

**DOÑA ANA MUTUAL
DOMESTIC WATER
CONSUMERS ASSOCIATION**

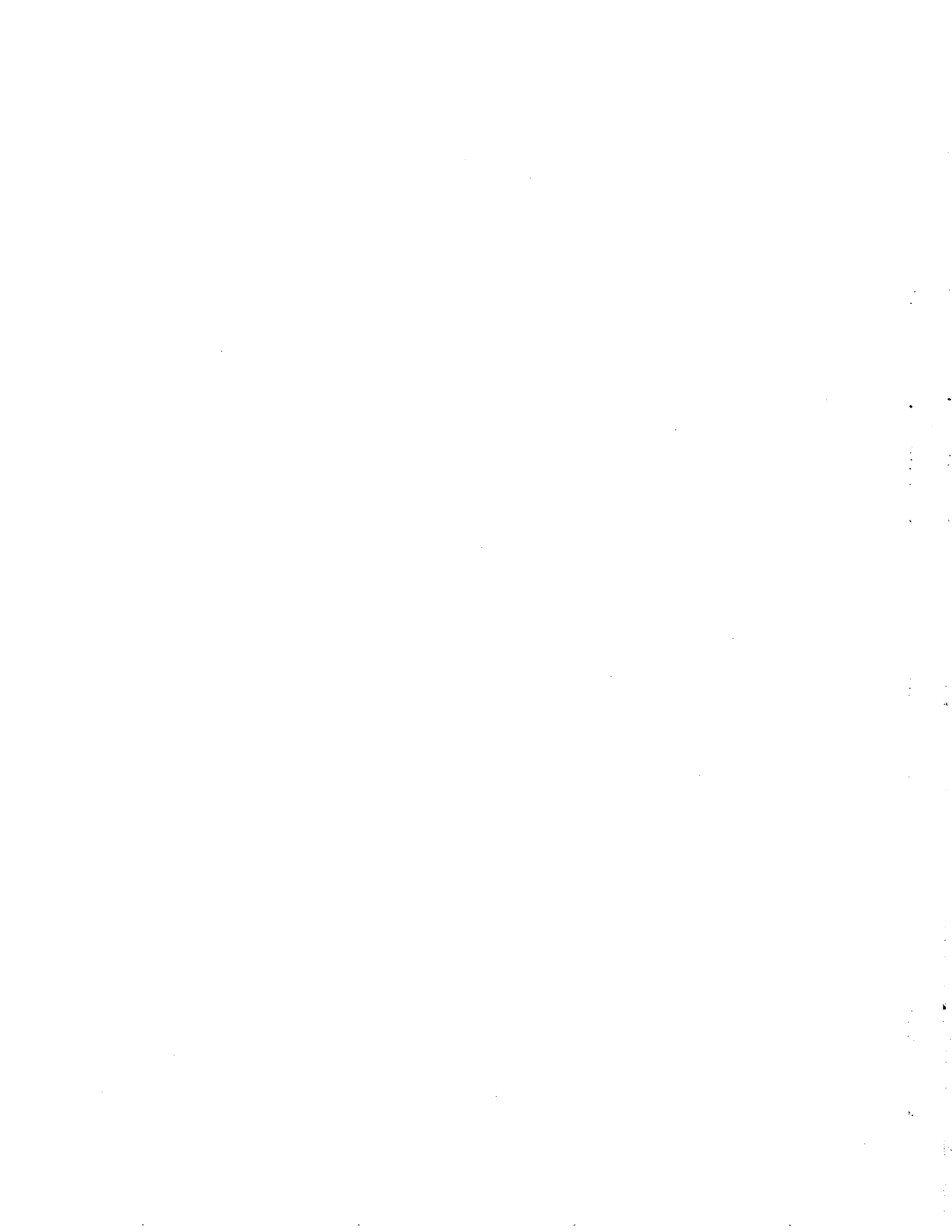
AUDIT REPORT

JUNE 30, 2014

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
JUNE 30, 2014**

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INTRODUCTORY SECTION

**DOÑA ANA MUTUAL DOMESTIC
WATER CONSUMERS ASSOCIATION
JUNE 30, 2014**

Official Roster

Name

Title

Board Members

David Jacquez
Emma Garcia
Agnes Balizan
Kay Trujillo
James Melton

President
Vice-President
Secretary/Treasurer
Board Member
Board Member

Association Officials

Jennifer Horton

Executive Director

FINANCIAL STATEMENTS SECTION

INDEPENDENT AUDITORS' REPORT

Dofia Ana Mutual Domestic
Water Consumers Association
Dofia Ana, New Mexico
and
Tim Keller
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 Dofia Ana Mutual Domestic Water Consumers Association (Association) as of and for the year ended June 30, 2014, 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 budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2014, 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 audit 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, 2014, 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 budgetary comparison for the year then ended in accordance with accounting principles.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2014 the Association adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the MD&A which is required by accounting principles generally accepted in the United States of America 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.

