

LEA COUNTY WATER USERS ASSOCIATION

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Year Ended June 30, 2011



JOHNSON, MILLER & CO.

*Certified Public Accountants
A Professional Corporation*

An Independent Member of BDO Seidman Alliance

LEA COUNTY WATER USERS ASSOCIATION

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2011

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ASSOCIATION OFFICIALS

June 30, 2011

ASSOCIATION BOARD OF TRUSTEES

Buster Goff	Chairman	Lea County
Gary Schubert	Member	Lea County
Dan Field	Member	Lea County
Gregory H. Fulfer	Member	Lea County
Alan Eades	Member	Hobbs
Tim Woomer	Member	Hobbs
Eric Honeyfield	Member	Hobbs
Cheryl Chance	Member	Jal
Matt White	Member	Eunice
John Norris	Member	Lovington
Neil Granath	Member	Lovington
Marilyn Burns	Member	Tatum

ADMINISTRATIVE OFFICIALS

Mike Gallagher	County Manager	Lea County
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JOHNSON, MILLER & CO.
Certified Public Accountants
A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico
Midland, Texas
Odessa, Texas

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION**

Mr. Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and Lea County
Water Users Association Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the accompanying basic financial statements of the business-type activities of Lea County Water Users Association (the Association), as of and for the year ended June 30, 2011, as listed in the table of contents. We also audited the budget comparison statement presented as supplemental information for the year ended June 30, 2011. These basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lea County Water Users Association as of June 30, 2011, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues and Expenses – Budget and Actual presents fairly, in all material respects, the respective budgetary comparison for the Association for the year ended June 30, 2011, in conformity with the budgetary basis described in Note A4.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 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.

Management's Discussion and Analysis on pages 5-7 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Johnson, Miller & Co.

Hobbs, New Mexico
November 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Lea County Water Users Association's (the Association) financial performance provides an overview of the Association's financial activities for the fiscal year ended June 30, 2011. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The Association's total assets did not change while total liabilities decreased by \$403.
- The Association's operating expenses in fiscal year 2010-2011 decreased by \$19,733 from the prior year.
- As of the close of the current fiscal year, the Association reported ending net assets of \$89,087.
- Revenue decreased by \$23,042 from the prior year.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Association.

The Association's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

Financial Statements

The financial statements present the financial picture of the Association from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets presents information showing how the Association's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event, giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected invoices and earned but unused vacation leave).

The financial statements reflect that the Association is principally supported by member assessments that are intended to recover all or a significant portion of the Association's expenses.

Fund Financial Statements

The Association's basic services are reported in one unrestricted fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using the accrual basis of accounting. The statements provide a detailed short-term view of the Association's general operations and the basic services it provides.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11-14 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. The balance of unrestricted funds may be used to meet the Association's ongoing obligations.

Net Assets

To begin our analysis, a summary of the Association's Statement of Net Assets is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets

	FY 2011	FY 2010	Dollar Change
Current and Other Assets	\$ 89,173	\$ 89,173	\$ -
Current Liabilities	86	489	403
Total net assets	\$ 89,087	\$ 88,684	\$ 403

As can be seen from the table above, net assets increased to \$89,087 in fiscal year 2011 from \$88,684 in fiscal year 2010. This minor increase is the result of a reduction in current liabilities.

Table A-2
**Condensed Statements of Revenues,
Expenses and Changes in Net Assets**

	FY 2011	FY 2010	Dollar Change
Operating revenues	\$ 13,718	\$ 36,760	\$ (23,042)
Operating expenses	13,315	33,048	(19,733)
Change in net assets	403	3,712	3,309
Beginning net asset	88,684	84,972	3,712
Ending net assets	\$ 89,087	\$ 88,684	\$ 403

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen from the table above, revenues decreased to \$13,718 in fiscal year 2011 from \$36,760 in fiscal year 2010 due to revenue being based on expenses that occurred throughout the year. Expenses decreased to \$13,315 in fiscal year 2011 from \$33,048 in fiscal year 2010 due to a reduction in the activity of the Water User's Board.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Budgetary Highlights

The Association adopts an annual operating budget following public workshops and a public hearing. The operating budget includes proposed expenses and the means of financing them.

A fiscal year 2011 budget comparison and analysis is presented in Table A-3

**Table A-3
Budget vs. Actual
Year Ended June 30, 2011**

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Membership assessments	\$ 21,800	\$ 21,800	\$ 11,538	\$ (10,262)
Total Revenues	21,800	21,800	11,538	(10,262)
Expenses				
Water plan	40,000	40,000	0	40,000
Payroll	8,022	8,022	8,627	(605)
General government	107,900	107,900	5,090	102,810
Total Expenses	\$ 155,922	\$ 155,922	\$ 13,717	\$ 142,205
Transfer in	90,740	90,740		
Prior year cash balance	\$ 43,383	\$ 43,383		

Significant Variances between Budget and Actual

The budget amount of total revenues of \$21,800 was based on prior year actual cash received of \$73,570. The \$40,000 budget amount of Water plan expenses was budgeted in case there were additional costs associated with the water plan, however no expenses were incurred for the current year. General government expenses were \$102,810 less than budgeted due to less expense for legal, supplies, and other expense items.

