

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER
ASSOCIATION, INC.

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008
WITH
INDEPENDENT AUDITORS' REPORT

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STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

OFFICIAL ROSTER
December 31, 2008

Board of Directors

Donel Owen	President
Earnest Smith	Vice President
Bennie Brown	Secretary/Treasurer
Loren Linville	Member
Doyle W. Bradford	Member

Administrative Employees

Lloyd Ayliffe	General Manager
Gayle Willett	Administrative Assistant

Field Employees

Nathan Yarbro	Lead Operator
Cecil J. Sanchez	Operator

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INTRODUCTORY SECTION

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JUN - 1 2009
STATE AUDITOR

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STATE AUDITOR

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STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

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December 31, 2008

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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CERTIFIED PUBLIC ACCOUNTANTS

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Farmington, NM 87401

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INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor
and the Board of Directors,
North Star Mutual Domestic Water Consumers Association, Inc.

We have audited the accompanying financial statements of the business-type activities of North Star Mutual Domestic Water Consumers Association, Inc. as of and for the year ended December 31, 2008, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company'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 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 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 North Star Mutual Domestic Water Consumers Association, Inc., as of December 31, 2008, and the respective changes in financial position and cash flows of the Company 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 May 26, 2009, on our consideration of North Star Mutual Domestic Water Consumers Association, Inc.'s internal control over financial reporting and 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.

North Star Mutual Domestic Water Consumers Association, Inc. has not presented a Management's Discussion and Analysis required by GASB Statement No. 34 that the Governmental Standards Board has determined is necessary to supplement. Although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Star Mutual Domestic Water Consumers Association, Inc. basic financial statements. The accompanying supplemental schedule of pledged collateral is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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.

Keystone Accounting, LLC
May 26, 2009

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BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC

PROPRIETARY FUND
STATEMENT OF NET ASSETS

December 31, 2008

ASSETS

Current assets:

Cash and equivalents	\$ 374,853
Accounts receivable	260,602
Interest receivable	<u>2,154</u>

Total current assets 637,609

Capital assets:

Land	7,436
Buildings and system	2,052,704
Improvements other than buildings	454,543
Equipment	3,017,149
Water rights	<u>738,981</u>

6,270,813

Less accumulated depreciation (2,875,268)

Net capital assets 3,395,545

Other assets:

Restricted cash and equivalents	58,560
Debt issuance cost	17,798
Less accumulated amortization	<u>(4,019)</u>
Total other assets	<u>72,339</u>

Total assets \$ 4,105,493

LIABILITIES

Current liabilities:

Accounts payable	\$ 25,329
Accrued liabilities	36,812
Interest payable	8,541
Current maturities of capital lease	14,484
Current maturities of long-term debt	<u>94,751</u>
Total current liabilities	<u>179,917</u>

Long-term liabilities:

Capital lease payable, less current maturities	353
Loans payable, less current maturities	<u>2,165,264</u>
Total long-term liabilities	<u>2,165,617</u>
Total liabilities	<u>2,345,534</u>

NET ASSETS

Invested in capital assets, net of related debt	1,120,693
Restricted for debt service	58,560
Unrestricted net assets	<u>580,706</u>
Total net assets	<u>1,759,959</u>
Total liabilities and net assets	<u>\$ 4,105,493</u>

See accompanying notes.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year ended December 31, 2008

Operating revenue:	
Charges for service	<u>\$ 1,161,145</u>
Operating expenses:	
Salaries and wages	200,485
Benefits	47,496
Payroll taxes	19,920
System operations	297,813
Plant operations	56,667
Office expense	28,998
Legal	7,484
Accounting	5,050
Professional services	5,480
Insurance	27,184
Telephone	9,303
Equipment rental	14,700
Travel	2,718
Miscellaneous	5,859
Depreciation	<u>217,674</u>
Total operating expenses	<u>946,831</u>
Income from operations	<u>214,314</u>
Non-operating revenues (expenses):	
Interest income	7,156
Interest expense	<u>(76,952)</u>
Total non-operating revenues (expenses)	<u>(69,796)</u>
Change in net assets	144,518
Net assets at beginning of year	<u>1,615,441</u>
Net assets at end of year	<u>\$ 1,759,959</u>

See accompanying notes.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
Year ended December 31, 2008

