

LEA COUNTY WATER USERS ASSOCIATION

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2013

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ASSOCIATION OFFICIALS

June 30, 2013

ASSOCIATION BOARD OF TRUSTEES

Buster Goff	Chairman	Lea County
Dan Field	Member	Lea County
Gregory H. Fulfer	Member	Lea County
Alan Eades	Member	Hobbs
Tim Woomer	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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Independent Auditor's Report

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

Report on Financial Statements

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, 2013, which comprise the association's basic financial statements as listed in the table of contents and the related notes to the financial statements. We have also audited the budget comparison statement presented as supplementary information for the year ended June 30, 2013.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the Lea County Water Users Association as of June 30, 2013, and the respective changes in financial position and its cash flows, thereof 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, 2013, in conformity with the budgetary basis described in Note A4.

Other Matters

Required Supplementary Information

Accounting principles accepted in the United States of America require that the management's discussion and analysis on pages 5-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Johnson, Miller & Co.

Hobbs, New Mexico
November 26, 2013

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, 2013. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The Association's total assets decreased by \$2,321 while total liabilities increased by \$3.
- The Association's operating expenses in fiscal year 2012-2013 decreased \$11,701 from the prior year.
- As of the close of the current fiscal year, the Association reported ending net assets of \$89,101.
- Revenue decreased by \$16,363 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 position 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 11-15 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 Position

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

Table A-1
Condensed Statements of Net Position

	FY 2013	FY 2012	Dollar Change
Current and Other Assets	\$ 89,174	\$ 91,495	\$ (2,321)
Current Liabilities	73	70	(3)
Total net position	\$ 89,101	\$ 91,425	\$ (2,324)

As can be seen from the table above, net position decreased to \$89,101 in fiscal year 2013 from \$91,425 in fiscal year 2012. This minor decrease is the result of a decrease in accounts receivable.

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

	FY 2013	FY 2012	Dollar Change
Operating revenues	\$ 879	\$ 17,242	\$ (16,363)
Operating expenses	3,203	14,904	11,701
Change in net assets	(2,324)	2,338	(4,662)
Beginning net asset	91,425	89,087	2,338
Ending net assets	\$ 89,101	\$ 91,425	\$ (2,324)

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen from the table above, revenues decreased to \$879 in fiscal year 2013 from \$17,242 in fiscal year 2012 due to revenue being based on expenses that occurred throughout the year. Expenses decreased to \$3,203 in fiscal year 2013 from \$14,904 in fiscal year 2012 due to a decrease 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 2013 budget comparison and analysis is presented in Table A-3

**Table A-3
Budget vs. Actual
Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Membership assessments	\$ 2,765	\$ 2,765	\$ 9,345	\$ 6,580
Total Revenues	2,765	2,765	9,345	6,580
Expenses				
General government	28,200	28,200	879	27,321
Total Expenses	\$ 28,200	\$ 28,200	\$ 879	\$ 27,321
Transfer in	-	-		
Prior year cash balance	\$ 26,722	\$ 26,722		

Significant Variances between Budget and Actual

The budget amount of total revenues of \$2,765 was based on prior year actual cash received. General government expenses were \$27,321 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 2013 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.

LEA COUNTY WATER USERS ASSOCIATION

STATEMENT OF NET POSITION

	<u>June 30, 2013</u>
ASSETS	
Cash	\$ 35,188
Accounts receivable (NOTE B)	<u>53,986</u>
TOTAL ASSETS	<u>\$ 89,174</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	<u>\$ 73</u>
TOTAL LIABILITIES	73
NET POSITION	
Unrestricted	<u>89,101</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 89,174</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 POSITION

	<u>Year Ended June 30, 2013</u>
OPERATING REVENUES	
Membership assessments (NOTE C)	<u>\$ 879</u>
TOTAL OPERATING REVENUES	879
OPERATING EXPENSES	
General government	<u>3,203</u>
TOTAL OPERATING EXPENSES	3,203
CHANGE IN FUND NET POSITION	(2,324)
NET POSITION AT BEGINNING OF YEAR	<u>91,425</u>
NET POSITION AT END OF YEAR	<u>\$ 89,101</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, 2013</u>
OPERATING ACTIVITIES	
Cash received from members	\$ 9,345
Cash paid to suppliers	(3,200)
Refund from vendor	<u>2,321</u>
Net cash provided by operating activities	<u>8,466</u>
Net increase in cash	8,466
Cash - beginning of year	<u>26,722</u>
Cash - end of year	<u>\$ 35,188</u>
Reconciliation of change in fund net position to net cash provided by operating activities	
Change in fund net position	\$ (2,324)
Change in assets and liabilities:	
Accounts receivable	8,466
Vendor accounts receivable	2,321
Accounts payable	<u>3</u>
Net cash provided by operating activities	<u>\$ 8,466</u>

The accompanying notes are an integral part of these statements.

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 POSITION

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 \$53,986 with the amounts for year ended June 30, 2013 as follows:

Lea County	\$ 53,509
City of Hobbs	220
City of Lovington	146
City of Eunice	37
City of Jal	37
City of Tatum	37
Total	\$ 53,986

LEA COUNTY WATER USERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE C – RELATED PARTY TRANSACTIONS

Revenues include assessments to the members of \$879 with the amounts for year ended June 30, 2013 as follows:

Lea County	\$	402
City of Hobbs		220
City of Lovington		146
City of Eunice		37
City of Jal		37
City of Tatum		37
Total	\$	879

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, 2013, the Association had no probable risks of loss.

LEA COUNTY WATER USERS ASSOCIATION

NOTE F – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 26, 2013, the date which the financial statements were available to be issued

LEA COUNTY WATER USERS ASSOCIATION

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BASIS) YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues				
Membership assessments	\$ 2,765	\$ 2,765	\$ 9,345	\$ 6,580
Total revenues	2,765	2,765	9,345	6,580
Expenses				
General government	28,200	28,200	879	27,321
Total expenses	28,200	28,200	879	27,321
Excess (deficit) of revenues over expenses	\$ (25,435)	\$ (25,435)	\$ 8,466	\$ 33,901
Other financing sources (uses)				
Prior year cash balance	26,722	26,722	-	
Transfer in	-	-	-	
Net change in fund balance	\$ 1,287	\$ 1,287		
Reconciliation to GAAP basis:				
Decrease in accounts receivable			(10,787)	
Increase in accounts payable			(3)	
Change in net position			\$ (2,324)	

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, 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., the basic financial statements of the business-type activities and related budgetary comparison presented as supplemental information of Lea County Water Users Association (the Association), as of and for the year ended June 30, 2013, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Johnson, Miller & Co.

Hobbs, New Mexico
November 26, 2013

**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, 2013

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 26, 2013 in which the contents of this report were discussed with the following:

Association Officials

Sherry Bunch, Finance Director

Buster Goff, Chairman

Auditors

Mary Hinds, CPA

Shellie Davidson, CPA

SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS

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, 2013.