



KRIEGEL/GRAY/SHAW & CO., P.C.

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**PINEYWOODS ESTATES WATER
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

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PINEYWOODS ESTATES WATER ASSOCIATION, INC.

OFFICIAL ROSTER
DECEMBER 31, 2008

BOARD OF DIRECTORS

| <u>Name</u> | <u>Title</u> |
|--------------------------|----------------------------|
| <i>Douglas Rains</i> | <i>President</i> |
| <i>Catherine Geisert</i> | <i>Vice President</i> |
| <i>Nancy Apprill</i> | <i>Secretary/Treasurer</i> |
| <i>Ann Lucker</i> | <i>Director</i> |
| <i>John Paul Simmons</i> | <i>Director</i> |
| <i>Lenoy Underwood</i> | <i>Director</i> |
| <i>Robert W. Watkins</i> | <i>Director</i> |

OFFICIALS

| | |
|---------------------|----------------|
| <i>Joe Chambers</i> | <i>Manager</i> |
|---------------------|----------------|

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico

We have audited the accompanying financial statements of Pineywoods Estates Water Association, Inc. (the "Association"), as of and for the year ended December 31, 2008, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2008, the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Association has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 8, 2009 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico
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Our audit was performed for the purpose of forming opinions on the basic 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 financial statements. Such information has been subjected to the auditing procedures applied in the financial statements and, in our opinion, is fairly presented in all material respects, in relation to the financial statements taken as a whole.

Kriegel/Gray/Shaw & Co., P.C.
Kriegel/Gray/Shaw & Co., P.C.

July 8, 2009

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

STATEMENT OF FUND NET ASSETS

DECEMBER 31, 2008

ASSETS

Current Assets:

| | |
|-----------------------------|----------------|
| Cash and cash equivalents | \$79,093 |
| Accounts receivable | 2,680 |
| Prepaid Insurance | 2,234 |
| Grant receivable | 123,150 |
| <i>Total current assets</i> | <u>207,157</u> |

Non-Current Assets

Restricted Assets:

| | |
|--------------------------------|--------------|
| Cash - construction | 597 |
| Cash - debt reserves | 6,346 |
| <i>Total restricted assets</i> | <u>6,943</u> |

Capital Assets:

| | |
|-------------------------------|------------------|
| Capital assets - depreciated | 90,837 |
| Construction in progress | 1,589,387 |
| Water rights | 11,331 |
| Less accumulated depreciation | (14,333) |
| <i>Net capital assets</i> | <u>1,677,222</u> |
| <i>Total assets</i> | <u>1,891,322</u> |

LIABILITIES

Current Liabilities:

| | |
|-----------------------------------|----------------|
| Construction payable | 123,150 |
| Taxes payable | (49) |
| Loan interest payable | 2,043 |
| Current portion of long-term debt | 8,427 |
| <i>Total current liabilities</i> | <u>133,571</u> |

Non-Current Liabilities:

| | |
|-------------------------------------|----------------|
| Long-term debt | 379,734 |
| <i>Total noncurrent liabilities</i> | <u>379,734</u> |
| <i>Total liabilities</i> | <u>513,305</u> |

Net Assets:

| | |
|---|--------------------|
| Invested in capital assets, net of related debt | 1,289,061 |
| Restricted for capital improvements | 597 |
| Restricted for debt service | 6,346 |
| Unrestricted | 82,013 |
| <i>Total net assets</i> | <u>\$1,378,017</u> |

The Notes to Financial Statements are an integral part of these statements.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

| | |
|--|-----------------|
| OPERATING REVENUES | |
| Water usage fees | \$64,665 |
| Connection fees | 350 |
| Membership Fees | 135 |
| Delinquency fees | 162 |
| <i>Total operating revenues</i> | 65,312 |
| OPERATING EXPENSES | |
| Operating expenses | 28,786 |
| Depreciation | 3,336 |
| <i>Total operating expenses</i> | 32,122 |
| <i>Net income (loss) from operations</i> | 33,190 |
| NON-OPERATING REVENUES (EXPENSES) | |
| Federal grants and subsidies | 1,095,992 |
| State grants | 24,006 |
| Gain (Loss) on disposal of capital assets | (59,575) |
| Interest earnings | 2,635 |
| <i>Total non-operating revenues (expenses)</i> | 1,063,058 |
| <i>Change in net assets</i> | 1,096,248 |
| <i>Total fund net assets, at beginning of year</i> | 281,769 |
| <i>Total fund net assets, at end of year</i> | \$1,378,017 |