	<u>2008</u>
Cash flows from operating activities:	
Cash received from customers	\$ 964,414
Cash payments to employees	(182,836)
Cash payments for employee benefits	(47,496)
Cash payments for taxes	(19,920)
Cash payments for goods and services	<u>(445,305)</u>
Net cash provided by operating activities	<u>268,857</u>
Cash flows from capital and related financing activities:	
Payments for capital acquisitions	(75,692)
Withdrawal from restricted cash	21,645
Payments on capital-related debt	<u>(208,590)</u>
Net cash used in financing activities	<u>(262,637)</u>
Cash flows from investing activities:	
Receipts of interest	<u>5,113</u>
Net increase in cash and equivalents	11,333
Cash and equivalents at beginning of year	<u>363,520</u>
Cash and equivalents at end of year	<u>\$ 374,853</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 214,314
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	217,674
(Increase) Decrease in assets:	
Customer receivables	(196,731)
Increase (decrease) in liabilities:	
Accounts payable	15,951
Accrued liabilities	<u>17,649</u>
Net cash provided by operating activities	<u>\$ 268,857</u>

See accompanying notes.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Star Mutual Domestic Water Consumers Association, Inc. (Company) is a not-for-profit Mutual Domestic Association established for the purpose of construction, maintaining, and operating a water and wastewater system for members of the Company in rural San Juan County. The Company was incorporated as a Cooperative Company under the provisions of the New Mexico Cooperative Corporation Act. The Board of Directors changed its form of organization from a not-for-profit cooperative to a not-for-profit company under the Sanitary Projects Act, NMSA 3-29-1 through 3-29-20. The Company has no component units. In October of 2007 the Company changed its name from North Star DWC & SWC Cooperative, Inc to North Star Mutual Domestic Water Consumers Association.

Under the Sanitary Projects Act, the Association remains a not-for-profit organization owned and governed by its members. It is also eligible to receive certain loans and grants from the State of New Mexico.

The New Mexico State Auditor has determined, based upon the AG opinions, that mutual domestic water associations are governmental nonprofit organizations. As a result of this conclusion, as of fiscal year 2006, the Company has changed their reporting format from the nonprofit format to the governmental format required by Governmental Accounting Standards Board (GASB) Statement 34. There was no effect on net assets as a result of implementing this format.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The proprietary fund financial statements are reported using 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The company uses a proprietary fund to record all of its transactions.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenue of the Company enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund 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 non-operating revenues and expenses.

C. Assets, Liabilities, and Net Assets or Equity

I. Deposits and investments

The company'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 investment of the Company's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Company is also allowed to invest in United States Government obligations. All funds for the Company must follow the above investment policies.

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 Company. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States Treasury bills of the same maturity on the day of deposit.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Excess 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.

Investments for the Company are reported at fair value.

2. Accounts receivable

The receivables in the statement of net assets are considered fully collectable, and therefore, no allowance for doubtful accounts has been recorded. Receivables are recognized when services have been rendered and revenue has been earned.

Accounts receivable consist of the following at December 31, 2008:

Water billing receivable	\$ 136,247
Membership receivable	<u>124,355</u>
Total	<u>\$ 260,602</u>

3. Capital assets

The Company's policy is to capitalize all disbursements for equipment in excess of \$5,000. Property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated services lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. The Association assets have the following estimated useful lives:

	<u>Years</u>
Buildings and systems	40
Furniture and fixtures	5-15
Improvements other than buildings	15-30
Machinery and equipment	5-20

Water rights or \$738,981 are not depreciated or amortized because water rights reflect renewable resources that do not deplete through use or deterioration. The Company evaluates the water rights each reporting period to determine whether events or circumstances continue to support an indefinite useful life.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Accumulated compensated absences

The Company permits certain employees to accumulate a limited amount of earned but unused vacation leave. The cost of earned but unpaid vacation leave is normally recognized in proprietary funds when the benefit vests to the employee and becomes a legal liability to the Company.