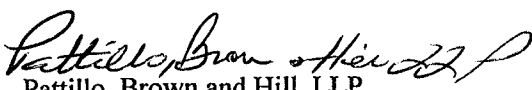
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements and the budgetary comparison. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates 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 is 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 April 27, 2015 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 and Hill, LLP
Albuquerque, New Mexico
April 27, 2015

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

	<u>2014</u>
Current assets:	
Cash and cash equivalents	\$ 340,247
Accounts receivable, net	440,724
Due from other governments	31,329
Inventory	145,536
Prepaid expenses	9,045
Restricted cash	4,660,600
Restricted investments	<u>2,081,361</u>
Total current assets	<u>7,708,842</u>
Noncurrent assets	
Capital assets, net	<u>21,403,419</u>
Total noncurrent assets	<u>21,403,419</u>
Total assets	<u>29,112,261</u>

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

LIABILITIES AND NET POSITION

	<u>2014</u>
Current liabilities:	
Accounts payable	\$ 31,286
Accrued payroll liabilities	32,278
Accrued interest payable	25,463
Due to other governments	59,162
Customer deposits	68,852
Current maturities of long-term debt	<u>327,413</u>
 Total current liabilities	 <u>544,454</u>
 Noncurrent liabilities:	
Compensated absences	18,329
Long-term debt	<u>10,368,856</u>
 Total noncurrent liabilities	 <u>10,387,185</u>
 Total liabilities	 <u>10,931,639</u>
 Net Position	
Net investment in capital assets	10,707,150
Unrestricted	<u>7,473,472</u>
 Total net position	 <u>\$ 18,180,622</u>

**DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	2014
Operating revenues:	
Charges for services	\$ 2,992,254
Fine and forfeits	147,730
Memberships	11,025
Miscellaneous	26,611
Total operating revenues	3,177,620
Operating expenses:	
Salaries	582,950
Employee benefits and expenses	207,322
Advertising	2,345
Auto and travel	53,244
Dues, fees, permits and licenses	62,104
Equipment rental and supplies	74,293
Insurance	60,619
Office and administrative expense	93,493
Professional fees	373,005
Repairs and maintenance	44,602
Taxes	8,851
Utilities	260,080
Other operating expenses	132,673
Water conservation fees	45,659
Depreciation and amortization	631,107
Total operating expenses	2,632,347
Operating income	545,273

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

	<u>2014</u>
Non-operating revenues (expenses):	
Investment income	40,897
Interest expense and fiscal fees	<u>(75,336)</u>
Total non-operating revenues (expenses)	<u>(34,439)</u>
Income before capital grants	<u>510,834</u>
Capital grants - federal	204,841
Capital grants - state	<u>2,488,125</u>
Total capital grants	<u>2,692,966</u>
Change in net position	3,203,800
Net position, beginning of year, restated	<u>14,976,822</u>
Net position, end of year	<u>\$ 18,180,622</u>

DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	2014
Cash flows from operating activities:	
Receipts from customers and users	\$ 3,487,046
Payments to employees for services	(766,936)
Payments to suppliers and contractors	(1,656,324)
Net cash provided by operating activities	1,063,786
Cash flows from investing activities:	
Investment income (loss)	40,897
Transfer to restricted cash	(2,115,185)
Purchase of investments	(1,739,497)
Sale of investments	1,445,000
Net cash provided (used) by investing activities	(2,368,785)
Cash flows from capital and related financing investing activities	
Acquisition of capital assets	(6,422,993)
Capital grants - federal	204,841
Capital grants - state	2,488,125
Proceeds from long term debt	5,753,360
Principal paid on long term debt	(163,077)
Debt forgiveness	(204,841)
Interest and fiscal charges on long term debt	(49,873)
Net cash used in capital financing activities	1,605,542
Net increase (decrease) in cash and cash equivalents	300,543
Cash and cash equivalents, beginning of year	39,704
Cash and cash equivalents, end of year	\$ 340,247

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

2014

**Reconciliation of operating income to net cash
provided (used) by operating activities:**

Operating income	\$ 545,273
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	631,107
Provision for bad debt	42,912
Decrease (increase) in accounts receivable	305,539
Decrease (increase) in prepaid expenses	(2,091)
Decrease (increase) in inventory	(71,191)
Increase (decrease) in accounts payable	(414,986)
Increase (decrease) in payroll liabilities	20,160
Increase (decrease) in compensated absences	3,176
Increase (decrease) in customer deposits	<u>3,887</u>
Net cash provided by operating activities	<u>\$ 1,063,786</u>

Non-cash investing activities

Unrealized gains on investments	<u>\$ 18,243</u>
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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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 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.

