Mesquite Mutual Domestic Water Consumers and Mutual Sewage Works Association

Basic Financial Statements and Supplementary Information for the Year Ended June 30, 2009 and Independent Auditors' Report

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

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STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

DIRECTORY OF OFFICIALS
JUNE 30, 2009

Board of Directors

Robert M Nieto	President
Roberto Nava	Vice President
Ernesto Ceniceros	Secretary/Treasurer
America Terrazas	Director
Henry Magallanez	Director

Officials

Martin Lopez	General Manager

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and the Board of Directors of the
Mesquite Mutual Domestic Water Consumers and Sewage Works Association
Mesquite, New Mexico

We have audited the accompanying financial statements of the business-type activities of the Mesquite Mutual Domestic Water Consumers and Sewage Works Association, New Mexico (the Association), as of and for the year ended June 30, 2009, 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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Mesquite Mutual Domestic Water Consumers and Sewage Works Association, as of June 30, 2009, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the major enterprise fund, for the year ended June 30, 2009, 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 15, 2010, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mesquite Mutual Domestic Water Consumers and Sewage Works Association taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

White & Samaniego & Campbell, LLP

El Paso, Texas
February 15, 2010

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS:		
Current assets:		
Cash and cash equivalents	$	157,088
Accounts receivables, net		166,616
Other assets		12,934
Total current assets		336,638
Noncurrent assets:		
Restricted cash		18,736
Capital assets		6,452,572
Total assets	$	6,807,946
LIABILITIES:		
Current liabilities:		
Accounts payable	$	556,745
Accrued liabilities and other expenses		52,859
Current portion of long-term debt		31,977
Current portion of accrued compensation absences		5,627
Total current liabilities		647,208
Non-current liabilities:		
Non-current portion of long-term debt		632,212
Non-current accrued compensated absences		5,651
Total noncurrent liabilities		637,863
Total liabilities		1,285,071
NET ASSETS:		
Investment in capital assets, net of related debt		5,788,383
Unrestricted		(445,276)
Restricted		179,768
Total net assets		5,522,875
Total liabilities and net assets	$	6,807,946

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

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

Operating revenues	
Service fees	$ 626,314
Activation, connection and installation fees	52,448
Late fees	32,824
Membership fees	3,080
Other income	59,658
Total operating revenues	774,324
Operating expenses	
Advertising	1,669
Bad debt expense	11,491
Bank charges	2,211
Employee uniforms	1,918
Board of directors expenses	581
Materials, supplies, tools and chemicals	100,043
Computer software	602
Depreciation	179,965
Dues and subscriptions	3,662
Office Expense	18,696
Miscellaneous	3,996
Taxes and license - other	19,865
Fuel	24,916
Insurance	21,051
Maintenance and repairs	19,550
Payroll expense	347,814
Professional fees	28,878
Travel and entertainment	24,194
Utilities	83,670
Total operating expenses	894,772
Operating loss	(120,448)
Nonoperating revenues (expenses)	
Grant revenue	1,259,023
Interest income	7,373
Rental income	11,181
Other income	2,451
Loss on sale on investment	(1,252)
Interest expense	(21,330)
Total nonoperating revenues (expenses)	1,257,446
Change in net assets	1,136,998
Net assets, beginning of year	4,385,877
Net assets, end of year	$ 5,522,875

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

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 1,042,139
Cash payments to suppliers and employees	(737,870)
Net cash provided by operating activities	304,269
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Rental income	11,181
Other income	2,451
Loss on sale of asset	(1,252)
Net cash provided by non-operating activities	12,380
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	314,080
Principal payments	(32,116)
Grants	1,259,023
Interest payments	(21,330)
Net cash provided by financing activities	1,519,657
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	7,373
Purchase of property and equipment	(1,584,629)
Net cash used in investing activities	(1,577,256)
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,050
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(83,226)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 175,824
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET ASSETS	
Cash and cash equivalent	$ 157,088
Restricted cash	18,736
	$ 175,824

