

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

**FINANCIAL STATEMENTS
With
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
YEAR ENDED JUNE 30, 2010**



STATE OF NEW MEXICO

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

FINANCIAL STATEMENTS

With

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

YEAR ENDED JUNE 30, 2010

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DIRECTORY OF OFFICIALS

June 30, 2010

ASSOCIATION BOARD OF TRUSTEES

<u>Name</u>	<u>Board</u>	<u>Title</u>
David C Navarette		President
Efrain Rios		Member
Craig Ogden		Member
Mitchel Ballard		Member
Ronnie Calderon		Member
	<u>Officials</u>	
Faye Arias		Office Manager
Bill Bunten		Operator

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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 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 Association (the "Association"), as of and for the year ended June 30, 2010, 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, 2010, 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 October 25, 2011 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying financial information listed as supporting Schedules I through II 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, are 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
October 25, 2011

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$	109,540
Short-term investments		11,410
Accounts receivable		20,144
Grant receivable		10,800
Inventory		6,507
Prepaid expenses		4,350
Total current assets		<u>162,751</u>

Non-current assets:

Restricted cash and cash equivalents		5,267
Property, plant, and equipment, net		2,441,609
Water rights, net		108,969
Total non-current assets		<u>2,555,845</u>

Total assets	\$	<u>2,718,596</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	19,014
Accrued expenses		3,462
Meter deposits		11,825
Current portion of notes payable		4,308
Total current liabilities		<u>38,609</u>

Non-current liabilities:

Notes payable, net of current portion		<u>342,900</u>
Total non-current liabilities		<u>342,900</u>
Total liabilities		<u>381,509</u>

Net assets:

Invested in capital assets, net of related debt		2,203,370
Unrestricted		133,717
Total net assets		<u>2,337,087</u>

Total liabilities and net assets	\$	<u>2,718,596</u>
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MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS****June 30, 2010**

Operating revenues:	
Water service	\$ 130,328
Fees	13,104
Total operating revenues	<u>143,432</u>
Operating expenses	
Diesel fuel	199
Advertising	3,732
Insurance	3,849
Legal and accounting	12,809
Mileage	4,909
Office expense	7,186
Other taxes and licenses	903
Payroll expenses	41,646
Payroll taxes	3,612
Repairs	13,073
Supply Expense	682
Telephone	2,663
Utilities	8,301
Property taxes	1,481
Depreciation	45,182
Amortization	3,963
Total operating expenses	<u>154,190</u>
Operating loss	<u>(10,758)</u>
Non-operating revenues (expenses)	
Interest income	7,587
Loss on sale of investment asset	(176)
Interest expense	(8,843)
Total non-operating loss	<u>(1,432)</u>
Loss before capital grants	<u>(12,190)</u>
Capital grants	478,975
Total capital grants	<u>478,975</u>
Change in net assets	466,785
Total net assets, beginning of year	<u>1,870,302</u>
Total net assets, end of year	<u>\$ 2,337,087</u>

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION**STATEMENT OF CASH FLOWS****June 30, 2010**

Cash flows from operating activities:	
Cash received from customers	\$ 135,743
Cash paid to suppliers of goods and services	(42,439)
Cash paid to employees	(43,033)
Cash paid for utilities	(8,301)
	<hr/>
Net cash provided by operating activities	41,970
	<hr/>
Cash flows from capital financing:	
Capital grant revenue	475,299
Purchase of capital assets	(624,557)
Interest payment on long-term debt	(9,231)
Cash proceeds from issuance of debt	350,000
Principal payments on long-term debt	(219,566)
	<hr/>
Net cash used by capital and related financing activities	(28,055)
	<hr/>
Cash flow from investing activities	
Purchase and sale of investments, net	(473)
Investment income	7,587
	<hr/>
Net cash provided by investing activities	7,114
	<hr/>
Net increase in cash and cash equivalents	21,029
Cash and cash equivalents - beginning of year	93,778
	<hr/>
Cash and cash equivalents - end of year	\$ 114,807
	<hr/> <hr/>
Reconciliation of net operating loss to net cash provided by	
Operating activities:	\$ (10,758)
Depreciation expense	45,182
Amortization expense	3,963
Net changes in:	
Receivables	(7,739)
Prepaid expenses	(4,350)
Meter deposits	50
Accounts payable	13,223
Payroll and other liabilities	2,399
	<hr/>
Net cash provided by operating activities	\$ 41,970
	<hr/> <hr/>

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MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Malaga Mutual Domestic Water Consumers 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 Malaga Mutual Domestic Water Consumers 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, the following is a brief review of each potential component unit addressed in defining the Association’s 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.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

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.