The Notes to Financial Statements are an integral part of these statements.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|---------------|
| Cash received from customers | \$65,939 |
| Cash paid to employees | (10,994) |
| Cash paid to suppliers | (17,938) |
| <i>Net cash provided (used) by operating activities</i> | <u>37,007</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|----------|
| Customer deposits | 0 |
| Transfers in (out) | 0 |
| <i>Net cash provided (used) by noncapital financing activities</i> | <u>0</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | |
|---|-----------------|
| Construction in progress costs | (1,344,234) |
| USDA long-term debt | 331,000 |
| Principal paid on long-term debt | (9,316) |
| Grants and subsidies | 996,847 |
| <i>Net cash provided (used) by capital and related financing activities</i> | <u>(25,703)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|-------------------|-------|
| Interest received | 2,635 |
|-------------------|-------|

Net increase (decrease) in pooled cash 13,939

Pooled cash and investments, beginning of year 72,097

Pooled cash and investments, end of year **\$86,036**

| | |
|---------------------------|-----------------|
| Cash and cash equivalents | \$79,093 |
| Restricted cash | 6,943 |
| | <u>\$86,036</u> |

NON-CASH TRANSACTIONS:

Capital assets with a book value of \$59,575 were discarded at 12/31/08 creating a Loss on Disposal of Capital Assets.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

**Reconciliation of operating income to net cash provided
(used) by operating activities**

| | |
|--|-----------------------|
| Operating income (loss) | \$33,190 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 3,336 |
| Bad Debt Expense | 188 |
| Change in assets and liabilities: | |
| (Increase) Decrease in assets: | |
| Accounts receivable | 627 |
| Prepays | (285) |
| Increase (Decrease) in liabilities: | |
| Gross receipts tax payable | (49) |
| <hr/> <i>Total adjustments</i> | <hr/> 3,817 |
| <hr/> <i>Net cash provided (used) by operating activities</i> | <hr/> \$37,007 |

The Notes to Financial Statements are an integral part of these statements.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

Pineywoods Estates Water Association, Inc. (the "Association") was established July 21, 1989 as a domestic nonprofit corporation in the State of New Mexico. The Association provides water service to Pineywoods Estates, a community of part-time and full-time residences halfway between High Rolls and Cloudcroft, New Mexico.

The Association has been determined to be a governmental subdivision of the State of New Mexico by the Attorney General of New Mexico.

The Association has a Board of Directors that consists of seven (7) members who are responsible for legislative and fiscal control of the Association. The Board is also responsible for administrative control of the Association.

Criterion for determining the entity for financial reporting purposes is whether the governing body (Board of Directors) exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the application of these criteria, the Association has no component units, and is not a component unit of another governmental agency.

The financial statements include the proprietary fund of the Association over which the Board of Directors exercises operating control. The operations of the Association include water services only.

Fund Accounting

The accounts of the Association are organized on the basis of one fund and are considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. In this report, the fund is presented in the financial statements as a proprietary fund.

Proprietary Fund

Enterprise Fund – The Enterprise Fund is used to account for the operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the balance sheet. Their reported net assets are segregated into invested in capital assets, net of related debt, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Cash

The Association's cash is 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.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

All capital assets are valued at historical cost. The Association defines capital assets as assets with lives greater than one-year and a cost or donated value of \$1,000 or greater. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized. Depreciation of the water distribution system in the proprietary fund types is computed using the straight-line method over the estimated useful life of 50 years.

At the end of 2008, the portion of the capital assets that were either replaced or discarded during the rebuild of the water distribution system were written off along with their related accumulated depreciation. Only that portion of the remaining capital assets that continued to be used along with the rebuilt system remain on the accounting records of the Association.

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. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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.

Proprietary activities have applied all applicable Governmental Accounting Standards Board pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of Committee on Accounting Procedure. FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, have also been applied.

Budgets and Budgetary Accounting

The Association prepares a budget for annual operations. From time to time, the Board, based upon management recommendations, reviews and revises the annual operating budget.