(Continued)

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(120,448)
Adjustment to reconcile operating income to net cash used in operating activities:		
Depreciation		179,965
Change in:		
Grants receivable		313,717
Accounts receivable		(45,902)
Other assets		(1,064)
Accounts payable		(22,731)
Accrued payable		1,610
Accrued compensated absences		(878)
Total adjustments		424,717
Net cash provided by operating activities	$	304,269

(Concluded)

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

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Operating Income				
Water revenue	509,597	509,597	626,314	116,717
Sewer revenue	60,105	60,105	52,448	(7,657)
Other income	-	-	95,562	95,562
Total operating income	569,702	569,702	774,324	204,622
Operating Expenses				
Salaries, labor	244,000	244,000	347,814	(103,814)
Accounting, legal	100,766	100,766	31,089	69,677
Taxes, insurance	143,400	143,400	40,916	102,484
Utilities	101,725	101,725	83,670	18,055
Supplies	110,900	110,900	40,766	70,134
Lab, chemicals	8,700	8,700	100,043	(91,343)
Bad debt expenses	-	-	11,491	(11,491)
Miscellaneous	-	-	9,908	(9,908)
Fuel	-	-	24,916	(24,916)
Travel and entertainment	-	-	24,194	(24,194)
Depreciation	160,000	160,000	179,965	(19,965)
Total operating expenses	869,491	869,491	894,772	(25,281)
Excess (deficiency) of revenues over expenditures	(299,789)	(299,789)	(120,448)	229,903
Nonoperating revenues				
Water	104,342	104,342	-	(104,342)
Sewer	35,447	35,447	-	(35,447)
Agency loans/grants	4,384,602	4,384,602	1,259,023	(3,125,579)
Other expenses	-	-	(1,577)	(1,577)
Total nonoperating income	4,524,391	4,524,391	1,257,446	(3,266,945)
Revenue over expenses	$ 4,224,602	$ 4,224,602	$1,136,998	$ (3,087,604)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mesquite Mutual Domestic Water Consumers and Sewage Works Association (the "Association") was organized in November of 1968. The Association supplies water to occupants and residents within the vicinity of the communities of Mesquite and Vado, County of Dona Ana, New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users within these areas. However during the fiscal year ended June 30, 1998 grant revenue generated a material amount of revenues.

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

In September 2008, the Board of Directors of Mesquite Mutual Domestic Water Consumer and Mutual Sewage Works Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with (1) Berino Mutual Domestic Water Consumer and Mutual Sewage Works Association, (2) Desert Sands Mutual Domestic Water Consumer Association, (3) La Mesa Mutual Domestic Water Consumers Association, (4) Vado Mutual Domestic Water Consumers Association and (5) Lower Rio Grande Mutual Domestic Water Association all serving unincorporated communities within Dona Ana County, New Mexico. Upon approval and creation of the Lower Rio Grande Public Works Authority, merging association, by the Legislature, the Associations will immediately commence the process of merge into the Authority, which process may take two to five years.

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Association are charges to customers for sales and services. The Association also recognizes as connection, membership and delinquency fees as revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Analysis of Impairment

Management review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2009.

Cash and Cash Equivalents

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

Restricted Cash
Restricted cash consist of the following:

Customer deposits	$	18,472
Construction account		264
Total restricted cash	$	18,736

Restricted cash consist of non-mandatory reserves set aside within the operating account for outstanding customer deposits. These reserves are not required but are separated by management and a separate Construction Account that has been established as required by the Government into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Association as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed. The end of year balance is $264.

Budget and Budgetary Accounting
The Association follows these procedures in establishing the budgetary data reflected in the financial statements:

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

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

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

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

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

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

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

Advertising Cost
Advertising costs are expensed as incurred. The Association incurred $1,669 of advertising cost during the fiscal year ending June 30, 2009.