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.

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.

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 have a taxable valuation or real property for the last preceding year of at least one million dollars and have 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.

Prior Period Adjustment

As a result of implementing GASB Statement 65, the Association has decreased beginning net position as of July 1, 2013 by \$5,080 for the business-type activities. This decrease resulted from no long deferring and amortizing bond issuance costs.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash

At June 30, 2014, 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, 2014, of the cash and cash equivalents.

	Balance Per Bank <u>6/30/2014</u>	Add Deposits <u>In Transit</u>	Less Outstanding <u>Checks</u>	Adjustment	Balance Per Books <u>6/30/2014</u>
Wells Fargo Bank, N.A.					
Checking Accounts					
Operating	\$ 50,000	\$ -	\$(76,681)	\$ 37,149	\$ 10,468
Grants	-	-	(2,043)	-	(2,043)
RUS reserve account	28,712	-	-	-	28,712
Money market account	330,149	-	-	-	330,149
Savings	8,024	-	-	-	8,024
Citizens Bank of Las Cruces					
Checking Accounts					
Operating	<u>32,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,450</u>
Total Cash in Banks	<u>\$ 449,335</u>	<u>\$ -</u>	<u>\$(78,724)</u>	<u>\$ 37,149</u>	407,760
Cash on Hand					1,339
Funds Held by New Mexico Finance Authority:					
Loan funds					<u>4,591,748</u>
Total Cash per Books					<u>\$ 5,000,847</u>
As Reported in Financial Statements:					
Equity in Cash:					
Cash					\$ 340,247
Restricted Cash					<u>4,660,600</u>
					<u>\$ 5,000,847</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.

Pledged Collateral

	Citizens Bank of Las Cruces	Wells Fargo Bank	Total
Deposits	\$ 32,450	\$ 416,885	\$ 449,335
FDIC	<u>(32,450)</u>	<u>(250,000)</u>	<u>(282,450)</u>
Total uninsured public funds	-	\$ 166,885	\$ 166,885
Collateral pledged:			
FNMA, 07/01/2043 CUSIP, 31417G4Y9	-	64,515	64,515
FNMA, 02/01/2043 CUSIP, 3138NY4W2	<u>-</u>	<u>69,167</u>	<u>69,167</u>
Pledged collateral held by the pledging bank's trust department or agent, not in the Association's name	<u>-</u>	<u>133,682</u>	<u>133,682</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 33,203</u>	<u>\$ 33,203</u>
50% pledged collateral requirement per statute	\$ -	\$ 83,443	\$ 83,443
Pledged collateral	<u>-</u>	<u>133,682</u>	<u>133,682</u>
Over (under) collateralized	<u>\$ -</u>	<u>\$ 50,240</u>	<u>\$ 50,240</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to them. The Association does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$166,885 of the Association's bank balance of \$449,335 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.

The reserve fund consists of the following investments:

	Fair Value	Investment Maturities			
		Current	1 to 5 years	6 to 10 years	More than 10 years
Scottrade					
Cash	\$ 745,835	\$ 745,835	\$ -	\$ -	\$ -
FHLB	757,357	-	563,509	193,848	-
FHLMC	190,488	-	-	-	190,488
FFCB	237,600	-	-	237,600	-
FNMA	150,081	-	150,081	-	-
Total Investments	<u>\$ 2,081,361</u>	<u>\$ 745,835</u>	<u>\$ 713,590</u>	<u>\$ 431,448</u>	<u>\$ 190,488</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 \$1,150,000 in cash. The Association does not have a formal investment policy to limit this risk.

Interest Rate Risk – Investments

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

Credit Risk – Investments

The Association's 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)	2106	AA+	Aaa
Federal Home Loan Mortgage Corporation (FHLMC)	4541	AA+	Aaa
Federal Farm Credit Bank (FFCB)	3536	AA+	Aaa
Federal National Mortgage Association (FNMA)	505	AA+	Aaa

Concentration of Credit Risk – Investments

The Association places no limit on the amount the Association may invest in any one issuer. Approximately 36 percent of the Association’s investments are invested in FHLB, 11 percent in FFCB, 9 percent in FHLB, and 7 percent in FNMA.

