

**DOÑA ANA MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION**

AUDIT REPORT

JUNE 30, 2010

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2010

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INTRODUCTORY SECTION

**DOÑA ANA MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
JUNE 30, 2010**

Official Roster

Name

Title

Board Members

Charles Huestis
Emma Garcia
Deborah Alderete-Rivera
James Robles
Kurt Anderson

President
Vice-President
Secretary/Treasurer
Board Member
Board Member

Association Officials

Mariano Martínez
Kristine Olson

General Manager
Accounting Supervisor

FINANCIAL STATEMENTS SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Doña Ana Mutual Domestic
Water Consumers Association
Doña Ana, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the Doña Ana Mutual Domestic Water Consumers Association (the Association), as of and for the year ended June 30, 2010, which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2010, 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.

Except as discussed in the following paragraph, 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.

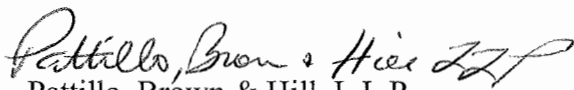
During the year ended June 30, 2010, the Association did not perform bank reconciliations in a timely and accurate manner. In addition grant files were not being properly maintained and grants and related expenditures were not being recorded in the general ledger. The related effects of these errors on the financial statements is not reasonably determinable.

In our opinion, except for the effects as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2010, and the respective changes in financial position, its cash flows and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 21, 2011 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the Association's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
March 21, 2011

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS

	2010
Current assets:	
Cash and cash equivalents	\$ 673,771
Investments	205,093
Accounts receivable, net	245,155
Due from other governments	139,427
Inventory	462,365
Deposits	293,947
Prepaid expenses	12,170
Restricted cash	438,207
Restricted investments	703,082
Total current assets	3,173,217
Noncurrent assets	
Capital assets, net	7,983,968
Total noncurrent assets	7,983,968
Total assets	\$ 11,157,185

The notes to the financial statements are an integral part of this statement.

Liabilities and Net Assets

	<u>2010</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 162,569
Accrued payroll liabilities	837
Accrued interest payable	14,316
Due to other governments	28,428
Customer deposits	44,207
Current maturities of long-term debt	<u>64,320</u>
Total current liabilities	<u>314,677</u>
Noncurrent liabilities:	
Compensated absences	8,594
Long-term debt	<u>1,347,003</u>
Total noncurrent liabilities	<u>1,355,597</u>
Total liabilities	<u>1,670,274</u>
Net Assets	
Invested in capital assets, net of related debt	6,966,645
Restricted for Water Reclamation System	394,000
Undistributed earnings	<u>2,126,266</u>
Total net assets	<u>\$ 9,486,911</u>

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	2010
Operating revenues:	
Charges for services	\$ 2,473,364
Fine and Forfeits	77,852
Memberships	6,385
Miscellaneous	42,064
Total operating revenues	2,599,665
Operating expenses:	
Salaries	412,367
Employee benefits and expenses	52,681
Advertising	3,238
Auto and travel	27,557
Dues, fees, permits and licenses	4,977
Equipment rental and supplies	156,025
Insurance	94,831
Office and administrative expense	185,275
Professional fees	308,800
Repairs and maintenance	106,581
Taxes	133,192
Utilities	225,009
Other operating expenses	76,237
Water conservation fees	19,560
Depreciation and amortization	287,481
Total operating expenses	2,093,811
Operating income	505,854
Non-operating revenues (expenses):	
Investment income	44,762
Interest expense and fiscal fees	(51,546)
Total non-operating revenues (expenses)	(6,784)
Income before capital grants	499,070
Capital grants	1,618,008
Change in net assets	2,117,078
Net assets, beginning of year	7,425,068
Restatement	(55,235)
Net assets, as restated	7,369,833
Net assets, end of year	\$ 9,486,911

The notes to the financial statements are an integral part of this statement.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	2010
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,601,810
Payments to employees for services	(469,069)
Payments to suppliers and contractors	(1,356,144)
Net cash provided (used) by operating activities	776,597
Cash flows from investing activities:	
Interest income	44,148
Transfer to restricted cash	(438,207)
Purchase of investments	(385,676)
Net cash provided (used) by investing activities	(779,735)
Cash flows from capital investing activities	
Acquisition of capital assets	(1,675,507)
Deposit on pending acquisition of capital assets	(293,350)
Capital grants	1,863,508
Proceeds from long term debt	438,207
Principal paid on long term debt	(411,864)
Interest and fiscal charges on long term debt	(37,230)
Net cash used in capital financing activities	(116,236)
Net increase (decrease) in cash and cash equivalents	(119,374)
Cash and cash equivalents, beginning of year	793,145
Cash and cash equivalents, end of year	\$ 673,771
Reconciliation of operating income to net cash provided (used) by operating activities:	
Net income	\$ 505,854
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	287,481
Decrease (increase) in accounts receivable	(14,433)
Decrease (increase) in prepaid expenses	(7,064)
Decrease (increase) in refundable deposits	753
Decrease (increase) in inventory	(170,261)
Increase (decrease) in accounts payable	162,463
Increase (decrease) in payroll liabilities	(5,448)
Increase (decrease) in compensated absences	1,427
Increase (decrease) in customer deposits	15,825
Net cash provided by operating activities	\$ 776,597

The notes to the financial statements are an integral part of this statement

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION

Notes to the Financial Statements

June 30, 2010

NOTE 1 - FORM AND FUNCTION

The Doña Ana Mutual Domestic Water Consumers Association (the Association) is a not-for-profit Mutual Domestic Association, incorporated under the provisions of the Sanitary Projects Act (SPA) of the State of New Mexico on May 3, 1974. It was established for the purpose of constructing, maintaining and operating a water and wastewater system for the members of the Association in the Doña Ana community in Doña Ana County, New Mexico. The business and affairs of the Association are conducted and managed by a Board of Directors consisting of five directors elected by the membership. Bona fide occupants and residents within and in the vicinity of the community of Doña Ana, New Mexico, may apply to become members by payment of a \$75.00, non-refundable membership fee, and must be approved by the Board of Directors. The rights, privileges, and obligations of the members are equal. No capital stock is authorized nor issued.

