DOÑA ANA MUTUAL
DOMESTIC WATER
CONSUMERS ASSOCIATION

AUDIT REPORT

JUNE 30, 2012

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2012

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INTRODUCTORY SECTION

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DOÑA ANA MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
JUNE 30, 2012

Official Roster

Name	Title
Board Members	
Dr. Kurt Anderson	President
Emma Garcia	Vice-President
David Jacquez	Secretary/Treasurer
Agnes Balizan	Board Member
Charles Huestis	Board Member
Association Officials	
Jennifer Horton	Business Manager

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FINANCIAL STATEMENTS SECTION

PB&H
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 business-type activities and the aggregate remaining fund information of the Doña Ana Mutual Domestic Water Consumers Association (the Association) as of and for the year ended June 30, 2012, which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the agency fund and the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Doña Ana Mutual Domestic Water Consumers Association as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 financial statements referred to previously present fairly, in all material respects, the respective financial position of the agency fund of the Doña Ana Mutual Domestic Water Consumers Association as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

4301 THE 25 WAY NE ■ ALBUQUERQUE, NM 87109 ■ (505) 266-5904 ■ FAX: (505) 268-6444 ■ www.pbhcpa.com
AFFILIATE OFFICES: WACO, TX (254) 772-4901 ■ BROWNSVILLE, TX (956) 544-7778
HILLSBORO, TX (254) 582-2583 ■ TEMPLE, TX (254) 791-3460

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the MD&A which is required to be presented to supplement the basic financial statements. Such missing 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the statement of fiduciary assets and liabilities, and the budgetary comparison. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pattillo, Brown & Hill LLP

Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
September 17, 2012

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

		2012
Current assets:		
Cash and cash equivalents	$	369,606
Accounts receivable, net		270,512
Inventory		236,438
Deposits		293,350
Prepaid expenses		5,692
Restricted cash		52,537
Restricted investments		1,685,769
Total current assets		2,913,904
Noncurrent assets		
Capital assets, net		11,454,561
Total noncurrent assets		11,454,561
Total assets		14,368,465

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

LIABILITIES AND NET ASSETS

		2012
Current liabilities:		
Accounts payable	$	54,159
Accrued payroll liabilities		16,215
Due to other governments		25,743
Customer deposits		52,537
Current maturities of long-term debt		29,129
Total current liabilities		177,783
Noncurrent liabilities:		
Compensated absences		15,153
Long-term debt		785,620
Total noncurrent liabilities		800,773
Total liabilities		978,556
Net Assets		
Invested in capital assets, net of related debt		10,639,812
Unrestricted		2,750,097
Total net assets	$	13,389,909

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	2012
Operating revenues:	
Charges for services	$ 2,528,994
Fine and Forfeits	97,789
Memberships	10,500
Miscellaneous	105,478
Total operating revenues	2,742,761
Operating expenses:	
Salaries	494,568
Employee benefits and expenses	137,503
Advertising	2,190
Auto and travel	47,426
Dues, fees, permits and licenses	16,105
Equipment rental and supplies	323,353
Insurance	65,375
Office and administrative expense	142,458
Professional fees	369,653
Repairs and maintenance	57,395
Taxes	27,447
Utilities	198,538
Other operating expenses	224,502
Water conservation fees	15,398
Depreciation and amortization	365,356
Total operating expenses	2,487,267
Operating income	255,494
Non-operating revenues (expenses):	
Investment income	(639)
Interest expense and fiscal fees	(32,013)
Total non-operating revenues (expenses)	(32,652)
Income before capital grants	222,842
Capital grants - federal	5,806
Capital grants - state	1,894,814
Total capital grants	1,900,620
Change in net assets	2,123,462
Net assets, beginning of year	11,281,762
Restatement	(15,315)
Net assets, as restated	11,266,447
Net assets, end of year	$ 13,389,909

