

**Organ Water and Sewer  
Association**

**Basic Financial Statements and  
Supplementary Information  
for the Period of January 1, 2012  
through September 30, 2012  
and Independent Auditors' Report**

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**TABLE OF CONTENTS**

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	<b>Page</b>
DIRECTORY OF OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	5
Statement of Revenues, Expenses and Changes in Net Position	6
Statement of Cash Flows	7
Notes to Basic Financial Statements	9
SUPPLEMENTARY INFORMATION:	
Statement of Revenue, Expenditures and Changes in Cash Balance - Budget and Actual on Budgetary Basis	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	21
Schedule of Findings and Questioned Costs	24
Exit Conference	27

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**DIRECTORY OF OFFICIALS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**Board of Directors**

Western Lee	President
Clyde Williamson	Vice President
Dennis Remley	Director
Furman Smith	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  
Organ Water and Sewer Association  
Vado, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Organ Water and Sewer Association, (the Association), as of and for the period ended September 30, 2012, which collectively comprise the Association's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the major enterprise fund presented as supplemental information in the financial statements for the period of January 1, 2012 through September 30, 2012 as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements due to fraud or error.

### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **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 Organ Water and Sewer Association, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparisons for the business type funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis which is required to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements. 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 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* in considering the Association's internal control over financial reporting and compliance.



El Paso, Texas  
November 26, 2013

**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**STATEMENT OF NET POSITION  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**ASSETS:**

Current assets:

Cash and cash equivalents	\$ 80,566
Grants receivables	353,359
Accounts receivables, net	8,132
Other assets	<u>7,628</u>

Total current assets 449,685

Noncurrent assets:

Restricted cash	700
Capital assets	<u>3,081,185</u>

Total assets \$ 3,531,570

**LIABILITIES:**

Current liabilities:

Accounts payable	\$ 349,991
Accrued liabilities and other expenses	1,756
Current portion of long-term debt	<u>316,584</u>

Total current liabilities 668,331

Non-current liabilities:

Non-current portion of long-term debt	<u>10,253</u>
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Total noncurrent liabilities 10,253

Total liabilities 678,584

**NET POSITION:**

Net investment in capital assets	2,754,348
Unrestricted	97,938
Restricted	<u>700</u>

Total net position 2,852,986

Total liabilities and net position \$ 3,531,570

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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Operating revenues	
Service fees	\$ 156,803
Activation, connection and installation fees	5,029
Late fees	2,369
Membership fees	<u>27,206</u>
Total operating revenues	191,407
Operating expenses	
Advertising	39
Bad debt expense	934
Bank charges	325
Dues and subscriptions	1,437
Licenses and permits	2,356
Depreciation	74,463
Salaries and wages	40,107
Office Expense	442
Taxes and license - other	3,835
Cost of operations	12,497
Insurance	8,084
Maintenance and repairs	13,757
Professional fees	34,259
Travel and entertainment	21
Utilities	<u>25,680</u>
Total operating expenses	218,236
Operating loss	<u>(26,829)</u>
Nonoperating revenues (expenses)	
Grant revenue	360,052
Other income	2,064
Interest expense	<u>(13,810)</u>
Total nonoperating revenues (expenses)	348,306
Change in net position	321,477
Net position, beginning of year	<u>2,531,509</u>
Net position, end of year	<u>\$ 2,852,986</u>

See accompanying notes to financial statements and independent auditors' report.



**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ (104,298)
Cash payments to suppliers and employees	179,871
Cash payments to employees for services	<u>(40,107)</u>
Net cash provided by operating activities	35,466
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Other income	<u>2,064</u>
Net cash provided by non-operating activities	2,064
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments	(19,356)
Grants	360,052
Acquisition of property and equipment	(359,094)
Interest payments	<u>(13,810)</u>
Net cash used in financing activities	<u>(32,208)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>5,322</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>75,944</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 81,266</u>
RECONCILIATION TO CASH AND CASH EQUIVALENT AS REPORTED ON THE STATEMENT OF NET ASSETS	
Cash and cash equivalents	\$ 80,566
Restricted cash	<u>700</u>
	<u>\$ 81,266</u>

(Continued)

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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

Operating loss	\$	(26,829)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation		74,463
Change in:		
Grants receivable		(353,359)
Accounts receivable		(1,378)
Other assets		1,265
Accounts payable		341,982
Accrued payable and other liabilities		<u>(678)</u>
Total adjustments		<u>62,295</u>
Net cash provided by operating activities	\$	<u>35,466</u>

(Concluded)

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organ Mutual Domestic Water Consumer Association (the Association) supplies water to occupants and residents within the vicinity of the communities of southern New Mexico. Sales revenues are generated primarily from water supply sales to domestic and commercial users within these areas.

