

**STATE OF NEW MEXICO
SAN ANTONIO MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION**

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

Year Ended December 31, 2011

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
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STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
December 31, 2011
Official Roster

Board of Directors

Richard Anderson
John Jones
E.F.Wade
Jane Farmer
Kevin Grinder
Jeffrey Betterley

President
Treasurer
Vice President
Secretary
Director
Director

Staff

Barbara Attwood

Office Manager

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Richard Anderson, Chairman and
The Board of Supervisors
San Antonio Mutual Domestic Water Consumers Association
and Honorable Hector H. Balderas New Mexico State Auditor

We have performed the procedures enumerated below for the San Antonio Mutual Domestic Water Consumers Association (SAMDWCA), for the year ended December 31, 2011. The SAMDWCA was determined to be a Tier 6 entity under the Audit Act, Section 12-6-3 B (4) NMSA 1978 and Section 2.2.2.16 NMAC. The procedures were agreed to by the UCSWCD through the Office of the New Mexico State Auditor. The San Antonio Mutual Domestic Water Consumers Association's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Cash

Procedures:

- (a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand.
- (b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division (DFA-LGD).
- (c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Findings:

The SAMDWCA has five bank accounts and utilizes Quickbooks to record transactions. All bank reconciliations are performed within days of receiving the bank statements and all were complete and on-hand.

Random tests of bank reconciliations revealed that the reconciliations were accurate and agreed with supporting documentation and with the no quarterly financial reports submitted to DFA-LGD.

All Deposits were insured by the FDIC.

2. Capital Assets

Procedures:

- (a) Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA1978.

Findings

The SAMDWCA performed a yearly inventory as required by Section 12-6-10 NMSA 1978 and maintains a capital asset listing.

3. Debt

Procedures:

Verify that the local public body has any debt. Verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the public body is in compliance with those requirements.

Findings: Verified debt payments were made as agreed and examined loan documents reserve requirements and noted none.

4. Revenue

Procedures:

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- (a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.
- (b) Test 50% of the total amount of revenues for the following attributes:

Amount recorded in the general ledger agrees to the supporting documentation and the bank statement. Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Findings:

Analytical review and test of actual revenue compared to budgeted revenue for the year for each type of revenue revealed no exceptions. Amounts recorded in Quickbooks agreed with supporting documentation and the bank statements.

Amounts were properly recorded on an accrual basis as to classification, amount and period per review of supporting documentation.

5. Expenditures

Procedures:

- (a) Select a sample of cash disbursements and test for the following attributes:

Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings:

The test sample of 30 expenditures were recorded as disbursed and agreed to supporting documentation. Amount paid, payee, date and description agreed with the vendor's invoice, purchase order, contract and cancelled check, as appropriate.

Disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

The bid process (or request for proposal process, if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

6. Journal Entries

Procedures:

- (a) If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:
- (b) Journal entries appear reasonable and have supporting documentation.
- (c) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Findings

The SAMDWCA utilizes Quickbooks to record transactions and prepares journal entries only to record miscellaneous correcting entries and accruals. All journal entries were reviewed and appear reasonable.

7. Budget

Procedures:

- (a) Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:
- (b) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- (c) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- (d) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures - budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Findings

A review of the minutes revealed that the original budget was approved by the SAMDWCA and was submitted to USDA-Rural Utilities Service per their loan covenants. Inquiries were made of the State of New Mexico - Local Government Division concerning requirements to submit a budget for approval. DFA-LGD had not contacted the entity and had not assigned an analyst.

Total actual total expenditures did not exceed the final total budgeted expenditures at the fund level, the legal level of budgetary control.

A schedule of revenues and expenditures - budget and actual was prepared on the accrual budgetary basis used by the SAMDWCA.

8. Capital Outlay

Test all capital outlay expenditures for during the fiscal year to:

- (a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and cancelled check, as appropriate.
- (b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.
- (c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).
- (d) Determine the physical existence by observation of the capital asset.
- (e) Determine whether reimbursement requests were properly supported by costs incurred by the recipient.

Findings:

We examined all requests for reimbursements and expenditures related to capital outlay for the above attributes and noted no exceptions relating to state funded capital outlay for the following Capital Outlay Grant:

New Mexico Severance Tax Special Appropriations Grant-2009 Colonias Initiative Project #09-3118#9
Grant Amount \$260,000. Expended to date \$221,038. Amount Remaining \$38,962.

9. Other Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, disclose in the report as required by Section, 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (l) (3) (C)NMAC.