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

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	2012
Cash flows from operating activities:	
Receipts from customers and users	$ 2,718,048
Payments to employees for services	(613,390)
Payments to suppliers and contractors	(1,538,830)
Net cash provided (used) by operating activities	565,828
Cash flows from investing activities:	
Investment income (loss)	(639)
Transfer to restricted cash	12,651
Transfer to restricted investments	372,758
Purchase of investments	(1,579,587)
Sale of investments	1,223,797
Net cash provided (used) by investing activities	28,980
Cash flows from capital investing activities	
Acquisition of capital assets	(2,660,052)
Capital grants	2,163,092
Principal paid on long term debt	(526,618)
Interest and fiscal charges on long term debt	(37,608)
Net cash used in capital financing activities	(1,061,186)
Net increase (decrease) in cash and cash equivalents	(466,378)
Cash and cash equivalents, beginning of year	835,984
Cash and cash equivalents, end of year	$ 369,606
Reconciliation of operating income to net cash provided (used) by operating activities:	
Net income	$ 255,494
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	365,356
Provision for bad debt	14,813
Decrease (increase) in accounts receivable	(12,062)
Decrease (increase) in prepaid expenses	286
Decrease (increase) in inventory	215,651
Increase (decrease) in accounts payable	(279,740)
Increase (decrease) in payroll liabilities	16,181
Increase (decrease) in compensated absences	2,500
Increase (decrease) in customer deposits	(12,651)
Net cash provided by operating activities	$ 565,828

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

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

		2012
ASSETS		
Cash and cash equivalents	$	216
Accounts receivable		2,052
Total assets	$	2,268
LIABILITIES		
Accounts payable	$	2,268
Total liabilities	$	2,268

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

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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, 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.

Additionally, the Association reports the following fund type:

> The Fiduciary Fund accounts for resources held for other in a custodial capacity by the Association in an Agency Fund. The Association's Agency Fund holds monies on behalf of the Fairview Estates water system. The New Mexico Environment Department (NMED) requested the Association assist the Fairview System in order to meet the NMED's operational standards.

Cash and Investments

Cash and cash equivalents include amounts in demand 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 from its customers for water sales. Collateral is generally not required on receivables. Accounts receivable are shown net of an allowance for uncollectible.

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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012, the Association had cash and cash equivalents on deposit with local financial institutions, consisting of checking accounts. Following is a schedule as of June 30, 2012, of the cash and cash equivalents.

	Balance Per Bank 6/30/2012	Add Deposits In Transit	Less Outstanding Checks	Adjustment	Balance Per Books 6/30/2012
Citizens Bank of Las Cruces					
Checking Accounts					
Operating	$ 50,137	$ -	$(38,527)	$ -	$ 11,610
Water Rights	$ 14,000	$ -	$(14,000)	$ -	-
RUS reserve account	28,638	-	-	-	28,638
Money market account	380,548	-	-	-	380,548
Fairview Estates	216	-	-	-	216
Total Cash in Banks	$ 473,539	$ -	$(52,527)	$ -	421,012
Funds Held by New Mexico Finance Authority					
Cash on Hand					1,347
Total Cash per Books					$ 422,359
As Reported in Financial Statements:					
Equity in Cash:	Cash				$ 369,606
	Cash - agency fund				216
	Restricted Cash				52,537
					$ 422,359

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. The Dodd-Frank Wall Street Reform and Consumer Protection Act, effective December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, fully insures all deposits held in noninterest bearing transaction accounts.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Cash (continued)

Pledged Collateral

	Citizens Bank of Las Cruces	Total
Deposits	$ 473,539	$ 473,539
FDIC	(250,000)	(250,000)
Covered by Section 343 of the Dodd-Frank Act	(64,353)	(64,353)
Uninsured and uncollateralized	$ 159,186	$ 159,186
50% pledged collateral requirement per statute	$ 79,593	$ 79,593
Pledged collateral	-	-
Over (under) collateralized	$(79,593)	$(79,593)

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. Effective December 31, 2010 and continuing through December 31, 2012, all funds in non-interest bearing accounts held at FDIC-insured depository institutions will be fully insured under the Dodd-Frank Deposit Insurance Provision. A "non-interest-bearing transaction account" is defined as an account with respect to which interest is neither accrued nor paid. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2012, $145,186 of the Association's bank balance of $459,539 was exposed to custodial credit risk.

