

**DOÑA ANA MUTUAL DOMESTIC WATER
CONSUMERS ASSOCIATION**

AUDIT REPORT

JUNE 30, 2011

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2011

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INTRODUCTORY SECTION

**DOÑA ANA MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
JUNE 30, 2011**

Official Roster

Name

Title

Board Members

Dr. Kurt Anderson	President
Emma Garcia	Vice-President
Charles Huestis	Secretary/Treasurer
David Jacquez	Board Member
Agnes Balizan	Board Member

Association Officials

Mariano Martínez	General Manager
Jennifer Horton	Business Manager

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, 2011, 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, 2011, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Doña Ana Mutual Domestic Water Consumers Association, New Mexico as of June 30, 2011, 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 November 4, 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.

Pattillo, Brown & Hill LLP
Pattillo, Brown & Hill, L.L.P.
Albuquerque, New Mexico
November 4, 2011

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS

	<u>2011</u>
Current assets:	
Cash and cash equivalents	\$ 835,984
Accounts receivable, net	273,263
Due from other governments	283,138
Inventory	452,089
Deposits	293,350
Prepaid expenses	5,978
Restricted cash	437,946
Restricted investments	<u>1,329,979</u>
 Total current assets	 <u>3,911,727</u>
 Noncurrent assets	
Capital assets, net	<u>9,159,865</u>
 Total noncurrent assets	 <u>9,159,865</u>
 Total assets	 \$ <u>13,071,592</u>

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

LIABILITIES AND NET ASSETS

	<u>2011</u>
Current liabilities:	
Accounts payable	\$ 323,450
Accrued payroll liabilities	34
Accrued interest payable	5,595
Due to other governments	36,192
Customer deposits	65,188
Current maturities of long-term debt	<u>64,510</u>
 Total current liabilities	 <u>494,969</u>
 Noncurrent liabilities:	
Compensated absences	12,653
Long-term debt	<u>1,282,208</u>
 Total noncurrent liabilities	 <u>1,294,861</u>
 Total liabilities	 <u>1,789,830</u>
 Net Assets	
Invested in capital assets, net of related debt	8,185,905
Restricted for Waste Water Projects	372,758
Undistributed earnings	<u>2,723,099</u>
 Total net assets	 <u>\$ 11,281,762</u>

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	2011
Operating revenues:	
Charges for services	\$ 2,355,366
Fine and Forfeits	71,712
Memberships	11,250
Miscellaneous	56,702
Total operating revenues	2,495,030
Operating expenses:	
Salaries	406,766
Employee benefits and expenses	94,954
Advertising	3,725
Auto and travel	32,470
Dues, fees, permits and licenses	5,407
Equipment rental and supplies	259,517
Insurance	64,011
Office and administrative expense	138,805
Professional fees	219,058
Repairs and maintenance	73,359
Taxes	10,541
Utilities	204,122
Other operating expenses	144,420
Water conservation fees	18,986
Depreciation and amortization	348,967
Total operating expenses	2,025,108
Operating income	469,922
Non-operating revenues (expenses):	
Investment income	29,400
Interest expense and fiscal fees	(37,716)
Total non-operating revenues (expenses)	(8,316)
Income before capital grants	461,606
Capital grants	1,220,127
Change in net assets	1,681,733
Net assets, beginning of year	9,486,911
Restatement	113,118
Net assets, as restated	9,600,029
Net assets, end of year	\$ 11,281,762