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, 2014 were \$519,071 and \$78,347, 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, 2014 was as follows:

	Balance 6/30/2013	Increases	Decreases	Adjustment	Balance 6/30/2014
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,167,707	\$ -	\$ -	\$ 1,110	\$ 1,168,817
Water rights	1,325,485	495,694	-	-	1,821,179
ROW fees	5,951	-	-	-	5,951
Land easements	37,160	-	-	-	37,160
Construction in progress	<u>2,663,416</u>	<u>1,533,334</u>	<u>(2,663,416)</u>	<u>-</u>	<u>1,533,334</u>
Total capital assets not being depreciated	<u>5,199,719</u>	<u>2,029,028</u>	<u>(2,663,416)</u>	<u>1,110</u>	<u>4,566,441</u>
Capital assets, being depreciated:					
Buildings improvements	888,378	7,772	-	9,175	905,325
Wells & pumps	3,237,131	338,235	-	(121,868)	3,453,498
Service connections	439,857	-	-	-	439,857
Meters & hydrants	214,168	19,831	-	104,921	338,920
Distribution system	9,008,103	6,598,483	-	(58,514)	15,548,072
Equipment and vehicles	1,130,442	136,521	-	21,715	1,288,678
Furniture & fixtures	181,527	-	-	-	181,527
Engineering costs	<u>841,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>841,980</u>
Total capital assets being depreciated	<u>15,941,586</u>	<u>7,100,842</u>	<u>-</u>	<u>(44,571)</u>	<u>22,997,857</u>

	Balance 6/30/2013	Increases	Decreases	Adjustment	Balance 6/30/2014
Less accumulated depreciation:					
Buildings improvements	117,175	41,669	-	-	158,844
Wells & pumps	1,393,018	108,986	-	-	1,502,004
Service connections	312,031	8,249	-	-	320,280
Meters & hydrants	129,200	7,919	-	-	137,119
Distribution system	1,950,835	370,377	-	-	2,321,212
Equipment and vehicles	648,594	90,537	-	-	739,131
Furniture & fixtures	136,939	3,370	-	-	140,309
Engineering costs	841,980	-	-	-	841,980
Total accumulated depreciation	<u>5,529,772</u>	<u>631,107</u>	<u>-</u>	<u>-</u>	<u>6,160,879</u>
Total capital assets being depreciated, net	<u>10,411,814</u>	<u>6,469,735</u>	<u>-</u>	<u>(44,571)</u>	<u>16,836,978</u>
Business-type activities capital assets, net	<u>\$ 15,611,533</u>	<u>\$ 8,498,763</u>	<u>\$(2,663,416)</u>	<u>\$(43,461)</u>	<u>\$ 21,403,419</u>

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, 2014 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.

NMED/RIP-2013 - 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. Principle and interest payments are due yearly starting December 13, 2014, with the note maturing twenty years after principal payments start or December 13, 2033. The Association has pledged net revenues from the water utility system to the payment of the loan.

NMED/RIP-2014 - 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 which also included repairing known issues and planning for future growth and long term sustainability. The original amount of the note was \$2,000,000 and bears interest at 2.375%. . As of June 30, 2014 \$250,000 of these loan funds have been expended. Principal payments on the note are due yearly and will begin one year after project completion. 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.

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.

WTB-271 - The Association entered into an agreement with the New Mexico Finance Authority on March 14, 2014 for construction of improvements to the transmission mains and distribution lines throughout the collective water delivery area. The original amount of the note was \$1,600,000 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2034. The Association has pledged net revenues from the water utility system to the payment of the loan.

CI-2972 - The Association entered into an agreement with the New Mexico Finance Authority on April 4, 2014 for the construction of water transmission lines from the main water transmission lines to the Dona Ana and San Ysidro Colonias. The original amount of the note was \$153,360 and is noninterest bearing. Principal payments on the note are due yearly on June 1. The note matures on June 1, 2034. 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, 2014:

Series and Original Issue Amount	Final Maturity	Interest Rate	Outstanding
USDA/RUS \$ 509,800	2041	4.750%	\$ 423,028
USDA/RUS 2,119,317	2053	2.750%	998,317
NMFA WTB-55 38,000	2029	0.000%	29,176
NMFA WTB-83 380,000	2029	0.000%	291,762
NMFA WTB-105 14,000	2029	0.000%	10,722
NMFA WTB-243 1,404,000	2032	0.000%	1,302,011
NMFA DWSRLF 1,544,542	2035	2.000%	1,544,542
NMFA DWSRLF loan forgiveness 514,848	TBD	0.000%	310,007
CIF-2770 35,706	2032	0.000%	33,344
NMFA WTB-271 1,600,000	2034	0.000%	1,600,000
NMFA CI-2972 153,360	2034	0.000%	153,360
NMFA RIP-2013 2,000,000	2033	2.375%	2,000,000
NMFA RIP-2014 2,000,000	TBD	2.375%	2,000,000
			\$ 10,696,269
Total notes payable			