An Attorney General's (AG) opinion (90-30, dated December 27, 1990) concluded that entities created under the SPA are subject to the New Mexico Audit Act. Additionally, another AG opinion (68-38) states Mutual Domestic Associations (MDA) under the SPA are created for "one purpose only, and that is to establish and maintain a water system." Further it concluded MDAs are not municipal corporations. HB 297, enacted during the 2009 legislative session, exempts MDAs from being subject to ad valorem taxes.

Associations created pursuant to the Sanitary Projects Act (3-29-1 NMSA 1978) are subject to audit under the Audit Act 12-6-2 (B) NMSA 1978 and State Audit Rule 2.2.2 NMAC. However, the policy of the Office of the State Auditor has been to exempt Mutual Domestic Water Associations (MDWAs) from the requirement to receive an annual audit unless one of the following circumstances requires an audit: the bylaws or governing board require an annual audit; a state agency that has provided grant or pass-down federal funds requires an audit; the Office of the State Auditor requires an audit; or more than \$500,000 of federal funds were expended during the fiscal year, requiring a Single Audit.

The Association is considered to be a special-purpose governmental entity in accordance with Governmental Accounting Standards Board Statement No. 14. The Association is not a component unit of a governmental entity nor does it have any component units. This conclusion was reached because the Association was converted from a cooperative to an MDWA, pursuant to NMSA 3-29-20, by a vote of the Board of Directors rather than through legislative action or action by the entire membership; it does not have the ability to levy taxes but it does have the ability to set and change rates for service, it continues to file not-for-profit tax returns, and it is not a subdivision of any governmental entity.

Attorney General Opinion 06-02 determined that MDWAs created pursuant to the Sanitary Projects Act, NMSA 1978 are public bodies/political subdivisions, whose revenues are "public money" and they have statutory responsibilities to abide by: the Open Meetings Act, the Inspection of Public Records Act, the Procurement Code, and the Per Diem and Mileage Act. Due to the fact that MDWAs have officially been determined to be governmental nonprofit organizations, their financial statements must follow the government format as described in GASB 34 beginning with the fiscal year ending June 30, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The Association's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Association has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Association are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Association's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) they are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Association is determined by its measurement focus. The transactions of the Association are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

Cash and Investments

Cash includes amounts in demand deposits as well as certificates of deposits. Investments are stated at market value. For the purpose of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity date of three months or less are considered to be cash equivalents.

Concentrations of Credit Risk

The Association grants credit without collateral to its customers for its services, but the customers are subject to service termination if the receivables are not settled within a specified time frame.

Receivables

Substantially all of the Association's outstanding receivables are due from its customers for water sales. Collateral is generally not required on receivables. Accounts receivable are shown net of an allowance for uncollectible.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

The inventory held by the Association is recorded at cost, with cost being determined on the first-in, first-out basis.

Restricted Assets

Certain resources are set aside for replacement reserves, debt service and emergencies, and are classified as restricted investments on the statement of net assets. The use of these monies is limited by the Association's by-laws. In addition, customers' meter deposit monies and debt proceeds not yet expended are classified as restricted cash.

Capital Assets

Capital assets are recorded at original cost, or fair value if donated. The Association's capitalization policy for moveable equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. The Association includes software purchased with a piece of equipment in the cost of capitalization. This total cost is depreciated over the useful life of the equipment. In compliance with AICPA SOP 98-1, software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Utility Plant	40 years
Equipment	5 - 8 years
Vehicles	5 years
Office furniture and equipment	10 years
Engineering costs	10 years
Right of way permits	25 years
Wastewater acquisition costs	5 years

Compensated Absences

It is the Associations policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave may be accumulated up to 80 hours. Upon termination, the Association will compensate an employee for unused accrued vacation leave up to a maximum of 80 hours. Accrued sick leave may be accrued and carried over, however upon termination sick leave is not paid out.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Association's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Revenues

Revenues are classified as operating or non-operating according to the following criteria:

Operating revenues - include activities that have the characteristics of an exchange transaction, such as charges for services and fees, net of allowance for uncollectible amounts.

Non-operating revenues - include activities that have the characteristics of non-exchange transactions such as capital grants and investment income. Grant revenue is recognized when the eligibility requirements are met.

Expenses

Expenses are classified as operating or non-operating according to the following criteria:

Operating expenses - include activities that have the characteristics of an exchange transaction such as employee salaries, benefits, and related expenses; maintenance, operations and contractual services; material and supplies; office expenses; and depreciation expenses related to Association capital assets.

Non-operating expenses - include activities that have the characteristics of non-exchange transactions such as interest on capital asset related debt and bond expenses that are defined as non-operating expenses by GASB Statement No. 9 - *Reporting Cash Flows of Proprietary and non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

Grants and Contributions

The Association receives grants as well as contributions in the course of operations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Compliance

An operating budget is adopted each fiscal year and is approved by the Board of Directors and the New Mexico Department of Finance and Administration. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America. The Board of Directors is authorized to transfer budgetary amounts between the items within the fund; however, any revision that alters the total expenditures must be approved by the New Mexico Department of Finance and Administration. In conjunction with this, they can overspend line items within the fund, but it is a violation of state statute to over-expend a fund total.

Use of Estimates

Management of the Association has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Tax Status

The Association operates as a not-for-profit association and has received exempt status under Code Section 501(c)(12) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Deposits

The Association may invest idle cash under the guidelines of the State of New Mexico Statute 6-10-10 which authorizes investments in the following instruments:

- (1) Bonds or negotiable securities of the United States, the state or a county, municipality or school district that has a taxable valuation or real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or
- (2) Securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States, the federal home loan mortgage association, the federal national mortgage association, the federal farm credit bank or the student loan marketing association or are backed by the full faith and credit of the United States government.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash

At June 30, 2010, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts and certificates of deposit that are carried at cost, which also have values approximating market value. Following is a schedule as of June 30, 2010, of the cash and cash equivalents.