Vacation and Sick Pay

The Association does not provide vacation and sick pay to its employees.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

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

Use of Estimates

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

NOTE 2. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable of \$2,680 is reported net of the allowance for doubtful accounts, which totals \$0 at December 31, 2008. All accounts receivable at December 31, 2008 are considered collectible.

NOTE 3. CAPITAL ASSETS

Plant, Property and Equipment

Plant, property and equipment consisted of the following as of December 31 2008:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------------|---------------------------|------------------------|---------------------------|
| Business-type capital assets, not being depreciated: | | | | |
| Construction in process | \$119,959 | \$1,469,428 | \$0 | \$1,589,387 |
| Water rights | 11,331 | 0 | 0 | 11,331 |
| <i>Total business-type capital assets, not being depreciated</i> | <i>131,290</i> | <i>1,469,428</i> | <i>0</i> | <i>1,600,718</i> |
| Business-type capital assets, being depreciated: | | | | |
| Water distribution system | 167,089 | 0 | 76,252 | 90,837 |
| <i>Total business-type capital assets, being depreciated</i> | <i>167,089</i> | <i>0</i> | <i>76,252</i> | <i>90,837</i> |
| Less accumulated depreciation for: | | | | |
| Water distribution system | 27,674 | 3,336 | 16,677 | 14,333 |
| <i>Total accumulated depreciation</i> | <i>27,674</i> | <i>3,336</i> | <i>16,677</i> | <i>14,333</i> |
| <i>Business-type capital assets, net</i> | <i>\$270,705</i> | <i>\$1,466,092</i> | <i>\$59,575</i> | <i>\$1,677,222</i> |

The Association capitalized \$8,693 of interest expense as construction in process.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 4. LONG-TERM DEBT

The Association's long-term liabilities consist of the following:

| | |
|---|------------------|
| Note payable USDA, Rural Development for funds provided during the year ended December 31, 2008 for a portion of the construction of the water distribution system. The date of the note is June 5, 2008 for \$331,000 bearing interest of 4.5%, requiring monthly payments of \$1,490 maturing June 5, 2048. The Association is required to set aside \$149 each month into an account designated as the Reserve Account until the sum of \$71,496 is reached. The loan is collateralized with revenues generated from the operation of the system equal to the monthly principal and interest payments to maturity and a real estate mortgage of the water distribution system. | \$326,716 |
| Note payable to the State of New Mexico Environment Department (#RIP 2002-01) for the construction of the water distribution system dated September 19, 2001. The loan is not collateralized. The loan has been amended twice with the last amendment dated June 29, 2004. At that time, the principal balance of \$48,697 was refinanced at 3% per annum for a period of twenty (20) years. The initial annual payment (after the amendment) of \$3,273 was made on July 1, 2005 and shall mature on July 1, 2024. | 41,115 |
| Note payable to the State of New Mexico Environment Department (#RIP 89-02 R) for the construction of the water distribution system dated April 9, 1990. The loan is not collateralized. The loan has been amended three times with the last amendment dated May 31, 2002. At that time, the principal balance of \$37,357 was refinanced at 3% per annum for a period of twelve (12) years. The initial annual payment (after the amendment) of \$3,753 was made on May 19, 2003 and shall mature on May 19, 2014. | 20,330 |
| | <u>388,161</u> |
| Less current portion | 8,427 |
| Long-term liabilities | <u>\$379,734</u> |

Following is a summary of principal and interest maturities of long-term liabilities.

| Due in the year(s) ending: | <u>Principal</u> | <u>Interest</u> |
|---------------------------------------|------------------|------------------|
| December 31, 2009 | \$8,427 | \$16,479 |
| December 31, 2010 | 8,731 | 16,175 |
| December 31, 2011 | 9,047 | 15,859 |
| December 31, 2012 | 9,375 | 15,531 |
| December 31, 2013 | 9,716 | 15,190 |
| December 31, 2014 – 2018 | 38,457 | 71,063 |
| December 31, 2019 – 2023 | 42,417 | 63,349 |
| December 31, 2024 – 2028 | 38,057 | 54,616 |
| December 31, 2029 – 2033 | 43,662 | 45,739 |
| December 31, 2034 – 2038 | 54,655 | 34,745 |
| December 31, 2039 – 2043 | 68,417 | 20,983 |
| December 31, 2044 – 2048 | 57,200 | 4,677 |
| Total principal and interest payments | <u>\$388,161</u> | <u>\$374,406</u> |

