DOÑA ANA MUTUAL
DOMESTIC WATER
CONSUMERS ASSOCIATION

AUDIT REPORT

JUNE 30, 2013

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2013

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INTRODUCTORY SECTION

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2013

Official Roster

Name	Title
Board Members	
David Jacquez	President
Dr. Kurt Anderson	Vice-President
Agnes Balizan	Secretary/Treasurer
Emma Garcia	Board Member
Kenny Morrow	Board Member
Association Officials	
Jennifer Horton	Executive Director

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FINANCIAL STATEMENTS SECTION

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INDEPENDENT AUDITORS' REPORT

To the 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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities for the Doña Ana Mutual Domestic Water Consumers Association (the Association) as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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 defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Association, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the agency fund of the Association as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
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 Government 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.

Other Information
Our audit was conducted for the purpose of forming opinions on the Association's financial statements and the budgetary comparison. The Schedule of Expenditures of Federal Awards and the Schedule of Changes in Assets and Liabilities – Agency Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Schedule of Changes in Assets and Liabilities – Agency Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Schedule of Changes in Assets and Liabilities – Agency Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Pattillo, Brown + Hill LLP

Pattillo, Brown and Hill, LLP
Albuquerque, New Mexico
November 4, 2013

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

	2013
Current assets:	
Cash and cash equivalents	$ 39,704
Accounts receivable, net	351,814
Due from other governments	468,690
Inventory	74,345
Prepaid expenses	6,954
Restricted cash	2,545,415
Restricted investments	1,786,864
Total current assets	5,273,786
Noncurrent assets	
Capital assets, net	15,611,533
Debt issuance costs	5,080
Total noncurrent assets	15,616,613
Total assets	20,890,399

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

LIABILITIES AND NET POSITION

		2013
Current liabilities:		
Accounts payable	$	481,905
Accrued payroll liabilities		12,118
Due to other governments		23,529
Customer deposits		64,965
Current maturities of long-term debt		161,139
Total current liabilities		743,656
Noncurrent liabilities:		
Compensated absences		15,153
Long-term debt		5,149,688
Total noncurrent liabilities		5,164,841
Total liabilities		5,908,497
Net Position		
Net investment in capital assets		10,300,706
Unrestricted		4,681,196
Total net position	$	14,981,902

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	2013
Operating revenues:	
Charges for services	$ 2,503,745
Fine and Forfeits	75,724
Memberships	62,155
Miscellaneous	47,008
Total operating revenues	2,688,632
Operating expenses:	
Salaries	548,483
Employee benefits and expenses	146,470
Advertising	290
Auto and travel	51,946
Dues, fees, permits and licenses	19,417
Equipment rental and supplies	253,965
Insurance	67,816
Office and administrative expense	113,372
Professional fees	387,172
Repairs and maintenance	101,609
Taxes	7,353
Utilities	181,113
Other operating expenses	106,907
Water conservation fees	149,760
Depreciation and amortization	423,806
Total operating expenses	2,559,479
Operating income	129,153

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

	2013
Non-operating revenues (expenses):	
Investment income	(45,890)
Interest expense and fiscal fees	(26,755)
Total non-operating revenues (expenses)	(72,645)
Income before capital grants	56,508
Capital grants - federal	928,710
Capital grants - state	606,775
Total capital grants	1,535,485
Change in net position	1,591,993
Net position, beginning of year	13,389,909
Net position, end of year	$ 14,981,902

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	2013
Cash flows from operating activities:	
Receipts from customers and users	$ 2,138,755
Payments to employees for services	(699,050)
Payments to suppliers and contractors	(842,044)
Net cash provided (used) by operating activities	597,661
Cash flows from investing activities:	
Investment income (loss)	5,285
Transfer to restricted cash	(2,492,878)
Purchase of investments	(1,786,155)
Sale of investments	1,633,885
Net cash provided (used) by investing activities	(2,639,863)
Cash flows from capital and related financing investing activities	
Acquisition of capital assets	(4,580,778)
Proceeds from escrow deposit	293,350
Capital grants - federal	928,710
Capital grants - state	606,775
Proceeds from long term debt	4,567,941
Debt issuance costs	(5,080)
Principal paid on long term debt	(71,863)
Interest and fiscal charges on long term debt	(26,755)
Net cash used in capital financing activities	1,712,300
Net increase (decrease) in cash and cash equivalents	(329,902)
Cash and cash equivalents, beginning of year	369,606
Cash and cash equivalents, end of year	$ 39,704