	Balance Per Bank <u>6/30/2010</u>	Add Deposits <u>In Transit</u>	Less Outstanding <u>Checks</u>	Balance Per Books <u>6/30/2010</u>
Citizens Bank of Las Cruces				
Checking Accounts				
Operating	\$ 419,917	\$ 1,799	\$(128,130)	\$ 293,586
RUS reserve account	28,522	-	-	28,522
CDBG matching	4,000	-	-	4,000
Water rights	390,531	-	-	390,531
First Community Bank				
Certificate of deposit	50,834	-	-	50,834
Bank of the Rio Grande CD				
Certificate of deposit	51,809			51,809
Certificate of deposit	<u>102,450</u>	<u>-</u>	<u>-</u>	<u>102,450</u>
Total Cash in Banks	<u>\$ 1,048,063</u>	<u>\$ 1,799</u>	<u>\$(128,130)</u>	921,732
Funds Held by New Mexico Finance Authority				
Loan program funds - WTB-105				14,000
Loan program funds - WTB-83				380,000
Cash on Hand				<u>1,339</u>
Total Cash per Books				<u>\$ 1,317,071</u>
As Reported in Financial Statements:				
Equity in Cash:	Cash			\$ 673,771
	Restricted Cash			438,207
	Investments			<u>205,093</u>
				<u>\$ 1,317,071</u>

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Cash (continued)

In accordance with Section 6-10-17, NMSA 1978 compilation, deposits of public monies are required to be collateralized. Pledged collateral is required in amounts in aggregate equal to one half of the amount of uninsured public money in each account during the fiscal year. Securities which are obligations of the State of New Mexico, its agencies, institutions, counties, or municipalities or other subdivisions are accepted as security at par value; all other securities are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation.

Pledged Collateral

	Citizens Bank of Las Cruces	First Community Bank	Bank of the Rio Grande	Total
Deposits	\$ 842,970	\$ 50,834	\$ 154,259	\$ 1,048,063
FDIC	-	(50,834)	(154,259)	(205,093)
Transaction Account Guarantee Program	<u>(842,970)</u>	<u>-</u>	<u>-</u>	<u>(842,970)</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 them. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$-0- of the Association's bank balance of \$1,048,063 was exposed to custodial credit risk.

Also at June 30, 2010, the Association had \$394,000 in program loan funds being held by the New Mexico Finance Authority which invests these monies in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations. These program loan funds expose the Association to custodial credit risk as noted above. The Association does not have an investment policy to limit exposure to custodial credit risk or to manage its exposure to fair value losses due to rising interest rates. At June 30, 2010 the program loan funds were:

Loan program funds - WTB-105	\$ 14,000
Loan program funds - WTB-83	<u>380,000</u>
	<u>\$ 394,000</u>

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Investments

Pursuant to a resolution by the Board of Directors, the Association has established a reserve fund for future plant expansion, debt service, emergencies, and water rights acquisition. Effective December 8, 1983, the Board of Directors resolved that there be no definite funding policy. At the present time, a hook-up charge of \$1,000 plus \$1,750 for water rights is required for each 3.4 inch connection.

The reserve fund consists of the following investments:

	Fair Value	Investment Maturities	
		Current	More than 10 years
Charles Schwab			
Cash	\$ 338,439	\$ 338,439	\$ -
Corporate bonds	13,087	13,087	-
Equities	48,006	48,006	-
GNMA Bond Fund	216,637	216,637	-
Other Assets	<u>86,913</u>	<u>-</u>	<u>86,913</u>
Total Investments	<u>\$ 703,082</u>	<u>\$ 616,169</u>	<u>\$ 86,913</u>

Custodial Credit Risk – Investments

In accordance with GASB 40, the Association's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the counterparty. All of the Association's investments are purchased through Charles Schwab. Charles Schwab holds all U.S. depository – eligible securities with the federally regulated Depository Trust Company (DTC) or through the Federal Reserve Bank System in Charles Schwab's name. The GNMA Bond Fund investment of the Association meets the above criteria and the cost subject to custodial credit risk is \$216,637. The Association does not have a formal investment policy to limit this risk.

Interest Rate Risk – Investments

The Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Investments

The Association's investment in the GNMA bond fund were not rated.

Concentration of Credit Risk – Investments

The Association places no limit on the amount the Association may invest in any one issuer. More than 30 percent of the Association's investments are in the GNMA bond fund.

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable are shown net of an allowance for bad debts. Total customer accounts receivable and the reserve for uncollectible accounts at June 30, 2010 were \$304,712 and \$59,557, respectively.