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. This reserve is funded by a hook-up charge of $2,027 plus $1,750 for water rights for each 3.4 inch connection.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Investments (continued)

The reserve fund consists of the following investments:

		Investment Maturities		
	Fair Value	Current	1 to 5 years	6 to 10 years
Scottrade				
Cash	$ 1,158,439	$ 1,158,439	$ -	$ -
FHLB	512,322	-	411,462	100,860
FFCB	15,008	-	15,008	-
Total Investments	$ 1,685,769	$ 1,158,439	$ 426,470	$ 100,860

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 a Scottrade managed account, which holds all U.S. depository – eligible securities with the federally regulated Depository Trust Company (DTC) or through the Federal Reserve Bank System in Scottrade's name. The Total Investor Protection for Scottrade per account is $25,000,000, including up to $1,150,000 in cash. 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 investments in FHLB were rated Aaa by Moody's Investors Services and AA+ by Standard & Poor's. Investments in FFCB were rated AA+ by Moody's Investors Services and Aaa by Standard & Poor's.

Concentration of Credit Risk – Investments

The Association places no limit on the amount the Association may invest in any one issuer. Approximately 31 percent of the Association's investments are invested in FHLB.

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, 2012 were $302,523 and $32,011, 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, 2012 was as follows:

	Balance 6/30/2011	Increases	Decreases	Adjustments	Balance 6/30/2012
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 714,353	$ -	$ -	$ -	$ 714,353
Water rights	925,475	3,150	-	-	928,625
ROW fees	5,951	-	-	-	5,951
Land easements	38,270	-	-	(1,110)	37,160
Construction in progress	2,131,279	-	-	(2,131,279)	-
Total capital assets not being depreciated	3,815,328	3,150	-	(2,132,389)	1,686,089
Capital assets, being depreciated:					
Buildings improvements	206,924	-	-	(16,947)	189,977
Wells & Pumps	3,141,318	-	-	-	3,141,318
Service Connections	439,857	-	-	-	439,857
Meters & Hydrants	193,542	-	-	16,947	210,489
Distribution System	4,368,524	2,351,148	-	2,131,279	8,850,951
Equipment, and Vehicles	716,836	301,503	-	-	1,018,339
Furniture & fixtures	176,166	5,361	-	-	181,527
Engineering costs	841,980	-	-	-	841,980
Total capital assets being deprecated	10,085,147	2,658,012	-	2,131,279	14,874,438

NOTE 5 - CAPITAL ASSETS (Continued)

Less accumulated depreciation:					
Buildings improvements	97,697	4,184	-	-	101,881
Wells & Pumps	1,224,982	81,574	-	2,000	1,308,556
Service Connections	295,533	8,249	-		303,782
Meters & Hydrants	119,512	4,735	-	-	124,247
Distribution System	1,594,344	131,001	-	-	1,725,345
Equipment, and Vehicles	502,656	63,950	-	-	566,606
Furniture & fixtures	131,568	4,001	-	(2,000)	133,569
Engineering costs	774,318	67,662	-	-	841,980
Total accumulated depreciation	4,740,610	365,356	-	-	5,105,966
Total capital assets being depreciated, net	5,344,537	2,292,656	-	2,131,279	9,768,472
Business-type activities capital assets, net	$ 9,159,865	$ 2,295,806	$ -	$(1,110)	$ 11,454,561

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.

NOTE 6 - LONG-TERM DEBT (Continued)

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 and the note bears interest of 1%, with principal payments due yearly on June 1. The note matures on June 1, 2031. The Association has pledged net revenues from the water utility system to the payment of the loan.

