

**State of New Mexico**  
**Upper Des Montes**  
**Mutual Domestic Water Consumers Association**  
**Financial Statements**  
**With Independent Auditors Report Thereon**  
**December 31, 2009**

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
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**December 31, 2009**

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**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Official Roster**  
**December 31, 2009**

**Association Board Members**

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Dan Romero	President
Palemon Martinez	Vice-President
Fabiola Martinez	Secretary/Treasurer
Anicia Fernandez	Member
Jose Rodriguez	Member

**INDEPENDENT AUDITOR'S REPORT**

Hector H. Balderas  
New Mexico State Auditor  
and  
Board of Directors  
Upper Des Montes Mutual Domestic Water Consumers Association

We have audited the accompanying financial statements of the business-type activities of the Upper Des Montes Mutual Domestic Water Consumers Association (Association), as of and for the year ended December 31, 2009 which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion 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 opinion.

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 Upper Des Montes Mutual Domestic Water Consumers Association as of December 31, 2009, and the respective changes in financial position and cash flows thereof 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 a report dated May 23, 2012 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Association has not presented the management's discussion and analysis that accounting principles accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements listed above and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements.

*Zlotnick Law & Sandoval, P.C.*

Zlotnick, Laws & Sandoval, P.C.

May 23, 2012

**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Statement of Net Assets**  
**December 31, 2009**

ASSETS

Current Assets	
Cash	\$ 18,532
Restricted Cash (Note 2)	<u>10,221</u>
Total Current Assets	<u>28,753</u>
Capital Assets, net	<u>925,671</u>
Total Assets	<u><u>\$ 954,424</u></u>

LIABILITIES

Current Liabilities	
Current Portion of Long-Term Debt	<u>\$ 4,936</u>
Total Current Liabilities	<u>4,936</u>
Long-Term Liabilities	
Notes Payable	<u>476,658</u>
Total Long-Term Liabilities	<u>476,658</u>
Total Liabilities	<u>481,594</u>

NET ASSETS

Invested in Capital Assets, net related debt	444,077
Restricted, expendable (Note 1)	10,221
Unrestricted	<u>18,532</u>
Total Net Assets	<u>472,830</u>
Total Net Assets and Liabilities	<u><u>\$ 954,424</u></u>

*See accompanying notes to the financial statements*

**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**December 31, 2009**

OPERATING REVENUE

Water Fees	\$	<u>25,920</u>
Total Operating Revenue		<u>25,920</u>

OPERATING EXPENSES

Administrative Expenses		3,053
Taxes and Regulatory Fees		205
Repairs and Maintenance		5,572
Utilities		<u>4,189</u>
Total Operating Expenses		<u>13,019</u>

OPERATING INCOME		<u>12,901</u>
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NONOPERATING REVENUES (EXPENSES)

Grant Revenue		457,963
Interest Income		343
Interest Expense		<u>(1,783)</u>
Total Nonoperating Revenues (Expenses)		<u>456,523</u>

Change in Net Assets		469,424
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NET ASSETS, BEGINNING OF YEAR		<u>3,406</u>
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NET ASSETS, END OF YEAR	\$	<u><u>472,830</u></u>
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*See accompanying notes to the financial statements*

**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Statement of Cash Flows**  
**December 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Members	\$ 25,920
Cash Paid to Other Suppliers of Goods or Services	<u>(13,019)</u>
Net Cash Provided by Operating Activities	<u>12,901</u>

CASH FLOWS FROM NON-CAPITAL FINANCING

-

CASH FLOWS FROM CAPITAL FINANCING  
AND RELATED ACTIVITIES:

Grant Income	457,963
Proceeds From Long-Term Debt	335,877
Principal Payments	(406)
Interest Payments	<u>(1,783)</u>
Net Cash Provided by Financing Activities	<u>791,651</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	343
Purchase of Capital Assets	<u>(790,161)</u>
Net Cash Used in Investing Activities	<u>(789,818)</u>

NET INCREASE IN CASH

14,734

CASH, BEGINNING OF YEAR

14,019

CASH, END OF YEAR

\$ 28,753

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

Operating Income	\$ 12,901
Adjustment to reconcile operating income to net cash provided by operating activities:	<u>-</u>
Net Cash Provided by Operating Activities	<u><u>\$ 12,901</u></u>

*See accompanying notes to the financial statements*



**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Notes to the Financial Statements**  
**December 31, 2009**

**1. Summary of Significant Accounting Policies**

**Nature of the Entity**

Upper Des Montes Mutual Domestic Water Consumers Association (the "Association"), a local public body as defined by Section 12-6-2 NMSA 1978 was established May 5, 1959. It was the desire of the parties to form a water consumers association in order to collectively address the immediate and future water needs of the citizens of Arroyo Seco, New Mexico. The Association is located in the town of Arroyo Seco in Taos County of New Mexico, and currently serves about 92 people.