NOTE 5 - CAPITAL ASSETS

The majority of the assets of the Association are located on land not owned by the Association, but are constructed on private easements for the specific and registered use of the Association or within the public utility right-of-way associated with public roads granted by plats from the county. Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance 6/30/2009	Increases	Decreases	Adjustments	Balance 6/30/2010
Capital assets, not being depreciated:					
Land	\$ 714,553	\$ -	\$ -	\$ (200)	\$ 714,353
Water rights	697,579	85,770	-	-	783,349
ROW fees	5,951	-	-	-	5,951
Land easements	4,450	2,002	-	-	6,452
Construction in progress	-	1,498,473	-	-	1,498,473
Total capital assets not being depreciated	<u>1,422,533</u>	<u>1,586,245</u>	<u>-</u>	<u>(200)</u>	<u>3,008,578</u>
Capital assets, being depreciated:					
Buildings improvements	263,863	-	-	-	263,863
Wells & Pumps	1,680,907	-	-	(20)	1,680,887
Storage Pumps	953,840	-	-	-	953,840
Service Connections	439,857	-	-	-	439,857
Meters & Hydrants	180,235	-	-	-	180,235
Distribution System	4,369,866	-	-	(68)	4,369,798
Equipment, and Vehicles	377,176	89,262	-	(7,090)	459,348
Furniture & fixtures	177,225	-	-	-	177,225
Engineering costs	841,980	-	-	-	841,980
Total capital assets being depreciated	<u>9,284,949</u>	<u>89,262</u>	<u>-</u>	<u>(7,178)</u>	<u>9,367,033</u>
Less accumulated depreciation:					
Buildings improvements	133,860	6,182	-	(4,848)	135,194
Wells & Pumps	538,581	40,048	-	(5,808)	572,821
Storage Pumps	598,444	18,041	-	25,355	641,840
Service Connections	228,692	10,009	-	10,474	249,175
Meters & Hydrants	106,517	3,985	-	4,432	114,934
Distribution System	1,298,750	95,895	-	83,127	1,477,772
Equipment, and Vehicles	301,495	29,123	-	1,944	332,562
Furniture & fixtures	176,297	-	-	928	177,225
Engineering costs	605,922	84,198	-	-	690,120
Total accumulated depreciation	<u>3,988,558</u>	<u>287,481</u>	<u>-</u>	<u>115,604</u>	<u>4,391,643</u>
Total capital assets, being depreciated, net	<u>5,296,391</u>	<u>(198,219)</u>	<u>-</u>	<u>(122,782)</u>	<u>4,975,390</u>
Business-type activities capital assets, net	<u>\$ 6,718,924</u>	<u>\$ 1,388,026</u>	<u>\$ -</u>	<u>\$ (122,982)</u>	<u>\$ 7,983,968</u>

NOTE 6 - LONG-TERM DEBT

NMED/RIP - The Association entered into an agreement with the New Mexico Environment Department's Rural Infrastructure Program (RIP) Project on March 15, 2006, to assist with water system improvements. The original amount of the note was \$500,000, bearing 3% interest. Principle and interest payments are due yearly, with the note maturing on January 18, 2026.

USDA/RUS - The Association entered into an agreement with the United States Department of Agriculture's Rural Utilities Services on January 22, 2001, to purchase two tracts of land in Doña Ana County. The original amount of the note was \$509,800, bearing 4.75% interest. Principle and interest payments are due monthly, with the note maturing on January 22, 2041.

Westmoreland - The Association entered into an agreement with Westmoreland on March 6, 2002, to purchase the Mendenhall water rights. The purchase price was \$97,600 and the note bears interest of 5%. Principal and interest payments are due monthly, and the note matures on April 1, 2012.

NMFA Loans:

WTB-55 - The Association entered into an agreement with the New Mexico Finance Authority on March 27, 2009 to finance the site acquisition, design, planning, engineering and construction of a water reclamation plant. The original amount of the note was \$38,000 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2029. The Association has pledged net revenues from the water utility system to the payment of the loan.

WTB-83 - The Association entered into an agreement with the New Mexico Finance Authority on March 27, 2009 to finance the cost of designing, planning, engineering and construction of a water reclamation plant. The original amount of the note was \$380,000 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2029. The Association has pledged net revenues from the water utility system to the payment of the loan.

WTB-105 - The Association entered into an agreement with the New Mexico Finance Authority on March 27, 2009 to finance the cost of designing, planning and engineering for a water reclamation plant. The original amount of the note was \$14,000 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2029. The Association has pledged net revenues from the water utility system to the payment of the loan.

DWRLF - The Association entered into an agreement with the New Mexico Finance Authority DWRLF (Drinking Water State Revolving Loan Fund) on December 18, 2009. The original amount of the note was \$450,000, of which \$360,000 was forgiven. The remaining \$90,000 is noninterest bearing and principal payments are due yearly on June 1. The note matures on June 1, 2029. The Association has pledged net revenues from the water utility system to the payment of the loan.

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term debt consisted of the following at June 30, 2010:

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding	
NMED/RIP	\$ 500,000	2026	3.00%	\$ 422,151
USDA/RUS	509,800	2041	4.75%	459,434
Westmorelands	97,600	2012	5.00%	21,719
NMFA WTB-55	38,000	2029	0.00%	36,773
NMFA WTB-83	380,000	2029	0.00%	367,732
NMFA WTB-105	14,000	2029	0.00%	13,514
NMFA DWRLF	90,000	2030	1.00%	90,000
Total notes payable				<u>\$ 1,411,323</u>

Long-term debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 64,320	\$ 35,899	\$ 100,219
2012	64,510	34,417	98,927
2013	55,494	33,153	88,647
2014	56,628	32,082	88,710
2015	57,803	30,973	88,776
2016-2020	308,086	136,773	444,859
2021-2025	344,283	102,340	446,623
2026-2030	223,242	67,358	290,600
2031-2035	97,150	45,316	142,466
2036-2040	123,136	19,330	142,466
2041	16,671	255	16,926
	<u>\$ 1,411,323</u>	<u>\$ 537,896</u>	<u>\$ 1,949,219</u>

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Loan payable	\$ 1,373,187	\$ 450,000	\$ 411,864	\$ 1,411,323	\$ 64,320
Compensated absences	7,164	17,862	16,432	8,594	-
Long-term liabilities	<u>\$ 1,380,351</u>	<u>\$ 467,862</u>	<u>\$ 428,296</u>	<u>\$ 1,419,917</u>	<u>\$ 64,320</u>

NOTE 7 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were required:

Description	Amount
June 30, 2009 unreconciled cash balances	\$ 9,661
Grants paid directly to contractors were not recorded	209,389
Unrecorded loans and interest accrual	380,095
Unrecorded compensated absences	7,167
Unrecorded inventory	(264,504)
Adjustment to June 30, 2009 capital assets	122,982
Accounts receivable overstated - County	(29,020)
Accounts receivable for utility sales overstated	(137,071)
Accounts payable overstated at June 30, 2009	(243,464)
	<u>\$ 55,235</u>

NOTE 8 – SEP-IRA

The Association maintains a SEP-IRA plan where the employees after one year of service may elect to contribute up to 25% of their compensation, not to exceed \$15,000. The employer may contribute an amount to be determined from year to year. For the fiscal year ending June 30, 2010, the Association contributed 7%, \$13,924 to qualifying employees.