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

	2013
Reconciliation of operating income to net cash provided (used) by operating activities:	
Net income	$ 129,153
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	423,806
Provision for bad debt	12,313
Decrease (increase) in accounts receivable	(562,305)
Decrease (increase) in prepaid expenses	(1,262)
Decrease (increase) in inventory	162,093
Increase (decrease) in accounts payable	425,532
Increase (decrease) in payroll liabilities	(4,097)
Increase (decrease) in customer deposits	12,428
Net cash provided by operating activities	$ 597,661
Non-cash investing activities	
Unrealized losses on investments	$(51,175)

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2013

	2013
ASSETS	
Cash and cash equivalents	$ -
Accounts receivable	-
Total assets	$ -
LIABILITIES	
Accounts payable	$ -
Total liabilities	$ -

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 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 position, revenues and expenses. Enterprise Funds account for activities (i) that 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 others 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. During the year ending June 30, 2013, the Fairview Estates water system was reclaimed by the owner.

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 position. 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 Association's 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 Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on the 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 position available, it is the Association's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

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, 2013, 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, 2013, of the cash and cash equivalents.

	Balance Per Bank 6/30/2013	Add Deposits In Transit	Less Outstanding Checks	Adjustment	Balance Per Books 6/30/2013
Citizens Bank of Las Cruces					
Checking Accounts					
Operating	$ 50,138	$ 885	$(197,407)	$ 27,245	$(119,139)
RUS reserve account	28,682	-	-	-	28,682
Money market account	192,327	-	-	-	192,327
Savings	1,460	-	-	-	1,460
Total Cash in Banks	$ 272,607	$ 885	$(197,407)	$ 27,245	103,330
Cash on Hand					1,339
Funds Held by New Mexico Finance Authority:					
Loan funds					2,480,450
Total Cash per Books					$ 2,585,119
As Reported in Financial Statements:					
Equity in Cash:	Cash				$ 39,704
	Restricted Cash				2,545,415
					$ 2,585,119

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
Deposits	$ 272,607
FDIC	(250,000)
Total uninsured public funds	22,607
Collateral pledged:	
FHLB, 11/17/2017	
CUSIP, 3133XMQ87	865,433
Pledged collateral held by the pledging bank's trust department or agent, not in the Association's name	865,433
Uninsured and uncollateralized	$ -
50% pledged collateral requirement per statute	$ 11,304
Pledged collateral	865,433
Over (under) collateralized	$ 854,130

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2013, $22,607 of the Association's bank balance of $272,607 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	More than 10 years
Scottrade					
Cash	$ 671,961	$ 671,961	$ -	$ -	$ -
FHLB	189,524	-	-	189,524	-
FHLMC	688,589	-	-	500,813	187,776
FFCB	236,790	-	-	-	236,790
Total Investments	$ 1,786,864	$ 671,961	$ -	$ 690,337	$ 424,566

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.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Investments (continued)

Credit Risk – Investments

The Association's Weighted Average Days to Maturity and ratings are as follows:

Investments	Wtd. Avg. Days to Maturity	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Banks (FHLB)	3578	AA+	Aaa
Federal Home Loan Mortgage Corporation (FHLMC)	2947	AA+	Aaa
Federal Farm Credit Bank (FFCB)	3901	AA+	Aaa

Concentration of Credit Risk – Investments

The Association places no limit on the amount the Association may invest in any one issuer. Approximately 39 percent of the Association's investments are invested in FHLMC, 13 percent in FFCB, and 11 percent 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, 2013 were $389,603 and $37,789, 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, 2013 was as follows:

	Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 714,353	$ 453,354	$ -	$ 1,167,707
Water rights	928,625	396,860	-	1,325,485
ROW fees	5,951	-	-	5,951
Land easements	37,160	-	-	37,160
Construction in progress	-	2,663,416	-	2,663,416
Total capital assets not being depreciated	1,686,089	3,513,630	-	5,199,719
Capital assets, being depreciated:				
Buildings improvements	189,977	698,401	-	888,378
Wells & Pumps	3,141,318	95,813	-	3,237,131
Service Connections	439,857	-	-	439,857
Meters & Hydrants	210,489	3,679	-	214,168
Distribution System	8,850,951	157,152	-	9,008,103
Equipment, and Vehicles	1,018,339	112,103	-	1,130,442
Furniture & fixtures	181,527	-	-	181,527
Engineering costs	841,980	-	-	841,980
Total capital assets being deprecated	14,874,438	1,067,148	-	15,941,586

NOTE 5 - CAPITAL ASSETS (Continued)

Less accumulated depreciation:				
Buildings improvements	101,881	15,294	-	117,175
Wells & Pumps	1,308,556	84,462	-	1,393,018
Service Connections	303,782	8,249	-	312,031
Meters & Hydrants	124,247	4,953	-	129,200
Distribution System	1,725,345	225,490	-	1,950,835
Equipment, and Vehicles	566,606	81,988	-	648,594
Furniture & fixtures	133,569	3,370	-	136,939
Engineering costs	841,980	-	-	841,980
Total accumulated depreciation	5,105,966	423,806	-	5,529,772
Total capital assets being depreciated, net	9,768,472	643,342	-	10,411,814
Business-type activities capital assets, net	$ 11,454,561	$ 4,156,972	$ -	$ 15,611,533

NOTE 6 - LONG-TERM DEBT

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.

USDA/RUS - The Association entered into an agreement with the United States Department of Agriculture's Rural Utilities Services on April 22, 2013, for the purchase of the Fort Selden Water Company, Inc., which includes land, water distribution systems, and equipment. The original amount of the note was $2,119,317, bearing 2.75% interest. As of June 30, 2013 only $1,068,845 of the loan funds have been utilized. Principle and interest payments are due monthly, with the note maturing on April 22, 2053. The Association has pledged as collateral all gross receipts, income, accounts, deposit accounts, goods, supplies, inventory, equipment, the water works and distribution system and all physical facilities now owned of the Fort Selden Water Company, Inc. All the proceeds, revenues, water charges, assessments, contract rights, accounts, general intangibles, and all other income shall be pledged to the repayment of the principal and interest.

NOTE 6 - LONG-TERM DEBT (Continued)

NMED/RIP - The Association entered into an agreement with the New Mexico Environmental Department on June 7, 2013, for the purchase of the Picacho Hills Utility Company. The original amount of the note was $2,000,000, bearing 2.375% interest. As of June 30, 2013 none of these loan funds have been expended. Principle and interest payments are due yearly starting one year after the project completion, with the note maturing twenty years after principal payments start. Maturity date of the note will be determined after the project is completed. The Association has pledged net revenues from the water utility system to the payment of the loan.

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.

WTB-243 - The Association entered into an agreement with the New Mexico Finance Authority on December 21, 2012 for the completion of phase II of the surface water transmission line. The original amount of the note was $1,404,000 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2032. 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 May 13, 2013. The original amount of the note was $2,059,390, of which $514,848 may be forgiven. The maximum aggregate repayable principal is $1,544,542. The note bears interest of 2%, which includes an administrative fee. Principal payments are due yearly on May 1, commencing on the first day of the month next following the final disbursement. The note matures on May 1, 2035. The Association has pledged net revenues from the water utility system to the payment of the loan.