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.

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 6 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.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 (amount not rounded) 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.

Property, plant, and equipment of the Association is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	30
Buildings and improvements	10-50
Equipment and vehicles	5-15
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. Accordingly, actual results could differ from those estimates.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Enterprise Funds: (Unrestricted funds)

Unrestricted funds are used to account for operations of the Association that are financed and operated in a manner similar to private business enterprises where the intent is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

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 \$143,432 in service revenues in the financial statements during the year ended June 30, 2010.

E. Income Taxes

Malaga Mutual Domestic Water Consumers Association is a Not-For-Profit Organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Association changed its accounting for uncertainty in income taxes as of July 01, 2009 as a result of adopting new principles required by Generally Accepted Accounting Principles. Using the new accounting, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur.

The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The change did not have a material effect on the Association's financial statements.

The Association is currently not under examination on any open tax years.

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, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations 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.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2. Deposits and Investments (continued)

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, 2010 none of the Association’s bank balance of \$126,167 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.

	<u>Western Commerce</u>
Amount of deposits	\$ 126,167
FDIC Coverage	<u>(126,167)</u>
Total uninsured public funds	<u><u>-</u></u>

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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:	
Western Commerce Bank - Operating	\$ 109,490
Petty Cash	50
Total unrestricted cash and cash equivalents	<u>109,540</u>
Restricted cash and cash equivalents	
Western Commerce Bank - Loan Reserve	12
Western Commerce Bank - Asset Reserve	4,185
Western Commerce Bank - Debt Service	1,070
Total restricted cash and cash equivalents	<u>5,267</u>
Cash and cash equivalents per statement of cash flows	<u><u>\$ 114,807</u></u>

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.

Investments in non-negotiable certificate of deposits	
Western Commerce Bank # 2020079	\$ 5,792
Western Commerce Bank # 2020080	5,618
	<u>11,410</u>
Investments per statement of net assets	<u><u>\$ 11,410</u></u>

Note 3. Accounts Receivable

The Association's accounts receivable of \$20,144 at June 30, 2011 represents revenue earned from providing water service to its members. Based on historical knowledge, the Association expects to collect the entire amount within 30 days of the year end.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2010. Land and construction in progress are not subject to depreciation.

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 126,224	\$ -	\$ -	\$ 126,224
Construction in progress	7,124	624,557	-	631,681
	<u>133,348</u>	<u>624,557</u>	<u>-</u>	<u>757,905</u>
Total capital assets not being depreciated	133,348	624,557	-	757,905
Capital assets being depreciated:				
Buildings and improvements	43,004	-	-	43,004
Equipment	30,177	-	-	30,177
Software	3,394	-	-	3,394
Water system	2,178,067	-	-	2,178,067
	<u>2,254,642</u>	<u>-</u>	<u>-</u>	<u>2,254,642</u>
Total capital assets being depreciated	2,254,642	-	-	2,254,642
Less accumulated depreciation:				
Buildings and improvements	13,577	832	-	14,409
Equipment	28,306	851	-	29,157
Software	3,394	-	-	3,394
Water system	480,479	43,499	-	523,978
	<u>525,756</u>	<u>45,182</u>	<u>-</u>	<u>570,938</u>
Total accumulated depreciation	525,756	45,182	-	570,938
Total capital assets, net of depreciation	<u>\$ 1,862,234</u>	<u>\$ 579,375</u>	<u>\$ -</u>	<u>\$ 2,441,609</u>

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. Capital Assets (continued)

In addition to the fixed assets mentioned above, the Association has the following intangible assets:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2010</u>
Governmental activities:				
Intangible assets being amortized:				
Water rights	158,500	-	-	158,500
Total intangible assets being amortized	<u>158,500</u>	<u>-</u>	<u>-</u>	<u>158,500</u>
Less accumulated amortization:				
Water rights	45,569	3,963	-	49,532
Total accumulated amortization	<u>45,569</u>	<u>3,963</u>	<u>-</u>	<u>49,532</u>
Total capital assets, net of amortization	<u>\$ 112,931</u>	<u>\$ (3,963)</u>	<u>\$ -</u>	<u>\$ 108,968</u>

NOTE 5. Construction Commitments

The Association is in the process of constructing a new water system as of June 30, 2010. The commitment related to this project is approximately \$600,000. The management of the Association estimates that the grant revenue will cover the costs to complete the construction.