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

**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 for which the Association Board Members are financially accountable. There are no other primary governments with which the Association has a significant relationship.

For financial reporting purposes, the Association is considered a special-purpose government engaged in business-type activities.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Notes to the Financial Statements**  
**December 31, 2009**

**1. Summary of Significant Accounting Policies (Continued)**

**Measurement focus, basis of accounting, and financial statement presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered a proprietary fund.

Proprietary fund operating revenue, such as charges for service, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenue, such as subsidies and investment earnings, results from non-exchange transactions or ancillary activities.

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

**Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash equivalents:** The Association's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Capital Assets:** Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the New Mexico State Auditor as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5).

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

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

<u>Assets</u>	<u>Years</u>
Water System	40

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Notes to the Financial Statements**  
**December 31, 2009**

**1. Summary of Significant Accounting Policies (Continued)**

**Assets, Liabilities, and Net Assets or Equity (continued)**

**Restricted Assets:** Restricted assets are assets which have third-party limitations on their use. Restricted assets include the funds received from the United States Department of Agriculture (USDA) for the construction of a new water system. These restrictions are placed by the USDA for granting loans of \$482,000 and \$204,000 and providing grants of \$356,000 and \$92,000. Further disclosures regarding the loans and grants are discussed in Note 4 and 5 of the financial statements.

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.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. Cash and Cash Equivalents**

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 as of December 31, 2009:

<b>Name of Depository</b>	<b>Name of Account</b>	<b>Balance per Bank</b>	<b>Reconciled Balance</b>	<b>Type</b>
Centinel	Operating	\$ 3,572	\$ 2,362	Checking
Centinel	Construction	9,721	10,221	Checking
Centinel	CD	<u>16,170</u>	<u>16,170</u>	CD
	Total	29,463	<u>\$ 28,753</u>	
	Less: FDIC Coverage	(29,463)		
	Uninsured Amount	-		
	Pledged Securities	<u>-</u>		
	Over (Under) Requirement	<u>\$ -</u>		

**Restricted Cash:** As explained in Note 1, under the subheading "Restricted Assets", the amounts listed above in the construction account are subject to restrictions set forth by the USDA.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Notes to the Financial Statements**  
**December 31, 2009**

**3. Capital Assets**

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Capital Assets Not Being Depreciated:				
Water System	\$ 135,510	790,161	-	\$ 925,671
Accumulated Depreciation	-	-	-	-
Net Assets	135,510	790,161	-	925,671
Less related debt	(135,510)	(335,877)	-	(482,000)
	<u>\$ -</u>	<u>454,284</u>	<u>-</u>	<u>\$ 443,671</u>

The above listed asset, the water system, was not completed until after year end and was therefore not depreciated during 2009. The water system in use prior to the construction of the new system had exceeded its useful life and had a net value of \$0. Construction commenced in 2008 and the beginning balance of capital assets reflects the amount expended on the project as of December 31, 2008.

**Subsequent Events:** Subsequent to December 31, 2009 the Association completed construction of the water system and continued to pay costs of the construction through 2012 for a total cost of \$ 1,107,000. The Association began depreciating the water system in 2010 over a period of 40 years.

**4. Long-Term Liabilities**

The Association obtained two loans in conjunction with the construction of the new water system. The Loans were received from the United States Department of Agriculture (USDA) according to the following terms:

Promissory Note dated November 3, 2008 for \$482,000 at an annual interest rate of 4.5%. The payments include an interest only payment due November 3, 2009 with regular payments of principle and interest of \$2,189 beginning December 3, 2009. The entire indebtedness, if not sooner paid, is due November 3, 2048.

Promissory Note dated November 17, 2009 for \$204,000 at an annual interest rate of 2.75%. The payments include an interest only payment due November 17, 2010 with regular payments of principle and interest of \$712 beginning December 17, 2010. The entire indebtedness, if not sooner paid, is due November 17, 2049.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Notes to the Financial Statements**  
**December 31, 2009**

**4. Long-Term Liabilities**

The Association made draws on the notes periodically to pay the costs of legal and engineering costs and constructions costs associated with the construction of the water system. As of December 31, 2009 the Association had drawn the entire amount of the first note and had made no draws on the second.