NOTE 9 – RISK MANAGEMENT

Commercial insurance covers all losses. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years. There are no claim liabilities at year-end.

NOTE 10 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Wastewater System Agreement - The Association has entered into an agreement with Doña Ana County to operate the sewage collection system constructed by Doña Ana County within the Association's service area. The Association will operate and maintain the system, bill the users and collect payments. The Association forwards all collections to the County and is then reimbursed \$6.20 for 1 to 5,000 gallons, and \$0.83 per gallon thereafter, for operation and maintenance. The contract is extended on a year to year basis.

Fort Selden, Inc. - The Association has entered into an agreement with Fort Selden, Inc., and Chaparral Gardens, Inc., for the purchase of 12.326 and 4.000 acre tracts of land located in Doña Ana County and assets of Fort Selden Water Company for a purchase price is \$1,701,920. Included in deposits is \$293,350 of earnest money held in escrow. This sale is pending as of the date of this audit report.

NOTE 11 - CAPITAL OUTLAY APPROPRIATIONS

The Association's capital outlay appropriations are as follows:

Capital Project	Project Appropriation	Expenditures to Date	Outstanding Balance	Appropriation Period
Waste Water Reclamation Plant (WTB-38)	\$ 1,550,000	\$ 434,003	\$ 1,115,997	February 6, 2010
Waste Water Reclamation Plant (WTB-55)	380,000	332,854	47,146	February 6, 2010
Waste Water Reclamation Plant (WTB-83)	1,900,000	-	1,900,000	February 6, 2010
Waste Water Reclamation Plant (WTB-105)	70,000	-	70,000	February 6, 2010
North Tanks (SAP 08-3839)	50,000	31,963	18,037	February 6, 2010
Water Reclamation Plant (SAP 08-3840)	50,000	50,000	-	June 30, 2010
Equipment (SAP 08-3838)	50,000	50,000	-	June 30, 2010
School Road Project Water Main (SAP 08-3841)	50,000	50,000	-	June 30, 2010
Water Transmission Lines (SAP 09-3820)	513,102	513,102	-	October 30, 2010
Colonias Project (SAP 09-3118)	300,000	9,981	290,019	December 31, 2011
	<u>\$ 4,913,102</u>	<u>\$ 1,471,903</u>	<u>\$ 3,441,199</u>	

SUPPLEMENTARY INFORMATION

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
BUDGET and ACTUAL
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues:				
Charges for services	\$ 2,200,098	\$ 2,200,098	\$ 2,473,364	\$ 273,266
Fine and Forfeits	62,000	62,000	77,852	15,852
Memberships	-	-	6,385	6,385
Miscellaneous	120,200	120,200	42,064	(78,136)
Total operating revenues	2,382,298	2,382,298	2,599,665	217,367
Operating expenses				
Salaries	534,500	534,500	412,367	122,133
Employee benefits and expenses	146,000	146,000	52,681	93,319
Advertising	9,850	9,850	3,238	6,612
Auto and travel	59,850	59,850	27,557	32,293
Dues, fees, permits and licenses	17,650	17,650	4,977	12,673
Equipment rental and supplies	225,850	225,850	156,025	69,825
Insurance	168,500	168,500	94,831	73,669
Office and administrative expense	123,300	123,300	185,275	(61,975)
Professional fees	147,350	147,350	308,800	(161,450)
Repairs and maintenance	61,500	61,500	106,581	(45,081)
Taxes	164,500	164,500	133,192	31,308
Utilities	259,165	259,165	225,009	34,156
Other operating expenses	351,450	351,450	76,237	275,213
Water conservation fees	20,000	20,000	19,560	440
Depreciation and amortization	-	-	287,481	(287,481)
Total operating expenses	2,289,465	2,289,465	2,093,811	195,654
Operating income	92,833	92,833	505,854	413,021
Non-operating revenues (expenses):				
Investment income	-	-	44,762	44,762
Interest expense and fiscal fees	(92,646)	(92,646)	(51,546)	41,100
Total non-operating revenues (expenses)	(92,646)	(92,646)	(6,784)	85,862
Income before capital grants	187	187	499,070	498,883
Capital grants	-	-	1,618,008	1,618,008
Excess of revenues over expenses and other financing sources (uses)	\$ 187	\$ 187	\$ 2,117,078	\$ 2,116,891

The notes to the financial statements are an integral part of this statement.

FEDERAL COMPLIANCE AND FINDINGS

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2010**

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency Water System Improvements	66.606		\$ 177,392
Pass through New Mexico Finance Authority Drinking Water State Revolving Fund Loan And Subsidy Agreement	66.468	ARRA 2312-ADW	<u>360,000</u>
Total Federal Financial Awards Expenditures			<u>\$ 537,392</u>

Note A - Significant Accounting Policies:

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



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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**

Board of Directors
Doña Ana Mutual Domestic
Water Consumers Association
Doña Ana, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements and related budgetary comparison, presented as supplemental information of the Doña Ana Mutual Domestic Water Consumers Association (the Association), as of and for the year ended June 30, 2010, and have issued our report thereon, dated March 21, 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-D, 2010-E, 2010-F, 2010-H and 2010-I, to be material weaknesses.

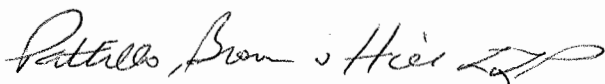
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency, 2010-J.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-A, 2010-B, 2010-C and 2010-G.

The Association's response to the findings identified in our audit is 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, Board of Directors, others within the entity, New Mexico Department of Finance and Administration, the State Auditor, the New Mexico Legislature, and applicable 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.



Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
March 21, 2011



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Directors
Doña Ana Mutual Domestic
Water Consumers Association
Doña Ana, New Mexico
and
Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of the Doña Ana Mutual Domestic Water Consumers Association (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 June 30, 2010. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

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

In our opinion, the Association, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-L.

Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.


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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-M to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-K to be significant deficiencies.

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

This report is intended solely for the information and use of management, Board of Directors, others within the entity, New Mexico Department of Finance and Administration, the State Auditor, the New Mexico Legislature, and applicable 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.


Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
March 21, 2011

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditors' 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?	No
Identification of major programs:	
<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.606	Water System Improvements
66.468	Drinking Water State Revolving Fund Loan And Subsidy Agreement
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

Section II - Financial Statement Findings

Prior Year

None

Current Year

2010-A	Audit Report Due Date
2010-B	Procurement Procedures
2010-C	Investment Policies
2010-D	Annual Inventory
2010-E	Bank Reconciliation Process
2010-F	Water Rights
2010-G	Fringe Benefit Reporting
2010-H	Incomplete General Ledger
2010-I	Grant Monitoring
2010-J	Preparation of Financial Statements

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-A

Audit Report Due Date

Condition:

The audit report was not submitted by the due date, December 1, 2010. The report was submitted to the New Mexico Office of the State Auditor on March 23, 2011.

Criteria:

Section 2.2.2.9 A (1) (d) NMAC Audit Rule 2010, Requirements for Contracting and Conducting Audits of Agencies, states annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

Effect:

Doña Ana Mutual Domestic Water Consumers Association is not in compliance with the New Mexico State Audit Rule which could have an effect on local, state, and federal funding.

Cause:

Information needed to complete the audit was not delivered to the auditor in a timely manner causing the report to be completed after the due date.

Recommendation:

In the future emphasis should be directed towards completion of the audit by the required due date.

Response:

Management agrees with the recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-B

Procurement Procedures

Condition:

Procurement information was requested on the purchase of two vehicles, a 2004 Ford Truck for \$21,418 and a 2008 GMC Sierra for \$17,844 totaling \$39,262. Doña Ana had no procurement documents available for review

Criteria:

NMAC Title 1, Chapter 4, Section 1.15 states "All procurement shall be achieved by competitive sealed bids except procurement achieved pursuant to the following methods: small purchases; procurement under existing contracts. Section 1.51, Small Purchases, states quotations are to be obtained for the purchases of tangible personal property having a value exceeding \$5,000 but not exceeding \$20,000, no fewer than three businesses shall be solicited to submit written quotations that are recorded and placed in the procurement file."

Effect:

The Association is in violation of State Procurement Code Regulations. 13-1-196 NMSA 1978 states that "any person, firm or corporation that knowingly violates any provision of the Procurement Code is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code."

Cause:

The Association could not provide any procurement documentation related to the purchase of these vehicles.

Recommendation:

The Association should keep all required procurement documentation in procurement files or attached to related invoices for purchases.

Response:

Management agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-C

Investment Policies

Condition:

The Association had \$703,082 at June 30, 2010 in an investment account with Charles Schwab. These investments are as follows:

Corporate Bonds	\$13,088
Equities	48,006
Mutual Funds – GNMA	216,637
Other Assets	86,913
Cash	338,438

Not all of these investments are allowed by NM State Statute.

Criteria:

New Mexico State Statute, 6-10-10 *Deposit and Investment of Funds*, states “a local public body may invest in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the contract.”

Effect:

The Association’s investments are not in compliance with the state statutes and have increased their credit risk for public money held.

Cause:

The Association was not aware that they were required to follow New Mexico State Statutes for investment of money not immediately necessary for public uses.

Recommendation:

The Association should review the New Mexico State Investment policies and make the appropriate changes in the investment account to comply with state statute.

Response:

Management agrees with this recommendation and has contacted their investment broker to make the necessary changes.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-D

Annual Inventory

Condition:

An inventory count was not taken at year end.

Criteria:

NMAC Title 2, Chapter 20, Section 1.16 states “at the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets consisting of those with a historical cost of one thousand dollars (\$1,000) or more, under the control of the governing authority.” It also states that “the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency.” An effective system of internal control provides for the proper safeguarding of assets. Such control is established by the use of periodic inventory counts and the reconciliation of those counts to the general ledger.

Effect:

The Association did not take an inventory count until required by the audit. The information reflected on the Associations financial statements does not adequately reflect assets held at fiscal year end, which could lead to inaccurate information in the financial statements. If ending inventory is understated then the Association’s net income is also understated. If ending inventory is overstated then the Association’s net income is also overstated. If net income is not accurately stated then the financial statements can not be relied upon.

Cause:

No system exists for the periodic count and reconciliation of inventory to the general ledger.

Recommendation:

The detailed inventory listing should be completed and verified at year end and reconciled to the control accounts in the general ledger.

Response:

Management agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-E

Bank Reconciliations

Condition:

The Association was not completing bank reconciliations on the Association bank accounts in a timely fashion and they were not being reconciled to the general ledger.

Criteria:

The New Mexico State Statute, Section 6-6-3 (A) NMSA 1978, requires the Association to “keep all books, records and accounts in their respective offices in the form prescribed by the local government division.” Section 6-6-3 (B) requires them to “make all reports as may be required by the local government division.”

Effect:

The Association’s bank reconciliations are not complete. The Association was not recording all items being processed through the bank accounts into their general ledger in a timely fashion.

Cause:

The Association switched to new accounting software. They were having difficulty getting the utility software to properly bridge with the accounting software. There were also deposits and withdrawals into the accounts that the accounting department was uncertain on how to record, as they were not getting all grant and loan information

Recommendation:

The Association should record all items that are deposited into their bank accounts. All un-reconciled items should be cleared up and they should utilize the ability of their accounting software to assist them in completing accurate bank reconciliations. This should be completed in a timely manner each month.