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

New Governmental Accounting Standards- In June 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets which is effective for financial statements for periods beginning after June 15, 2009. The Statement establishes uniform financial reporting standards for intangible assets. The Association incorporated this statement for the current fiscal year and believe it had no significant effect on the financial statement for the year.

In November 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 52 Land Held as Investment by Endowments, which is effective for financial statements for period beginning after June 15, 2008, which earlier application encouraged. This Statement establishes standards for the reporting of land and other real estate by endowment. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

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

2. CASH AND DEPOSITS

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

Wells Fargo

Name of Account	**Balance Per Bank 06/30/09**	**Reconciled Balance**	**Type**
Operating	$ 71,677	$ 46,823	Checking
Total Deposited	71,677	$ 46,823	
Less: FDIC Coverage	(71,677)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	$ -		

Citizens Bank

Name of Account	**Balance Per Bank 06/30/09**	**Reconciled Balance**	**Type**
Sewer Construction	$ 27	$ 27	Savings
Water Construction	237	237	Savings
Total Deposited	264	$ 264	
Less: FDIC Coverage	(264)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	$ -		

Edward Jones

Name of Account	**Balance Per Bank 06/30/09**	**Reconciled Balance**	**Type**
Profit Sharing	$ 18,471	$ 18,471	Savings
Reserve	110,602	110,015	Savings
Total Deposited	129,073	$ 128,486	
Less: SPIC Coverage	(129,073)		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	$ -		

In addition to the above bank balances, the Association has $251 in petty cash at June 30, 2009.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2009, $0 of the Association's bank balance of $201,014, was exposed to custodial credit risk.

3. PROPERTY AND EQUIPMENT

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 21,722	$ -	$ -	$ 21,722
Construction in progress	3,158,548	1,583,425	(1,787,386)	2,954,587
Water rights	116,278	-	-	116,278
Total capital assets not being depreciated	3,296,548	1,583,425	(1,787,386)	3,092,587
Capital Assets, being depreciated				
Buildings	218,242	-	-	218,242
Structure improvements	693,104	-	-	693,104
Water systems	2,375,956	1,787,386	-	4,163,342
Furniture, fixtures and equipment	76,291	-	-	76,291
Machinery and equipment	129,291	-	-	129,291
Office equipment	11,408	1,204	-	12,612
Transportation equipment	155,502	-	-	155,502
Total capital assets , being depreciated	3,659,794	1,788,590	-	5,448,384
Total capital assets	6,956,342	3,372,015	(1,787,386)	8,540,971
Less accumulated depreciation for:				
Buildings	28,732	5,935	-	34,667
Structure improvements	500,989	28,923	-	529,912
Water systems	1,110,935	115,963	-	1,226,898
Furniture, fixtures and equipment	62,584	5,993	-	68,577
Machinery and equipment	123,842	1,857	-	125,699
Office equipment	1,992	2,245	-	4,237
Transportation equipment	79,360	19,049	-	98,409
Total accumulated depreciation	1,908,434	179,965	-	2,088,399
Total other capital assets, net	$ 5,047,908	$ 3,192,050	$(1,787,386)	$ 6,452,572

Depreciation expense was $179,965 for the year ended June 30, 2009.

4. COMPENSATED ABSENCES

Full time employees earn both 4 hours sick leave and 4 hours vacation each biweekly pay period. Employees may carry over a maximum of 240 hours in each category from calendar year to calendar year. As of June 30, 2009, employees had balances of 524 sick leave hours with a value of $3,498 and 464 vacation hours with a value of $7,780. Upon termination, all accumulated vacation and 1 hour for every 3 accumulated hours for sick leave will be paid to the employee.