NOTE 6 - LONG-TERM DEBT (Continued)

NMFA Loans: (continued)

CIF-2770 - The Association entered into an agreement with the New Mexico Finance Authority on February 22, 2013 for construction of the final phase of line extension and additional capacity for a regional project that includes four Colonias. The original amount of the note was $35,706 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2032. 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, 2013:

Series and Original Issue Amount		Final Maturity	Interest Rate	Outstanding
USDA/RUS	$ 509,800	2041	4.75%	$ 432,288
USDA/RUS	2,119,317	2053	2.75%	1,057,469
NMFA WTB-55	38,000	2029	0.00%	31,082
NMFA WTB-83	380,000	2029	0.00%	310,826
NMFA WTB-105	14,000	2029	0.00%	11,423
NMFA WTB-243	1,404,000	2032	0.00%	1,372,643
NMFA DWSRLF	1,544,542	2035	2.00%	1,544,542
NMFA DWSRLF loan forgiveness	514,848	TBD	0.00%	514,848
CIF-2770	35,706	2032	0.00%	35,706
Total notes payable				$ 5,310,827

NOTE 6 - LONG-TERM DEBT (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2014	161,139	79,721	240,860
2015	163,399	77,864	241,263
2016	229,292	75,771	305,063
2017	232,955	72,341	305,296
2018	236,713	68,815	305,528
2019-2023	1,243,449	287,697	1,531,146
2024-2028	1,328,780	183,735	1,512,515
2029-2033	841,042	98,457	939,499
2034-2038	295,395	35,989	331,384
2039-2041	63,815	4,461	68,276
	4,795,979	$ 984,851	$ 5,780,830
NMFA DWSRLF			
Unforgiven loan principal	514,848		
Total principal	$ 5,310,827		

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Loan payable	$ 814,749	$ 4,567,941	$ 71,862	$ 5,310,827	$ 161,139
Compensated absences	15,153	44,707	44,707	15,153	-
Long-term liabilities	$ 829,902	$ 4,612,648	$ 116,569	$ 5,325,980	$ 161,139

NOTE 7 – 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, 2013, the Association contributed up to 5% for a total of $10,159 to qualifying employees. The Association ended the SEP-IRA plan in June 2013 and switched to participation in PERA.

NOTE 8 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Beginning in June 2013, substantially all of the Association's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at http://www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 9.15% of their gross salary. The Association is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the Association are established in State Statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Association's contributions to PERA for the fiscal years ending June 30, 2013, 2012 and 2011 were $1,614, $-0-, and $-0-, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 9 – RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, natural disasters, and worker's compensation. 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 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 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. This sale was finalized on April 22, 2013 for a total of $1,068,845.

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

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. By the end of the year, the owner had taken control of the Fairview Estates Water System back. The Association took this to court in order to reestablish their right to the maintenance of the water system and recover $19,201 plus any additional amount proven at trial. The Court issued a judgment in the amount of $21,101 which has created a lien against the real property.

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. The Association has a loan with NMED in the amount of $2,000,000 for the purchase of Picacho Hills Utility Company. As of the date of this audit report this sale was in litigation and still pending.

Westmoreland Water Rights – The Association has filed a lawsuit for breach of contract, fraud and unfair trade practices against Forrest and Joyce Westmoreland regarding the contract for and purchase of 82 acre feet of water rights. The Association requests the return from the Westmoreland's of the $147,600 paid, plus interest, punitive damages, treble damages, costs and attorney fees. A mediation conference has been scheduled and will occur after 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
Water Project (WTB-243)	$ 2,106,000	$ -	$ 2,106,000	12/2012 to 12/2015
CIF-2770	321,358	280,785	40,573	2/2013 to 2/2016
	$ 2,427,358	$ 280,785	$ 2,146,573	

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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, 2013