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, 2011

	2011
Cash flows from operating activities:	
Receipts from customers and users	\$ 2,488,500
Payments to employees for services	(498,464)
Payments to suppliers and contractors	(989,308)
Net cash provided (used) by operating activities	1,000,728
Cash flows from investing activities:	
Interest income	29,400
Transfer to restricted cash	261
Purchase of investments	(421,804)
Net cash provided (used) by investing activities	(392,143)
Cash flows from capital investing activities	
Acquisition of capital assets	(1,395,784)
Deposit on pending acquisition of capital assets	-
Capital grants	1,037,315
Proceeds from long term debt	-
Principal paid on long term debt	(64,605)
Interest and fiscal charges on long term debt	(46,437)
Net cash used in capital financing activities	(469,511)
Net increase (decrease) in cash and cash equivalents	139,074
Cash and cash equivalents, beginning of year	696,910
Cash and cash equivalents, end of year	\$ 835,984
Reconciliation of operating income to net cash provided (used) by operating activities:	
Net income	\$ 469,922
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	348,967
Decrease (increase) in accounts receivable	(28,108)
Decrease (increase) in prepaid expenses	6,192
Decrease (increase) in refundable deposits	597
Decrease (increase) in inventory	10,276
Increase (decrease) in accounts payable	168,645
Increase (decrease) in payroll liabilities	(803)
Increase (decrease) in compensated absences	4,059
Increase (decrease) in customer deposits	20,981
Net cash provided by operating activities	\$ 1,000,728

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, 2011

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.

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.

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, 2011, 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, 2011, of the cash and cash equivalents.

	Balance Per Bank 6/30/2010	Add Deposits In Transit	Less Outstanding Checks	Adjustment	Balance Per Books 6/30/2010
Citizens Bank of Las Cruces					
Checking Accounts					
Operating	\$ 500,000	\$ 5,810	\$(66,822)	\$ 1,807	\$ 440,795
Grants #3	456,018	-	(71,932)	-	384,086
CDBG matching	16,377	-	-	-	16,377
RUS reserve account	28,591	-	-	-	28,591
Money market account	29,984	-	-	-	29,984
Total Cash in Banks	<u>\$ 1,030,970</u>	<u>\$ 5,810</u>	<u>\$(138,754)</u>	<u>\$ 1,807</u>	899,833
Funds Held by New Mexico Finance Authority					
Loan program funds - WTB-83					372,758
Cash on Hand					<u>1,339</u>
Total Cash per Books					<u>\$ 1,273,930</u>
As Reported in Financial Statements:					
Equity in Cash:					
Cash					\$ 835,984
Restricted Cash					<u>437,946</u>
					<u>\$ 1,273,930</u>

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.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Cash (continued)

Pledged Collateral

	Citizens Bank of Las Cruces	Total
Deposits	\$ 1,030,970	\$ 1,030,970
FDIC	\$(58,575)	\$(58,575)
Covered by Section 343 of the Dodd-Frank Act	<u>(972,395)</u>	<u>(972,395)</u>
Uninsured and uncollateralized	<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. 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, 2011, \$- of the Association's bank balance of \$1,030,970 was exposed to custodial credit risk.

Also at June 30, 2011, the Association had \$372,758 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, 2011 the program loan funds were:

Loan program funds - WTB-83	\$ <u>372,758</u>
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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.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Investments (continued)

The reserve fund consists of the following investments:

	Fair	Investment Maturities	
	Value	Current	More than 10 years
Charles Schwab			
Cash	\$ 1,112,956	\$ 1,112,956	\$ -
Corporate bonds	15,029	15,029	-
SLM Corp	201,994	201,994	-
Total Investments	<u>\$ 1,329,979</u>	<u>\$ 1,329,979</u>	<u>\$ -</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 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 \$1,500,000 in cash. The SLM Corp. investment of the Association meets the above criteria and the cost subject to custodial credit risk is \$0. 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 SLM Corp. were rated Ba1 by Moody's Investors Services and BBB 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 15 percent of the Association's investments are invested in SLM Corp.

