed by management and discussed with the lender or grantor, and an explanation of the action taken should be attached to the schedule. We recommend the Association increase the monthly payment to the "Asset Management Reserve Account" by \$200.00.

***Agency Response***

The Association began transferring the correct amount (\$722.25) into the reserve accounts as required by the United States Department of Agriculture beginning November 1, 2011 and will continue to do so.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT-CONTINUED**

2011-01 Material Noncompliance: Budget Not Prepared Quarterly Reports Not Submitted to Local Government Division

***Condition***

During our testing over budgetary compliance, we noted that management had not prepared a budget for fiscal year 2011, and thus did not submit a proposed budget to the Local Government Division by the regulatory due date of June 1, 2010. Also quarterly financial reports were not submitted to the Local Government Division throughout fiscal year 2011 as required.

***Criteria***

Good accounting practices require that a budget should be prepared annually and compared to the actual results.

Section 6-6-2A NMSA 1978 requires a proposed budget for the next fiscal year to be submitted by the local public body to the Local Government Division by June 1 of each year.

Section 6-6-2F NMSA 1978 requires the Association to submit periodic financial reports to the Local Government Division at least quarterly.

***Effect***

Noncompliance with state statues referenced in the criteria section above. The Association's ability to prevent and detect misstatements in the accounting records, fraud, waste and abuse is diminished in the absence of periodic comparisons between actual revenues and expenditures and budgeted revenues and expenditures.

***Cause***

The governing body was unaware of these requirements.

***Recommendation***

We recommend management and members of the governing body of the Association attend training sessions and presentations conducted by the Local Government Division to ensure the Association has identified all compliance requirements.

***Agency Response***

The Board will begin preparing an annual budget and attend training sessions conducted by the Local Government Division and Rural Water Association.

**STATE OF NEW MEXICO**  
 Malaga Mutual Domestic Water Consumers and Sewage Works Association  
 Schedule of Findings and Responses  
 June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT-CONTINUED**

2011-02 Significant Deficiency: Prior Period Adjustments

***Condition***

During the course of audit fieldwork, we noted the beginning balances for inventory, meter deposits, and accounts payable as previously stated in the fiscal year 2010 audit were incorrect. The beginning balance for inventory was overstated by \$6,507. The beginning balance for meter deposits was overstated by \$11,725. The beginning balance for accounts payable was overstated by \$6,014.

***Criteria***

Good accounting practices require management to reconcile inventory, meter deposits, and accounts payable accounts in the general ledger to subsidiary ledgers and other accounting records periodically to ensure the balances reported in the financial statements are fairly stated.

***Effect***

The actual impact was that prior period adjustments were required of management to fairly state these balances. The impact was to increase beginning net assets by \$11,232. The potential impact is that future misstatements could go undetected in the absence of periodic reconciliations of meter deposits and accounts payable.

***Cause***

With respect to inventory, management made a judgment for fiscal year 2011 that is had no inventory at June 30, 2011 or June 30, 2010 which required a prior period adjustment to eliminate the account balance from the accounting records.

With respect to meter deposits the account balance has never been reconciled to the actual number of rental customers that are not members of the Association. Through the course of the audit it was determined that there were only five customers and the deposit was \$50 per customer.

With respect to accounts payable there were 9 vendors with accounts payable balances greater than 90 days recorded in the accounting records; however, upon inquiry and further test-work it was determined those vendors had already been paid in current year and prior years, thus a prior period adjustment was required to reduce the beginning balance of accounts payable.

***Recommendation***

We recommend meter deposit account be reconciled to the number of rental customers.

We recommend the accounts payable balance be reconciled to outstanding invoices owed to vendors monthly.

***Agency Response***

Management will ensure the bookkeeper completes the monthly reconciliations for meter deposits and accounts payable.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT-CONTINUED**

2011-03 Material Noncompliance: Annual Capital Asset Inventory

***Condition***

During our review of internal controls pertaining to safeguarding of capital assets, we noted the Association had not performed an annual inventory of capital assets as required.

***Criteria***

Section 12-6-10 NMSA 1978 requires the Association to perform an annual inventory of capital assets.

***Effect***

Capital assets purchased in prior and current years could be lost, stolen or damaged, and this could go undetected in the absence of a yearly capital asset inventory. The Association is not in compliance with New Mexico Statutes.

***Cause***

The governing body was unaware of the requirement to perform an annual inventory of capital assets.

***Recommendation***

We recommend review section 12-6-10 NMSA 1978 and designate persons responsible for conducting the annual inventory of capital assets. We recommend the governing body certify an annual inventory has been performed and document the certification in the Board meeting minutes.

***Agency Response***

The Board will designate responsibility for conducting the annual inventory of capital assets.

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**B. FINDINGS-FINANCIAL STATEMENT AUDIT-CONTINUED**

2011-04 Material Noncompliance: Late Audit Finding

***Condition***

The Association did not deliver its 2011 audit report by the December 1, 2011 deadline.

***Criteria***

Chapter 12, Section 6 NMSA 1978 and New Mexico State Audit Rule 2.2.2.9A required the Association to submit its fiscal year 2011 audit by December 1, 2011.

***Effect***

The Association is in noncompliance with financial reporting requirements established by state regulation. Timely financial statements were not available for the use of management or third party stakeholders.

***Cause***

The prior year audit was not completed and delivered to the State Auditor until October 25, 2011. The contract for the fiscal year 2011 audit was not approved by the State Auditor's office until October 18, 2013 which is after the due date of the report.

***Recommendation***

We recommend the Association procure audits timely and submit their fiscal year 2014 audit reports by the December 1, 2014 deadline.

***Agency Response***

The Association will work with external auditors to ensure the fiscal year 2014 report is submitted timely.



**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Schedule of Findings and Responses  
June 30, 2011

**C. STATUS OF PRIOR YEAR FINDINGS**

2010-1	Preparation of Financial Statements and Budgets	Resolved
2010-2	Defacing Voided Checks	Resolved
2010-3	Lack of Oversight over Revenue Recognition	Resolved
2010-4	Recording Inventory	Resolved
2010-5	Segregation of Duties	Repeated and Modified
2010-6	Compliance with State Auditor Requirements	Resolved
2010-7	Compliance with Federal Loan Covenants	Repeated and Modified

**STATE OF NEW MEXICO**  
Malaga Mutual Domestic Water Consumers and Sewage Works Association  
Other Disclosures  
June 30, 2011

**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of the Association from the original books and records provided to them by the management of the Association. The responsibility for the financial statements remains with the Association.

**B. EXIT CONFERENCE**

The contents of this report were discussed on February 13, 2014. The following individuals were in attendance.

**Representing Malaga Mutual Domestic Water Consumers and Sewage Works Association**

Craig Ogden, Treasurer/Secretary  
Faye Arias, Office Manager

**Representing Accounting & Consulting Group, LLP**

Cindy Bryan, Partner