NOTE 6. Long-term Debt

The Association generally obtains loans to provide funds for the acquisition and construction of major capital facilities. During the year, in order to construct a new water system, the Association had obtained a new loan from the United States Department of Agriculture for \$350,000 at an annual interest rate of 3.375%.

Notes outstanding at June 30, 2010, are comprised of the following:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2010</u>	<u>Due Within One Year</u>
NMFA Loans	\$ 216,774	\$ -	\$ 216,774	\$ -	\$ -
USDA Loans	<u>-</u>	<u>350,000</u>	<u>2,792</u>	<u>347,208</u>	<u>4,308</u>
Total Long-Term Debt	<u>\$ 216,774</u>	<u>\$ 350,000</u>	<u>\$ 219,566</u>	<u>\$ 347,208</u>	<u>\$ 4,308</u>

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6. Long-term Debt (continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 4,308	\$ 11,652	\$ 15,960
2012	4,456	11,504	15,960
2013	4,608	11,352	15,960
2014	4,766	11,194	15,960
2015	4,930	11,030	15,960
2016-2020	27,302	52,498	79,800
2021-2025	32,313	47,487	79,800
2026-2030	38,244	41,556	79,800
Thereafter	<u>226,281</u>	<u>82,031</u>	<u>308,312</u>
	<u>\$ 347,208</u>	<u>\$ 280,304</u>	<u>\$ 627,512</u>

NOTE 7. Subsequent Events

Subsequent events were evaluated through October 25, 2011, which is the date of the audit report. The management believes that no significant events have taken place subsequent to the year end.

NOTE 8. Subsequent Accounting Standard Pronouncements

FASB Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements

The FASB has issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

MALAGA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 8. Subsequent Accounting Standard Pronouncements (continued)

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and
- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

COMPLIANCE SECTION

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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
Water Consumers 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 Association (the "Association"), as of and for the year ended June 30, 2010. 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

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by agency's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 2010-1 through 2010-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Association's internal control.

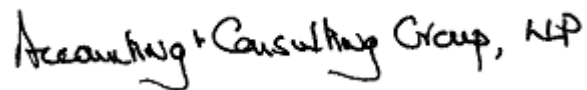
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 disclosed 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 2010-6 and 2010-7.

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 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
Albuquerque, NM
October 25, 2011

FEDERAL FINANCIAL ASSISTANCE

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Accounting & Consulting Group, LLP
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector Balderas
New Mexico State Auditor
The Office of Management and Budget and
Malaga Mutual Domestic Water Consumers Association
Malaga, NM

Compliance

We have audited the compliance of Malaga Mutual Domestic Water Consumers Association, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Malaga Mutual Domestic Water Consumers Association's major federal programs are identified in the summary of auditors' 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 Malaga Mutual Domestic Water Consumers Association's management. Our responsibility is to express an opinion on Malaga Mutual Domestic Water Consumers 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 Malaga Mutual Domestic Water Consumers 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 Malaga Mutual Domestic Water Consumers Association's compliance with those requirements.

In our opinion, Malaga Mutual Domestic Water Consumers Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Malaga Mutual Domestic Water Consumers 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 Malaga Mutual Domestic Water Consumers Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Malaga Mutual Domestic Water Consumers Association's internal control over compliance.

A control deficiency in Malaga Mutual Domestic Water Consumers Association's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Malaga Mutual Domestic Water Consumers Association's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Malaga Mutual Domestic Water Consumers Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Malaga Mutual Domestic Water Consumers Association's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify a deficiency in internal control over compliance that we consider to be significant deficiency, as defined above. Please see the attached Schedule of Findings & Questions for the deficiency.

This report is intended solely for the information and use of management, others within Malaga Mutual Domestic Water Consumers Association, the audit committee, 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 parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
October 25, 2011

STATE OF NEW MEXICO
 Malaga Mutual Domestic Water Consumers Association
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2010

Funding Source/Grant or Contact Name	CFDA Number	Federal Grantors Number	Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	853107423	\$ 478,975
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.770	853107423	350,000
Loan balance at year end - \$347,208			
Total Federal Financial Assistance			<u><u>\$ 828,975</u></u>

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Malaga Mutual Domestic Water Consumers Association (the "Association") and is presented on the accrual basis of accounting, which is the same basis as was used to prepare the financial statements. 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*.

2. Subrecipients

The Association did not provide any federal awards to subrecipients during the year.