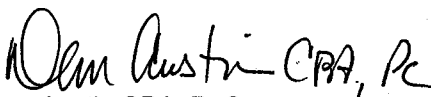
Findings

See page 8 for findings related to non-compliance.

Nothing came to our attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies with the exception of those reported on page 8..

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of San Antonio Mutual Domestic Water Consumers Association, the New Mexico State Auditor's Office and the DFA-LGD and is not intended to be and should not be used by anyone other than those specified parties.


Dan Austin CPA, P. C.
May 28, 2012

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Statement of Revenues and Expenditures
Budget and Actual (Accrual Basis)-Proprietary Fund
For the Year Ended December 31, 2011

Revenues	Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Water Service Fees	\$ 269,572	\$ 269,572	\$ 279,158	\$ 9,586
Grant Revenue	260,000	260,000	213,482	(46,518)
Interest Income	60	60	90	30
Other Income	-	-	-	-
Total Revenues	<u>529,632</u>	<u>529,632</u>	<u>492,730</u>	<u>(36,902)</u>
Expenditures				
Personnel Costs	68,961	68,961	64,838	4,123
Advertising	100	100	323	(223)
Auto Expense	5,000	5,000	6,037	(1,037)
Repairs and Maintenance	26,400	26,400	25,780	620
Taxes-Sales and Other	17,148	17,148	15,565	1,583
Directors Fees	2,100	2,100	1,350	750
Insurance	12,900	12,900	10,547	2,353
Utilities	14,904	14,904	16,048	(1,144)
Telephone	2,600	2,600	2,692	(92)
Supplies	4,400	4,400	6,184	(1,784)
Travel	5,000	5,000	8,297	(3,297)
Professional Services	18,800	18,800	18,716	84
Other Operating Expense	7,999	7,999	7,721	278
Interest Expense	45,284	45,284	44,873	411
Depreciation	141,421	141,421	141,421	-
Total Expenditures	<u>373,017</u>	<u>373,017</u>	<u>370,392</u>	<u>2,625</u>
Excess (Deficiency) of Revenues Over Expenditures	156,615	156,615	122,338	\$ <u>(34,277)</u>
Retained Earnings, Beginning	<u>924,416</u>	<u>924,416</u>	<u>924,416</u>	
Retained Earnings, Ending	<u>\$ 1,081,031</u>	<u>\$ 1,081,031</u>	<u>\$ 1,046,754</u>	

**STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Schedule of Findings and Responses
Year Ended December 31, 2011**

Prior Year Report Findings

10-1 Agreed Upon Procedures Report Submitted Late - Resolved
10-2 Budget Compliance - Repeated

Current Year Findings

10-2 Budget Compliance

Condition: The SAMDWCA did not submit budgets the New Mexico Department of Finance and Administration-Local Governments Division.

Criteria: All entities subject to the tiered requirements of reporting per the State Audit Rule should submit budgets in compliance with (6-3-1 to 6-3-25 NMSA 1978).

Effect: Non-compliance with Budget Compliance Statutes resulting inability to monitor budgets by NM Department of Finance and Administration.

Cause: Lack of information on Budget Requirements provided by DFA-LGD.

Recommendation: Submit budgets to the DFA-LGD.

Response: The Board of Directors will prepare and submit budgets to DFA-LGD.

EXIT CONFERENCE

The report contents were discussed at an exit conference held on June 1, 2012 with the following in attendance:

San Antonio Mutual Domestic Water Users Association

Richard Anderson, President
Barbara Attwood, Office Manager
Cyndi Wade CPA, Contract Accountant

Accounting Firm

Dan Austin, CPA

Compiled Financial Statements

**Dan Austin CPA, PC
700 Mechem Drive Ste. 15
Ruidoso, NM 88345
575-257-0081**

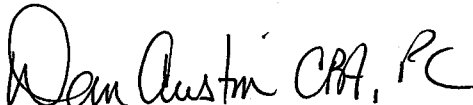
Accountant's Compilation Report

To the Board of Directors
San Antonio Mutual Domestic Water Consumers Association
San Antonio, New Mexico

We have compiled the accompanying statement of net assets - proprietary fund of San Antonio Mutual Domestic Water Consumers Association as of December 31, 2011, and the related statement of revenues, expenditures, and changes in net assets – proprietary fund and statement of cash flows – proprietary fund for the year then ended. We have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the accrual basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accrual basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.