Response:

Management agrees with the recommendation and is working to get all bank accounts properly reconciled.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

2010-F

Water Rights

Condition:

Doña Ana Mutual Domestic Water Consumers Association can not produce a complete listing of Water Rights including amounts paid for the rights. Water Rights at June 30, 2010 are \$783,349.

Criteria:

The New Mexico State Statute, Section 75-9-3 (A) NMSA 1978 states that an “interest in real property means a right in real property, including access, improvements, water rights, fee simple interest, easement and land use easement.”

Per NMAC Title 2 Chapter 20, Section 1.8 the “information to be recorded and maintained on its fixed assets, must include at a minimum” information about the asset including a description, date acquired, and cost, among other requirements.

Effect:

The Association is unable to provide a list of water rights that substantiates the dates of purchase and the cost of the individual water rights as listed on their general ledger. Since the Association cannot provide a list of the water rights acquired, they cannot perform an annual inventory of these assets as required by NMAC Title 2, Chapter 20, Section 1.16.

Cause:

The Association has not been maintaining a detail listing of all water rights with original purchase dates and amounts.

Recommendation:

The Association should maintain a list of all water rights purchased, the amount of the water rights purchased and the dollar amount paid for each water right. Each water right should be listed as a separate item on this list to allow for identification, and testing.

Response:

Management agrees with the recommendation.

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2010-G

Fringe Benefit Reporting

Condition:

One employee has access to a company vehicle. This vehicle is used for both company business and personal use, with the employee driving the vehicle to and from work on a regular basis.

Criteria:

Internal Revenue Code Section 3402(s)(2) states that “any vehicle fringe benefit shall be treated as wages from which amounts are required to be deducted and withheld.” Internal Revenue Code Section 3401(a) states that “the term ‘wages’ means all remuneration for services performed by an employee for his employer, including the cash value of all remuneration (including benefits) paid in any medium other than cash.”

Effect:

The Association is not following Internal Revenue Code, and the employee is not being taxed on this fringe benefit. The Association did not report this fringe benefit as taxable income to the employee. The Association should have paid its share of the taxes on the portion of taxable fringe benefit that was not reported. Failure to include this benefit could lead to IRS and State taxing authority penalties, interest and fees. If the employee did not report the fringe benefit on their own, they would be exposed to the same penalties, interest and fees on nonpayment of the additional taxes incurred because of the taxable fringe benefits they received that were not reported on their W-2.

Cause:

The Association was not reporting the personal use of an Association vehicle as a fringe benefit on employee’s W-2’s. They were unaware of the IRS requirement.

Recommendation:

The Association should require employee’s with company vehicles to track mileage for both business and personal use. These numbers should be reconciled against odometer readings on a regular basis to ensure that mileage is being recorded accurately and that the employee has the correct fringe benefit amounts added to their W-2.

Response:

Management agrees with the recommendation.

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2010-H

Incomplete General Ledger

Condition:

During the audit it was noted that Doña Ana Mutual Domestic Water Consumers Association had not recorded the investment account onto their general ledger and debt and grant information was incomplete. The investment account balance at June 30, 2010 is \$703,082, which is reserved for plant/equipment expansion, debt service, and emergencies. Unrecorded loans are as follows:

NMFA-WTB 55	\$ 36,773
NMFA-WTB 83	380,000
NMFA-WTB 105	14,000

Unrecorded grants are as follows:

NMFA-WTB 38	\$434,000
NMFA-WTB 55	140,827
SAP 08-3840	50,000
SAP 08-3838	50,000
SAP 08-3839	31,963
SAP 3841	110,000

Effect:

The Association's general ledger and any financial statements presented to the board were incomplete. Cash, grants and debt are understated making timely and accurate financial decisions difficult.

Criteria:

The New Mexico State Statute, Section 6-6-3 (A) NMSA 1978, require the Association to "keep all books, records and accounts in their respective offices in the form prescribed by the local government division."

Cause:

The Association was not properly recording all cash received, grant revenues and expenditures, and debt in their books. Cash received from granting agencies was not recorded when received. Grant money paid directly to the vendor by the granting agency was not recorded as grant revenue, and the expenditures related to those revenues were not recorded. Debt proceeds were also paid directly to vendors, and not recorded on the general ledger. The accounting department was not getting the necessary information to record these items.

Recommendation:

The accounting department needs all grant and debt information so these revenues and expenditures can be properly reflected on the general ledger.

Response:

Management agrees with this recommendation.

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

2010-I

Grant Monitoring

Condition:

The Association is not properly monitoring grants nor maintaining grant files that accurately reflect grant requests, required reporting and grant expenditures. See finding 2010-H for unrecorded grant revenues and related expenditures. During the testing of grants, the files were incomplete and expenditure documentation, grant agreements, bid and procurement information and grant requests were not all available upon request. Unavailable or incomplete grant information is as follows:

Description	Grant
SAP 08-3839-GF; North Tanks	\$ 50,000
SAP 08-3842-GF; Water system improvements	110,000
SAP 08-3840-GF; Regional water reclamation plant	50,000
SAP 08-3841-GF; School road project	50,000
SAP 04-0189-STB; Wastewater facilities	190,000
07-L-G-5572: Colonias project	500,000

1. Capital projects were being funded by multiple grants. Based on the review of the grant files it was difficult to determine what projects were funded by multiple grants.
2. Grant monies were being paid directly to contractors with no corresponding entries on the general ledger to document the revenues and expenditures.
3. There were three grants from the New Mexico Water Trust Board which were a combination of a grant and loan. The loan proceeds and grant money were paid directly to the contractors. However, none of the loans, grants or expenditures were recorded on the general ledger.
4. Grant files were also reviewed for procurement information. Not all procurement information was available for review.
5. On some grants, Doña Ana was responsible for filing the requests for reimbursements. These requests were not always being filed in a timely manner.

Effect:

Violation of a grant agreement may subject the Association to repay to Division all funds provided to the Grantee for the projects as to which the violations relate.