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, 2011 were \$332,820 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, 2011 was as follows:

	Balance 6/30/2010	Increases	Decreases	Adjustments	Balance 6/30/2011
Capital assets, not being depreciated:					
Land	\$ 714,353	\$ -	\$ -	\$ -	\$ 714,353
Water rights	783,349	13,046	-	129,080	925,475
ROW fees	5,951	-	-	-	5,951
Land easements	6,452	31,818	-	-	38,270
Construction in progress	1,498,473	1,186,939	-	(554,133)	2,131,279
Total capital assets not being depreciated	<u>3,008,578</u>	<u>1,231,803</u>	<u>-</u>	<u>(425,053)</u>	<u>3,815,328</u>
Capital assets, being depreciated:					
Buildings improvements	263,863	16,672	-	(73,611)	206,924
Wells & Pumps	2,634,727	102,309	-	404,282	3,141,318
Storage Pumps	-	-	-	-	-
Service Connections	439,857	-	-	-	439,857
Meters & Hydrants	180,235	-	-	13,307	193,542
Distribution System	4,369,798	-	-	(1,274)	4,368,524
Equipment, and Vehicles	459,348	45,000	-	212,488	716,836
Furniture & fixtures	177,225	-	-	(1,059)	176,166
Engineering costs	841,980	-	-	-	841,980
Total capital assets being depreciated	<u>9,367,033</u>	<u>163,981</u>	<u>-</u>	<u>554,133</u>	<u>10,085,147</u>
Less accumulated depreciation:					
Buildings improvements	135,194	3,639	-	(41,136)	97,697
Wells & Pumps	1,214,661	78,813	-	(68,492)	1,224,982
Storage Pumps	-	-	-	-	-
Service Connections	249,175	17,134	-	29,224	295,533
Meters & Hydrants	114,934	4,736	-	(158)	119,512
Distribution System	1,477,772	108,072	-	8,500	1,594,344
Equipment, and Vehicles	332,562	49,541	-	120,553	502,656
Furniture & fixtures	177,225	2,834	-	(48,491)	131,568
Engineering costs	690,120	84,198	-	-	774,318
Total accumulated depreciation	<u>4,391,643</u>	<u>348,967</u>	<u>-</u>	<u>-</u>	<u>4,740,610</u>
Total capital assets, being depreciated, net	<u>4,975,390</u>	<u>(184,986)</u>	<u>-</u>	<u>554,133</u>	<u>5,344,537</u>
Business-type activities capital assets, net	<u>\$ 7,983,968</u>	<u>\$ 1,046,817</u>	<u>\$ -</u>	<u>\$ 129,080</u>	<u>\$ 9,159,865</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, 2011:

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding
NMED/RIP	2026	3.00%	\$ 401,274
USDA/RUS	2041	4.75%	452,316
Westmoreland	2012	5.00%	10,114
NMFA WTB-55	2029	0.00%	34,881
NMFA WTB-83	2029	0.00%	348,811
NMFA WTB-105	2029	0.00%	12,819
NMFA DWRLF	2030	1.00%	86,503
Total notes payable			<u>\$ 1,346,718</u>

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

Year Ending June 30,	Principal	Interest	Total
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	59,017	29,824	88,841
2017-2021	314,817	130,370	445,187
2022-2026	352,112	94,677	446,789
2027-2031	167,298	62,460	229,758
2032-2036	101,866	40,600	142,466
2037-2041	117,173	13,441	130,614
	<u>\$ 1,346,718</u>	<u>\$ 501,997</u>	<u>\$ 1,848,715</u>

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Loan payable	\$ 1,411,323	\$ -	\$ 64,605	\$ 1,346,718	\$ 64,510
Compensated absences	8,594	25,446	21,387	12,653	-
Long-term liabilities	<u>\$ 1,419,917</u>	<u>\$ 25,446</u>	<u>\$ 85,992</u>	<u>\$ 1,359,371</u>	<u>\$ 64,510</u>

NOTE 7 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were required:

Description	Amount
June 30, 2010 cash - voided checks	\$ 23,139
Grants income from prior year adjustments	(39,101)
Water rights not on depreciation schedule	129,080
	<u>\$ 113,118</u>