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	327,413	130,475	457,888
2016	396,492	125,195	521,687
2017	402,280	119,642	521,922
2018	408,208	113,946	522,154
2019	414,278	108,108	522,386
2020-2024	2,167,856	447,593	2,615,449
2025-2029	2,230,035	279,260	2,509,295
2030-2034	1,792,992	131,451	1,924,443
2035-2039	210,041	26,883	236,924
2040-2044	36,667	1,733	38,400
	<u>8,386,262</u>	<u>\$ 1,484,286</u>	<u>\$ 9,870,548</u>
NMFA DWSRLF			
Unforgiven loan principal	310,007		
NMFA RIP-2014	<u>2,000,000</u>		
Total principal	<u>\$ 10,696,269</u>		

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Loan payable	\$ 5,310,827	\$ 5,753,360	\$ 367,918	\$ 10,696,269	\$ 327,413
Compensated absences	<u>15,153</u>	<u>27,456</u>	<u>24,280</u>	<u>18,329</u>	<u>-</u>
Long-term liabilities	<u>\$ 5,325,980</u>	<u>\$ 5,780,816</u>	<u>\$ 392,198</u>	<u>\$ 10,714,598</u>	<u>\$ 327,413</u>

NOTE 7 – 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, 2014, 2013 and 2012 were \$50,686, \$1,614, and \$-0-, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 8 – 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 9 - 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.

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 meet 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 created a lien against the real property. On December 11, 2013 an agreement to transfer the water system to the Association was signed. Upon conveyance of the water system the Association released the judgment lien in full.

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. This sale was completed on December 13, 2013. The Association has \$1,750,000 in loan proceeds that will be expended in the future to repair and expand the water system.

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. This went to trial in November 2014. As of the date of this audit report, the Association is waiting on the judge’s decision.

NOTE 10 - CAPITAL OUTLAY APPROPRIATIONS

The Association’s capital outlay appropriations are as follows:

<u>Capital Project</u>	<u>Project Appropriation</u>	<u>Expenditures to Date</u>	<u>Outstanding Balance</u>	<u>Appropriation Period</u>
Water Project (WTB-243)	\$ 2,106,000	\$ 2,106,000	\$ -	12/2012 to 12/2015
Water Project (WTB-271)	2,400,000	-	2,400,000	3/2014 to completion
CIF-2770	<u>321,358</u>	<u>321,358</u>	<u>-</u>	2/2013 to 2/2016
	<u>\$ 4,827,358</u>	<u>\$ 2,427,358</u>	<u>\$ 2,400,000</u>	

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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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues:				
Charges for services	\$ 2,800,080	\$ 2,800,280	\$ 2,992,254	\$ 191,974
Fine and Forfeits	92,000	92,000	147,730	55,730
Memberships	31,600	31,600	11,025	(20,575)
Miscellaneous	8,400	8,400	26,611	18,211
Total operating revenues	2,932,080	2,932,280	3,177,620	245,340
Operating expenses				
Salaries	582,250	582,250	582,950	(700)
Employee benefits and expenses	206,515	206,515	207,322	(807)
Advertising	3,100	3,100	2,345	755
Auto and travel	68,000	68,000	53,244	14,756
Dues, fees, permits and licenses	17,444	17,444	62,104	(44,660)
Equipment rental and supplies	177,820	177,820	74,293	103,527
Insurance	72,360	72,360	60,619	11,741
Office and administrative expense	135,060	135,060	93,493	41,567
Professional fees	377,038	377,038	373,005	4,033
Repairs and maintenance	122,220	122,220	44,602	77,618
Taxes	7,500	7,500	8,851	(1,351)
Utilities	179,540	179,540	260,080	(80,540)
Other operating expenses	165,800	165,800	132,673	33,127
Water conservation fees	164,800	164,800	45,659	119,141
Total operating expenses	2,279,447	2,279,447	2,001,240	278,207
Operating income	652,633	652,833	1,176,380	523,547
Non-operating revenues (expenses):				
Investment income	18,600	18,600	40,897	22,297
Interest expense and fiscal fees	(33,112)	(33,112)	(75,336)	(42,224)
Total non-operating revenues (expenses)	(14,512)	(14,512)	(34,439)	(19,927)
Income before capital grants excluding non-budgeted expenses:	638,121	638,321	1,141,941	503,620
Capital grants - federal	500,000	500,000	204,841	(295,159)
Capital grants - state	4,600,000	4,600,000	2,488,125	(2,111,875)
Total capital grants	5,100,000	5,100,000	2,692,966	(2,407,034)
	\$ 5,738,121	\$ 5,738,321	3,834,907	(1,903,414)
Less non-budgeted expenses:				
Depreciation and amortization			631,107	-
Net income (loss)			\$ 3,203,800	\$(1,903,414)

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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2014**

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency			
Pass through New Mexico Finance Authority Drinking Water State Revolving Loan Fund Loan and Subsidy Agreement	66.468	2868-DW	<u>804,663</u>
Total Federal Financial Awards Expenditures			<u>\$ 804,663</u>

Note A - Significant Accounting Policies:

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

Note B - Loan subsidy:

The accompanying schedule of expenditures of federal awards includes a grant and loan subsidy from the Drinking Water State Revolving Fund. The loan and loan subsidy is \$2,059,390. The loan subsidy was fully expended with \$204,841 being expended in the fiscal year ending June 30, 2014. The remaining balance of \$599,822 was drawn on the loan.