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Criteria: State of New Mexico, Department of Finance and Administration, Local Government Division, Severance Tax Bond Article VII – Strict Accountability of Receipts and Disbursements of the State of New Mexico grant agreements states “for a period of six years following a project’s completion, the Grantee shall maintain all project related records, including, but not limited to, all financial records, requests for proposals, invitations to bids, selection and award criteria, contracts and subcontracts, advertisements, minutes of pertinent meetings, as well as records sufficient to fully account for the amount and disposition of the total funds from all sources budgeted for the project, the purpose for which such funds were used, and such other records as the Division shall prescribe. The Grantee shall be strictly accountable for receipts and disbursements relating to project funds.” All New Mexico grant agreements have similar requirements related to record keeping.

Cause: The Association is relying on the engineers to manage their projects and so the Association failed to properly maintain grant files. The responsible employee did not have the proper oversight and was not maintaining the required information in grant files. The employee was on leave during the audit and not all of the information requested for testing could be located. Attempts to contact the employee for help in locating the information went unheeded. Requested information was never provided or located.

Recommendation: The Association needs to train and provide oversight to the employee responsible for maintaining grant files. Another individual should be cross trained in the event this employee terminate employment or is on vacation.

Response: Management agrees with this recommendation.

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2010-J

Preparation of Financial Statements

Condition:

The Association does not prepare their own financial statements.

Effect:

A significant deficiency in internal control.

Criteria:

SAS 112 and Subsection J of 2.2.2.5NMAC implies that the Association should have sufficient expertise in selecting and applying accounting principles in conformity with generally accepted accounting principles. The financial statements are prepared from the Association's trial balance and adjusted by Patillo, Brown & Hill, L.L.P.

Cause:

Due to limited staffing, the Association does not have personnel available to prepare the financial statements on a timely basis.

Recommendation:

The Association should provide training to current personnel to prepare the Association's financial statements.

Response:

The Association agrees with this recommendation.

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

Section III – Findings and Questioned Costs – Major Federal Awards Program Audit

Prior Year

None

Current Year

2010-K	Grant Matching Requirements
2010-L	Reporting Requirements
2010-M	Unrecorded Federal Funds and CIP

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2010-K

Grant Matching Requirements

Condition: The EPA grant (CFDA 66.606) for Water System Improvements has a matching requirement. The EPA grant is \$1,164,000 with a required match of \$952,364, for a total project costs of \$2,116, 364. The grant files are not maintained in a manner that allows easy determination and tracking of what monies are being used as the match.

Effect: Matching requirements may not be met as required by the EPA without proper oversight and tracking.

Criteria: OMB A-110 Subpart C .21 (2) states “recipients’ financial management systems shall provide for the following; records that identify adequately the source and application of funds for federally-sponsored activities.”

Cause: The Association was not maintaining grant files with the necessary information to be able to readily determine what funds were being used as a match.

Recommendation: The Association needs to track their matching funds for federal grants by utilizing a spreadsheet or some other appropriate documentation. This should be included in the federal grant file or be easily accessible. This information should also be relayed to the accounting department so they can also properly match funds and projects.

Response: Management agrees with this recommendation.

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June 30, 2010

2010-L

Reporting Requirements

Condition:

The EPA grant (CFDA 66.606) required SF-424 Federal Financial Reports to be submitted no later than 90 calendar days following the end of the reporting quarter. The Association should have submitted an SF-424 by no later than 9/30/10. The report was not submitted until February 2011.

The Drinking Water State Revolving Fund Loan and Subsidy Agreement (CFDA 66.468) required the Association to provide a monthly written report describing the status of the Project as of the report date, uses of the loan funds and anticipated uses of remaining loan funds. These reports were not available for review.

Effect:

The Association was not in compliance with the Drinking Water State Revolving Fund Loan and Subsidy Agreement nor the EPA grant requirements and OMB Circular A-133

Criteria:

OMB Circular A-133 Part 3 L, Financial Reporting states, "each recipient must report program outlays and program income as prescribed by the Federal awarding agency."

Cause:

The Association does not have a system in place that will help them monitor reporting requirements and met specified reporting dates.

Recommendation:

The Association should maintain a calendar or some other appropriate documentation that outlines required reports and due dates for federal grants. An individual within the Association should be given the responsibility to monitor these due dates and complete the required reports.

Response:

Management agrees with this recommendation.

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June 30, 2010

2010-M

Unrecorded Federal Funds and CIP

Condition:

During the audit it was noted that Doña Ana Mutual Domestic Water Consumers Association had not recorded the following:

Unrecorded loan:

NMFA-DWSRF	\$ 90,000
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Unrecorded debt forgiveness:

NMFA-DWSRF	\$360,000
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Unrecorded construction in progress:

Utility System Improvements	\$627,392
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Unrecorded grant reimbursements

EPA grant XP-97618501-4	\$177,392
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Effect:

The Association's general ledger and any financial statements presented to the board were incomplete. Cash, grants/debt forgiveness and debt are understated making timely and accurate financial decisions difficult.

Criteria:

The Loan and Subsidy Agreement with NMFA states "so long as Utility Revenue Bonds, including this Loan Agreement, remain outstanding, proper books of record and account will be kept by the Governmental Unit, showing complete and correct entries of all transactions relating to the Water Utility System."

Cause:

The Association was not recording or properly recording federal funds and related construction in progress on their general ledger. Most of the debt proceeds and grant money were paid directly to contractors. The accounting department was not getting the necessary information to record these items.

Recommendation:

The accounting department needs all grant and debt information so these revenues and expenditures can be properly reflected on the general ledger.

Response:

Management agrees with this recommendation.

EXIT CONFERENCE

An exit conference was held on March 21, 2011 at the Doña Ana Mutual Domestic Water Consumer Association's office. In attendance were: Charles Huestis, James Robles from the Association. Regina Gordon, CPA was in attendance with Cindy James teleconferencing for Pattillo, Brown & Hill, L.L.P.

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the auditors, Pattillo, Brown and Hill, L.L.C., Certified Public Accountants; however the financial statements are the responsibility of the management.