May 28, 2012

State of New Mexico
San Antonio Mutual Domestic Water Consumers Association
Statement of Nets Assets - Proprietary Fund
December 31, 2011

ASSETS

CURRENT ASSETS

Cash-unrestricted	\$	59,800	
Cash-restricted for construction		1,965	
Cash-restricted for water rights		47,261	
Cash-restricted for debt service		<u>34,635</u>	143,661
Customer Accounts Receivable		29,185	
Allowance For Doubtful Accounts		<u>(643)</u>	28,542
Inventory			9,723
Prepaid Expense			<u>160</u>
Total Current Assets			<u>182,086</u>

NON CURRENT ASSETS

Capital Assets	\$	3,631,979	
Less Allowance For Depreciation		<u>(1,685,286)</u>	<u>1,946,693</u>
Total Noncurrent Assets			<u>1,946,693</u>
Total Assets			<u>\$ 2,128,779</u>

See accompanying notes to the financial statements

STATE OF NEW MEXICO

San Antonio Mutual Domestic Water Consumers Association

Statement of Net Assets - Proprietary Fund

December 31, 2011

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$	90,487
Accrued Payroll Expense		2,522
Deposits		100
Current Portion of Long Term Liabilities		<u>17,158</u>

Total Current Liabilities 110,267

NONCURRENT LIABILITIES

Notes Payable	988,916
Less: Current Portion of Long Term Debt (above)	<u>(17,158)</u>

Total Noncurrent Liabilities 971,758

Total Liabilities 1,082,025

NET ASSETS

Invested in Capital Assets, Net of Related Debt	957,777
Restricted for Construction Projects	1,964
Restricted for Debt Service	34,635
Unrestricted	<u>52,378</u>

Total Net Assets 1,046,754

Total Liabilities And Net Assets \$ 2,128,779

See accompanying notes to the financial statements

State of New Mexico
San Antonio Mutual Domestic Water Users Association
Statement of Revenues, Expenses and Changes
In Fund Nets Assets – Proprietary Fund
December 31, 2011

Operating Revenues

Sales and Services	\$ 279,158
Total Operating Revenues	<u>279,158</u>

Operating Expenses

Personnel Costs	64,838
Advertising	323
Auto Expense	6,037
Repairs and Maintenance	25,780
Taxes-Sales and Other	15,565
Directors Fees	1,350
Insurance	10,547
Utilities	16,048
Telephone	2,692
Supplies	6,184
Travel	8,297
Professional Services	18,716
Other Operating Expense	7,721
Depreciation	<u>141,421</u>
Total Operating Revenues	<u>325,519</u>

Total Operating Income (Loss)	<u>(46,361)</u>
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Non-Operating Revenues (Expenses)

NMED Grants	213,482
Interest Income	90
Interest Expense	<u>(44,873)</u>
Total Non-operating Revenue (Expense)	<u>168,699</u>

Change in Net Assets	122,338
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Net Assets at Beginning of Year	<u>924,416</u>
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Net Assets at End of Year	<u>\$ 1,046,754</u>
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See accompanying notes to the financial statements.

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Statement of Cash Flows - Proprietary Fund
December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From Customers	\$ 297,748
Cash Paid To Suppliers	(143,942)
Cash Paid To Employees	<u>(64,838)</u>
Net Cash Provided By Operating Activities	<u>88,968</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts of Grants	<u>213,482</u>
Net Cash Provided From Noncapital Financing Activities	<u>213,482</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal Paid on Capital Debt	(16,711)
Interest Paid on Capital Debt	(44,876)
Capital Memberships	2,443
Payments For Capital Acquisitions	<u>(220,133)</u>
Net Cash Used For Capital And Related Financing Activities	<u>(279,277)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	<u>90</u>
Net Cash Provided From Investing Activities	<u>90</u>

Net Increase In Cash	23,263
Cash - Beginning Of Year	<u>120,398</u>
Cash - End Of Year	<u>\$ 143,661</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (46,361)
Noncash Items in Net Income-Depreciation	
Depreciation	141,421
(Increase) Decrease In:	
Accounts Receivable	18,590
Increase (Decrease) In:	
Accounts Payable	(25,172)
Accrued Expense	<u>490</u>

Net Cash Provided From Noncapital Financing Activities	<u>\$ 88,968</u>
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See accompanying notes to the financial statements

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Notes to the Basic Financial Statements
December 31, 2011

NOTE 1. FUNCTION OF THE ENTITY

The San Antonio Mutual Domestic Water Users Association (the Association) was incorporated as a not-for-profit entity on May 9, 1974 exclusively to associate its members together for the mutual interest and benefit and in that end, to acquire, construct, install, maintain and operate a water system for supplying and distribution of water for domestic use and to engage in any activity thereto.