STATE OF NEW MEXICO
 Malaga Mutual Domestic Water Consumers Association
 Schedule of Findings and Questioned Costs
 June 30, 2010

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? | No |

Federal Awards:

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditors' report issued on compliance for major programs | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| 4. Identification of major programs: | |

CFDA Number	Federal Program
10.760	Water and Waste Disposal Systems
10.770	Water and Waste Disposal Systems

Dollar threshold used to distinguish between type A and type B programs:
 \$300,000

- | | |
|---|----|
| 5. Auditee qualified as low-risk auditee? | No |
|---|----|

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

B. FINDINGS-FINANCIAL STATEMENT AUDIT

2010-1 Significant Deficiency: Preparation of Financial Statements

Condition

The Body charged with governance does not exercise effective oversight, as defined by Statement on Auditing Standards No. 115, of the internal control and financial reporting processing. The financial statements and related disclosures and annual budget are not being prepared by the Association's management.

Criteria

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures. The body charged with governance must provide effective oversight of the controls over the financial reporting process.

Effect

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Cause

The Body charged with governance was unaware of the requirements of Statement on Auditing Standards No. 115 to provide effective oversight of control over the financial reporting processing. Association personnel do not have the time and have not been adequately trained in understanding the elements of external financial reporting including the preparation of financial statements and related footnote disclosures.

Recommendation

We recommend that the Association prepare an annual budget each year and that they approve it and document the approval in the minutes. We also recommend that Association's management receive training on elements of external financial reporting, particularly those relevant to the Association's reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
 - Governmental Accounting Standards Board (GASB)
 - Generally Accepted Accounting Principles (specifically as applied to governmental units)
 - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Notes to the financial statements
- Required supplementary information
 - Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

In addition, we recommend that Association's management should periodically present a reporting package to the body charged with governance for review. The governing board's review of the reporting package should be documented in the minutes. The Association's management should present a monthly package which includes budget variances and analyses to the board. They should include a review of internal control processes over a significant transaction class like payroll or cash receipts, and other reports or processes that management uses for

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

the internal control and financial reporting processes. The Body charged with governance should gain an understanding of internal control processes and the financial reporting process. We also recommend that the board prepare an annual budget and approve it in a board meeting. The Association should compare the actual income and expenses to the budgeted amounts regularly.

Agency Response

Dee Ann McLaughlin with Accu-Rite & Accounting will continue to prepare financial statements to Malaga Mutual Domestic Water Consumers Association. The Board will start documenting the approval of the statements. The Association will begin preparing an annual budget.

2010-2 Significant Deficiency: Defacing Voided Checks

Condition

The Association was unable to provide the auditors with four out of the nine voided checks requested.

Criteria

The *Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for adopting sound accounting practices, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect

If voided checks are not properly defaced and documented, it creates a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes

Cause

The voided checks were not defaced and retained.

Recommendation

We recommend that all voided checks be properly defaced to ensure that they could not be improperly completed and cashed. We also recommend that the Association retain the voided checks in a safe location to avoid unauthorized access.

Agency Response

The Association will continue to properly ensure all voided checks are retained in a safe location to avoid unauthorized access.

2010-3 Significant Deficiency: Lack of oversight over revenue recognition

Condition

The investment account balances are not being reconciled to the statements. The investment account is understated by \$26.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

Criteria

The *Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for adopting sound accounting practices, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect

Lack of oversight over the revenue reporting could lead to under reporting or over reporting of revenue and assets.

Cause

Lack of oversight over the revenue reporting.

Recommendation

We recommend that the association properly record the interest income in a timely manner. We also recommend that the board review the financial statements on a monthly basis and question and suspicious accounts and document the approval of the financial statements in the minutes.

Agency Response

The Association's board of directors will continue to review monthly financial statements for approval and document the approval in the monthly minutes. Interest income will be recorded in a timely manner.

2010-4 Significant Deficiency: Recording Inventory

Condition

The Association is not reconciling the inventory general ledger accounts to actual. The general ledger account has a balance of \$6,507. While we believe the misstatement might be immaterial, the actual misstatement is unknown.

Criteria

The *Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for adopting sound accounting practices, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Effect

If inventory accounts are not properly recorded and reconciled, stolen inventory could go undetected.

Cause

The Association is unaware of the consequences of not reconciling the general ledger account to actual.

Recommendation

We recommend that the Association's staff count the entire inventory, update the account and keep track of inventory purchases and sales to detect any employee theft. We also recommend the Association take physical count of the inventory on a regular basis and reconcile the general ledger account.