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, 2011, the Association contributed 7% through May 2011, with a change to 5% contribution in June 2011, for a total of \$18,612 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 month to month 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
Upgrade Water Distribution & Treatment System (WTB-38)	\$ 1,550,000	\$ 1,175,579	\$ 374,421	2/6/09 to 2/6/12
Waste Water Reclamation Plant (WTB-55)	380,000	332,854	47,146	03/27/09 to 03/27/12
Water Reclamation System (WTB-83)	1,520,000	7,242	1,512,758	03/27/09 to 03/27/12
Water Reclamation System (WTB-105)	56,000	56,000	-	03/27/09 to 03/27/12
North Tanks (SAP 08-3839)	50,000	50,000	-	08/15/08 to 6/30/12
School Road Project Water Main (SAP 08-3841)	50,000	4,327	45,673	09/12/08 to 6/30/12
Colonias Project (SAP 09-3118)	<u>300,000</u>	<u>290,019</u>	<u>9,981</u>	04/09/10 to 12/31/11
	<u>\$ 3,906,000</u>	<u>\$ 1,916,021</u>	<u>\$ 1,989,979</u>	

SUPPLEMENTARY INFORMATION

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
BUDGET and ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Operating revenues:				
Charges for services	\$ 2,364,920	\$ 2,439,920	\$ 2,355,366	\$(84,554)
Fine and Forfeits	64,000	64,000	71,712	7,712
Memberships	-	-	11,250	11,250
Miscellaneous	45,000	45,000	56,702	11,702
Total operating revenues	<u>2,473,920</u>	<u>2,548,920</u>	<u>2,495,030</u>	<u>(53,890)</u>
Operating expenses				
Salaries	502,765	502,765	406,766	95,999
Employee benefits and expenses	205,325	205,325	94,954	110,371
Advertising	3,000	3,000	3,725	(725)
Auto and travel	26,600	26,600	32,470	(5,870)
Dues, fees, permits and licenses	8,500	8,500	5,407	3,093
Equipment rental and supplies	266,500	266,500	259,517	6,983
Insurance	65,000	65,000	64,011	989
Office and administrative expense	142,450	142,450	138,805	3,645
Professional fees	182,000	182,000	219,058	(37,058)
Repairs and maintenance	46,700	46,700	73,359	(26,659)
Taxes	150,500	150,500	10,541	139,959
Utilities	249,000	249,000	204,122	44,878
Other operating expenses	515,400	515,400	144,420	370,980
Water conservation fees	12,000	12,000	18,986	(6,986)
Depreciation and amortization	-	-	348,967	(348,967)
Total operating expenses	<u>2,375,740</u>	<u>2,375,740</u>	<u>2,025,108</u>	<u>350,632</u>
Operating income	<u>98,180</u>	<u>173,180</u>	<u>469,922</u>	<u>296,742</u>
Non-operating revenues (expenses):				
Investment income	-	-	29,400	29,400
Interest expense and fiscal fees	(28,512)	(28,512)	(37,716)	(9,204)
Total non-operating revenues (expenses)	<u>(28,512)</u>	<u>(28,512)</u>	<u>(8,316)</u>	<u>20,196</u>
Income before capital grants	69,668	144,668	461,606	316,938
Capital grants	<u>-</u>	<u>1,200,000</u>	<u>1,220,127</u>	<u>20,127</u>
Excess of revenues over expenses and other financing sources (uses)	<u>\$ 69,668</u>	<u>\$ 1,344,668</u>	<u>\$ 1,681,733</u>	<u>\$ 337,065</u>

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

FEDERAL COMPLIANCE AND FINDINGS



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, 2011, and have issued our report thereon, dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

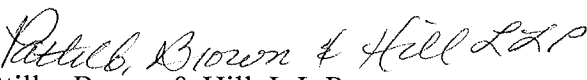
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as finding, 2010E, 2010F, 2011A, 2011-C, 2011-E, and 2011-F. 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 questioned costs as items 2010-C, 2010-I, 2011-B and 2011-D.