In October 1989, the Association received a determination letter exempting it from federal income tax under Section 501 (c) (12) of the Internal Revenue Code, retroactive from inception of the organization. As a result, no federal or state income tax have been reflected on the financial statements.

As of December 31, 2011, the water system included 400 memberships located in the area of San Antonio and Luis Lopez, New Mexico.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations) and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Note A. REPORTING ENTITY

The Association is a quasi-government created pursuant to its bylaws and is comprised of an appointed Board of Directors. The officers of the Association are elected annually. The Association is a governmental subdivision of the State of New Mexico and a body with all the powers of a public or quasi-municipal corporation and these financial statements include all funds and activities over which the Association board of directors have oversight responsibility. The board of directors have decision-making Association, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Association is not included in any other governmental reporting entity as defined in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Note B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

Because the Association is a special-purpose government, with only a single fund, business-type activity, the basic financial statements do not include both government-wide (based on the Association as a whole) and fund financial statements. The new reporting model focus is on either the Association as a whole or major individual funds (within the fund financial statements). The Association is a single-program government that engages in only business-type activities and has no component units.

In the Statements of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, the business-type activities are presented on the full accrual basis, flow of economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Association's net assets are reported in three parts – invested in capital assets, restricted net assets and unrestricted net assets. Business-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Operating revenues and expenses are presented separately from non-operating items. The principal operating revenues reflect charges to customers for solid waste services. Operating expenses 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. Grant revenues are recognized when all of the eligibility requirements have been met.

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

The Association applies all applicable Financial Accounting Standards Board Statements and Interpretations.

Note C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Business-type activities are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Note D. 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.

Note E. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Association.

Note F. FINANCIAL STATEMENTS AMOUNTS

1. Cash

For the purpose of the Statement of Net Assets, "cash" includes all petty cash, demand, savings accounts and certificates of deposit of the Association.

2. Accounts Receivable

Accounts receivable consists of revenue earned from sales to customers. The Association has the option of collecting delinquent receivables by filing a lien against properties with delinquent accounts or filing a civil action against the delinquent property owners. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, computer software and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis with no salvage value. The estimated useful lives of the various classes of depreciable capital assets are as follows: buildings/improvements, 30 years; furniture and equipment, five to ten years.

GASB Statement No. 34 requires the Association to report and depreciate infrastructure assets. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The Association does not own any infrastructure assets.

Assets acquired under capital leases are included in the assets for which depreciation expense is computed.

In the proprietary fund, interest is capitalized on assets acquired with debt proceeds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

4. Equity Classifications

Equity is classified as net assets. Net assets is the difference between assets and liabilities. Net assets invested in capital assets represents the historical costs of assets or fair value on date of receipt less accumulated depreciation on those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Notes to the Basic Financial Statements
December 31, 2011

Association or external restrictions by other governments, creditors or grantors. Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets." When both restricted and unrestricted resources are available for use, it is the Association's policy to use restricted sources first, the unrestricted resources as they are needed.

Note G. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the Association is subject to various laws and contractual regulations. An analysis of the Association's compliance with significant laws and regulations and demonstration of its stewardship over Association resources follows:

BUDGETS AND BUDGETARY ACCOUNTING

The Association follows these procedures that are promulgated by the Department of Finance and Administration, Local Government Division. Those procedures are as follows:

1. Prior to January 1, the Association's administration submits to the Board of Directors a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to January 1, the budget is legally enacted through formal adoption by the Board and then submitted to the Local Government Division of the State Department of Finance and Administration for review and approval.
3. The Association's treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors and the State Department of Finance and Administration.
4. Formal budgetary integration is employed as a management control device during the year for the Enterprise funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budgets are adopted on the GAAP basis of receipts and disbursements. Budgetary comparisons presented in this report are on this GAAP Budgetary basis.