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due within one year</u>
Compensated absences	\$ 10,291	\$ 10,335	\$ 958	\$ 19,668	\$ 19,668

5. Accrued liabilities

Accrued liabilities consist of the following at December 31, 2008:

Accrued salaries and wages	\$ 5,384
Accrued leave	19,668
State withholding payable	593
Federal and state unemployment taxes	520
Pension plan contributions	2,648
Gross receipts tax payable	5,537
Other	2,462
Total	\$ 36,812

6. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Income Taxes

North Star Mutual Domestic Water Consumers Association, Inc., is exempt from Federal Income Taxes under the provisions of section 501(a) of the Internal Revenue Code as an entity described in section 501(c)(3). Therefore, no provision for income taxes has been made.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Company does not legally adopt a budget. Therefore, no comparison is made between the budget and actual expenditures.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and temporary investments

At December 31, 2008, the carrying amount of the Company's deposits was \$433,413 and the bank balance was \$448,703. Of this balance \$398,158 was covered by federal depository insurance. NM 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 Company for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured and uninsured portion of deposits.

	Citizens Bank	Bank of Albuquerque	Farmington Savings Bank	Four Corners Community Bank	New Mexico Finance Authority
Cash on deposit	\$ 79,972	\$ 25,382	\$ -	\$ 93,807	\$ 50,545
Certificates of deposit	-	-	93,914	105,114	-
FDIC coverage	<u>(79,972)</u>	<u>(25,382)</u>	<u>(93,914)</u>	<u>(198,921)</u>	<u>-</u>
Total uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,545</u>

	New Mexico Finance Authority
Cash on deposit with State Treasurer	\$ 50,545
Collateralized in State Treasurer accounts	<u>(50,545)</u>
Total uninsured and uncollateralized	<u>\$ -</u>

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

III. DETAILED NOTES ON ALL FUNDS (continued)

A. Cash and Temporary Investments (continued)

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the Company. Time deposits, savings deposits and interest bearing now accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Custodial credit risk-deposits:

Custodial Credit risk is the risk that in the event of bank failure, the Company deposits may not be returned. The Company does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the Company's bank balance of \$448,703 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateralized by Federal Depository Insurance Authority (FDIC)	398,158
Uninsured and collateralized in State Treasurers Accounts	<u>50,545</u>
Total	<u>\$ 448,703</u>

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 7,436	\$ -	\$ -	\$ 7,436
Water rights	<u>708,641</u>	<u>30,340</u>	<u>-</u>	<u>738,981</u>
Total capital assets, not being depreciated	<u>716,077</u>	<u>30,340</u>	<u>-</u>	<u>746,417</u>
Capital assets, being depreciated:				
Buildings and systems	2,052,704	-	-	2,052,704
Improvements other than buildings	454,543	-	-	454,543
Equipment	<u>2,981,256</u>	<u>47,330</u>	<u>(11,437)</u>	<u>3,017,149</u>
Total capital assets, being depreciated	<u>5,488,503</u>	<u>47,330</u>	<u>(11,437)</u>	<u>5,524,396</u>
Less accumulated depreciation for:				
Buildings and systems	(163,665)	(51,317)	-	(214,982)
Improvements other than buildings	(129,578)	(27,790)	-	(157,368)
Equipment	<u>(2,376,530)</u>	<u>(137,825)</u>	<u>11,437</u>	<u>(2,502,918)</u>
Total accumulated depreciation	<u>(2,669,773)</u>	<u>(216,932)</u>	<u>11,437</u>	<u>(2,875,268)</u>
Total capital assets being depreciated, net	<u>\$ 2,818,730</u>	<u>\$ (169,602)</u>	<u>\$ -</u>	<u>\$ 2,649,128</u>
Total capital assets, net	<u>\$ 3,534,807</u>	<u>\$ (139,262)</u>	<u>\$ -</u>	<u>\$ 3,395,545</u>

The Company purchased the Dutchman's Hill water system for \$1 during the year. The system and infrastructure are obsolete and have no value. Therefore there were not any assets added to the capital assets. The system and infrastructure will require extensive replacement and repairs in order to modernize the system and to make it manageable. The system and infrastructure will be added to the capital assets as the replacements occur.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Long-Term Debt