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
November 4, 2011

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

Section II - Financial Statement Findings

Prior Year

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

Current Year

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

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

2010-C

**Investment Policies
(significant deficiency)**

Condition:

The Association had \$1,329,979 at June 30, 2011 in an investment account with Charles Schwab. These investments are as follows:

Corporate Bonds	\$15,029
SLM Corp.	201,994
Cash	1,112,956

The investment in Corporate Bonds is not 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 worked with their broker during the year to sell all investments that were not allowed by state statute. However at year end the corporate bonds were still being held in the investment account.

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 by September 2011 all Corporate Bonds had been sold.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2010-E

Bank Reconciliations
(significant deficiency)

Condition: The Association was not completing bank reconciliations on the Association bank accounts in a timely manner.

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 was not in compliance with good accounting practices, leading to differences or errors not recorded in a timely manner.

Cause: The Association had changes in accounting personnel. An outside accounting firm was retained to complete the reconciliations and postings to the general ledger causing the un-timely reconciliations.

Recommendation: The Association should make the appropriate changes within the accounting department to ensure that the general ledger and bank reconciliation adjustments are recorded in a timely manner.

Response: Management agrees with the recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2010-F

Water Rights
(significant deficiency)

Condition:

Doña Ana Mutual Domestic Water Consumers Association provided a listing of Water Rights for the fiscal year ending June 30, 2011. However the listing of Water Rights did not reconcile to the trial balance. The trial balance reported \$796,395 and the subsidiary schedule reported \$925,475, a difference of \$129,080.

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 provided a listing of water rights, however this listing did not reconcile to the trial balance. A proper reconciliation of the subsidiary ledger to the trial balance has not been performed at year end.

Cause:

The Association did not reconcile the listing of water rights to the general ledger, materially understating the total value of the water rights in the general ledger. They have researched all their records and found additional water rights that had been expensed in prior periods.

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.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2010-I

Grant Monitoring
(significant deficiency)

Condition:

The Association did not comply with the New Mexico Water Trust Board reporting requirements per the grant agreements. The Association has four water trust board grants. Reports were required to be filed quarterly. All fourteen reports were filed late.

Criteria:

Section 10.10 of the New Mexico Water Trust Board grant agreements state "The Grantee shall provide the Grantors with a written report in a form reasonably acceptable to the Grantors and executed by the Authorized Officers of the Grantee describing the status of the Project as of the report date, uses of Grant funds during the six month period preceding the report date and each succeeding six month period."

Effect:

Grantee failure to comply with Grant requirements could necessitate repayment of grant funds to the New Mexico Water Trust Board.

Cause:

The Association was not aware of this filing requirement and did not have a grant administrator to oversee the reporting requirements.

Recommendation:

The Association needs to train and provide oversight to the employee responsible for maintaining grant files and reporting in a timely manner to grant agencies.

Response:

Management agrees with the recommendation and has hired a grant administrator to oversee all grant requirements and filings.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-A

General Ledger Journal Entries
(significant deficiency)

Condition:

The Association did not maintain complete backup documentation for journal entries made to the general ledger from July 2010 through May 2011.

Effect:

The Association is not in compliance with good accounting practices.

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.”

Cause:

Due to changes in accounting personnel procedures were not being followed.

Recommendation:

All journal entries should have adequate documentation attached with the journal entry. These entries should be maintained, along with documentation in a separate file. All journal entries should be approved by either the Business Manager or a member of the board.

Response:

The Association agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-B

Budget Adjustment Request
(significant deficiency)

Condition:

The Budget Adjustment Request (BAR) tested requested a total of \$1,275,000 for grant revenue and expense. All expenditures were made prior to approval from the New Mexico Department of Finance and Administration (DFA).

Effect:

The Association expended monies prior to approval by DFA. Per statute any employee or public official violating this ordinance may be subject to legal action by DFA.

Criteria:

The New Mexico State Statute, Section 6-3-25 lists the procedures to be followed to amend a budget.