5. LONG TERM DEBT

Changes in long-term debt during the year ended June 30, 2009 were as follows:

	Balance 06/30/08	Increase	Decrease	Balance 06/30/09	Amounts Due Within One Year
USDA Rural Development	$ 12,821	$ -	$ 6,270	$ 6,551	$ 6,551
Borman Motor Company (43480730)	14,081	-	2,373	11,708	2,831
Borman Motor Company (43481141)	12,389	-	10,341	2,048	2,048
Franklin Capital Corporation (02828244)	30,758	-	5,557	25,201	6,088
USDA Rural Development 12/17/08	307,400	-	1,388	306,012	3,044
USDA Rural Development 2/17/09	-	307,000	1,412	305,588	4,335
Capital Premium Financing Inc.	4,776	7,080	4,776	7,080	7,080
Compensated absences	12,156	19,305	20,182	11,279	5,627
	$ 394,381	$ 333,385	$ 52,299	$ 675,467	$ 37,604

United State Department of Agriculture - Rural Development Loan

On June 12, 1973, the Association entered into a $115,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 5% and maturing in June 2013. The note is payable in monthly installments of $564. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 6,551	$ 178	$ 6,729

Borman Motor Company (Loan #43480730)

On February 23, 2008, the Association entered in to a $15,076 loan agreement with Borman Motor Company to finance the purchase of a new vehicle. The loan bears interest at 9% and maturing in March 2013. The note is payable in monthly installments of $314. The loan in collaterized by the vehicle.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 2,831	$ 939	$ 3,770
2011	3,096	673	3,769
2012	3,387	383	3,770
2013	2,394	81	2,475
Totals	$ 11,708	$ 2,076	$ 13,784

Borman Motor Company (Loan #43481141)

On February 23, 2008, the Association entered in to a $15,076 loan agreement with Borman Motor Company to finance the purchase of a new vehicle. The loan bears interest at 9% and maturing in March 2013. The note is payable in monthly installments of $314. The loan in collaterized by the vehicle.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 2,048	$ 60	$ 2,108

Franklin Capital Corporation (Loan #02828244)

On February 23, 2008, the Association entered in to a $32,431 loan agreement with Franklin Capital Corporation to finance the purchase of a new vehicle. The loan bears interest at 9% and maturing in March 2013. The note is payable in monthly installments of $676. The loan in collaterized by the vehicle.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 6,088	$ 2,021	$ 8,109
2011	6,659	1,450	8,109
2012	7,283	826	8,109
2013	5,171	174	5,345
Totals	$ 25,201	$ 4,471	$ 29,672

United State Department of Agriculture - Rural Development Loan

On December 17, 2007, the Association entered into a $307,400 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 4.571% and maturing in December 2047. The note is payable in monthly installments of $1,396 starting January 2009. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 3,044	$ 13,708	$ 16,752
2011	3,184	13,568	16,752
2012	3,330	13,422	16,752
2013	3,483	13,269	16,752
2014	3,643	13,109	16,752
2015-2019	20,883	62,877	83,760
2020-2024	26,142	57,618	83,760
2025-2029	32,724	51,036	83,760
2030-2034	40,964	42,796	83,760
2035-2039	51,278	32,482	83,760
2040-2044	64,190	19,570	83,760
2045-2047	53,147	4,306	57,453
Totals	$ 306,012	$ 337,761	$ 643,773

United State Department of Agriculture - Rural Development Loan

On February 17, 2009, the Association entered into a $307,000 loan agreement with the United States Department of Agriculture (USDA) Rural Development to finance the water system and future capital improvements. The loan bears interest at 2.75% and maturing in December 2049. The note is payable in monthly installments of $1,057 starting March 2009. The loan is secured by real state of the Association.