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

**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
Tim Keller
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, the aggregate remaining fund information, and the budgetary comparisons of Dona Ana Mutual Domestic Water Consumers Association (Association), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated April 27, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2014-001 and 2014-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. 2013-001, 2013-002, 2014-002, 2014-004.

Compliance and Other Matters

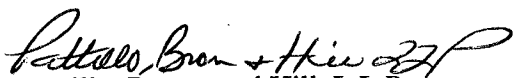
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2014-005 and 2014-006.

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.



Patillo, Brown and Hill, L.L.P.

Albuquerque, New Mexico

April 27, 2015

**INDEPENDENT AUDITOR'S 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
Tim Keller
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)'s 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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-007. Our opinion on each major federal program is not modified with respect to these matters.

The Association's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

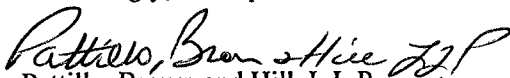
Report on Internal Control over Compliance

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 and Hill, L.L.P.
Albuquerque, New Mexico
April 27, 2015

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting: Material weakness identified?	Yes
Significant deficiency identified not considered to be a material weakness?	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	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.468	Drinking Water State Revolving Loan Fund

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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Section II - Financial Statement Findings

Prior Year

2013-A Deposit of Public Money - resolved
2013-B Mileage Logs - resolved
2013-C Utility Subsidiary Ledgers – repeat and modified
2013-D Bank Reconciliation – repeat and modified

Current Year

2013-001 (2013-C) Utility Subsidiary Ledgers
2013-002 (2013-D) Bank Reconciliation
2014-001 Trial Balance Reports
2014-002 Accounts Receivable Subsidiary Ledger
2014-003 Grant/Loan Proceeds and Expenditures
2014-004 Capital Asset Listing
2014-005 Timely Submission of Audit Report
2014-006 Exit Conference

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Financial Statement Findings

**2013-001 (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 will generate a customer deposit register report. This report is not being reconciled to the Association's general ledger on a monthly basis. At June 30, 2014 the general ledger balance for customer deposits was \$54,195 while the utility report showed a balance of \$68,852, a difference of \$14,657.

Effect: The Association is not reconciling utility subsidiary ledgers to the general ledger on a monthly basis. Errors in general ledger customer deposits may not be detected or detected on a timely basis. This could in effect overstate revenue in the current year by \$14,657.

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 is manually recording the utility customer deposits each month in their general ledger. However they are not verifying after the manual entry is made that the general ledger balance reconciles to the utility system balance.

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. These reconciliations and any necessary adjustments should be verified and approved by the Executive Director.

Response: There were issues during the year with the accounting and utility software. We have purchased new accounting and utility software that will be fully integrated starting in July 2015. We have implemented reconciliation procedures to be done each month and these will be reviewed by the Executive Director.

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2013-002 (2013-D) Bank Reconciliation
(significant deficiency)

Condition: During the review of cash, it was noted that bank reconciliations were not being done on a timely basis. It was also noted that although the banks were reconciled, the reconciliations did not agree to the general ledger for three of the bank accounts, the General Operating account, the Money Market account and the Grant account. The Association re-reconciled these accounts and the reconciliations were not completed until December 2014. The General Operating account reconciliation, after the December 2014 reconciliations, does not agree to the general ledger by \$37,149.

Effect: The proper reconciliation of bank accounts can help facilitate the timely detection of errors in the Association's general ledger. Reconciliation procedures that are not performed on a timely basis weaken internal control procedures and allow for the possibility of fraud and errors to be perpetuated without detection 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 promoted an individual within the organization to reconcile bank accounts. The bank reconciliations had to be done outside the accounting software using excel spreadsheets. Although the bank reconciliation procedures were being done, they were not reconciled to the general ledger balances.

Recommendation: Banks should be reconciled on a timely basis and the reconciled book balance should agree to the general ledger balance. These reconciliations should be reviewed by the Executive Director.

Response: We have purchased new accounting software that allows us to reconcile the bank statements within the program. We have also implemented monthly reconciliation procedures that will now be reviewed by the Executive Director.