Cause:

The grant revenues and expenditures were all paid directly by DFA. Due to the direct payment to contractors, the Association did not include these items in their original budget.

Recommendation:

The Association needs to monitor their budgets, request BARs in a timely manner and not expend money until after BARs are approved by DFA.

Response:

The Association agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-C

Utility Billing Reconciliation Procedures
(significant deficiency)

Condition:

The Association utilizes a billing software that interfaces with the general ledger. At the end of the year an adjustment of \$160,788 was made to the general ledger to reconcile with the outstanding receivables per the utility software.

Effect:

The Association was not in compliance with good accounting practices, leading to differences or errors not corrected in a timely manner.

Criteria:

NMSA 1978, 6-6-3 discusses the need for the Association to keep all books, records and accounts in their respective offices in the form prescribed by the local government division and conform to the rules and regulations adopted by the local government division. Good accounting practices require that differences or errors be followed up and corrected in a timely manner.

Cause:

The Association was not reconciling the general ledger and utility software reports monthly, therefore errors occurred that were not corrected until year end.

Recommendation:

The Association should make the appropriate changes to ensure that a monthly reconciliation is performed and the general ledger and utility software differences are resolved in a timely manner.

Response:

The Association agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-D

Travel and Per-Diem Reimbursements
(significant deficiency)

Condition:

Twelve travel and per-diem disbursements were selected for testing. Of the sample selected one of the reimbursement checks had no documentation attached. The other eleven items selected for testing used incorrect reimbursement rates and included over reimbursement of expenditures in the amount of \$309.75.

Effect:

The Association has been reimbursing employees and board members more than the state statutes 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 as well as not retaining supporting documentation for the reimbursed expenses.

Recommendation:

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

Response:

The Association agrees with this recommendation.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-E

Disaster Recovery Plan
(significant deficiency)

Condition:

The Association's computer disaster recovery plan is not operating and in compliance according to their approved policies and procedures. The Association's computer backup systems were not functioning and daily backups were not being done.

Effect:

Failure to have a system backup could lead to system usage being impaired or rendered useless for a significant period of time, which could severely impact the Association's ability to conduct daily operations.

Criteria:

Information system controls require that a comprehensive plan and procedures be documented and in place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help insure best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

Cause:

The Association upon the replacement of key accounting personnel discovered that the daily backup of their system was not being performed.

Recommendation:

The Association should have individuals in place to ensure that daily backups are occurring. Should those individuals be replaced or terminated, there should be an alternate individual in place to ensure daily backups are occurring.

Response:

The Association agrees and is currently in the process of implementing an updated and more effective plan with the assistance of computer system professionals.

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

2011-F

Grant Cash Management
(significant deficiency)

Condition:

The Association received a reimbursement on a grant but failed to pay the contractor within a reasonable period of time. The contractor's invoice for \$79,104 was dated January 2011, the reimbursement was requested and deposited in May 2011. The contractor received payment in July 2011.

Effect:

A grant agreement may be terminated at any time if the terms of the agreement have been violated and repayment of grant funds may be requested.

Criteria:

NMSA 1978, Section 57-28-5 states, "...all construction contracts shall provide that payment for amounts due shall be paid within twenty-one days after the owner receives an undisputed request for payment."

Cause:

The Association received and deposited the funds but due to employee turnover and reassignment of job duties, the payment to the contractor was over looked.

Recommendation:

Grant expenditures, requests for reimbursements, deposits of reimbursements and payments to vendors should be managed by an individual familiar with the respective grants and procedures should be in place for cross training and oversight by management.

Response:

The Association agrees and has hired a grant administrator to oversee grants and report to management.

EXIT CONFERENCE

An exit conference was held on November 4, 2011 at the Doña Ana Mutual Domestic Water Consumer Association's office. In attendance were: Dr. Kurt Anderson, Charles Huestis, Mariano Martinez and Jennifer Horton 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.