Long-term debt consisted of the following at June 30, 2012:

Series and Original Issue Amount		Final Maturity	Interest Rate	Outstanding
NMED/RIP	$ 500,000	2026	3.00%	$ -
USDA/RUS	509,800	2041	4.75%	439,801
Westmoreland	97,600	2012	5.00%	-
NMFA WTB-55	38,000	2029	0.00%	32,984
NMFA WTB-83	380,000	2029	0.00%	329,842
NMFA WTB-105	14,000	2029	0.00%	12,122
NMFA DWRLF	90,000	2031	1.00%	-
Total notes payable				$ 814,749

NOTE 6 - LONG-TERM DEBT (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2013	29,129	20,982	50,111
2014	29,547	20,617	50,164
2015	29,984	20,235	50,219
2016	30,440	19,834	50,274
2017	30,915	19,413	50,328
2018-2022	162,453	90,008	252,461
2023-2027	177,869	75,979	253,848
2028-2032	129,213	58,194	187,407
2033-2037	106,811	35,655	142,466
2038-2042	88,388	8,382	96,770
	$ 814,749	$ 369,299	$ 1,184,048

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Loan payable	$ 1,346,718	$ -	$ 531,969	$ 814,749	$ 29,129
Compensated absences	12,653	25,795	23,295	15,153	-
Long-term liabilities	$ 1,359,371	$ 25,795	$ 555,264	$ 829,902	$ 29,129

NOTE 7 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were required:

Description	Amount
The outstanding balance on the USDA/RUS Debt was reduced, with a corresponding increase in net assets	$ 5,351
Grant revenue, recorded as accounts receivable in the prior fiscal year, was not collected. This created a decrease in net assets.	(20,666)
	$(15,315)

NOTE 8 – SEP-IRA

The Association maintains a SEP-IRA plan where the employees, who have worked 1,040 hours, 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, 2012, the Association contributed up to 5% for a total of $13,784 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 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 operated and maintained the system, billed the users and collected payments. The Association forwarded all collections to the County and was then reimbursed $6.20 for 1 to 5,000 gallons, and $0.83 per gallon thereafter, for operation and maintenance. This contract was terminated December 8, 2011.

The Association entered into an agreement with Doña Ana County to provide billing and collection services. The Association shall invoice the County for billing and collection services at the end of each month and will receive a fee of $3 per connection per month. This contract is effective thru December 31, 2012.

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.

Fairview Estates Water System – The Association entered into a temporary limited operation and maintenance agreement with Fairview Estates Water System (Fairview). The New Mexico Environment Department (NMED) requested the Association to assist the Fairview System in order to meet NMED's operational standards for domestic water suppliers. Based upon Fairview's current condition, the Association will attempt to operate and maintain the utility system in accordance with standard utility system practices and meeting the requirements of NMED and other regulatory authorities. The Association will bill the Fairview System customers for water service provided and will collect all revenues from those billings which are accounted for in the Agency Fund. This agreement is effective starting February 16, 2012 on a month to month basis.

NOTE 10 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)

Purchase of Picacho Hills Utility Company Assets

Dona Ana entered into a purchase agreement to purchase the assets of the Picacho Hills Utility Company (PHUC) on August 27, 2012 for an amount of $2,250,000. Assets include all water rights, vested and undeveloped, land and all wells and utility infrastructure used in connection with the water service and wastewater collection and treatment. As of the date of this audit report this sale was still pending.

NOTE 11 – MEMORANDUM OF AGREEMENT

The Association entered into a memorandum of agreement (MOA) with Elephant Butte Irrigation District (EBID). The purpose of this MOA is to provide for cooperation and joint financial participation in the planning, design, construction, operation and maintenance of a check structure on the Leasburg Canal and facilities for; a drop structure or pumps associated with a low-head hydropower generation system, a turbine system for hydropower generation, and a pump box and pumps to supply water to a surface water treatment facility. The term of the MOA is six months, effective December 19, 2011. The Association has spent $73,421under this MOA for the year ending June 30, 2012.