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Operating revenues:				
Charges for services	$ 2,648,480	$ 2,648,480	$ 2,503,745	$(144,735)
Fine and Forfeits	92,000	92,000	75,724	(16,276)
Memberships	31,600	31,600	62,155	30,555
Miscellaneous	158,700	158,700	47,008	(111,692)
Total operating revenues	2,930,780	2,930,780	2,688,632	(242,148)
Operating expenses				
Salaries	582,250	582,250	548,483	33,767
Employee benefits and expenses	206,515	206,515	146,470	60,045
Advertising	3,100	3,100	290	2,810
Auto and travel	68,000	68,000	51,946	16,054
Dues, fees, permits and licenses	17,444	17,444	19,417	(1,973)
Equipment rental and supplies	177,820	177,820	253,965	(76,145)
Insurance	72,360	72,360	67,816	4,544
Office and administrative expense	134,960	134,960	113,372	21,588
Professional fees	377,038	377,038	387,172	(10,134)
Repairs and maintenance	122,220	122,220	101,609	20,611
Taxes	7,500	7,500	7,353	147
Utilities	179,540	179,540	181,113	(1,573)
Other operating expenses	165,800	165,800	106,907	58,893
Water conservation fees	164,800	164,800	149,760	15,040
Total operating expenses	2,279,347	2,279,347	2,135,673	143,674
Operating income	651,433	651,433	552,959	(98,474)
Non-operating revenues (expenses):				
Investment income	18,600	18,600	(45,891)	(64,491)
Interest expense and fiscal fees	(34,812)	(34,812)	(26,755)	8,057
Total non-operating revenues (expenses)	(16,212)	(16,212)	(72,646)	(56,434)
Income before capital grants excluding non-budgeted expenses:	635,221	635,221	480,313	(154,908)
Capital grants - federal	1,000,000	1,000,000	928,710	(71,290)
Capital grants - state	4,101,500	4,101,500	606,775	(3,494,725)
Total capital grants	5,101,500	5,101,500	1,535,485	(3,566,015)
Less non-budgeted expenses:				
Depreciation	-	-	423,806	(423,806)
Net income (loss)	$ 5,736,721	$ 5,736,721	$ 1,591,992	$(4,073,439)

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, 2013

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
ASSETS				
Cash and cash equivalents	$ 216	$ -	$(216)	$ -
Accounts receivable	2,052	-	(2,052)	-
Total assets	$ 2,268	$ -	$(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.

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2013

Program	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Environmental Protection Agency			
Water System Improvements	66.606		$ 927,073
Pass through New Mexico Finance Authority			
Drinking Water State Revolving Fund Loan			
And Subsidy Agreement			
Loan proceeds used	66.468	2868-DW	6,547
Total Federal Financial Awards Expenditures			$ 933,620

Note A - Significant Accounting Policies:
The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

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

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

INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Doña Ana Mutual Domestic Water Consumers Association (Association), as of and for the year ended June 30, 2013, and the related notes to the financial statements and the agency fund and the budgetary comparison, which collectively comprise the Association's basic financial statements and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2013-C and 2013-D.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from 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 2013-A and 2013-B.

The Association's Response to Findings

The Association's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pattillo, Brown & Hill LLP

Pattillo, Brown and Hill, L.L.P.
Albuquerque, New Mexico
November 4, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the 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

Report on Compliance for Each Major Federal Program

We have audited Doña Ana Mutual Domestic Water Consumers Association's (Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2013. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill LLP

Pattillo, Brown and Hill, L.L.P.
Albuquerque, New Mexico
November 4, 2013

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	No
Type of auditors' report issued on compliance For major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	No

Identification of major programs:

CFDA Number	Name of Federal Program
66.606	Water System Improvements

Dollar threshold used to distinguish Between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section II - Financial Statement Findings

Prior Year

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

Current Year

2013-A	Deposit of Public Money
2013-B	Mileage Logs
2013-C	Utility Subsidiary Ledgers
2013-D	Bank Reconciliation

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Financial Statement Findings

2013-A **Deposit of Public Money**
(compliance)

Condition: During the testing of thirty cash deposits totaling $23,126, sixteen deposits of $4,610 were held in excess of five days prior to being deposited in the Association's bank account.

Effect: The Association is in violation of 6-10-36.1 NMSA 1978 by holding deposits in excess of five business days. This could result in a loss of public funds.