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

Year Ending June 30:	Principal	Interest	Total
2010	$ 4,335	$ 8,349	$ 12,684
2011	4,455	8,229	12,684
2012	4,579	8,105	12,684
2013	4,707	7,977	12,684
2014	4,838	7,846	12,684
2015-2019	26,288	37,132	63,420
2020-2024	30,158	33,262	63,420
2025-2029	34,598	28,822	63,420
2030-2034	39,692	23,728	63,420
2035-2039	45,535	17,885	63,420
2040-2044	52,239	11,181	63,420
2045-2049	54,164	3,519	57,683
Totals	$ 305,588	$ 196,035	$ 501,623

Capital Premium Financing, Inc. (Insurance Premium Finance Agreement)

On June 1, 2009, the Association entered into a $7,080 insurance premium finance agreement with Capital Premium Financing Inc. to finance the general, management, automobile, property, crime and inland marine insurance. The finance agreement bears interest at 10% and maturing in March 2010. The note is payable in monthly installments of $820. The finance agreement is secured by interest in unearned premiums of the policies.

Insurance premium and interest payment for the next year is as follows:

Year Ending June 30:	Principal	Interest	Total
2010	$ 7,080	$ 298	$ 7,378

6. **RISK MANAGEMENT**

The Association covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters through various insurance policy coverages. The coverage includes workers compensation, general and professional liability, property, and fidelity bonds coverage. The Association transfers these risks of loss to the insurance carrier except for deductible amounts. Premiums paid on policies for the year June 30, 2009 was $21,051.

7. **RETIREMENT PLAN**

The association provides employees the opportunity to participate in a 401K plan. The 401(k) is available to employees after completing their 90 day trial period. The Association matches employee contributions dollar for dollar up to 6% of wages. In addition, the Association contributes a profit sharing portion to each employee's 401(k), regardless of whether they participate in the voluntary contribution option. Current policy is to contribute 15% of the employee's wages towards the profit sharing option. For the fiscal year ended June 30, 2009, the Association contributed $8,002 in matching funds and accrued $18,345 towards the profit sharing option.

8. **LEASE AGREEMENT**

In June 2008, the Association entered into a lease agreement to lease space on top of their water tower to Alltel for permanently affixed antenna. The lease has a five year term with payment of $896, monthly, with an unlimited renewal clause and a 20% 5 year term escalation. Future annual rent receipts are as follows:

Year Ending June 30:	Amount
2010	$ 11,629
2011	12,095
2012	12,578
Total	$ 36,302

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

Hector H. Balderas, State Auditor
and the Board of Directors of the
Mesquite Mutual Domestic Water Consumers and Sewage Works Association, New Mexico

We have audited the financial statements of the business-type activities of the Mesquite Mutual Domestic Water Consumers and Sewage Works Association (the "Association") as of and for the year ended June 30, 2009, and have issued our report thereon dated February 15, 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (Items 08-01 and 08-02) to be significant deficiencies in internal control over financial reporting.

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 the 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 be 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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 08-01, 08-02, and 09-01.

The Association's responses to the findings identified in our audit is 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 the Association's Board of Directors, the Association's management, the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

White + Samaniego + Campbell, LLP

El Paso, Texas
February 15, 2010

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

Hector H. Balderas, State Auditor
and the Board of Directors of the
Mesquite Mutual Domestic Water Consumers and Sewage Works Association, New Mexico

Compliance

We have audited the compliance of Mesquite Mutual Domestic Water Consumers and Sewage Works Association (the 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, 2009. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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

In our opinion, the Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity'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 the entity'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 the organization'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 the organization'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 not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

White + Samaniego + Campbell, LLP

El Paso, Texas
February 15, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

SECTION I - SUMMARY OF AUDITOR'S REPORT

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of Major Programs:

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

Dollar Threshold Used to Distinguish Between Type A and Type B Programs	$300,000	
Auditee Qualifies as Low-Risk Auditee	Yes	X No

Late Audit Report (08-01)

CONDITION The audit report was submitted to the State Auditor after the required deadline.

CRITERIA Special districts audits are required to be submitted to the State Auditor by December 1. This is a requirement of the State Auditors Office Rule 2.2.2.9A(1)(C)

EFFECT State Auditor regulations have not been adhered to. Also, the users of the financial statements such as legislators, creditors, bondholders, State and Federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on State and Federal Funding.