Economic Factors and Next Year's Budget

The Board of Trustees of the Association considered many factors when setting the fiscal year 2011 budget. Some factors considered are the expectation of issues related to the Water Plan and administrative costs.

Association Contact Information

This financial report is designed to provide our customers and creditors with a general overview of the Association's finances and to demonstrate the Association's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Sherri Bunch by phone at 575-396-8653.

BASIC FINANCIAL STATEMENTS

LEA COUNTY WATER USERS ASSOCIATION

STATEMENT OF NET ASSETS

	<u>June 30, 2011</u>
ASSETS	
Cash	\$ 41,203
Accounts receivable (NOTE B)	<u>47,970</u>
TOTAL ASSETS	<u>\$ 89,173</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	<u>\$ 86</u>
TOTAL LIABILITIES	86
NET ASSETS	
Unrestricted	<u>89,087</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 89,173</u>

The accompanying notes are an integral part of these statements.

LEA COUNTY WATER USERS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	<u>Year Ended June 30, 2011</u>
REVENUES	
Membership assessments (NOTE C)	<u>\$ 13,718</u>
TOTAL REVENUES	13,718
EXPENSES	
General government	<u>13,315</u>
TOTAL EXPENSES	13,315
CHANGE IN FUND NET ASSETS	403
NET ASSETS AT BEGINNING OF YEAR	<u>88,684</u>
NET ASSETS AT END OF YEAR	<u>\$ 89,087</u>

The accompanying notes are an integral part of these statements.

LEA COUNTY WATER USERS ASSOCIATION

STATEMENT OF CASH FLOWS

	<u>Year Ended June 30, 2011</u>
OPERATING ACTIVITIES	
Cash received from members	\$ 11,538
Cash paid to suppliers	(5,091)
Cash paid to employees	<u>(8,627)</u>
Net cash (used) by operating activities	<u>(2,180)</u>
Net (decrease) in cash	(2,180)
Cash - beginning of year	<u>43,383</u>
Cash - end of year	<u>\$ 41,203</u>
 Reconciliation of change in fund net assets to net cash provided by operating activities	
Change in fund net assets	\$ 403
Change in assets and liabilities:	
Accounts receivable	(2,180)
Accounts payable	<u>(403)</u>
Net cash (used) by operating activities	<u>\$ (2,180)</u>

LEA COUNTY WATER USERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ORGANIZATION

Lea County Water Users Association (the Association) was established on September 23, 1997 under a joint powers agreement entered into by and between the County of Lea, the Cities of Lovington, Jal, Eunice, Tatum, and Hobbs. It was the desire of the parties to form a water users association in order to collectively address the immediate and future water needs of the citizens of Lea County. The joint powers agreement established Lea County as the fiscal agent of the Association.

2. REPORTING ENTITY

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. Organizations that are legally separate, tax-exempt entities and that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Based upon the application of these criteria, there are no potential component units included in the Association's reporting entity and the Association is not a component unit of any other entity.

3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Association has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with Governmental Accounting Standards Board (GASB) pronouncements. The Association has elected not to apply FASB pronouncements issued after the applicable date.

LEA COUNTY WATER USERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Measurement Focus:

The unrestricted funds (enterprise funds) are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period they are earned. Expenditures generally are recorded when a fund liability is incurred.

Fund Accounting:

The accounts of the Association are organized on the basis of fund type, of which there is only one fund which is considered an enterprise fund.

Enterprise Funds: (Unrestricted Funds)

Unrestricted funds are used to account for operations of the Association that are financed and operated in a manner similar to private business enterprises where the intent is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

4. BUDGET

The annual budget is adopted on the cash basis of accounting.

Annual budgets of the Association are prepared prior to June 1 and must be approved by the resolution of the Board, and submitted for approval by the State of New Mexico. Once the budget has been formally approved, any amendments must also be approved by the Board and the State.

Budgeted amounts are as originally adopted, or as amended by the Board and approved by the State. Budgets for all fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The schedule of budgeted revenues and expenditures presents comparisons of legally adopted budgets with actual data on a budgetary basis.

5. 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 that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

LEA COUNTY WATER USERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held by the Association's fiscal agent, Lea County. These funds are included in those insured and collateralized by Lea County according to the schedules included in the separately issued financial statements of the County.

7. REVENUE

Operating revenue includes activities that have the characteristics of an exchange transaction, such as a) assessments to related parties and b) reimbursements for the water plan.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions. The Association does not typically have non-operating revenues.