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2014-001 **Trial Balance Reports**
(material weakness)

Condition: The Association could not provide a Trial Balance Report that balanced. The Association's Balance Sheet showed net income of \$4,308,881 while the Income Statement showed net income of \$787,495. A difference of \$3,521,386. The general ledger detail, with current year activity was provided. This report balanced and was utilized to prepare a trial balance report. The prior year audited balances plus the current year activity were used to build a current year trial balance. During the course of the audit it was necessary to propose in excess of twenty journal entries to correct several account balances. These journal entries ranged from \$15,000 to \$1,550,000.

Effect: Financial information provided to management and the board of directors was not accurate. The Association cannot make timely and accurate decisions based on incorrect financial information. This also increases the probability that errors will go undetected.

Criteria: The Association's accounting system should provide timely and accurate information for the board of directors and management. To achieve this, accounting personnel must periodically reconcile general ledger accounts to sub-ledgers and other supporting documents. NMSA 6-5-2 C states "State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters."

Cause: Individuals using the accounting software were not properly trained on how to properly generate reports. It was also noted that reconciliation procedures between the general ledger and sub-ledgers were either not done or not done on a timely basis.

Recommendation: The Association should implement procedures to review the trial balance monthly. In addition all significant balance sheet and income statement accounts should be reconciled to subsidiary ledgers or other documentation in a timely manner. At the end of each period, after all reconciliation procedures are complete, the general ledger should be closed. Once closed, a prior period should not be reopened as any previous reconciliations may no longer be accurate.

Response: We have purchased new accounting and utility software. Each individual using the software will be properly trained on how to use the software for their specific duties. We are also implementing reconciliation procedures that will occur on a monthly basis. The Executive Director will review all reconciliations to the general ledger.

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2014-002 **Accounts Receivable Subsidiary Ledger**
(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 will generate an aged accounts receivable report. This report is not being reconciled to the Association's general ledger on a monthly basis. At June 30, 2014 the general ledger balance for accounts receivable was \$487,053 while the subsidiary ledger reported \$518,019. A difference of \$30,966.

Effect: The Association is not reconciling the accounts receivable subsidiary ledger to the general ledger on a monthly basis. Errors in customer balances and/or cash collections for utilities may not be detected or detected on a timely basis.

Criteria: The Association's accounting system should provide timely and accurate information for the board of directors and management. To achieve this, accounting personnel must periodically reconcile general ledger accounts to sub-ledgers and other supporting documents. NMSA 6-5-2 C states "State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters."

Cause: The Association is manually recording the utility customer deposits each month in their general ledger. However they are not verifying after the manual entry is made that the general ledger balance reconciles to the utility system balance.

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. These reconciliations should be verified by the Executive Director and the Board of Directors.

Response: We have purchased new accounting and utility software that will be fully integrated by July 2015. We are implementing reconciliation procedures that are being performed on a monthly basis. These reconciliations will be reviewed by the Executive Director.

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2014-003 **Grant/Loan Proceeds and Expenditures**
(material weakness)

Condition: Several of the Association's grants and loans are direct pay. The request for reimbursement would be made to the granting agency and the vendor/contractor would be paid directly. The Association would then make an entry on their general ledger to reflect the expense and the revenue. A total of \$300,396 of these entries were erroneously recorded. Entries were proposed during the audit to correct these erroneous postings. It was also noted that the Association did not always record grant revenues and expenditures at the time of the request for reimbursement. Entries were proposed during the audit to record \$279,513 in additional grant revenues and expenditures.

Effect: Grant revenue and expenditures are not properly recorded on the Association's books. This makes it difficult for the Association to manage grant and loan dollars and the progress of capital projects.

Criteria: Each grant/loan agreement states "The Grantee shall be strictly accountable for receipts and disbursements relating to the Project's funds. The Grantee shall follow generally accepted accounting principles."

Cause: The Association made some entries on the general ledger for the grant/loan disbursement of funds, however, what was recorded on the general ledger was not reconciled to monthly reports provided by the granting agencies.

Recommendation: Each time a request for reimbursement is submitted on direct pay grants/loans, the expenditure and the grant/loan funds should be properly recorded in the general ledger. These revenues and expenditures should be reconciled to monthly reports from granting agencies. These monthly reconciliations should be reviewed and approved by the Executive Director.