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 4. LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2008:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------------|----------------------|------------------|----------------|-------------------|------------------------|
| Notes Payable: | | | | | |
| USDA Rural Development | \$0 | \$331,000 | \$4,284 | \$326,716 | \$3,244 |
| NM Environment Dept (RIP 89-02) | 23,382 | 0 | 3,052 | 20,330 | 3,143 |
| NM Environment Dept (RIP 2002-01) | 43,095 | 0 | 1,980 | 41,115 | 2,040 |
| Total notes payable | \$66,477 | \$331,000 | \$9,316 | \$388,161 | \$8,427 |

NOTE 5. RISK MANAGEMENT

The Association covers its insurance needs through various insurance policies. The coverage includes worker's compensation and employers' liability, general liability, commercial automobile, special district property, crime coverage (including employee theft, fraud, etc.), inland marine, and management liability. The premiums paid on the policies during 2008 were \$3,829. If the Association's losses exceed its premiums, there is no supplemental assessment; on the other hand, if the Association's losses are low, they will not receive a refund. Therefore, except for deductible amounts, risk has been transferred to the insurance carrier.

NOTE 6. NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets amounts at December 31, 2008 were as follows:

| | |
|--|--------------------|
| Invested in Capital Assets, Net of Related debt: | |
| Net property and equipment in service (including construction in progress) | \$1,677,222 |
| Less: notes payable | (388,161) |
| | 1,289,061 |
| Unrestricted net assets | 82,013 |
| Restricted net assets | 6,943 |
| | \$1,378,017 |

NOTE 7. CASH DISCLOSURES

State statutes authorize the investment of the Association's funds in a wide variety of instruments including certificate of deposits and other similar obligations, state investment pool and money market accounts. The Association is also allowed to invest in United States Government obligations. All funds of the Association must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Association. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 7. CASH DISCLOSURES (CONTINUED)

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

Excess funds may be temporarily invested in securities which are issued by the State or by the United States Government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

| | Pioneer Bank | First National Bank | First New Mexico Bank |
|--|--------------|------------------------|--------------------------|
| Cash in Bank per December 31, 2008 statements: | | | |
| Checking accounts | \$597 | \$28,245 | \$0 |
| Savings accounts | 3,446 | 0 | 7,148 |
| Certificates of deposit | 0 | 0 | 49,632 |
| <i>Total deposits</i> | 4,043 | 28,245 | 56,780 |
| Less: FDIC insurance | 4,043 | 28,245 | 56,780 |
| Uninsured public funds | 0 | 0 | 0 |
| 50% Collateral requirements | 0 | 0 | 0 |
| Pledged securities | 0 | 0 | 0 |
| Over (under) | \$0 | \$0 | \$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 a deposit policy for custodial credit risk. As of December 31, 2008, \$0 of the Association's bank balances of \$89,068 was exposed to custodial credit risk as follows:

| | |
|--|-----|
| Uninsured and collateralized | \$0 |
| Uninsured and collateralized held by pledging banks agent not in the City's name (or invested in uses) | 0 |
| Uninsured and uncollateralized | 0 |
| <i>Total</i> | \$0 |

As noted in the schedule above, the Association has no uninsured public funds.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 7. CASH DISCLOSURES (CONTINUED)

Restricted Cash

Restricted cash consists of the following:

1. Reserve account as required by the RUS loan resolution security agreement prescribing a sum of \$149 per month set aside in a separate account designated as a Reserve Account until the sum of \$71,496 is reached. Current year contributions were \$1,788 bringing the end of year balance to \$3,590. With the prior written approval of the Government, funds may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets, subject to conditions established by the Government. No requests have been made.
2. Non-mandatory reserves set aside within the primary checking account for two outstanding loans from the New Mexico Environmental Department. Net contributions (withdrawals) to (from) these reserves total (\$268) during the year bringing the end of year balance to \$2,756. These reserves are not required by loan agreement but are separated by management.
3. A separate Construction Account has been established as required by the Government into which the proceeds of the loan and grant proceeds from the USDA-RUS are deposited. Withdrawals from the Construction Account were and shall be made only on checks signed by the manager of the Association as authorized by the Board from time to time, and with prior concurrence of the Government. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed. The end of year balance is \$597.