A summary of loans payable at December 31, 2008

	<u>Beginning Balance</u>	<u>Increase/ (Decrease)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
3% Rural Infrastructure Program loan to New Mexico Environmental Department, payable in yearly installments of \$11,571 each, beginning October 2002, including interest, due October 2014, secured by water chargers, present and future contract rights and accounts recievable arising in connection with the Company.	\$ 72,093	\$ (9,409)	\$ 62,685	\$ 9,691
1.462% long-term debt to NMFA, payable in unequal installments of various amounts beginning October 2003, including interest, due April 2028, secured by the water system, easement, leases, water rights, water charges, accounts receivable, inventories, permits, and right of ways, and income of all kinds derived from operations of the Company	1,605,431	(48,973)	1,556,458	50,207
4.93% long-term debt to NMFA, payable in unequal installments of various amounts beginning May 2003, including interest, due April 2028, secured by the water system, easement, leases, water rights, water charges, accounts receivable, inventories, permits, and right of ways, and income of all kinds derived from operations of the Company	197,386	(14,223)	183,163	14,927
6.875% long-term debt to Rural Utility Services, payable in monthly installments of \$2,087, beginning August 1991 including interest, due August 2031, secured by present and future contract rights, accounts receivable, and general intangibles arising in connection with the Company.	276,037	(6,262)	269,775	6,706

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Long-Term Debt (continued)

	Beginning Balance	Increase/ (Decrease)	Ending Balance	Amount Due Within One Year
5.00% long-term debt to Rural Utility Services, payable in monthly installments of \$1,650, beginning November 2001 including interest, due November 2021, secured by present and future contract rights, accounts receivable, and general intangibles arising in connection with the Company.	195,830	(10,351)	185,479	10,765
6.00% long-term debt to Cleatice and Barbara Beaty, payable in monthly installments of \$2,492, beginning March 2004 including interest, due March 2009, secured by the water rights purchased with the loan.	33,618	(31,163)	2,455	2,455
Total	<u>\$ 2,380,395</u>	<u>\$ (120,381)</u>	<u>\$ 2,260,015</u>	<u>\$ 94,751</u>

Principal maturities of loans payable are as follows:

December 31,	
2009	\$ 94,641
2010	94,660
2011	97,263
2012	99,167
2013	102,002
2014 - 2018	562,335
2019 - 2023	601,426
2024 - 2028	608,521
	<u>\$ 2,260,015</u>

The New Mexico Finance Authority loans require the Company to maintain reserve accounts, which consist of \$58,560 for the year ended December 31, 2008, in restricted cash on the accompanying statement of financial position. Associated with the loans, there is a loan origination fee that is being amortized over the life of the loan.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Long-Term Debt (continued)

Capital leases payable are as follows:

During fiscal year 2005, the Company entered into a capital lease agreement to purchase a backhoe for \$57,511. The term of the lease is five years with monthly payments of \$1,207 and an implicit interest rate of 9.8%. At the end of the lease term, the Company has the option to purchase the equipment for the residual value of \$1.

	Beginning <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	Ending <u>Balance</u>
Capital lease payable	\$ 27,198	\$ -	\$ 12,361	\$ 14,837

The minimum future lease payments at December 31, 2008 are as follows:

December 31, 2009	\$ 14,484
December 31, 2010	<u>1,207</u>
 Total minimum lease payments	 15,691
Less: implicit interest	<u>(854)</u>
Present value of net minimum lease payments	<u>\$ 14,837</u>

IV. WORKMAN'S COMPENSATION

Every employee of the North Star Mutual Domestic Water Consumers Association, Inc. is covered by workman's compensation insurance as provided by State law. The Company pays the entire insurance cost. Any employee who is injured or becomes ill from a cause arising in the course of his/her employment is eligible for benefits under workmen's compensation in accordance with State Workmen's Compensation Law. Such illness or injury must be reported to the supervisor or General Manager immediately.

V. GRANTS

The Company was approved for five grants from the New Mexico Environment Department. The grants were in the amounts of \$50,000, \$150,000, \$50,000, \$100,000 and \$90,000, and were awarded March 19, 2004, September 30, 2004, October 18, 2004, February 24, 2006, and February 24, 2006, respectively. The funds were available for reimbursement of expenditures incurred for the upgrade of water lines during the years ended December 31, 2006 and 2005. The 2004 grants are available until June 30, 2009, and the 2006 grants are available until June 30, 2010. The funds have not yet been used.