Response: Grant and Loan reports will be obtained from NMFA at least quarterly. These will be reconciled to the Grant and Loan income and expenditures. These reconciliations will be reviewed by the Executive Director.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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2014-004

Capital Asset Listing
(significant deficiency)

Condition:

In the prior year the Association purchased Fort Seldon Water Company. These assets were added to the Association's books at fair market value rather than the purchase price. Land was also added and is being depreciated. Entries were proposed to adjust these assets to the cost basis and it was recommended that land be changed to a non-depreciable asset. The Association recorded these entries on the general ledger, however they did not adjust their basis on the Capital Asset Listing nor did they change the land to a non-depreciating asset. The difference between the FMV and the cost basis is \$151,424. The excess depreciation expense computed in the current year would be approximately \$7,500. In the current year fixed asset additions on the Capital Asset Listing exceeded the fixed asset additions reported on the general ledger by \$43,500.

Effect:

Capital assets from the Capital Asset Listing do not agree to the general ledger by \$194,924. The Association has not correctly inventoried their capital assets.

Criteria:

The Association's accounting system should provide timely and accurate information for the board of directors and management. To achieve this, accounting personnel must periodically reconcile general ledger accounts to sub-ledgers and other supporting documents. NMSA 6-5-2 C states "State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters."

Cause:

The Association had additions of \$7,100,842 during the year. This increased the complexity of these additions to the depreciation schedule.

Recommendation:

The fixed asset listing should be reviewed at the end of each year with asset additions and retirements appropriately reflected. This listing should then be tied to the general ledger.

Response:

We will be working on resolving this issue by the next audit. Procedures will be put in place to reconcile the fixed asset listing to the general ledger.

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2014-005 **Timely Submission of Audit Report**
(compliance)

Condition: The Association's audit report was not filed by December 1, 2014 as required by the Office of the State Auditor. The audit report was submitted on April 30, 2015.

Effect: The Association's financial statements are not available for use in a timely fashion for both internal purposes and public comment.

Criteria: Section 2.2.2.9A(1)(d) Audit Rule 2014, Requirements for Contracting and Conducting Audits of Agencies states "annual audit reports are to be received in the Office of the State Auditor on or before December 1st."

Cause: It was necessary for the Association to reconcile bank accounts that had not been properly reconciled prior to audit field work.

Recommendation: All general ledger accounts and bank statements should be reconciled to subsidiary ledgers and/or other documentation monthly. All months should be reconciled prior to the start of the audit field work.

Response: Bank reconciliations are now being done timely and subsidiary ledgers are being reconciled to the general ledger monthly. The Association will be prepared for the 2015 audit. This should ensure that the audit report will be submitted timely.

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2014-006

Exit Conference
(compliance)

Condition:

A member of governing board of the Association was not present for the exit conference. Two board members conferenced in by phone.

Effect:

The Association is in violation of the requirement that a representative of the agency must be present at the exit conference.

Criteria:

Section 2.2.2.10(J) NMAC Exit Conference and Related Confidentiality Issues states "The IPA must hold an exit conference with representatives of the agency's governing authority and top management. The exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement."

Cause:

One of the Association's funding agencies had requested that the audit be submitted by April 30. In order to meet this requirement the exit conference had to be held in this manner.

Recommendation:

Exit conferences should be scheduled in plenty of time to insure that all individuals involved will be there in person.

Response:

The Association will submit the audit report in a timely manner for 2015. This will enable us to schedule an exit conference where all members can attend in person.

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

CFDA Number: 66.468

Program Name: Drinking Water State Revolving Loan Fund

Federal Agency: U.S. Environmental Protection Agency

Grantor Number: 2868-DW

Pass Through Entity: New Mexico Finance Authority

Prior Year

None

Current Year

2014-007 Data Collection Form

2014-007

Data Collection Form
(compliance)

Condition: Due to the late submittal of the audit report, the Data Collection Form will not be filed timely.

Effect: The Association is in violation of the requirement to submit the Data Collection Form to the Federal Clearing House nine months after the fiscal year end.

Criteria: OMB Circular A-133 .320(a) states “The audit shall be completed and the data collection form and the reporting package shall be submitted within nine months after the end of the audit period.”

Cause: The audit report was not completed and submitted to the State Auditor until April 30, 2015. The Data Collection Form will not be submitted to the Federal Clearing House within nine months after the end of the audit period.

Recommendation: The audit report should be submitted timely to the State Auditor. This will enable the timely filing of the Data Collection Form.

Response: The Association will submit the audit report by the December 1 deadline. This will enable us to submit the Data Collection Form in a timely manner.

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DOÑA ANA MUTUAL DOMESTIC WATER CONSUMERS ASSOCIATION
EXIT CONFERENCE AND OTHER
June 30, 2014

EXIT CONFERENCE

An exit conference was held on April 27, 2015 at the offices of Pattillo, Brown & Hill, L.L.P. In attendance were: Jennifer Horton, Executive Director and Abenicio Fernandez, Project Manager. James Milton, President and Kay Trujillo, member conferenced in by phone. 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.