Agency Response

The Association will update inventory balance on a regular basis.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

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 and deposited 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.

Recommendation

We recommend that 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.

2010-6 Other: Compliance with the State Auditor Requirements

Condition

Agreed Upon Procedures reports were never filed with the State Auditor's Office.

Criteria

Pursuant to Section 12-6-3(B) NMSA 1978, the annual revenue of a local public body determines the type of financial reporting a local public body shall submit to the Office of State Auditor. If a local public body's annual revenue is \$50,000 or more, but less than \$250,000, then the local public body shall procure the services of an IPA for the performance of a Tier 4 Agreed Upon Procedures engagement.

Effect

The Association is not in compliance with the state law.

Cause

The Association is unaware of this requirement.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

Recommendation

We recommend that the board and management of the Association to be proactive in complying with the state laws and regulations.

Agency Response

The Association will continue to comply with the state laws and regulations and have oversight.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Schedule of Findings and Questioned Costs
June 30, 2010

C. FINDINGS- FEDERAL AWARD AUDIT

2010-7 Other: Compliance with Federal Loan Covenants

Federal Award

United States Department of Agriculture
2010 Water and Waste Disposal Systems for Rural Communities – CFDA No.10.770; Grant No. 853107423;
Grant Period – Year ended June 30, 2010.

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 \$1,590 less than the required amount into the Asset Reserve account;
- The Association did not issue its 2010 audit report by the December 1, 2010 deadline.
- The Association did not submit the data collection form and the reporting package to the federal clearing house within 9 months after the fiscal year end.

Criteria

The loan agreement requires the Association to maintain an Asset Reserve account and transfer an amount of \$722 monthly. The Association is required to submit their audit reports for the year ended June 30, 2010 on or before December 1, 2010 subsequent to the entities' fiscal year end in accordance with State Statute (Chapter 12, Section 6: NMSA 1978) and Section 2.2.2.9.A (1) of NMAC.

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.

Context

The Association had received two grants during the year ended June 30, 2010 totaling \$828,975 and both the grants were selected for testing. The test found one grant that was not in compliance with no questioned costs.

Questioned Costs

None.

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.

Agency Response

The Association will start transferring the correct amount into the reserve accounts as required by the United States Department of Agriculture.

STATE OF NEW MEXICO
Malaga Mutual Domestic Water Consumers Association
Other Disclosures
June 30, 2010

Exit Conference

Auditor Prepared Financials

Although it would be preferred and desirable for the Association to prepare its own financial statements, the Association's personnel did not have the time to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of Malaga Mutual Domestic Water Consumers Association from the original books and records provided to them by the Association's management.

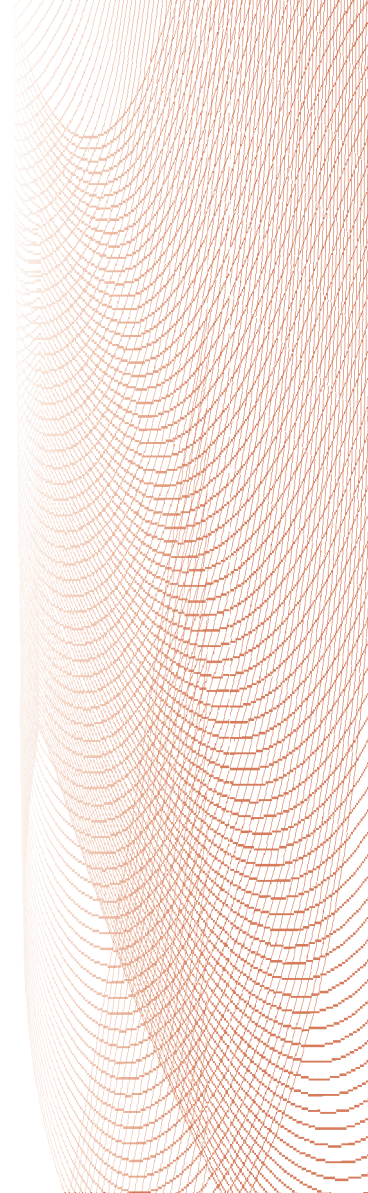
The contents of this report are discussed with the management and the board of the Association on October 26, 2011. The following individuals were in attendance.

Representing Malaga Mutual Domestic Water Consumers Association

Craig Ogden, Treasurer/Secretary
Faye Arias, Office Manager
DeAnn McLaughlin, Accountant

Representing Accounting & Consulting Group, LLP

Cindy Bryan, Partner



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