Notes outstanding at June 30, 2009, are comprised of the following:

Balance 12/31/08	Additions	Deletions	Balance 12/31/09	Due Within One Year
\$ 146,123	\$ 335,877	\$ 406	\$ 481,594	\$ 4,936

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

Year Ending	Principal	Interest	Total
2010	4,936	22,044	26,980
2011	7,885	26,927	34,812
2012	8,193	26,619	34,812
2013	8,514	26,298	34,812
2014	8,848	25,964	34,812
2015-2019	49,758	124,302	174,060
2020-2024	60,449	113,611	174,060
2025-2029	73,562	100,498	174,060
Thereafter	463,474	200,141	300,758
	<u>685,619</u>	<u>666,404</u>	<u>989,166</u>

**Subsequent events:** Subsequent to December 31, 2009 the Association completed construction of the water system and have drawn the entire amount of the loans. According to the promissory notes the payments mentioned above were required regardless of the amount of the loan that had been drawn. The above schedule was prepared accordingly.

**5. Grant Income**

During 2009 the Association received two grants from the USDA. Both grants were received in conjunction with the aforementioned loans. The amount of the grant awarded was \$356,000 and \$92,000, respectively. The Association also received a grant in the amount of \$10,000 from the New Mexico Finance Authority.

**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  
New Mexico State Auditor  
and  
Board of Directors  
Upper Des Montes Mutual Domestic Water Consumers Association

We have audited the accompanying financial statements of the business-type activities of the Upper Des Montes Mutual Domestic Water Consumers Association (Association) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-01 through 2009-04 to be material weaknesses.

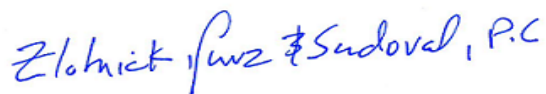
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2009-01.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6- 5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as finding 2009-01 through 2009-04.

The association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the association's response and, accordingly, we express no opinion on it.

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



Zlotnick, Laws & Sandoval, P.C.

May 23, 2012

**INDEPENDENT AUDITOR'S 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  
Board of Directors  
Upper Des Montes Mutual Domestic Water Consumers Association

**Compliance**

We have audited Upper Des Montes Mutual Domestic Water Consumers Association's (Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Association's major federal programs for the year ended December 31, 2009. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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

In our opinion, the Association, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2009-01.



## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-01 through 2009-04 to be material weaknesses.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Association's responses and, accordingly, we express no opinion on the responses.

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

*Zlotnick Law & Sandoval, P.C.*

Zlotnick, Laws & Sandoval, P.C.

May 23, 2012

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2009**

**SECTION I - SUMMARY OF AUDITOR'S REPORT**

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**Financial Statements**

Type of Auditor's Report Issued	Unqualified
Significant deficiencies identified?	Yes
Significant deficiencies identified that are considered to be material weaknesses?	Yes
Noncompliance material to financial statements	No

**Federal Awards**

Type of Auditor's Report Issued	Unqualified
Internal Control Over Major Programs	
Significant deficiencies identified?	Yes
Significant deficiencies identified that are considered to be material weaknesses?	Yes
Any Audit Findings Disclosed that are Required to be Reported in accordance with Section 501(a) of Circular A-133?	No

Identification of Major Programs:

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

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2009**

**SECTION II – SCHEDULE OF AUDIT FINDINGS AND RESPONSES**

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**2009-01 Late Audit Report – Material Weakness**

<b>CONDITION</b>	The audit report was submitted to the State Auditor in June 2012, which is, after the required deadline. Also, The Data Collection Form and the reporting package were not submitted to the federal clearing house within nine months after the fiscal year end.
<b>CRITERIA</b>	<p>Special districts audits are required to be submitted to the State Auditor by 5 months after the fiscal year-end. This is a requirement of the State Auditor’s Office Rule 2.2.2.9A(1)(h)</p> <p>OMB Circular A-133.320 requires that the data collection form and the reporting package be submitted within nine months of the fiscal year end for all single audit reports.</p>
<b>EFFECT</b>	<p>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.</p> <p>Data used by the federal government to manage grants was not available, and Federal regulations have not been complied with.</p>
<b>CAUSE</b>	The Association was not aware of the audit requirements.
<b>RECOMMENDATION</b>	We recommend that the Association file all required reports and documents as soon as possible.
<b>RESPONSE</b>	The recommendation will be adopted.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2009**

**2009-02 Financial Statements – Material Weakness**

<b>CONDITION</b>	The Association does not have proper controls in place to adequately prepare financial statements and footnotes that are materially correct in accordance with generally accepted accounting principles. The auditors prepared the financial statements
<b>CRITERIA</b>	Statement on Auditing Standards No. 115 requires the auditor to evaluate whether the Board that governs the Association has proper controls over the preparation of the financial statements and footnote disclosures, which would prevent or detect a misstatement on those financial statements
<b>EFFECT</b>	When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, the association's ability to prevent or detect a misstatement in its financial statements is limited.
<b>CAUSE</b>	The Board charged with governance was unaware of the requirements of Statement on Auditing Standards No. 115. The Association is too small to desire or afford sufficient expertise to prepare financial statements in accordance with Generally Accepted Accounting Principles. They have never had a need for such financial statements in the past and may not have the need for a long time in the future.
<b>RECOMMENDATION</b>	We recommend that the Association prepare an annual budget each year which is approved by the Board and documented in the minutes of the board. We also recommend that financial statements be completed using accepted accounting principles and that they be presented and reviewed by the board on a regular basis.
<b>RESPONSE</b>	The Upper Des Montes Mutual Domestic Water Consumers Association will present and approve an annual budget each year during the last meeting of the calendar year. All financial statements will be presented to the board by the bookkeeper at every meeting using accepted accounting principles.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2009**