SUPPLEMENTAL INFORMATION

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STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION, INC

SCHEDULE OF PLEDGED COLLATERAL
December 31, 2008

	<u>Citizens Bank</u>	<u>Bank of Albuquerque</u>	<u>Famington Savings Bank</u>	<u>Four Corners Community Bank</u>	<u>New Mexico Finance Authority</u>
Cash on deposit	\$ 79,972	\$ 25,382	\$ -	\$ 93,807	\$ 50,545
Certificates of deposit	-	-	93,914	105,114	-
Total deposits	79,972	25,382	93,914	198,921	50,545
Less FDIC coverage	(79,972)	(25,382)	(93,914)	(198,921)	-
Total uninsured funds	-	-	-	-	50,545
Less amounts collateralized in State Treasurer accounts	-	-	-	-	(50,545)
Total uninsured and uncollateralized	\$ -	\$ -	\$ -	\$ -	\$ -
Citizens Bank (Operating)	Checking	\$ 79,972	\$ (23,504)	\$ 56,468	
Four Corners Community	Checking	93,807	-	93,807	
Four Corners Community	Certificate	52,557	-	52,557	
Four Corners Community	Certificate	52,557	-	52,557	
Farmington Savings (Tank CD)	Certificate	29,348	-	29,348	
Farmington Savings (Contingency)	Certificate	64,566	-	64,566	
Bank of Albuquerque	Reserve	25,351	-	25,351	
NMFA	Escrow	35,093	6,024	41,117	
NMFA	Escrow	15,451	1,991	17,442	
Petty cash		-	-	200	
		<u>\$ 448,702</u>	<u>\$ (15,489)</u>	<u>\$ 433,413</u>	
				\$ 374,853	
				<u>58,560</u>	
				<u>\$ 433,413</u>	

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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**

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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
North Star Mutual Domestic Water Consumers Association, Inc.

We have audited the financial statements of the business-type activities of North Star Mutual Domestic Water Consumers Association, Inc., as of and for the year ended December 31, 2008, and have issued our report thereon dated May 26, 2009. 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 North Star Mutual Domestic Water Consumers Association Inc.'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 of the effectiveness of North Star Mutual Domestic Water Consumers Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Star Mutual Domestic Water Consumers Association, Inc.'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 North Star Mutual Domestic Water Consumers Association, Inc.'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. Findings 2008 – 1 and 2008-2.

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 North Star Mutual Domestic Water Consumers Association, Inc.'s internal control.

KEYSTONE ACCOUNTING, LLC

CERTIFIED PUBLIC ACCOUNTANTS

4801 N Butler, Ste. 8101
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Fax (505) 566-1911

Hector H. Balderas, State Auditor
and the Board of Directors
North Star Mutual Domestic Water Consumers Association, Inc.

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 North Star Mutual Domestic Water Consumers Association Inc.'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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-1 and 2008-2.

The North Star Mutual Domestic Water Consumers Association, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the North Star Mutual Domestic Water Consumers Association, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the State Auditor, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.


May 26, 2009

AUDIT FINDINGS AND RESPONSES

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STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended December 31, 2008

A. PRIOR YEAR AUDIT FINDINGS

2006-1 A DETAILED LISTING OF FIXED ASSETS INVENTORY IS NOT AVAILABLE

Condition: A fixed asset inventory listing has not been prepared by the Company

Criteria: A detailed listing of capitalized assets is needed for proper management of both depreciable and intangible items on the balance sheet.

Recommendation: A physical inventory of all capitalized assets should be made and depreciation accounted for by item. An identification system should be put into place to allow items in the asset listing to be specifically identified. Coordination among all personnel to obtain any necessary pricing information and/or tagging requirements as set by policy should be implemented immediately to properly account for acquisitions and disposals.

Current Status: Unresolved. Repeated in current year as Finding 2008 – 1.

2006-3 COLLATERAL FOR PUBLIC MONIES

Condition: The Company's cash balance that was invested in money market funds at Morgan Stanley, \$146,068, was not insured or collateralized.

Criteria: According to New Mexico State Statute (NMSA 1978) 6-10-16, "Deposits of public money shall be secured by (1) securities of the United States...(2) securities of the State of New Mexico...(3) securities that are guaranteed by the United States or the State of New Mexico, (4) revenue bonds that are underwritten by a member of the National Association of Securities Dealers (NASD) and are rated "BAA", (5) letters of credit issued by a federal home loan bank."