The Association has a Board of Directors that consists of five (4) members who are responsible for legislative and fiscal control of the Association. The Board is also responsible for administrative control of the Association.

**Reporting Entity**

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

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

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

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

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

**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 period of September 30, 2012.

**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	<u>\$ 700</u>
Total restricted cash	<u>\$ 700</u>

Restricted cash consist of non-mandatory reserves set aside within the operating account for outstanding customer deposits.

**Budget and Budgetary Accounting**

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

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

**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 uncollectible are not considered material. Accordingly, no allowance for doubtful accounts has been recorded.

**Capital Assets**

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

Office equipment	10 years
Utility lines, pump station and shed	38 years
Wells	15-20 years
Water system	38 years
Vehicles	5 years

**Net Position**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net assets. Net investment in capital assets 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 position 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 November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That Statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application

encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The 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 2011, the GASB issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position, which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The 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 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53, which is effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65 Items Previously Reported as Assets and Liabilities, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Association is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Association is 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 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. Earlier application is encouraged. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. 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 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27. Earlier application is encouraged. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. 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.

<b>Citizens Bank</b>	<b>Balance Per</b>	<b>Reconciled</b>	
<b><u>Name of Account</u></b>	<b>Bank 9/30/12</b>	<b>Balance</b>	<b>Type</b>
Operating account	\$ 57,890	\$ 62,402	Checking
Construction account	100	100	Checking
Reserve	18,064	18,064	Checking
Deposit	700	700	Checking
Total Deposited	76,754	<u>\$ 81,266</u>	
Less: FDIC Coverage	<u>(76,754)</u>		
Uninsured amount	-		
50% collateral requirement	-		
Pledged securities	-		
Over (under) requirement	<u>\$ -</u>		

**Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that in the event of a failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of September 30, 2012, \$0 of the Association's bank balance of \$76,754, was exposed to custodial credit risk.



### 3. PROPERTY AND EQUIPMENT

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

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 73,679	\$ -	\$ -	\$ -	\$ 73,679
Construction in progress	293,779	-	350,177	-	643,956
Total capital assets not being depreciated	<u>367,458</u>	<u>-</u>	<u>350,177</u>	<u>-</u>	<u>717,635</u>
Capital assets, being depreciated					
Buildings	18,062	-	8,917	-	26,979
Water systems	3,452,123	-	-	-	3,452,123
Furniture, fixtures and equipment	721	-	-	-	721
Machinery and equipment	145,915	-	-	-	145,915
Transportation equipment	21,200	-	-	-	21,200
Total capital assets, being depreciated	<u>3,638,021</u>	<u>-</u>	<u>8,917</u>	<u>-</u>	<u>3,646,938</u>
Total capital assets	<u>4,005,479</u>	<u>-</u>	<u>359,094</u>	<u>-</u>	<u>4,364,573</u>
Less accumulated depreciation for:					
Buildings	18,062	-	-	-	18,062
Water systems	1,168,942	-	74,463	-	1,243,405
Furniture, fixtures and equipment	721	-	-	-	721
Transportation equipment	21,200	-	-	-	21,200
Total accumulated depreciation	<u>1,208,925</u>	<u>-</u>	<u>74,463</u>	<u>-</u>	<u>1,283,388</u>
Total other capital assets, net	<u>\$ 2,796,554</u>	<u>\$ -</u>	<u>\$ 284,631</u>	<u>\$ -</u>	<u>\$ 3,081,185</u>

Depreciation expense was \$74,463 for the period of January 1, 2012 through September 30, 2012.