ADDITIONAL FEDERAL INFORMATION

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

| Federal Grantor/Program Title | Federal CFDA Number | Project Number | Award Amount | Accrued or (Deferred) Revenue at Dec. 31, 2007 | Receipts | Expenditures | Accrued or (Deferred) Revenue at Dec. 31, 2008 |
|--|---------------------------|-------------------|--------------------|---|--------------------|--------------------|---|
| <u>U.S. Department of Agriculture</u> | | | | | | | |
| Water and Wastewater Disposal Systems for Rural Communities - | | | | | | | |
| Grant | 10.760 | | \$1,231,531 | \$0 | \$972,842 | \$1,095,992 | \$123,150 |
| Loan | 10.760 | | 331,000 | 0 | 331,000 | 331,000 | 0 |
| <i>Total U.S. Department of Agriculture</i> | | | 1,562,531 | 0 | 1,303,842 | 1,426,992 | 123,150 |
| Total Federal Grants | | | \$1,562,531 | \$0 | \$1,303,842 | \$1,426,992 | \$123,150 |

Note: The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.



**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***

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico

We have audited the financial statements of Pineywoods Estates Water Association, Inc. (the "Association") as of and for the year ended December 31, 2008, and have issued our report thereon dated July 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

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

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one 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 questioned costs as item 2008-01.

The Association's response to the finding identified in our audit was 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 management, members of the Board of Directors, others within the entity, the Office of the State Auditor, 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.

Kriegel/Gray/Shaw & Co., P.C.

Kriegel/Gray/Shaw & Co., P.C.

July 8, 2009



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

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico

Compliance

We have audited the compliance of Pineywoods Estates Water Association, Inc. (the "Association") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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 on the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Association is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Association's internal control over compliance.

Mr. Hector H. Balderas, State Auditor and
The Board of Directors
Pineywoods Estates Water Association, Inc.
High Rolls, New Mexico
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A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, members of the Board of Directors, others within the entity, the Office of the State Auditor, 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.

Kriegel/Gray/Shaw & Co., P.C.
Kriegel/Gray/Shaw & Co., P.C.

July 8, 2009

PINEYWOODS ESTATES WATER ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of Auditor’s Report issued:

Unqualified

Internal Control Over Financial Reporting:

•Material weakness(es) identified?

 X Yes No

•Significant deficiencies identified that are not considered to be material weaknesses?

 Yes X No

Noncompliance material to financial statements noted?

 Yes X No

FEDERAL AWARDS

Internal Control Over Major Programs:

•Material weakness(es) identified?

 Yes X No

•Significant deficiencies identified that are not considered to be material weaknesses?

 Yes X No

Type of Auditor’s Report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 Yes X No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

 Yes X No

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS

CURRENT YEAR SIGNIFICANT DEFICIENCIES:

2008-01 Annual Audit Report Filed Late

Statement of Condition – This report was not submitted to the State Auditor by the due date of May 31, 2009. The report was submitted to the State Auditor on July 17, 2009.

Criteria – The New Mexico State Audit Rule specifies that audit reports for special districts are due in the State Auditor's Office within five months after fiscal year end.

Cause – This was an initial audit for the Association, which required additional time. Audit firm oversight of due date for special districts.

Effect – Non-compliance with State Audit Rule.

Recommendation – Future audits will be planned in accordance with the required due date.

Management's Response – Care will be taken in the future to ensure that audit reports will be filed on a timely basis.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**CURRENT YEAR FINDINGS AND QUESTIONED COSTS –
MAJOR FEDERAL AWARD PROGRAM AUDIT:**

None.

PINEYWOODS ESTATES WATER ASSOCIATION, INC.
EXIT CONFERENCE
DECEMBER 31, 2008

EXIT CONFERENCE:

The exit conference was held July 8, 2009 and was attended by the following:

From Pineywoods Estates Water Association, Inc.:

Doug Rains, President
Joe Chambers, Manager

From Kriegel/Gray/Shaw & Co., P.C.:

Debbie Gray, CPA, Shareholder
Kristi Granados, CPA, Auditor

FINANCIAL STATEMENT PREPARATION

The financial statements of Pineywoods Estates Water Association, Inc. were prepared from original books and records provided by and with assistance from the management of the Association and Kriegel/Gray/Shaw & Co., P.C. as of and for the year ended December 31, 2008.