Recommendation: It is the responsibility of management to ensure that adequate safekeeping of the Company's assets is maintained. As part of its fiscal responsibility, management should work closely with its depository institutions to closely monitor types and amounts of collateral to meet the state requirements.

Current Status: Resolved. Not repeated in current year.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended December 31, 2008

A. PRIOR YEAR AUDIT FINDINGS (continued)

2007-1 FAILURE TO FILE AUDIT REPORT BY REQUIRED DUE DATE

Condition: The December 31, 2007 audit report was not submitted to the New Mexico State Auditor's Office by the due date of May 30, 2008. The audit was submitted to the New Mexico State Auditor's Office on October , 2008.

Criteria: The New Mexico, Office of the State Auditor has issued NMAC 2.2.2 Requirements for Contracting and Conducting Audits of Agencies, setting due dates for audits to be in the office by May 30, 2008.

Recommendation: The audit contract should be signed by the due date required by the State Auditor in the future.

Current Status: Resolved. Not repeated in current year.

2007-2 UNTIMELY DEPOSITS OF RECEIPTS

Condition: Two out of Twenty-five receipts tested showed that payments collected were not deposited within one week of receipt.

Criteria: All receipts should be deposited in a timely manner.

Recommendation: Receipts should be deposited within one week.

Current Status: Resolved. Not repeated in the current year.

2007-4 PREPARATION OF THE FINANCIAL STATEMENTS

Condition: The financial statements were prepared by the auditor.

Criteria: Management is required to have an internal control system of financial reporting including the preparation of the financial statements.

Recommendation: Management should develop a plan and system of controls that enables them to review the accuracy and completeness of the financial statements.

Current Status: Not resolved. Repeated in current year as Finding 2008 – 2.

STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Year Ended December 31, 2008

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2008 – 1 A DETAILED LISTING OF FIXED ASSETS INVENTORY IS NOT AVAILABLE
(Original Finding 2006-1)

Condition: A fixed asset inventory listing has not been prepared by the Company

Criteria: A detailed listing of capitalized assets is needed for proper management of both depreciable and intangible items on the balance sheet.

Effect of Condition: There is no listing of capitalized assets with which to reconcile the amounts reflected on the balance sheet. The lack of any tracking system for assets and depreciation inhibits the proper recording of assets disposed of or sold, and also, allows for a higher risk of misappropriation of asset inventory.

Cause of Condition: The nature of the assets involved makes it difficult in giving nomenclature to individual pieces that make up the pipeline network in addition to requiring time that is not readily available.

Recommendation: A physical inventory of all capitalized assets should be made and depreciation accounted for by item. An identification system should be put into place to allow items in the asset listing to be specifically identified. Coordination among all personnel to obtain any necessary pricing information and/or tagging requirements as set by policy should be implemented immediately to properly account for acquisitions and disposals.

Management's response: This inventory is in progress of being completed as soon as possible.

2008 – 2 PREPARATION OF THE FINANCIAL STATEMENTS (Original Finding 2007-4)

Condition: The financial statements were prepared by the auditor.

Criteria: Management is required to have an internal control system of financial reporting including the preparation of the financial statements.

Effect of condition: Management's ability to ascertain the accuracy and completeness of the financial statements has been diminished.

Cause of condition: Management does not have internal controls in place that are necessary for the preparation of the financials.

Recommendation: Management should develop a plan and system of controls that enables them to review the accuracy and completeness of the financial statements.

Management response: A system of controls will be developed and implemented that allow management to determine the accuracy and fair presentation of the financial statements.

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REQUIRED DISCLOSURE

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STATE OF NEW MEXICO
NORTH STAR MUTUAL DOMESTIC WATER ASSOCIATION, INC.

REQUIRED DISCLOSURES
Year Ended December 31, 2008

REQUIRED DISCLOSURE

The financial statements were prepared by the independent public accountants.

An exit conference was held May 29, 2009, during which the audit findings were discussed. The exit conference was attended by the following individuals:

NORTH STAR MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION, INC.

Loren Linville, President
Bennie Brown, Treasurer
Lloyd Ayliffe, General Manager
Gayle Willett, Administrative Assistant

KEYSTONE ACCOUNTING, LLC

Terry Ogle, CPA