Criteria: 6-10-36.1 NMSA 1978 requires collected receipts of public money to be deposited within a period of time not to exceed five days from the date of collection when a municipality has no suitable banking facility within its boundaries.

Cause: The Association is dropping off deposits in a locked bag at the Bank and is not verifying the deposits are being credited to their account in a timely manner.

Recommendation: If the Bank's procedures are to hold deposits, the Association should request the Bank make the deposits on the same day delivered or consider changing to a different institution.

Response: The Association is now making additional deposits during the week, and is in the process of changing banks to alleviate this problem.

Financial Statement Findings

2013-B **Mileage Logs**
(compliance)

Condition: During review of internal controls for travel and per diem, it was noted that the Association does not have a mileage log for each Association vehicle.

Effect: The Association is not tracking vehicle mileage for each vehicle as required by the New Mexico Administrative Code. As a result, mileage and fuel purchases are not being properly evaluated by the Association.

Criteria: 1.5.3.11(I) NMAC requires each vehicle to maintain a mileage log.

Cause: The Association was unaware of the requirement for a mileage log in every vehicle.

Recommendation: The Association should put a mileage log in each vehicle, and instruct operators of Association vehicles of the requirements for documentation. The mileage logs should then be compared to the gas card reports monthly.

Response: As soon as this was brought to the Association's attention each vehicle was equipped with a mileage log. Employees were instructed on their use.

Financial Statement Findings

2013-C **Utility Subsidiary Ledgers**
(significant deficiency)

Condition: The Association uses a separate software program for billing the utilities, CBSW (Continental Billing System for Windows). On a monthly basis the Association will make a manual entry to record the utility system revenues, customer deposits, and accounts receivable into their general ledger software. The utility system generates these reports; aged accounts receivable and deposit register report. These reports are not being reconciled to the Association's general ledger on a monthly basis.

Effect: The Association is not reconciling utility subsidiary ledgers to the general ledger on a monthly basis. Errors in general ledger revenue, customer deposits and accounts receivable may not be detected or detected on a timely basis.

Criteria: NMSA 6-10-2 states "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Cause: The Association has had significant turnover and reassignment of job duties during the year, creating some inconsistencies in how various items were recorded in the utility software.

Recommendation: The Association should reconcile on a monthly basis, all subsidiary ledgers from the utility software to verify all public funds are being recorded timely and in the correct accounts. Any differences should be investigated and resolved.

Response: The Association has been reconciling revenue from the utility software to the general ledger. The Association will start reconciling the accounts receivable and the customer deposits. The Association is in the process of researching and acquiring new software that will better meet the needs of the Association.

Financial Statement Findings

2013-D **Bank Reconciliation**
(significant deficiency)

Condition: The Association reconciles the general operating account monthly in an excel spreadsheet. The general ledger does not reconcile to the bank reconciliation. The general ledger was understated by $27,245.

Effect: The proper reconciliation of bank accounts can help facilitate the timely detection of errors in the Associations general ledger. Without a proper reconciliation, errors are not being detected on a timely basis.

Criteria: NMSA 6-10-2 states "It is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business."

Cause: The Association uses a separate software to record utility revenues. Manual entries are made each month to record utility revenues and collections on the general ledger. If any receipts or billings are incorrectly recorded in the utility software, this creates differences between what is recorded as revenue and actual cash collections in the general ledger.

Recommendation: The Association should have written procedures for recording items in the utility software which would create continuity for processing payments, adjustments, etc. At the end of each business day, the utility printouts should be reviewed for accuracy. At the end of each month all utility subsidiary ledgers should then be reconciled to the general ledger.

Response: The Association is implementing procedures to reconcile the general ledger on a monthly basis to the excel bank reconciliations.

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

Prior Year
None

Current Year
None

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EXIT CONFERENCE

An exit conference was held on November 4, 2013 at the Doña Ana Mutual Domestic Water Consumer Association's office. In attendance were: David Jacquez, President; Dr. Kurt Anderson, Vice President; Jennifer Horton, Executive Director and Rosanna Balderrama, Office Manager 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.