NOTE 12 - CAPITAL OUTLAY APPROPRIATIONS

The Association's capital outlay appropriations are as follows:

Capital Project	Project Appropriation	Expenditures to Date	Outstanding Balance	Appropriation Period
Upgrade Water Distribution & Treatment System (WTB-38)	$ 1,550,000	$ 1,550,000	$ -	2/6/09 to 2/6/12
Water Reclamation System (WTB-83)	1,520,000	1,520,000	-	03/27/09 to 03/27/12
	$ 3,070,000	$ 3,070,000	$ -	

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SUPPLEMENTARY INFORMATION

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
BUDGET and ACTUAL
YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
Operating revenues:				
Charges for services	$ 2,498,142	$ 2,605,854	$ 2,528,994	$(76,860)
Fine and Forfeits	69,300	97,800	97,789	(11)
Memberships	28,683	28,683	10,500	(18,183)
Miscellaneous	10,500	72,500	105,478	32,978
Total operating revenues	2,606,625	2,804,837	2,742,761	(62,076)
Operating expenses				
Salaries	560,249	560,249	494,568	65,681
Employee benefits and expenses	157,336	157,336	137,503	19,833
Advertising	3,600	3,600	2,190	1,410
Auto and travel	53,800	53,800	47,426	6,374
Dues, fees, permits and licenses	20,500	20,500	16,105	4,395
Equipment rental and supplies	188,000	188,000	323,353	(135,353)
Insurance	73,398	73,398	65,375	8,023
Office and administrative expense	148,095	148,095	142,458	5,637
Professional fees	464,750	464,750	369,653	95,097
Repairs and maintenance	149,200	149,200	57,395	91,805
Taxes	16,100	16,100	27,447	(11,347)
Utilities	262,840	262,840	198,538	64,302
Other operating expenses	372,950	372,950	224,502	148,448
Water conservation fees	18,000	18,000	15,398	2,602
Total operating expenses	2,488,818	2,488,818	2,121,911	366,907
Operating income	117,807	316,019	620,850	304,831
Non-operating revenues (expenses):				
Investment income	24,000	24,000	(639)	(24,639)
Interest expense and fiscal fees	(9,081)	(9,081)	(32,013)	(22,932)
Total non-operating revenues (expenses)	14,919	14,919	(32,652)	(47,571)
Income before capital grants excluding non-budgeted expenses:	132,726	330,938	588,198	257,260
Capital grants	3,124,180	3,124,180	1,900,620	(1,223,560)
Less non-budgeted expenses:				
Depreciation	-	-	365,356	(365,356)
Net income (loss)	$ 3,256,906	$ 3,455,118	$ 2,123,462	$(1,331,656)

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

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OTHER SUPPLEMENTARY INFORMATION

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
ASSETS				
Cash and cash equivalents	$ -	$ 14,168	$(13,952)	$ 216
Accounts receivable	-	2,052	-	2,052
Total assets	$ -	$ 16,220	$(13,952)	$ 2,268
LIABILITIES				
Accounts payable	$ -	$ 2,268	$ -	$ 2,268
Total liabilities	$ -	$ 2,268	$ -	$ 2,268

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

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 of the business-type activities, the aggregate remaining fund information and the related budgetary comparison presented as supplemental information of the Dona Ana Mutual Domestic Water Consumers Association (the Association), as of and for the year ended June 30, 2012, and have issued our report thereon dated September 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

4301 THE 25 WAY NE ■ ALBUQUERQUE, NM 87109 ■ (505) 266-5904 ■ FAX: (505) 268-6444 ■ www.pbhcpa.com
AFFILIATE OFFICES: WACO, TX (254) 772-4901 ■ BROWNSVILLE, TX (956) 544-7778
HILLSBORO, TX (254) 582-2583 ■ TEMPLE, TX (254) 791-3460

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

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 responses as items 2010-C, 2011-D, and 2012-A.