8. NET ASSETS

Restricted assets are assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE B – ACCOUNTS RECEIVABLE

Accounts receivable include a total of \$47,970 with the amounts for year ended June 30, 2011 as follows:

Lea County	\$ 45,210
City of Hobbs	1,273
City of Lovington	845
City of Eunice	214
City of Jal	214
City of Tatum	214
Total	\$ 47,970

NOTE C – RELATED PARTY TRANSACTIONS

Revenues include assessments to the members of \$13,718 with the amounts for year ended June 30, 2011 as follows:

Lea County	\$ 10,958
City of Hobbs	1,273
City of Lovington	845
City of Eunice	214
City of Jal	214
City of Tatum	214
Total	\$ 13,718

LEA COUNTY WATER USERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE D – LEGAL COMPLIANCE BUDGET

Annual budgets are adopted by the Association with final approval by the New Mexico Department of Finance and Administration. The budgets are established under the following procedures:

Prior to June 30, the Association's Board of Directors approves an operating budget proposed by Lea County for the fiscal year commencing the following July 1. The budget includes proposed expenses and the means for financing the expenses.

If these expenses exceed the revenues anticipated, sufficient cash balances are appropriated to cover the excess. Such occurrences are shown in the financial statements as "prior year cash balances" and/or fund balances designated for subsequent year's expenses. All appropriations lapse at the end of each fiscal year.

The budget is legally enacted by the Association's Board. The adopted budget is then submitted, as a part of the Lea County budget to the Department of Finance and Administration whose personnel review, adjust, and approve the final budget.

The level at which expenses may not legally exceed the amount appropriated is at the function level. Lea County, as fiscal agent, is authorized to transfer budgeted amounts between departments within the fund; however, any revisions that alter the total expenses of any fund must be approved by the Department of Finance and Administration.

The budgets are prepared on the cash basis in compliance with the rules and regulations of the Department of Finance and Administration. The budget comparisons presented in the combined financial statements are reported on the cash basis to provide a meaningful comparison of actual results with budgeted amounts. The budgeted amounts reflected in the comparisons are reported as originally adopted or legally amended by the Association.

NOTE E – RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts, errors and omissions; among other risks. The activities of the board members, as representatives of the Association, are covered by the liability insurance of the separate member entities. Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. As of June 30, 2011, the Association had no probable risks of loss.

NOTE F – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 22, 2011, the date which the financial statements were available to be issued

SUPPLEMENTAL INFORMATION

LEA COUNTY WATER USERS ASSOCIATION

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS) YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Membership assessments	\$ 21,800	\$ 21,800	\$ 11,538	\$ (10,262)
Total revenues	21,800	21,800	11,538	(10,262)
Expenses				
Water plan	40,000	40,000	0	40,000
Payroll	8,022	8,022	8,627	(605)
General government	107,900	107,900	5,090	102,810
Total expenses	155,922	155,922	13,717	142,205
Excess (deficit) of revenues over expenses	\$ (134,122)	\$ (134,122)	\$ (2,179)	\$ 131,943
Other financing sources (uses)				
Prior year cash balance	43,383	43,383	-	
Transfer in	90,740	90,740		
Net change in fund balance	\$ 1	\$ 1	(2,179)	
Reconciliation to GAAP basis:				
Increase in accounts receivable			2,179	
Decrease in accounts payable			403	
Change in net assets			\$ 403	

The accompanying notes are an integral part of these statements.



**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
New Mexico State Auditor
The Office of Management and Budget and Lea County
Water Users Association Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the basic financial statements of the business-type activities and related budgetary comparison of Lea County Water Users Association (the Association), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. 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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above.

Mr. Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and Lea County
Water Users Association Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities, Lea County, City of Hobbs, City of Lovington, City of Eunice, City of Jal, City of Tatum, and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Miller & Co.

Hobbs, New Mexico
November 22, 2011

**LEA COUNTY WATER USERS ASSOCIATION
STATE OF NEW MEXICO**

SCHEDULE OF STATUS OF PRIOR FINDINGS

Prior Year Findings

There are no findings for the prior year.

LEA COUNTY WATER USERS ASSOCIATION

OTHER DISCLOSURES

For the fiscal year ended June 30, 2011

FINANCIAL STATEMENT PRESENTATION

The financial statements of the Lea County Water Users Association were prepared from the original books and records provided by the management of this entity by Johnson, Miller & Co., CPAs.

EXIT CONFERENCE

An exit conference was conducted on November 22, 2011 in which the contents of this report were discussed with the following:

Association Officials

Sherri Bunch, Finance Director

Tim Woomer, Board Member

Auditors

Mary Hinds, CPA

Mr. Hector Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Water Users Association Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

PASSED ADJUSTMENTS

The State Auditor's Rule 2.2.2.10 AA (2) states that the auditor must present a list of passed adjustments to the agency management and governing board representatives, and a copy of the list must be attached to the audit report submitted to the State Auditor for review.

No passed adjustments were identified during the audit for Lea County Water Users Association for the year ended June 30, 2011.