**2009-03 Proper Oversight and Segregation of Duties – Material Weakness**

<b>CONDITION</b>	The Association does not have any segregation of duties and board oversight is limited. The contract bookkeeper handles all of the cash receipts and disbursements and records all transactions in the accounting records.
<b>CRITERIA</b>	Good accounting procedures include segregation of the physical custody of assets from the recording and record keeping associated with the assets. Where an organization is small and unable to segregate duties it should compensate for this lack of controls with oversight and review procedures by members of the board.
<b>EFFECT</b>	The Association has an increased risk for the loss of assets by error, defalcation or theft.
<b>CAUSE</b>	The Association has a new contract bookkeeper that handles all aspects of the day to day business of the Association. Members of the board are volunteers and have full time work in other capacities. The physical locations of the association, the bank and the bookkeeper are not in close proximity.
<b>RECOMMENDATION</b>	We recommend that the board implement some reasonable and workable procedures to review checks written, deposits made and financial reports prepared on a more timely and regular basis.
<b>RESPONSE</b>	The Upper Des Montes Mutual Domestic Water Consumers Association will designate two board members, one being the treasurer, that will meet with the bookkeeper and review all written checks, deposits and financial reports on a quarterly basis. Each review will be documented, signed and dated then presented to the entire board at the next meeting.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2009**

**2009-04 Record Retention and Maintenance – Material Weakness**

<b>CONDITION</b>	The underlying invoices, statements and bills to support amounts expended for expansion of the water system during 2009 were not retained by the Association and provided to the auditor during the course of the audit. These documents were obtained by visiting the USDA in Albuquerque and reviewing copies of the original documentation.
<b>CRITERIA</b>	The Association is responsible for maintaining complete files and records to support expenditures. All transactions of the Association should be supported by documentation that show the validity and business purpose of the transaction.
<b>EFFECT</b>	The USDA could potentially question all costs where original documentation is not available.
<b>CAUSE</b>	During the construction project, an architect was hired to assist the Association to provide documentation to the USDA for reimbursement of amounts spent. During the course of the audit he was unwilling to provide his records without further compensation. The Treasurer of the Association had a flood in her home and misplaced most of the records relating to the 2009 fiscal year.
<b>RECOMMENDATION</b>	We recommend that the organization implement a procedure for the accumulation, retention and storage of documentation in a secure and accessible location.
<b>RESPONSE</b>	The Upper Des Montes Mutual Domestic Water Consumers Association will purchase a secured file cabinet that will provide safe and secure storage of all association documents, financial information, board minutes and will be kept at a designated board members home. Any information that can be stored electronically will be stored and a hard copy backup will be provided and stored in the file cabinet.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Schedule of Expenditures of Federal Awards**  
**December 31, 2009**

<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Current Fiscal Year Expenditures</u>
<u>United States Department of Agriculture</u>			
Water and Waste Disposal System for Rural Communities	10.760	\$ 448,000	\$ 308,161
Water and Waste Disposal System for Rural Communities - Loan	10.760	686,000	482,000
Total USDA		<u>1,134,000</u>	<u>790,161</u>
Total Federal Awards		<u>\$ 1,134,000</u>	<u>\$ 790,161</u>

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Upper Des Montes Mutual Domestic Water Consumers 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 Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Upper Des Montes Mutual Domestic Water Consumers Association had \$482,000 loan balance outstanding at December 31, 2009. This loan balance is also included in the schedule of expenditures of federal awards.

See accompanying notes and independent auditors' report.

**State of New Mexico**  
**Upper Des Montes Mutual Domestic Water Consumers Association**  
**Exit Conference**  
**December 31, 2009**

The contents of this report were discussed at an exit conference held May 22, 2012.

The Upper Des Montes Mutual Domestic Water Consumers Association was represented by:

Daniel Romero, President  
Palemon Martinez, Vice-President  
Fabiola Martinez, Secretary/Treasurer  
Anicia Fernandez, Board Member  
Jose Rodriguez, Board Member

Zlotnick, Laws & Sandoval, P.C. was represented by:

Asa Laws, CPA  
Brian Laws, CPA

The financial statements were prepared by the auditors: Zlotnick, Laws & Sandoval, P.C.