The Association's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill LLP

Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
September 17, 2012

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Section II - Financial Statement Findings

<u>Prior Year</u>

2010-C	Investment Policies – modified and repeated
2010-E	Bank Reconciliation Process – resolved
2010-F	Water Rights – resolved
2010-I	Grant Monitoring – resolved
2011-A	General Ledger Journal Entries – resolved
2011-B	Budget Adjustment Requests – resolved
2011-C	Utility Billing Reconciliation Procedures – resolved
2011-D	Travel and Per-Diem Reimbursements – modified and repeated
2011-E	Disaster Recovery Plan – resolved
2011-F	Grant Cash Management – resolved

<u>Current Year</u>

2010-C	Investment Policies – modified and repeated
2011-D	Travel and Per-Diem Reimbursements – modified and repeated
2012-A	Under Collateralized Bank Accounts

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2010-C **<u>Investment Policies</u>**
(significant deficiency)

<u>Condition</u>: The Association had the following investments in an investment account with Scottrade for the year ending June 30, 2012 and Charles Schwab for the year ending June 30, 2011:

	Year ending June 30, 2011	Year ending June 30, 2012
Corporate Bonds	$ 15,029	$ -
SLM Corp	201,994	-
FHLB		512,322
FFCB		15,008
Cash	1,112,956	1,158,439

The investment in Corporate Bonds is not allowed by NM State Statute.

<u>Criteria</u>: 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."

<u>Effect</u>: The Association's investments were not in compliance with the state statutes and have increased their credit risk for public money held.

<u>Cause</u>: The Association had worked with their broker in the prior year to sell all investments that were not allowed by state statute. However the corporate bonds were still held in the investment account for two months during the year ending June 30, 2012.

<u>Recommendation</u>: The Association should review the New Mexico State Investment policies and make the appropriate changes in the investment account to comply with state statute.

<u>Response</u>: Management agreeds with this recommendation and all Corporate Bonds have been sold.

2011-D **Travel and Per-Diem Reimbursements**
(significant deficiency)

Condition: Eight travel and per-diem disbursements were selected for testing. One of the items selected for testing used incorrect reimbursement rates and included an over reimbursement of expenditures in the amount of $39.

Effect: The Association has been reimbursing employees and board members more than the state statues allow.

Criteria: NMSA 1978, 10-8-4, (K) and 10-8-4 (B), states that “a salaried public officer or a state agency or local public body or a salaried employee of a state agency or local public body is entitled to per diem expenses” at the rates approved per statute.

Cause: The Association was reimbursing per diem at GSA rates instead of the State approved rates.

Recommendation: The Association should review the NMSA statutes regarding per diem and adjust reimbursements accordingly.

Response: The Association agrees with this recommendation and have changed their procedures.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

2012-A	**<u>Under Collateralized Bank Account</u>** **(significant deficiency)**
<u>Condition</u>:	The Association has two interest bearing accounts with the Citizens Bank of Las Cruces which were under collateralized by $79,593 at June 30, 2012.
<u>Effect</u>:	The Association's interest bearing accounts are not properly collateralized and $79,593 of their deposits are at risk.
<u>Criteria</u>:	6-10-17 NMSA 1978 requires deposits of public monies to be collateralized in an aggregate amount equal to 50% of deposits in excess of FDIC insurance coverage of $250,000.
<u>Cause</u>:	The Association was not verifying on a regular basis that the Citizens Bank of Las Cruces was maintaining the proper collateral on the interest bearing accounts.
<u>Recommendation</u>:	The Association should discuss the collateral requirements with the bank and execute the agreements that need to be put in place to comply with the state statute. The Association should request collateral verification monthly from the Bank.
<u>Response</u>:	The Association agrees with this recommendation.

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EXIT CONFERENCE

An exit conference was held on September 17, 2012 at the Doña Ana Mutual Domestic Water Consumer Association’s office. In attendance were: Dr. Kurt Anderson, David Jacquez, and Jennifer Horton from the Association. Regina Gordon, CPA was in attendance 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.