CAUSE The Association was not aware of audit requirements.

RECOMMENDATION The Association is working diligently to become current with all of their audit reports.

RESPONSE The Association is diligently working to ensure that all audits are submitted and deadlines are adhered to.

Capital Assets - Capitalization Policy (08-02)

CONDITION During our audit we noted that the Association has not implemented the $5,000 limit for capitalization of fixed assets. As a result, items costing less than $5,000 were included in capital assets.

CRITERIA According to the State Audit Rule Section 2.2.2.10 Y, "The Audit Act (12-6-10, NMSA 1978) requires agencies to capitalize only property and equipment that cost over $5,000. All agencies should update their capitalization policies in accordance with the law. The State Auditor still encourages agencies to maintain a separate accountability report of those items that cost $5,000 or less, for asset safeguarding and management purposes."

EFFECT The Association's capital asset detail is incomplete and expenditures related to capital outlay may be misstated. There are more assets included on the capital assets listing than are allowed by the State's capitalization policy.

CAUSE The Association was not aware that the State Auditor did not allow capitalization thresholds which are more restrictive than the applicable law.

RECOMMENDATION We recommend that the Association maintain capital assets records and record depreciation only for those assets with a cost in excess of $5,000.

RESPONSE The recommendation will be adopted.

Expenses in Excess of Budget (09-01)

CONDITION The Association's actual expenditures exceeded the approved budget by $25,281 in total.

CRITERIA Budgets for soil and water conservation districts are approved by DFA in accordance with Section 6-6-3 NMSA 1978. Association's expenditures cannot exceed the approved budget according to Section 6-6-6 NMSA 1978 which states: "When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials."

EFFECT Association is not in compliance with state law.

CAUSE The Association did not budget $19,965 for the depreciation expense, this is from the new facilities constructed from the Baca Chile and Water Phase I & II projects thus increase depreciation expense. The remaining was $5,316 from additional bad debt expenses that Mesquite had not budgeted for.

RECOMMENDATION Adopt budget adjustments in accordance with the Association's plans and operations. Obtain approval from DFA before any expenditures are incurred. Monitor accounts at least quarterly to ensure that actual expenditures do not exceed the approved budget or available fund balance at any time during the fiscal year.

RESPONSE The Association will improve budget monitoring and review.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

STATUS OF PRIOR YEAR FINDINGS

		Current Status
08-01	Late Submission of Audit Report	Repeat
08-02	Capital Assets - Capitalization Policy	Repeat
08-03	Data Collection Form Package Not Timely Filed	Resolved

STATE OF NEW MEXICO
MESQUITE MUTUAL DOMESTIC WATER CONSUMERS AND SEWAGE WORKS ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor	Federal CFDA Number	Award Amount	Current Fiscal Year Expenditures
US Department of Agriculture			
Water and Waste Disposal System for Rural Communities	10.760	$ 1,841,619	$ 1,090,331
Water and Waste Disposal System for Rural Communities - Loan	10.760	307,000	284,470
Total Department of Agriculture		2,148,619	1,374,801
Total Expenditures of Federal Awards		$ 2,148,619	$ 1,374,801

The accompanying notes are an integral part of the financial statements

EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2009

An exit conference was conducted February 23, 2010 in a closed meeting of the Association pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

<u>Mesquite Mutual Domestic Water Consumer and Sewage Works Association</u>

Robert M Nieto	President
Martin Lopez	General Manager
Angie Meza	Accounts Payable Clerk

<u>White + Samaniego + Campbell, LLP</u>

Roxie Samaniego	Partner in-Charge
Luis Molina	Auditor

FINANCIAL STATEMENT PREPARATION

by White + Samaniego + Campbell, LLP, with the aid of responsible Association personnel. Official responsible
The combined financial statements of the Association as of, and for the year ended, June 30, 2009 were prepared
personnel agree that the presentations are made with their knowledge and agreement.