### 4. LONG TERM DEBT

Changes in long-term debt during the period ended September 30, 2012 were as follows:

	<u>Balance 12/31/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 9/30/12</u>	<u>Amounts Due Within One Year</u>
Citizens Bank	\$ 17,340	\$ -	\$ 2,894	\$ 14,446	\$ 4,193
NMFA Loan	<u>301,584</u>	<u>10,807</u>	<u>-</u>	<u>312,391</u>	<u>312,391</u>
	<u>\$ 318,924</u>	<u>\$ 10,807</u>	<u>\$ 2,894</u>	<u>\$ 326,837</u>	<u>\$ 316,584</u>

#### New Mexico Finance Authority

On March 10, 2011, Organ Mutual Domestic Water Consumer Association entered into a \$313,090 loan agreement with the New Mexico Finance Authority (NMFA) to finance the water and waste water system improvements. The loan has a 5.5% interest and matures in December 2012. The loan is secured by monthly revenue of the Association. On September 30, 2012, Organ Mutual Domestic Water Consumer Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

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

<b>Period Ending September 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 312,391	\$ 16,333	\$ 328,724
Totals	<u>\$ 312,391</u>	<u>\$ 16,333</u>	<u>\$ 328,724</u>

**Citizens Bank**

On December 31, 2010, Organ Mutual Domestic Water Consumers Association entered into a \$21,000 loan agreement with Citizens Bank. The loan bears interest at 7.15% and maturing in December 2015. The note is payable in monthly installments of \$418 starting January 2011. The loan is secured by monthly revenue of the Association. On September 30, 2012, Organ Mutual Domestic Water Consumer Association merged with the Lower Rio Grande Public Water Works Authority and the Authority assumed the loan.

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

<b>Period Ending September 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	4,193	827	5,020
2014	4,503	517	5,020
2015	5,750	184	5,934
Totals	<u>\$ 14,446</u>	<u>\$ 1,528</u>	<u>\$ 15,974</u>

5. **RISK MANAGEMENT**

The Association covers its risk of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters through various insurance policy coverage. 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 period of January 1, 2012 through September 30, 2012 was \$8,084.

6. **SUBSEQUENT EVENTS**

On September 30, 2012 the Board of Directors of Organ Mutual Domestic Water Conservation Association, according to the Sanitary Project Act, Section 3-29-20-1, NMSA 1978, approved a plan of merger with the Lower Rio Grande Public Works Authority. The Association will immediately commence the process of merge into the Authority, which process may take one to two years.

**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH  
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
Operating Income				
Water revenue	\$ 186,000	\$ 186,000	\$ 156,803	\$ (29,197)
Sewer revenue	27,000	27,000	5,029	(21,971)
Other income	8,390	8,390	29,575	21,185
Total operating income	<u>221,390</u>	<u>221,390</u>	<u>191,407</u>	<u>(29,983)</u>
Operating Expenses				
Salaries, labor	52,700	52,700	-	52,700
Accounting, legal	38,000	38,000	34,584	3,416
Taxes, insurance	10,000	10,000	11,919	(1,919)
Utilities	47,400	47,400	25,680	21,720
Supplies	2,500	2,500	15,636	(13,136)
Repairs and maintenance	7,300	7,300	-	7,300
Bad debt expenses	250	250	934	(684)
Miscellaneous	39,325	39,325	42,502	(3,177)
Fuel	4,800	4,800	12,497	(7,697)
Travel and entertainment	350	350	21	329
Depreciation	98,400	98,400	74,463	23,937
Total operating expenses	<u>301,025</u>	<u>301,025</u>	<u>218,236</u>	<u>82,789</u>
Excess (deficiency) of revenues over expenditures	<u>(79,635)</u>	<u>(79,635)</u>	<u>(26,829)</u>	<u>52,806</u>
Nonoperating revenues				
Agency loans/grants	1,500,000	1,500,000	360,052	(1,139,948)
Other expenses	-	-	(11,746)	(11,746)
Total nonoperating income	<u>1,500,000</u>	<u>1,500,000</u>	<u>348,306</u>	<u>(1,151,694)</u>
Revenue over (under) expenses	<u>\$ 1,420,365</u>	<u>\$ 1,420,365</u>	<u>\$ 321,477</u>	<u>\$ (1,098,888)</u>

See accompanying notes to financial statements and independent auditors' report.

**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  
Organ Water and Sewer Association, New Mexico

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and the budgetary comparison presented as supplementary information of Organ Water and Sewer Association (the Association) as of and for the period of January 1, 2012 through September 30, 2012, and have issued our report thereon dated November 26, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency (12-02) to be considered a significant deficiency. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that we have not identified.