Note H. DETAIL NOTES ON ACCOUNTS AND TRANSACTION CLASSES

1. CASH

The Association's policy is to limit cash deposits to insured and/or collateralized demand deposit accounts and certificates of deposit. All bank balances or deposits as of December 31, 2011 were insured (The Dodd Frank Act of 2010 required the FDIC to insure all non-interest bearing accounts until December 31, 2012). The carrying amount of the Association's deposits with financial institutions was \$143,561 and the balances per the banks was \$145,856, and is shown as follows:

Depository	Account Type	Account Name	Balance Per Depository	Reconciling Items		Balance Per Financial Statements
				Outstanding Checks	Deposits	
First State Bank	Checking	Arsnic	\$ 24,336	\$ -	\$ -	\$ 24,336
First State Bank	Checking	General Fund	37,659	(2,295)	-	35,364
First State Bank	Checking	Grant	1,965	-	-	1,965
Wells Fargo	Checking	Water Rights Reserve	47,261	-	-	47,261
First State Bank	Checking	RUS Debt Service	34,635	-	-	34,635
Total cash on deposit			<u>\$ 145,856</u>	<u>\$ (2,295)</u>	<u>\$ -</u>	<u>143,561</u>
Petty cash						100
Total cash on hand and on deposit						<u>\$ 143,661</u>

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Notes to the Basic Financial Statements
December 31, 2011

The total deposits at all banks as of December 31, 2011 amounted to \$145,856. The amount in excess of the insurance provided by the FDIC was \$0.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have deposit policy for custodial credit risk. As a result of the FDIC insurance the Association's has no credit risk at December 31, 2011.

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities:				
Capital assets not being depreciated:				
Easements	\$ 29,072	\$ -	\$ -	\$ 29,072
Water rights	67,884	-	-	67,884
Construction in progress	36,613	213,481	-	250,094
Total capital assets not being depreciated	<u>133,569</u>	<u>213,481</u>	<u>-</u>	<u>347,050</u>
Capital assets being depreciated:				
Buildings and improvements	171,957	-	-	171,957
Furniture and equipment	214,817	3,001	-	217,818
Wells and dams	69,674	-	-	69,674
Lines and storage	2,821,829	3,651	-	2,825,480
Total capital assets being depreciated	<u>3,278,277</u>	<u>6,652</u>	<u>-</u>	<u>3,284,929</u>
Less:				
Accumulated depreciation	1,543,865	141,421	-	1,685,286
Total accumulated depreciation	<u>1,543,865</u>	<u>141,421</u>	<u>-</u>	<u>1,685,286</u>
Total capital assets being depreciated, net	<u>1,734,412</u>	<u>(134,769)</u>	<u>-</u>	<u>1,599,643</u>
Business-type activity capital assets, net	<u>\$ 1,867,981</u>	<u>\$ 78,712</u>	<u>\$ -</u>	<u>\$ 1,946,693</u>

STATE OF NEW MEXICO
San Antonio Mutual Domestic Water Consumers Association
Notes to the Basic Financial Statements
December 31, 2011

3. LONG-TERM OBLIGATIONS

Long-term obligations of the Association are as follows:

	Balance 12/31/10	Additions	(Reductions)	Balance 12/31/11	Due Within One Year
5.0% Note Payable, payable to USDA - RUS in monthly installments of \$1,033, unsecured dated 5/13/1994 matures May 13, 2034	\$ 163,508	\$ -	\$ (4,319)	\$ 159,189	\$ 4,437
5.0% Note Payable, payable to USDA - RUS in monthly installments of \$653, unsecured dated 5/13/1994, matures 5/13/2034	101,884	-	(2,805)	99,079	2,882
4.37% Note Payable, payable to USDA - RUS in monthly installments of \$2,679, unsecured dated 10/31/06, matures 10/31/2046	568,090	-	(7,443)	560,647	7,648
4.12% Note Payable, payable to USDA - RUS in monthly installments of \$767, unsecured dated 04/07/2007, matures 04/07/2047	<u>172,144</u>	<u>-</u>	<u>(2,143)</u>	<u>170,001</u>	<u>2,191</u>
Total Long-Term Obligations	<u>\$ 1,005,626</u>	<u>\$ -</u>	<u>\$ (16,710)</u>	<u>\$ 988,916</u>	<u>\$ 17,158</u>

The annual requirements to amortize principal on all debt outstanding as of June 30, 2011, is as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 17,156	\$ 44,426	\$ 61,582
2013	17,947	43,236	61,183
2014	18,775	42,808	61,583
2015	19,640	41,942	61,582
2016	20,547	41,037	61,584
2017-2021	120,859	190,064	310,923
2022-2046	<u>773,992</u>	<u>435,579</u>	<u>1,209,571</u>
	<u>\$ 988,916</u>	<u>\$ 839,092</u>	<u>\$ 1,828,008</u>

Note I. RISK MANAGEMENT AND LITIGATION

The Association is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association maintains coverage to insure against potential losses and claims. The premiums are based on payroll and other expenditures, and are not directly related to claims filed. The policies are retrospectively rated and premiums may be adjusted after year end, based on the ultimate level of expenditures.