### **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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 12-01.

### **Organ Water and Sewer Association's Response to Findings**

Organ Water and Sewer Association's responses to the finding identified in our audit is described in the accompanying schedule of findings and responses. Organ Water and Sewer Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White + Samaniego + Campbell, LLP*

EI Paso, Texas  
November 26, 2013

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

Hector H. Balderas  
New Mexico State Auditor  
and the Council Members  
Organ Water and Sewer Association  
Vado, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited the Organ Water and Sewer Association's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organ Water and Sewer Association's major federal programs for the period of January 1, 2012 through September 30, 2012. The Organ Water and Sewer Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. 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.

***Opinion on Each Major Federal Program***

In our opinion, the Association, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period ended September 30, 2012.



## ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-02. The fiscal year end of Organ Water and Sewer Association is December 31, 2012. The early reporting date resulted from the merger of Organ Water and Sewer Association with Lower Rio Grande Public Water Works Authority, which occurred on September 30, 2012.

## **Report on Internal Control over Compliance**

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*White + Samaniego + Campbell, LLP*

El Paso, Texas  
November 26, 2013



**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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Federal Grantor Pass Through Grantor Program Title	CFDA	Award Amount	Expenditures
<i>United States Department of Agriculture Rural Development</i>			
Water and Waste Disposal Systems for Rural Communities - Loan	10.760	\$ 312,391	\$ 312,391
Water and Waste Disposal Systems for Rural Communities - Grant	10.760	<u>367,169</u>	<u>367,169</u>
Total Expenditures of Federal Awards		<u>\$ 679,560</u>	<u>\$ 679,560</u>

**Note 1 - Basis of Presentation**

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

See accompanying notes to financial statements and independent auditors' report.

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**SECTION I - SUMMARY OF AUDITORS' REPORT**

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of Major Programs:

CFDA	10.760	Water and Waste Disposal Systems for Rural Communities
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Dollar Threshold Used to Distinguish Between Type A and Type B Programs	\$300,000	
Auditee Qualifies as Low-Risk Auditee	<u>      </u> Yes	<u>  X  </u> No

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**Late Audit Report (12-01) - Other Matters**

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<b>CONDITION</b>	The audit report was submitted to the State Auditor after the required deadline.
<b>CRITERIA</b>	Special districts audits for the year ended of December 31 are required to be submitted to the State Auditor within five months after year-end. This is a requirement of the State Auditors Office Rule 2.2.2.9A(1) ( C).
<b>EFFECT</b>	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.
<b>CAUSE</b>	The Association was unable to submit the audit report on a timely basis as a result of the merger.
<b>RECOMMENDATION</b>	The Association should adhere to all audit report required deadlines.
<b>RESPONSE</b>	The Association has merged with Lower Rio Grande Public Water Works and will have no future audit reports under this Association.

**Data Collection Form Submission - United States Department of  
Agriculture Rural Development CFDA 10.760 Water and Waste Disposal  
Systems for Rural Communities, Awarded in 2012 (12-02) - Other Matters**

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<b>CONDITION</b>	The Association did not submit their data collection form to the Federal Clearing House by September 30, 2013 (9 months after fiscal year ending December 31, 2012).
<b>CRITERIA</b>	OMB Circular A-133 states that the single audit data collection form is to be submitted no later than 9 months after the end of the fiscal year.
<b>CAUSE</b>	The Association did not have controls in place to ensure that internal controls were in place and working properly.
<b>EFFECT</b>	The data collection form was not filed timely.
<b>RECOMMENDATION</b>	The Authority should adhere to the rules for submitting the required data collection form.
<b>RESPONSE</b>	The Association has merged with Lower Rio Grande Public Water Works and will have no future audit reports under this Association.

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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**STATUS OF PRIOR YEAR FINDINGS**

No prior year findings

**STATE OF NEW MEXICO  
ORGAN WATER AND SEWER ASSOCIATION**

**EXIT CONFERENCE  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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An exit conference was conducted November 26, 2013 in a closed meeting of the Association pursuant to Section 12-6-5 NMSA, 1978 with the following individuals in attendance:

Organ Mutual Domestic Water Conservation Association

Western Lee	President
Martin Lopez	General Manager
Kathi Jackson	Finance Manager

White + Samaniego + Campbell, LLP

Roxie Samaniego, CPA	Partner/On-Site Manager
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**FINANCIAL STATEMENT PREPARATION**

The combined financial statements of the Association as of, and for the period of January 1, 2012 through September 30, 2012 were prepared by White + Samaniego + Campbell, LLP, with the aid of responsible Association personnel. Official responsible personnel agree that the presentations are made with their knowledge and agreement.